greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

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Finance report for the six months ending 31 December 2011

1. Purpose

To inform the Council of Greater Wellington's financial performance for the six months ended 31 December 2011 and to provide an explanation of major variances to budget by Group.

2. The decision-making process and significance

The matter requiring decision in the report has been considered by officers against the requirements of Part 6 of the Local Government Act 2002 (the Act).

Officers have considered the significance of the matter, taking the Council's significance policy and decision-making guidelines into account. Officers recommend that the matter be considered to have low significance.

Officers do not consider that a formal record outlining considering of the decision-making process is required in this instance.

3. Background

Financial statements are prepared and presented to management for review each month. More detailed reports and review by operational Group are undertaken each quarter by the Chief Executive and the Chief Financial Officer.

This report is a summary of the quarterly detailed reports which are provided to Councillors. In the intervening months, reports to the Council are done by exception.

The results of the WRC Holdings Group are reported to the Council on a quarterly basis and are included in section 7.

The Funding Impact Statement and Balance Sheet for Greater Wellington are attached (refer **Attachments 1 and 2**).

4. Council Summary

Overall the financial results for the first six months were broadly in line with budget and are forecast to remain so for the balance of the year.

4.1 Key Achievements

- An emergency response and recovery plan for the bulk water supply has been completed as part of the Wellington Lifelines Group (WeLG) critical area study into the impact of a Wellington fault movement on the Thorndon area.

- High value biodiversity sites in the region have been identified following a rigorous analysis of sites using a number of scientific methods.

- A promotion for the spring and summer period of 2011/12 covering the lakes upgrade is well underway. We have completed a 'project awareness' advertising phase (October 3-15) and a springtime 'prepare for a dry summer' tips advertising phase (October 24 – November 26)

- Water use for the quarter averaged 140 million litres per day (ML/d), the lowest total for over 15 years and 10ML/d (6.7%) less than the December quarter average for the last five years.

- The new Regional CDEM Manager was appointed in October 2011.

- Total number of Warm Wellington applicants grew to 3,637 in the quarter. During the quarter, 586 approvals totalling $1.1m were made.

- Wellington Harbour Safety Management System sent to Maritime NZ for approval.

- Transmission Gully Plan change process completed via the Board of Inquiry process and TGM consents process underway with the Board of Inquiry.

- The Annual Monitoring Report 2010/11 for the Regional Land Transport Strategy was presented and adopted by the Regional Land Transport Committee in October 2011.

- The Hutt Corridor Plan was adopted by the Regional Land Transport Committee.

- The Scenic Reserve classification for Baring Head was gazetted on behalf of the Minister of Conservation.

- 'Our Region' December 2011 and its associated Great Outdoor Summer Events 2012 document were delivered to all households in the region.

- At the end of December 65% of the Matangi fleet had been delivered and nearly half were commissioned and ready for service.

4.2 Council Financial Performance

4.2.1 Year to date

Greater Wellington achieved an operating surplus of $310k (budget, a deficit of $809k) for the six months to 31 December, a $1,119k favourable result. This result excludes revenue and expenditure for public transport capital improvement projects and revaluations. Including these amounts, Greater Wellington made a deficit of $6,495k (budget, a deficit of $1,348k), an unfavourable variance of $5,147k. The non-operational movement variance of $9,375k accounts for the majority of the negative variance at this level.

Further details on the performance by Group for the six months are discussed in section 5.

4.2.2 Financial Summary

Greater Wellington Regional Council	**For the 6 months ended 31 December 2011**			
Summary income statement	**Last Year**	**Actual**	**Budget**	**Variance**
	$000s	**$000s**	**$000s**	**$000s**
Regional rates	40,449	42,426	42,426	-
Water supply levy	11,730	12,082	12,082	-
Other operating revenue	40,407	43,976	42,461	1,515
Total operating revenue	**92,586**	**98,484**	**96,969**	**1,515**
Operational expenditure	(91,193)	(98,174)	(97,778)	(396)
Operating surplus/(deficit) before transport improvements	**1,393**	**310**	**(809)**	**1,119**
Operating (deficit) from transport improvements	(4,904)	(3,567)	(6,676)	3,109
Operating surplus/(deficit) before unrealised items	**(3,511)**	**(3,257)**	**(7,485)**	**4,228**
Non-operational movements	(1,931)	(3,238)	6,137	(9,375)
Operating surplus/(deficit)	**(5,442)**	**(6,495)**	**(1,348)**	**(5,147)**

4.2.3 Financial Summary by Group

Greater Wellington Regional Council Summary income statement	For the 6 months ended 31 December 2011			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s
Operational Groups				
Catchment Management	1,776	2,357	2,044	313
Environmental Management	158	172	469	(297)
Forestry	(428)	(758)	(765)	7
Regional Parks	(23)	(31)	57	(88)
Public Transport	(563)	(525)	(804)	279
Total rates funded operational surplus / (deficit)	**920**	**1,215**	**1,001**	**214**
Corporate				
Strategy & Community Engagement	99	754	300	454
Finance and Support	166	(127)	(289)	162
Other corporate activities	7	303	110	193
Investment Management	3,748	4,734	4,850	(116)
Business unit rates contribution	(3,273)	(5,219)	(5,219)	-
Total rates funded operating surplus / (deficit)	**1,667**	**1,660**	**753**	**907**
Water	(274)	(1,350)	(1,562)	212
Total rates & levy funded operating surplus / (deficit)	**1,393**	**310**	**(809)**	**1,119**
Non-operational movements				
Forestry cost of goods sold	(921)	(481)	(234)	(247)
Grants for Baring Head Purchase	-	-	-	-
Warm Greater Wellington	(1,009)	(2,755)	(1,503)	(1,252)
EMU investment - GW Rail	5	-	7,874	(7,874)
Public Transport - improvements	(4,904)	(3,567)	(6,676)	3,109
Total Council surplus / (deficit)	**(5,442)**	**(6,495)**	**(1,348)**	**(5,147)**

4.3 Forecast to 30 June 2012

Greater Wellington is forecasting an operating deficit of $1,991k (budget, a deficit of $2,803k) for the year to 30 June 2012. This forecast excludes revenue and expenditure for public transport capital improvement projects and revaluations. Including these amounts, Greater Wellington is forecasting a deficit of $3,778k (budget, a deficit of $12,203k).

Further details on the forecast by Group are discussed in section 5.

4.3.1 Financial forecast

Greater Wellington Regional Council Summary income statement	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
	For the year ending 30 June 2012			
Regional rates	81,933	84,852	84,852	-
Water supply levy	23,460	24,164	24,164	-
Other operating revenue	83,102	90,712	87,453	3,259
Total operating revenue	**188,495**	**199,728**	**196,469**	**3,259**
Operational expenditure	(184,446)	(201,719)	(199,272)	(2,447)
Operating surplus/(deficit) before transport improvements	**4,049**	**(1,991)**	**(2,803)**	**812**
Operating (deficit) from transport improvements	(7,458)	(26,879)	(47,025)	20,146
Operating surplus/(deficit) before unrealised items	**(3,409)**	**(28,870)**	**(49,828)**	**20,958**
Non-operational movements	16,948	25,092	37,625	(12,533)
Operating surplus/(deficit)	**13,539**	**(3,778)**	**(12,203)**	**8,425**

4.3.2 Financial forecast by Group

Greater Wellington Regional Council Summary income statement	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
	For the year ending 30 June 2012			
Operational Groups				
Catchment Management	3,580	3,374	3,192	182
Environmental Management	(27)	(53)	96	(149)
Forestry	(368)	(1,534)	(1,534)	-
Regional Parks	(1,323)	(259)	(223)	(36)
Public Transport	(1,750)	(2,291)	(1,775)	(516)
Total rates funded operational surplus / (deficit)	**112**	**(763)**	**(244)**	**(519)**
Corporate				
Strategy & Community Engagement	315	693	577	116
Finance and Support	1,102	(973)	(964)	(9)
Other corporate activities	46	225	168	57
Investment Management	9,943	12,558	11,421	1,137
Business unit rates contribution	(6,550)	(10,433)	(10,433)	-
Total rates funded operating surplus / (deficit)	**4,968**	**1,307**	**525**	**782**
Water	(919)	(3,298)	(3,328)	30
Total rates & levy funded operating surplus / (deficit)	**4,049**	**(1,991)**	**(2,803)**	**812**
Non-operational movements				
Forestry cost of goods sold	(1,899)	(467)	(467)	-
Grants for Baring Head Purchase	1,100	-	-	-
Warm Greater Wellington	280	(4,309)	(2,801)	(1,508)
EMU investment - GW Rail	13,341	28,755	39,781	(11,026)
Public Transport - improvements	(7,458)	(26,879)	(47,025)	20,146
Total Council surplus / (deficit)	**13,539**	**(3,778)**	**(12,203)**	**8,425**

4.4 Capital expenditure

4.4.1 Capital expenditure by Group

Capital expenditure is $6,556k below budget year to date. This is primarily due to the extended rollout of the Real Time Information system and project timings in the Water Supply capital programme.

Details by Group are discussed in section 5.

Greater Wellington Regional Council Capital expenditure by Group	For the 6 months ended 31 December 2011			
	Last Year $(000)'s	Actual $(000)'s	Budget $(000)'s	Variance $(000)'s
Operational Groups				
Catchment Management	1,205	2,147	1,802	(345)
Environmental Management	84	43	233	190
Forestry	218	69	191	122
Regional Parks	56	90	316	226
Public Transport	452	1,647	2,983	1,336
Operational Groups capital expenditure	**2,015**	**3,996**	**5,525**	**1,529**
Corporate				
Strategy & Community Engagement	54	638	700	62
Finance and Support	235	169	372	203
Other corporate activities	35	310	518	208
Investment Management	15	206	1,212	1,006
Total rates funded capital expenditure	**2,354**	**5,319**	**8,327**	**3,008**
Water Supply	2,309	4,055	7,603	3,548
Total rates & levy funded capital expenditure	**4,663**	**9,374**	**15,930**	**6,556**

4.4.2 Capital expenditure forecast by Group

Capital expenditure is forecast to be $5,673k behind budget by year end. This is primarily due to the extended rollout of the Real Time Information system and project timings in the Water Supply capital programme that will also require rebudgeting to 2012/13. This is offset by additional expenditure forecast for the Catchment Management Group, mainly due to bringing forward Boulcott/Hutt stopbank works.

Details by Group are discussed in section 5.

Greater Wellington Regional Council Capital expenditure by Group	For the year ending 30 June 2012 Last Year $(000)'s	 Forecast $(000)'s	 Budget $(000)'s	 Variance $(000)'s
Operational Groups				
Catchment Management	4,256	7,731	5,553	(2,178)
Environmental Management	178	369	369	-
Forestry	414	360	360	-
Regional Parks	194	512	512	-
Public Transport	3,334	3,386	3,990	604
Operational Groups capital expenditure	**8,376**	**12,358**	**10,784**	**(1,574)**
Corporate				
Strategy & Community Engagement	178	1,306	1,332	26
Finance and Support	660	1,072	1,072	-
Other corporate activities	93	1,001	958	(43)
Investment Management	252	660	2,424	1,764
Total rates funded capital expenditure	**9,559**	**16,397**	**16,570**	**173**
Water Supply	7,393	11,192	16,692	5,500
Total rates & levy funded capital expenditure	**16,952**	**27,589**	**33,262**	**5,673**

5. Financial Performance by Group

5.1 Catchment management

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	12,620	15,092	15,396	(304)	24,592	29,871	30,136	(265)
Operating expenditure	10,844	12,735	13,352	617	21,012	26,497	26,944	447
Operating surplus / (deficit)	1,776	2,357	2,044	313	3,580	3,374	3,192	182
Net capital expenditure	1,205	2,147	1,802	(345)	4,256	7,731	5,553	(2,178)

5.1.1 Year to date

A favourable operating variance of $313k, comprising lower revenue of $304k and lower operating costs of $617k.

- Operating revenue is lower than budget due mainly to:
  - Reduced external revenue of $388k from the Animal Health Board due to delays in issuing 2011/12 contracts and the rework for two 2010/11 contracts.
  - Reduced gravel extraction revenue of $75k.
  - Reduced lease and isolated works revenue of $81k due to timing of flood protection work in the Eastern Zone.

- The above is offset by Land Management property plan and Hill Country Erosion programme income, which is $221k ahead of budget.

- Operating expenditure was lower than budget due mainly to:

  - Biosecurity and Biodiversity contract expenditure of $358k, due to timing of pest management programmes and various enhancement projects.

  - Reduced river maintenance expenditure of $294k. This is also due to timing.

- Capital expenditure is $345k ahead of budget primarily due to:

  - Higher expenditure to date on Boulcott Hutt stopbank tracking of $150k.

  - Higher expenditure on settlement of contract retentions of $231k.

5.1.2 Forecast to 30 June 2012

- The forecast operating surplus of $3,374k is $182k better than budget due to:

  - Reduced gravel extraction and NZTA revenue of $170k.
  - Reduced revenue from AHB contracts, but this is offset by reduced activity in flood protection, biodiversity and biosecurity.
  - Savings of $296k due to timing of QEII expenditure.
  - Reduced gravel extraction expenditure.

- The forecast capital expenditure to June 2011 is expected to be $2,178k higher than budget. This is due to:

  - River works from mouth to SH1 on the Otaki River cost an extra $200k for additional erosion control work.

  - Otaki expenditure is expected to be $366k over budget due to the settlement of the Chrystalls land purchase.

  - LWVD flood improvements will be $333k over budget due to bringing forward expenditure from 2012/13 for the Tobin’s stopbank.

  - Additional expenditure of $1,300k on Boulcott stopbank works.

5.2 Environmental management

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	6,285	6,832	6,236	596	13,576	12,947	12,472	475
Operating expenditure	6,127	6,660	5,767	(893)	13,603	13,000	12,376	(624)
Operating surplus / (deficit)	158	172	469	(297)	(27)	(53)	96	(149)
Net capital expenditure	84	43	233	190	178	369	369	-

5.2.1 Year to date

Overall, an unfavourable operating variance of $297k, comprising higher revenue of $596k and higher expenditure of $893k.

- Operating revenue is ahead of budget primarily due to:
  - Higher external revenue from consents regulation which is $472k ahead of budget. This includes on-charging of costs related to Transmission Gully and the Genesis Energy Wind farm.
  - $104k of restitution income carried forward from earlier periods
- Operating expenditure was more than budget due mainly to:
  - Costs of consultants are $555k ahead of budget due to projects starting earlier than planned. The costs in relation to consents regulation which have been on-charged has also contributed to this variance.
  - Costs of consultants in the policy department are $132k ahead of budget due to additional work required for the Regional Plan.
  - Personnel costs are $119k more than budget due to unbudgeted redundancy costs.
- Capital expenditure is below budget due to timing of the Wairarapa Water Use Project.

5.2.2 Forecast to 30 June 2012

- The forecast operating deficit of $53k is $149k worse than budget due to:
  - $132k estimated increase in personnel costs for the group taking into account redundancy costs and savings arising from vacancies.
  - $100k increase in consultants' costs for the plan review work.
  - $408k increase in consultants' costs for consent applications, this is on-charged resulting in the increased forecast operating revenue.

5.3 Forestry

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	3,524	3,677	3,319	358	7,415	6,639	6,639	-
Operating expenditure	3,951	4,435	4,083	(352)	7,783	8,173	8,173	-
Operating surplus / (deficit) before cost of goods sold	(427)	(758)	(764)	6	(368)	(1,534)	(1,534)	-
Cost of goods sold*	922	481	235	(246)	1,899	467	467	-
Operating surplus / (deficit) before valuation	(1,349)	(1,239)	(999)	(240)	(2,267)	(2,001)	(2,001)	-
Forestry valuation	-	-	-	-	8,162	1,400	1,400	-
Operating surplus / (deficit)	(1,349)	(1,239)	(999)	(240)	5,895	(601)	(601)	-
Net capital expenditure	218	69	191	122	414	360	360	-

5.3.1 Year to date

- A favourable operating variance of $6k, prior to cost of goods sold due to:

  - Higher operating revenue of $358k primarily due to increased volume of logging than was planned. This has offset the current reduced log price.

  - With increased volumes, operating expenditure was $352k higher than budget due to increased costs of harvesting and cartage.

  - The unfavourable non-cash variance for cost of goods sold of $246k reflects the higher valuation of the forestry investment, compared to budget. With the higher than budget volume logged this gives a much higher cost of goods sold. A review of forestry cost of goods sold will be done during the next quarter to examine methods of more closely aligning it with the actual current cost of logs harvested.

5.4 Regional Parks

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	3,424	2,944	2,943	1	5,911	5,898	5,898	-
Operating expenditure	3,447	2,975	2,886	(89)	7,234	6,157	6,121	(36)
Operating surplus / (deficit)	(23)	(31)	57	(88)	(1,323)	(259)	(223)	(36)
Grants for Baring Head purchase	-		-	-	1,100	-	-	-
Operating surplus / (deficit)	(23)	(31)	57	(88)	(223)	(259)	(223)	(36)
Baring Head purchase			-	-	1,775	-	-	-
Net capital expenditure	56	90	316	226	(1,581)	512	512	-

5.4.1 Year to date

- An unfavourable operating variance of $88k, due to higher expenditure in relation to:
  - Personnel costs are $40k higher than budget due to redundancies.
  - The remainder of the variance is explained by the loss on vehicles disposals.
- Capital expenditure was below budget due primarily to:
  - Delayed fence replacements at Waitangirua park
  - Delayed replacement of the water supply pipelines in the northern farming block of Queen Elizabeth Park.

Both of these capital works will be completed this year.

5.4.2 Forecast to 30 June 2012

The forecast operating deficit is $36k worse than budget. This reflects the unbudgeted costs of redundancies offset slightly by savings from current vacancies.

5.5 Public transport

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	41,574	45,750	45,838	(88)	84,550	93,307	91,797	1,510
Operating expenditure	42,137	46,275	46,642	367	86,300	95,598	93,572	(2,026)
Operating surplus / (deficit)	(563)	(525)	(804)	279	(1,750)	(2,291)	(1,775)	(516)
Net capital expenditure	35	(11)	99	110	37	252	252	-

5.5.1 Year to date

A favourable operating variance of $279k, comprising lower expenditure of $367k and reduced revenue of $88k.

- Operating revenue is $88k below budget due to:
  - Grants and Subsidies revenue being $300k below budget which reflects the overall reduction in operational expenditure.
  - The above was offset by SuperGold card revenue which was $200k above budget due to increased patronage.
- Operating expenditure is $367k below budget primarily due to:
  - Systems and information expenditure was $300k below budget due to reduced bus and train timetable production costs and real time information maintenance costs.
  - Administration expenditure which is $400k below budget reflecting changes in timing of this expenditure.
  - The above is offset by SuperGold card expenditure which is $200k above budget.

5.5.2 Forecast to 30 June 2011

The forecast unfavourable operating variance of $516k is comprised of higher expenditure of $2,026k and increased revenue of $1,510k.

- Operating revenue is forecast to be higher than budget due to:
  - Increased grants and subsidies because of the overall forecast increase in expenditure and an increase in the total mobility financial assistance rate to 60%.
- Operating expenditure is forecast to be higher than budget due to:
  - Increased expenditure on rolling stock maintenance ($1,194k)
  - Increased insurance premiums (800k)
  - Diesel bus operating expenditure forecast to be $100k above budget.

5.6 Public transport improvement projects

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	60,606	60,648	83,462	(22,814)	116,365	131,093	128,092	3,001
Operating expenditure	65,510	64,215	90,138	25,923	123,823	157,972	175,117	17,145
Operating surplus / (deficit)	(4,904)	(3,567)	(6,676)	3,109	(7,458)	(26,879)	(47,025)	20,146
External debt revaluation gains /(loss)	-	-	-	-	(1,238)	-	-	-
Operating surplus / (deficit)	(4,904)	(3,567)	(6,676)	3,109	(8,696)	(26,879)	(47,025)	20,146
Net capital expenditure	262	1,658	2,812	1,154	3,159	3,062	3,666	604

5.6.1 Year to date

Overall, a favourable operating variance of $3,109k, comprising lower expenditure of $25,923k, as a result of this lower expenditure, reduced revenue of $22,814k.

- Operating expenditure was lower than budget due to:
  - Expenditure on the Matangi trains being $22,000k behind budget and reflects some changes to the timing of payments.
  - Expenditure on rail infrastructure upgrades is $600k below budget due to a credit received from Kiwirail for overcharges.
  - Trolley bus infrastructure renewals are $865k behind budget due to timing of work carried out.
  - Expenditure on Rail stations and car park renewal is $1,250k behind budget due to timing.
- Capital expenditure was $1,154k below budget due to delays to the full roll-out of the Real Time Information Systems.

5.6.2 Forecast to 30 June 2012

The forecast expenditure on the new Matangi units is $142.8 million compared to a budget of $144.9 million. This decrease is due to change in the timing of payments for trains.

The Ganz Mavag refurbishment project is forecasting a reduction in expenditure of $11,000k compared to budget, due to a delay in the final sign-off for the GM prototype which impacted on the signing of the contract for the refurbishment of the rest of the fleet.

Rail infrastructure upgrades are forecasting savings of $3,400k as most of the projects were substantially completed in the last financial year.

Capital expenditure is forecast to be $604k below budget due to delays with the project.

5.7 Strategy & Community Engagement

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	4,468	5,193	5,332	(139)	8,972	10,660	10,675	(15)
Operating expenditure	4,369	4,439	5,032	593	8,657	9,967	10,098	131
Operating surplus / (deficit)	99	754	300	454	315	693	577	116
Net capital expenditure	54	638	700	62	178	1,306	1,332	26

5.7.1 Year to date

Overall a favourable operating variance of $454k, comprising lower expenditure of $593k and reduced revenue of $139k.

- Operating revenue is lower than budget due to:
  - Reduced grant revenue from NZTA due to lower expenditure on projects that receive funding.
  - Timing of contributions for the PT Spine Study.
- Operating expenditure was lower than budget due to:
  - Reduced expenditure in Transport Planning of $134k that relates to savings of $82k made on the Hutt Corridor Study and reduced expenditure of $33k on the PT Spine Study to date.
  - Reduced expenditure of $90k related to timing of signage and display systems, subscriptions and timing of the 'attitudes and awareness' survey.
  - Reduced expenditure on Iwi Projects of $65k to date.
  - $90k to be spent on market research related to the LTP development has been delayed until early 2012. There have also been savings of $31,000 on completing the 2011 annual report.
- Capital expenditure is slightly behind budget. This variance is due to timing of payments to consultants working on the transport model.

5.7.2 Forecast to 30 June 2012

The forecast operating surplus is $116k better than budget due to:

- Savings expected on consultants costs for the 'attitudes and awareness' survey and the Hutt Corridor and Western Corridor Studies.
- Savings will be made in design and printing costs for the 2012 annual report.
- This is offset by an increased forecast of $80k in parks planning for the QEII Heritage Precinct.

5.8 Finance and Support

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	4,038	4,013	3,881	132	9,108	7,783	7,763	20
Operating expenditure	3,872	4,140	4,170	30	8,006	8,756	8,727	(29)
Operating surplus / (deficit)	166	(127)	(289)	162	1,102	(973)	(964)	(9)
Net capital expenditure	235	169	372	203	660	1,072	1,072	-

5.8.1 Year to date

Overall, a favourable operating variance of $162k comprising higher revenue of $132k and lower expenditure of $30k.

- Operating revenue is higher than budget due to rates penalties being higher than expected.
- Operating expenditure is lower than budget due to savings in personnel costs as a result of a restructure in the finance team.

5.8.2 Forecast to 30 June 2012

- The forecast deficit for the group is expected to be close to budget.

- Capital expenditure for the year is $203k behind budget due to delays in network upgrades. This project is currently being scoped with no change to the full year forecast.

5.9 People and Capability

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	2,766	3,083	3,062	21	5,535	6,145	6,124	21
Operating expenditure	2,743	2,958	3,036	78	5,627	6,037	6,073	36
Operating surplus / (deficit)	23	125	26	99	(92)	108	51	57
Net capital expenditure	35	153	107	(46)	93	157	107	(50)

5.9.1 Year to date

Overall, a favourable operating variance of $99k due to lower expenditure and slightly higher revenue.

- Operating expenditure was lower than budget due to:
  - Reduced personnel costs of $66k, this is mainly in the area of staff training.
  - Other variances in the department are related to projects which have started slightly later than planned.
- Capital expenditure for the year is $46k ahead of budget. This relates to the re-fit of level 5. This project is currently being scoped with no change to the full year forecast.

5.10 Investment management

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	2,548	2,914	2,028	886	7,159	8,595	7,082	1,513
Operating expenditure	(1,200)	(1,820)	(2,822)	(1,002)	(2,784)	(3,963)	(4,339)	(376)
Operating surplus / (deficit)	3,748	4,734	4,850	(116)	9,943	12,558	11,421	1,137
Net capital expenditure	15	206	1,212	1,006	252	660	2,424	1,764

5.10.1 Year to date

Operating revenue is $886k ahead of budget due to higher interest revenue of $929k from money market investments and deposits and $68k higher other interest revenue, offset by $112k costs for a swap.

Net operating expenditure recoveries are $1,002k less than budget. This is mainly due to $1,107k lower internal debt interest recovery, as there is slower capital expenditure by other Groups.

5.10.2 Forecast to 30 June 2012

The operating surplus is forecast to be $12,558k, which is $1,137k higher than the budget surplus of $11,421k. The main reason for this is increased investment revenue from higher interest margins on liquid financial deposits, short term deposits and a higher dividend from CentrePort. This increase is offset by reduced internal revenue from internal loans.

5.11 Investment management – Non operational movements

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Investment - GW Rail	5	-	7,874	(7,874)	13,341	28,755	39,781	(11,026)
Valuation Movements	-	-	-	-	2,798	288	288	-
Operating surplus / (deficit)	5	-	7,874	(7,874)	16,139	29,043	40,069	(11,026)

5.11.1 Year to date – Matangi investment

An unfavourable variance of $7,874k is due to the timing of the grant from the Public Transport Group to fund the share capital of Greater Wellington Rail.

5.11.2 Forecast– Matangi investment

The grant from the Public Transport Group to fund the share capital of Greater Wellington Rail is forecast to be $11,000k below budget due to the timing of the Matangi train purchase.

5.12 Water

Financial Summary	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	13,464	13,613	13,650	(37)	27,050	27,299	27,299	-
Operating expenditure	13,738	14,963	15,212	249	27,969	30,597	30,627	30
Operating surplus / (deficit)	(274)	(1,350)	(1,562)	212	(919)	(3,298)	(3,328)	30
Net capital expenditure	2,309	4,055	7,603	3,548	7,393	11,192	16,692	5,500

5.12.1 Year to date

Overall a favourable operating variance of $212k compared to budget.

- Operating expenditure was $249k lower than budget due to:
  - A record low level of water demand in December led to a corresponding reduction in expenditure on chemicals and power for the quarter. This saw a favourable variance in materials and supplies of $97k.
  - Reduced finance costs of $272k due to the lower level of capital expenditure for the lakes upgrade and deferred purchase of land for Lake 3.
  - The above was offset by increased staff training costs as a significant number of staff time has been invested in training, while work on capital projects has been at a reduced level.

- Capital expenditure is $3,548k under budget due to lower costs of consultants. Much of this relates to under-spending on the Stuart Macaskill Lakes upgrade project, which has achieved project savings to date, and expenditure on the lining contract was below forecast for December. The cost of the liner is accounted for under project supplies. Expenditure on the upgrade project will rise from January.

5.12.2 Forecast to 30 June 2012

The forecast capital expenditure is expected to be $5,500k less than budget due to:

- The work on upgrading the Stuart Macaskill Lakes is forecast to cost approximately $2m less than budget. This is mainly because the crest and liner tenders came in significantly less than the Engineer's estimate.
- Development of the Upper Hutt Aquifer is now unlikely to proceed. The current year budget of $100k for development work is therefore not required.
- There remains some uncertainty regarding the $4m provisional sum for purchase of land for the proposed Te Marua Lake 3. Whether or not this money will be required depends on Council’s decision for development of the next drinking water source. A decision is not expected this year, so it is likely the $4m will need to be re-budgeted to 2012/13. Discussions are underway with the landowner, AgResearch to extend the option to purchase.

6. Finance costs

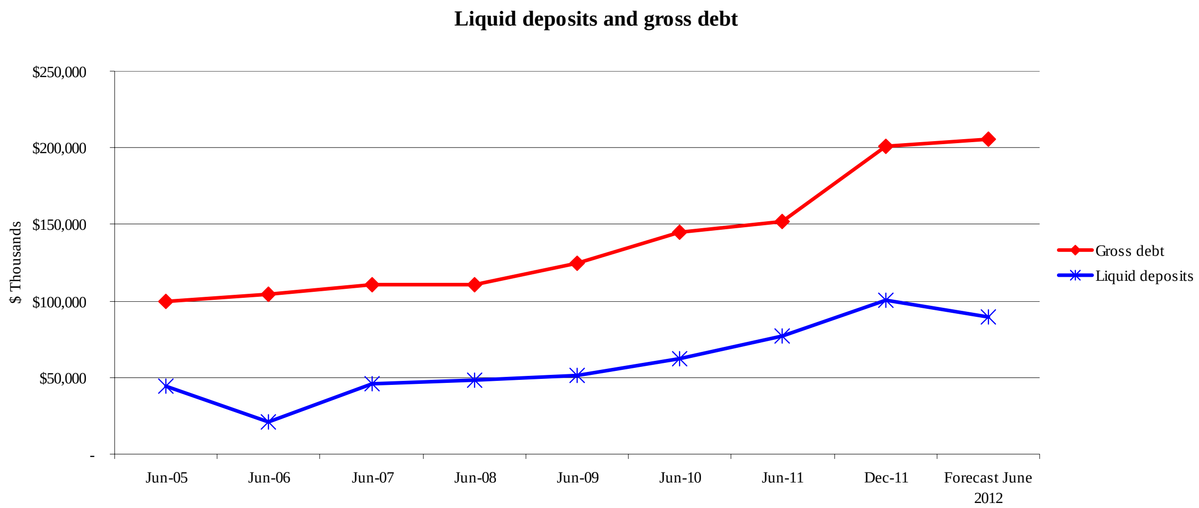
Finance Costs	For the 6 months ended 31 December 2011				For the year ending 30 June 2012			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
	2,697	3,617	3,638	21	5,424	7,532	8,533	1,001

6.1 Year to date

Overall finance costs are in line with budget.

6.2 Forecast to 30 June 2012

Finance costs are forecast to be $1,001k favourable to budget due to reduced capital expenditure, which will in turn reduce internal borrowing.

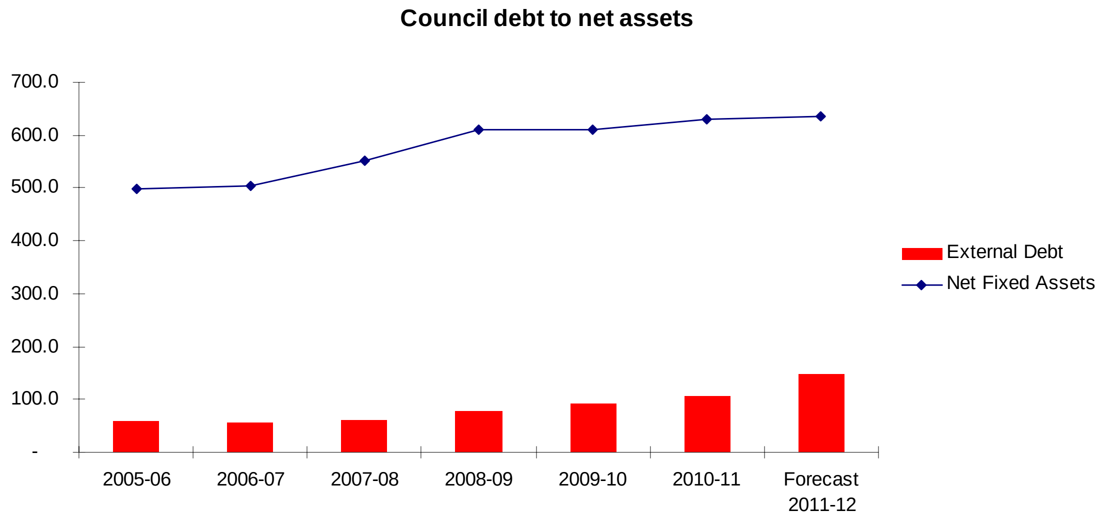


6.3 Deposits and debt

This graph represents Greater Wellington and WRC Holdings Ltd combined debt position and cash deposits.

Greater Wellington's debt, including WRC Holdings, was $200 million at 31 December, compared with $152 million on 30 June 2011, including debt revaluations of $9 million downwards. The debt level is higher than 30 June due to prefunding part of this year's capital expenditure requirements, but offset by funding received in advance for the Matangi trains. This debt excludes CentrePort debt.

The forecast debt for the end of the year is $219 million including WRC Holdings Ltd and including debt revaluations of $9 million downwards.



Greater Wellington had $101 million on deposit at 31 December, composed of $54 million of contingency funds, with the balance due to prefunding of Greater Wellington's capital expenditure programme and revenue in advance for the Matangi trains.

6.4 Stadium debt

In June 2007 the Council approved the restructuring of the Stadium debt of $18,985k, which had been borrowed from the ANZ at a fixed interest rate of 8.55% until 2018. The debt is currently funded at an interest rate of 6.21% until February 2012.

An interest rate swap is in place from February 2012 until early 2018 to fix the base borrowing rate at 5.75% plus the recent LGFA lending margin, to bring the total new rate to 6.95%. Significant savings continue to result from this debt restructure.

The balance of this loan at 31 December 2011 was $12,418,650.

7. WRC Holdings

7.1 Financial result for the Group

The following table summarises WRC Holdings group of companies (the Group) operating results for the period ending 31 December 2011.

Financial Summary	For the period ended	31 December 2011			Year ending 30 June 2011			
	Last Year $000	Actual $000	Budget $000	Variance $000	Last Year $000	Forecast $000	Budget $000	Variance $000
Total Revenue	37,716	106,008	123,839	(17,831)	198,822	217,404	222,284	(4,880)
Operating Expenses	24,103	35,302	34,350	(952)	51,401	77,372	76,666	(706)
Earnings before interest & tax (EBIT)	13,613	**70,706**	**89,489**	**(18,783)**	**147,421**	**140,032**	**145,618**	**(5,586)**
Less:								
Finance costs	6,399	7,425	7,576	151	13,727	14,538	14,963	425
Net surplus (deficit) before tax & revaluations	**7,214**	**63,281**	**81,913**	**(18,632)**	**133,694**	**125,494**	**130,655**	**(5,161)**

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

The Statement of Intent (SOI) for WRC Holding Group has been updated to reflect the change of Greater Wellington Rail Limited (GWRL) to a Public Benefit Entity (PBE).

This has resulted in a significant increase in the revenue and profit lines, due to the funds received for the Matangi train purchase from Greater Wellington being treated as income.

Thus, the bottom line and variance against budget is overwhelmed by this very large revenue stream, making the Group's results look unusual.

The result shows an $18.6 million unfavourable position against budget, $19.6m of this relates to GWRL.

A detailed investigation in to the components of the Group reveals the following:

CentrePort: Overall an unfavourable result against budget of $783,000 before tax up to the end of December. This was mainly due to lower revenue on port operations of $731,000 offset by lower $1,418,000 operating costs against.

Port Investments**:** $659,000 favourable to budget due to lower interest costs of $114,000 and an additional dividend being declared of $700,000 by CentrePort after year end. Of this, $538,000 has been paid to Port Investments as its share.

Greater Wellington Rail Limited: GWRL is $19.5 million unfavourable to budget due to the timing of the Matangi train purchase.

7.2 Financial forecast for the Group to 30 June 2012

The Group is forecasting a $5.1 million adverse position to full year budget, most of which is due to Greater Wellington Rail Limited.

Greater Wellington Rail Limited is forecasting a $4.9 million adverse position to budget due to the timing of the Matangi train purchase.

CentrePort is forecasting the net profit before tax to be $555,000 adverse to budget for the full year. This is being driven by a lower return of $1.718 million from the Port operations, offset by $860,000 favourable operating and interest costs.

The balance comes from lower interest costs in Port Investments Limited and additional dividend from CentrePort Limited.

8. Compliance with Treasury Management Policy

All ratios for the Treasury Management Policy are in compliance, with the exception of the maturity profile of total external debt, less liquid financial investments.

Greater Wellington has insufficient maturities in the 3-5 year band. This is currently not a problem as it is covered by the > 5 year band, and was rectified by the new debt raised from the LGFA.

Refer to **Attachment 3** for the detailed ratios.

9. Communication

No communications are necessary at this time.

10. Recommendations

That the Council:

1. ***Receives** the report.*

2. ***Notes** the content of the report.*

Report prepared by:	Report approved by:
Chris Gray Manager, Finance & Support	Bruce Simpson Chief Financial Officer

Attachment 1:	Funding Impact Statement
Attachment 2:	Balance Sheet
Attachment 3	Compliance with Treasury Risk Management