

Report 07.756
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First Quarter Review for the three months ended 30 September 2007

1. Purpose

- To inform the Council of Greater Wellington's (GWRC) financial performance for the three months ended 30 September 2007 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 2007 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 2007/08 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/Chief Financial Officer with each of the Divisions

It is timely, as a result of those reviews, to present a summary of Council's performance for the three months ended 30 September 2007.

In respect of 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. As such, 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 \$2,768,000 (budget \$33,000). This result excludes both expenditure incurred and grants received in respect of Public Transport capital expenditure. Including these amounts the Council's deficit was \$254,000 (budget \$610,000).

The WRC Holdings Group achieved a net surplus before tax of \$2,498,000 (budget \$1,231,000).

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

5. Financial Summary - Council

The following tables show the year to date results and variances by Division.

Wellington Regional Council Summary Income Statement - Revenue For the period ending 30 September 2007				
Total Operating Revenue \$(000)'s	Last Year	Actual	Budget	Variance
	Water Group	6,820	6,796	6,808
Forestry	1,597	1,613	1,595	18
Regional Parks	1,585	1,615	1,637	(22)
Water Supply, Parks & Forests	10,002	10,024	10,040	(16)
Transport Policy and Strategy	655	701	798	(97)
Public Transport	15,838	17,624	18,056	(432)
Total Transport	16,493	18,325	18,854	(529)
Environment	2,849	3,007	3,044	(37)
Catchment Management	7,006	6,788	6,709	79
Corporate	514	661	483	178
WRS	159	1,000	1,100	(100)
Finance, IT & Support Services	1,569	1,740	1,707	33
Investment in Democracy	1,122	1,160	1,156	4
Divisional Operating Revenue	39,714	42,705	43,093	(388)
Investment Management	1,457	1,285	1,308	(23)
Business Unit Rates Contribution	(1,925)	(2,186)	(2,186)	-
Council Operating Revenue	39,246	41,804	42,215	(411)
Public Transport - Capex / Investment	349	5,884	5,084	800
Total Council Revenue	39,595	47,688	47,299	389

Wellington Regional Council
Summary Income Statement - Expenditure
For the period ending 30 September 2007

Total Operating Expenditure \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	6,765	6,420	7,425	1,005
Forestry	1,911	1,907	1,801	(106)
Regional Parks	1,305	1,458	1,773	315
Water Supply, Parks & Forests	9,981	9,785	10,999	1,214
Transport Policy and Strategy	594	656	832	176
Public Transport	16,110	16,674	17,985	1,311
Total Transport	16,704	17,330	18,817	1,487
Environment	2,624	2,938	2,928	(10)
Catchment Management	6,511	5,701	6,097	396
Corporate	498	464	495	31
WRS	273	942	1,100	158
Finance, IT & Support Services	1,443	1,561	1,630	69
Investment in Democracy	1,137	1,173	1,199	26
Divisional Operating Expenditure	39,171	39,894	43,265	3,371
Investment Management	(465)	(858)	(1,083)	(225)
Business Unit Rates Contribution	-	-	-	-
Council Operating Expenditure	38,706	39,036	42,182	3,146
Revaluation of Debt and Stadium Advance	-	-	-	-
Forestry Cost of Goods Sold	550	347	304	(43)
Public Transport - Capex / Investment	-	8,559	5,423	(3,136)
Total Council Expenditure	39,256	47,942	47,909	(33)

Wellington Regional Council
Summary Income Statement - Operating Surplus \ (Deficit)
For the period ending 30 September 2007

OPERATING SURPLUS / (DEFICIT) \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	55	376	(617)	993
Forestry	(314)	(294)	(206)	(88)
Regional Parks	280	157	(136)	293
Water Supply, Parks & Forests	21	239	(959)	1,198
Transport Policy and Strategy	61	45	(34)	79
Public Transport	(272)	950	71	879
Total Transport	(211)	995	37	958
Environment	225	69	116	(47)
Catchment Management	495	1,087	612	475
Corporate	16	197	(12)	209
WRS	(114)	58	-	58
Finance, IT & Support Services	126	179	77	102
Investment in Democracy	(15)	(13)	(43)	30
Divisional Operating Surplus / (Deficit)	543	2,811	(172)	2,983
Investment Management	1,922	2,143	2,391	(248)
Business Unit Rates Contribution	(1,925)	(2,186)	(2,186)	-
Council Operating Surplus / (Deficit)	540	2,768	33	2,735
Revaluation of Debt and Stadium Advance	-	-	-	-
Revaluation Forestry - Revaluation	-	-	-	-
Forestry Cost of Goods Sold	(550)	(347)	(304)	(43)
Public Transport - Capex / Investment	349	(2,675)	(339)	(2,336)
Total Council Surplus / (Deficit)	339	(254)	(610)	356
Flood Protection				
Eastern	(7)	299	138	161
Western	704	741	589	152
Total Flood Protection	697	1,040	727	313

5.1 Water - favourable variance of \$993,000 due primarily to:

- Decreased depreciation of \$255,000, due to the water supply assets not being revalued as at 30 June 2007 as budgeted. This has reduced the asset base and therefore depreciation.
- Savings in materials and supplies \$249,000, due mainly to savings in chemicals \$157,000 and power costs \$62,000. These variances, at this stage, are expected to reverse by year end.
- Finance costs are \$139,000 below budget, due to the opening debt position being lower than budget.
- Personnel costs are \$169,000 below budget, due to staff vacancies.

5.2 Forestry - unfavourable variance of \$88,000 due primarily to:

- Higher than budgeted harvest costs including expenditure on maintaining road access, \$50,000.
- Increased replanting costs, \$52,000.

The above variance items are expected to reverse by year end.

5.3 Regional Parks - favourable variance of \$293,000 due primarily to:

- Parks operational expenditure is currently \$316,000 below budget, due mainly to the timing of expenditure in respect of the Akatarawa and Hutt 1080 operations. These are expected to reverse by year end.

5.4 Public Transport - favourable variance of \$879,000 due primarily to:

- The June 2007 Land Transport New Zealand (LTNZ) inflation index was less than expected, resulting in \$500,000 less expenditure on the Council's bus contracts. However, as the diesel price continues to increase due to higher oil prices, it is not expected that this saving will continue.
- The rail operating contract has \$300,000 favourable variance due to the reduce maintenance requirements on the new Wairarapa carriages.
- Some capital expenditure has been reclassified as operational expenditure, thus reducing the favourable variance.

5.5 Transport Policy - favourable variance of \$79,000 due primarily to:

- Delays in completing the transport model, \$54,000.

5.6 Environment - unfavourable variance of \$47,000 due primarily to:

- Lower than anticipated notified consents in the first quarter resulted in a \$38,000 reduction in income.

5.7 Catchment Management - favourable variance of \$475,000 due primarily to:

- The down-sizing of the BioWorks unit has reduced both revenue and expenditure.
- The timing of expenditure on river maintenance across the region has resulted in savings that are expected to reverse by year end.

5.8 Corporate - favourable variance of \$209,000 due primarily to:

- Additional revenue of \$180,000, including \$80,000 for the Emergency Management conference and \$61,000 from the Honda Tree planting program.

5.9 Wellington Regional Strategy - favourable variance of \$58,000 due primarily to:

- The phasing of revenue and expenditure has resulted in a favourable variance which is expected to reverse by year end.

5.10 Finance, IT and Support - favourable variance of \$102,000 due primarily to:

- Higher internal revenue \$38,000, lower personnel costs \$27,000 and the phasing of expenditure on material and supplies.

5.11 Investment Management - unfavourable variance of \$248,000 due primarily to:

- Lower capital expenditure by the Divisions has reduced borrowings and the margin earned by Investment Management.
- External interest rates are higher than budget. Currently, the 90 day bank bill rate is 8.7% compared to the budget of 8.25%.
- The sale of forward start interest rate swaps as signalled in the budget has not yet occurred, resulting in a \$200,000 unfavourable variance.

6. Finance costs

Finance costs for the three months to 30 September are \$1,231,000 compared to the budget of \$1,103,000, an unfavourable variance of \$128,000. The unfavourable variance is due to higher interest rates than budgeted and the budgeted sale of forward start interest rate swaps (a gain of \$200,000), which has not yet occurred.

7. Forecast to 30 June 2008

The forecast to 30 June 2008 is an operating surplus of \$1,144,000, compared with the budget of \$1,459,000. These amounts exclude grants and expenditure in respect of Public Transport capital expenditure. The changes to the forecast are detailed below.

Wellington Regional Council				
Summary Income Statement - Operating Surplus \ (Deficit)				
For the Year Ending 30 June 2008				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Full Year			
	Last Year	Forecast	Budget	Variance
Water Group	(363)	(927)	(1,933)	1,006
Forestry	21	(812)	(909)	97
Regional Parks	187	(321)	(321)	-
Water Supply, Parks & Forests	(155)	(2,060)	(3,163)	1,103
Transport Policy and Strategy	282	(133)	(133)	-
Public Transport	2,687	(1,062)	(112)	(950)
Total Transport	2,969	(1,195)	(245)	(950)
Environment	(513)	(111)	(111)	-
Catchment Management	1,585	2,854	3,061	(207)
Corporate	96	(71)	(51)	(20)
WRS	(221)	-	-	-
Finance, IT & Support Services	1,568	226	226	-
Investment in Democracy	84	(172)	(172)	-
Divisional Operating Surplus / (Deficit)	5,413	(529)	(455)	(74)
Investment Management	6,200	10,415	10,656	(241)
Business Unit Rates Contribution	(9,768)	(8,742)	(8,742)	-
Council Operating Surplus / (Deficit)	1,845	1,144	1,459	(315)
Revaluation of Debt and Stadium Advance	4,255	-	-	-
Revaluation Forestry - Revaluation	529	3,029	3,029	-
Forestry Cost of Goods Sold	(1,745)	(1,215)	(1,118)	(97)
Public Transport - Capex / Investment	(9,466)	(15,808)	(18,239)	2,431
Total Council Surplus / (Deficit)	(4,582)	(12,850)	(14,869)	2,019
Flood Protection				
Eastern	(220)	519	519	-
Western	2,637	2,444	2,444	-
Total Flood Protection	2,417	2,963	2,963	-

The significant variances between forecast and budget are:

7.1 Water - favourable variance of \$1,006,000 due primarily to:

- Lower depreciation \$1,006,000 as the water supply assets were not revalued as at 30 June 2007 as budgeted. This has reduced the asset base and therefore depreciation.

7.2 Forestry - favourable variance of \$97,000 due primarily to:

- Overall there is no change to the forecast, \$97,000 has been reclassified as cost of goods sold.

7.3 Public Transport - unfavourable variance of \$950,000 due primarily to:

- Reclassification of capital expenditure to operational expenditure for stations, platforms and carparks.

7.4 Catchment Management - unfavourable variance of \$207,000 due primarily to:

- Downsizing of the BioWorks unit with the associated costs.

7.5 Investment Management - unfavourable variance \$241,000 due primarily to:

- Higher external interest rates than budgeted
- Lower interest income from the Divisions due to the lower opening debt position than budgeted.

8. Capital Expenditure

8.1 Year to date

Actual capital expenditure is \$1,943,000 compared with the budget of \$4,904,000.

The main contributor to this variance is Public Transport, as detailed below.

Wellington Regional Council Capital Expenditure and Transport Investment Additions For the period ending 30 September 2007				
Capital Expenditure and Investments \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Water Group	465	389	491	102
Forestry	22	56	76	20
Regional Parks	93	18	40	22
Water Supply, Parks & Forests	580	463	607	144
Transport Policy and Strategy	-	-	-	-
Public Transport	137	97	2,484	2,387
Public Transport Investment Additions	-	-	14	14
Total Transport	137	97	2,498	2,401
Environment	4	-	90	90
Catchment Management	724	1,343	1,111	(232)
Corporate	18	-	-	-
WRS	-	-	-	-
Finance, IT & Support Services	17	36	548	512
Investment in Democracy	-	-	-	-
Divisional Capital and Investment expenditure	1,480	1,939	4,854	2,915
Investment Management	2	4	50	46
Council Capital and Investment expenditure	1,482	1,943	4,904	2,961
Flood Protection				
Eastern	-	21	218	197
Western	649	1,321	894	(427)
Total Flood Protection	649	1,342	1,112	(230)

8.2 Public Transport - favourable variance of \$2,387,000 due primarily to:

Expenditure on stations, platforms and carpark was budgeted as capital expenditure. However, as the Council will not own these assets they have now been classified as operational expenditure.

9. Capital Expenditure - Full year forecast

Except for the reclassification of public transport expenditure, the forecast remains largely unchanged from the budget.

Wellington Regional Council Capital Expenditure and Transport Investment Additions For the Year Ending 30 June 2008				
Capital Expenditure and Investments \$(000)'s	Full Year			
	Last Year	Forecast	Budget	Variance
Water Group	4,162	4,996	4,996	-
Forestry	328	380	380	-
Regional Parks	514	336	336	-
Water Supply, Parks & Forests	5,004	5,712	5,712	-
Transport Policy and Strategy	-	17	17	-
Public Transport	(31)	5,201	6,401	1,200
Public Transport Investment Additions	-	979	979	-
Total Transport	(31)	6,197	7,397	1,200
Environment	443	1,359	1,359	-
Catchment Management	4,226	7,659	7,689	30
Corporate	209	-	-	-
WRS	-	-	-	-
Finance, IT & Support Services	531	1,539	1,539	-
Investment in Democracy	5	49	49	-
Divisional Capital and Investment expenditure	10,387	22,515	23,745	1,230
Investment Management	38	1,405	1,405	-
Council Capital and Investment expenditure	10,425	23,920	25,150	1,230
Flood Protection				
Eastern	713	895	895	-
Western	3,257	6,545	6,545	-
Total Flood Protection	3,970	7,440	7,440	-

10. Finance Costs

Finance costs for the Council are forecast at \$5,275,000 compared with the budget of \$4,975,000. The unfavourable variance is due to forecast interest rates being higher than budget by approximately 0.50%.

11. Debt

Council debt as at 30 September was \$71.2 million, an increase of \$5.9 million from 30 June 2007. The increase is due in the main to further draw downs on the Crown loan to fund the Wairarapa carriages.

The \$71.2 million includes the written down value of the Government loans. The write down is due to the interest free nature of the loans. If write down is excluded the Council's debt as at 30 September would be \$73.2 million.

WRC Holdings Ltd debt as at 30 September was \$44.0 million, unchanged from 30 June 2007. This amount excludes debt borrowed by CentrePort Ltd.

On a consolidated basis total debt (excluding CentrePort Ltd) as at 30 September was \$115.2 million.

It should be noted that the Council has a total of \$46 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.

Debt as at 30 June 2008 is forecast at \$102.8 million in the Council and \$44.0 million in WRC Holdings Ltd, a total of \$146.8 million. This forecast assumes no write down of the Government loan.

This is higher than the budget of \$138.1 million. The increase is due to the higher debt as at 30 June 2007 than budgeted, which was due to an increase in the Council's working capital.

11.1 Stadium debt

In June of this year the Council approved the restructuring of the Stadium debt of \$18,985,000. The debt was borrowed 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 debt was repaid to the ANZ in late June 2007 including a break cost of \$419,000. It has been 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%.

12. Annual Plan Performance Targets

Divisional Managers have reported their expectation that all significant annual plan performance targets will be achieved by 30 June 2008.

13. WRC Holdings

The following table summarises WRC Holdings group of companies and CentrePort's (76.9% owned) operating results, before any unrealised increase in the value of investment properties, for the period ended 30 September 2007.

WRC HOLDINGS GROUP
INCOME STATEMENT
FOR THE PERIOD ENDED

	YTD	YTD	Group		
	Last Year	Actual	YTD	Full Year	Full Year
	\$000	\$000	Budget	Budget	Forecast
			\$000	\$000	\$000
TOTAL REVENUE	12,747	14,710	14,187	56,749	54,847
OPERATING EXPENSES	9,991	9,927	10,735	42,938	39,260
EARNINGS BEFORE INTEREST AND TAX	2,756	4,783	3,453	13,811	15,587
Less:					
Interest expense	1,136	2,285	2,222	8,886	8,700
NET SURPLUS (DEFICIT) BEFORE TAX	1,620	2,498	1,231	4,925	6,887

The actual and forecast results have been impacted by the accounting treatment for the purchase of rail rolling stock. The budget assumed that Greater Wellington Rail Ltd would be funded by share capital. It is now funded by capital grants from Council. The effect of this is to increase the surplus for the year by \$1.4 million.

In addition, CentrePort's forecast result has increased by \$728,000 over the budget due to higher property and container revenues.

14. Compliance with Treasury Management Policy

As at 30 September 2007, all Treasury Management Policy limits have been complied with apart from internal borrowing limit for Forestry and Parks. Refer to **Attachment 4**.

15. Communications

No communications are necessary at this time.

16. Recommendations

That the Council:

- 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