

**Report 99.1**  
18 January 1999  
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Report to the Policy and Finance Committee  
from Anne Quaintance, Financial Accountant

## **Financial Report for the five months ended 30th November 1998**

### **1. Purpose**

To receive the November 1998 Financial Statements.  
(forwarded under separate cover)

### **2. Comment**

The year to date figures reflect favourable results in both operating and capital expenditure with the operating surplus ahead of budget by \$2.4 million, and capital expenditure below budget by \$1.2 million.

The November 1998 financial statements, which have already been forwarded to Councillors, also incorporate a gain on sale of \$17.7 million relating to the sale of Council's interest in Port Wellington to Port Investments Ltd (a 100% owned Council subsidiary). This transaction reflects Council's 22 September 1998 decision to sell its investment in Port Wellington to Port Investments Ltd (Refer to PE98.446). From a consolidated or group perspective the gain on sale eliminates (as there has been no sale external of the Council and its subsidiaries) but it is a gain from a Council perspective. The gain on sale arises because the market value of Council's investment was estimated at \$40.8 million compared with the book value of \$23.1 million (shares and convertible notes). The book value of \$23.1 million was always seen as conservative as the shares and convertible notes have been previously recorded at par value.

Year end forecasts to 30 June 1999 will be prepared as part of the half year review and incorporated into the December 1998 Financial report.

### **3. Financial Performance for the five months to 30 November 1998**

### 3.1 Operating Surplus

The year to date operating result after five months is an operating surplus ahead of budget of \$2.4 million. Detailed variances from budget are shown in the following table:

|  | 1998/99<br>YTD<br>Actual<br>\$000s | 1998/99<br>YTD<br>Budget<br>\$000s | Actual vs<br>Budget<br>Variance<br>\$000s | 1998/99<br>Year<br>Forecast<br>\$000s | 1998/99<br>Year<br>Budget<br>\$000s | Forecast vs<br>Budget<br>Variance<br>\$000s |
|--|------------------------------------|------------------------------------|---|---------------------------------------|-------------------------------------|---|
| <b>OPERATING SURPLUS (DEFICIT)</b>       |                                    |                                    |   |                                       |                                     |   |
| Utility Services                         | 1,643                              | 851                                | 792 F                                     | 2,064                                 | 2,064                               | 0   |
| Landcare                                 | 729                                | 504                                | 225 F                                     | 1,233                                 | 1,233                               | 0   |
| Environment                              | 15                                 | (63)                               | 78 F                                      | (183)                                 | (183)                               | 0   |
| Transport                                | (459)                              | (415)                              | 44 U                                      | (902)                                 | (902)                               | 0   |
| Wairarapa                                | 117                                | (133)                              | 250 F                                     | (710)                                 | (710)                               | 0   |
| Corporate Services                       | 12                                 | (14)                               | 26 F                                      | 31                                    | 31                                  | 0   |
| Finance & Admin                          | 349                                | (173)                              | 522 F                                     | (279)                                 | (279)                               | 0   |
| Investment Mgmt                          | 1,275                              | 705                                | 570 F                                     | 3,822                                 | 3,822                               | 0   |
| Regional Stadium                         | 375                                | 170                                | 205 F                                     | 478                                   | 478                                 | 0   |
| Elected Members                          | (6)                                | (48)                               | 42 F                                      | (117)                                 | (117)                               | 0   |
| Rates Collection                         | (3)                                | (4)                                | 1 F                                       | 0                                     | 0                                   | 0   |
| Business Units Rates Contribution        | (1,512)                            | (1,512)                            | -   | (3,629)                               | (3,629)                             | 0   |
| Management Savings Objective             | 0                                  | 259                                | 259 U                                     | 622                                   | 622                                 | 0   |
| <b>Total Operating Surplus (Deficit)</b> | <b>2,537</b>                       | <b>129</b>                         | <b>2,408 F</b>                            | <b>2,430</b>                          | <b>2,430</b>                        | <b>0</b>                                    |

Significant components of this favourable year to date variance are as follows:

(1) *Utility Services favourable variance of \$0.79 million*

- The overall operating surplus in Water Supply (excluding Forestry) of \$932,000 is mainly due to savings in direct costs. The materials variance of \$283,000 is primarily due to less power, chemicals and other materials being used. The \$296,000 variance in personnel is due to a combination of the timing of replacing staff and less overtime being worked than had been anticipated.
- Savings in financial costs of \$147,000 and additional investment revenue of \$56,000 have also contributed to the overall surplus. The savings in financial costs can be attributed to the reduced debt level, mainly because of the greater than expected 1997/1998 year end surplus which was applied to debt reduction. Investment revenue relates to higher than budgeted interest on reserves.
- The unfavourable variance of \$141,000 from budget in Plantation Forestry is not inconsistent with management's expectations considering the current market conditions. Other options are being investigated that may be able to achieve additional unbudgeted logging revenue during the remainder of the year.

(2) *Landcare favourable variance of \$0.22 million*

- Flood Protection (Operations) has a favourable timing variance of \$190,000 due to delays in obtaining long term operational resource consents. This is offset to some extent by flood damage costs from the October floods which at 30 November were \$86,000. These costs are all unbudgeted and are expected to increase over the coming months as the costs of flood repair work is progressively brought to charge.
- Revenue from the Upper Rahui project has been delayed due to difficulties in obtaining landowner consents, resulting in an unfavourable variance of \$115,000. Land owner consents have since been obtained and this variance should correct itself before year end.
- Insurance proceeds from a stolen vehicle of \$38,000 (unbudgeted) has created a favourable variance within Regional Parks (Operations).
- Regional Parks (Strategy & Marketing) is underspent by \$49,000 as a result of the Resource Planning Projects running well below budget. The underspend is primarily due to savings in personnel costs.
- The Natural Forest Operations programme has been altered due to weather conditions and other work priorities and is currently showing a favourable variance of \$50,000.

(3) *Environment favourable variance of \$0.08 million*

- Personnel costs are under budget by \$90,000 due to vacancies in both the Resource Policy and Consents Management departments. While it is expected that some of these savings will become permanent, they have been mitigated by the recruitment of an additional pollution response officer which was not budgeted for.

(4) *Transport unfavourable variance of \$0.04 million*

- The \$253,000 favourable variance in the Public Transport department is mainly due to the expenditure on contracted services being \$244,000 below budget. Some of these savings are expected to be offset by increased contract costs during the remainder of the year.
- The Planning and Policy Department unfavourable variance of \$379,000 is mainly due to three factors. Firstly, an unfavourable variance of \$100,000 on external contractors, due to the additional research required to develop a revised Regional Land Transport strategy, \$79,000, and also consultants work in the completion of the development of the EMME/2 transport model, \$21,000. These are expected to reverse by year end as the work has been completed ahead of when the expenditure was budgeted. Secondly, an unfavourable variance of \$320,000 in infrastructure grants, caused by the purchase of land at Paraparaumu Railway station for car parking purposes. Thirdly, a favourable variance of \$45,000 in contractors and consultants due to delays in obtaining a resource consent for a further car park at Waterloo station.
- Fewer service changes than anticipated has resulted in a favourable variance of \$35,000 in the customer services department because of the

reduced requirements for timetable printing

(5) *Wairarapa favourable variance of \$0.25 million*

- Although the Operations Department has a minimal favourable variance overall, there are a number of offsetting variances within the department; including a \$68,000 favourable variance due to the timing of the Reserve Forests Silviculture program; a \$146,000 unfavourable variance on river management expenditure due to the costs of flood damage repair and a \$153,000 favourable variance in the soil conservation expenditure due to drought conditions.
- The Planning and Resources department has a favourable variance of \$78,000 largely due to the timing of contract expenditure for the consents activity. This department is also experiencing delays in expenditure on riverbed monitoring due to changed priorities.
- The Biosecurity department has a favourable variance of \$103,000, of which \$62,000 is due to the incorrect budget phasing of the pest rates for the Bovine Tb activity. All other activities in this department show minor favourable variances due to timing.
- The \$72,000 favourable variance in the Support Services department is mainly due to a combination of additional revenue gained from penalties imposed on special rates, and the timing of expenditure on materials.

(6) *Finance & Administration favourable variance of \$0.52 million*

- Under expenditure of \$275,000 in IT and Support Services is primarily as a result of reduced expenditure on software licence fees, supplies, consultants, repairs and maintenance and personnel. The personnel cost savings of \$48,000 reflect current vacancies in the department.
- The \$206,000 favourable variance in Finance primarily relates to the FIS replacement costs budgeted as operating expenditure but now being capitalised as part of capital expenditure. This is therefore more to do with a misclassification within the budget than a real underspend.

(7) *Investment Management favourable variance of \$0.57 million*

- Savings in financial costs of \$353,000 resulting from less Council-wide expenditure which consequently has led to debt levels being lower than expected, and lower than budgeted interest costs.
- \$55,000 of increased investment income from Port Wellington convertible notes, is the result of a higher than budgeted interest rate on the first receipt of the year.
- Additional rental income of \$49,000 from Council's investment properties in Blair and Allen Streets.

(8) *Regional Stadium favourable variance of \$0.2 million*

- Additional interest income of \$169,000 was earned on funds borrowed to advance to the Wellington Regional Stadium Trust. The Council drew down the loan of \$25,000,000 on 1 July 1998, but it took until 6<sup>th</sup> August for the Council officers to be satisfied that all of our conditions had been met by the Trust, before the money was paid over to the Trust. In the intervening period the funds were invested and additional unbudgeted interest income was earned as a result.

(9) *Management Savings Objective unfavourable variance of \$0.26 million*

- The 1998/99 Annual Plan incorporated a “savings yet to be found” figure of \$622,000. This amount relates to the first five months’ share. Actual savings are reflected within the favourable variances of each division.

### 3.2 Capital Expenditure

Year-to-date capital expenditure for the five months to 30 November 1998 is \$1.2 million below budget.

|                                  | 1998/99<br>YTD Actual<br>\$000s | 1998/99<br>YTD<br>Budget<br>\$000s | Actual vs<br>Budget<br>Variance<br>\$000s | 1998/99<br>Year<br>Forecast<br>\$000s | 1998/99<br>Year<br>Budget<br>\$000s | Forecast vs<br>Budget<br>Variance<br>\$000s |
|----------------------------------|---------------------------------|------------------------------------|---|---------------------------------------|-------------------------------------|---|
| <b>CAPITAL EXPENDITURE</b>       |                                 |                                    |   |                                       |                                     |   |
| Utility Services                 | 2,102                           | 2,638                              | 537 F                                     | 6,362                                 | 6,362                               | -   |
| Landcare                         | 418                             | 820                                | 403 F                                     | 1,829                                 | 1,829                               | -   |
| Environment                      | 66                              | 18                                 | 48 U                                      | 83                                    | 83                                  | -   |
| Transport                        |                                 | 64                                 | 64 F                                      | 64                                    | 64                                  | -   |
| Wairarapa                        | 201                             | 305                                | 104 F                                     | 570                                   | 570                                 | -   |
| Corporate Services               |                                 | 23                                 | 23 F                                      | 23                                    | 23                                  | -   |
| Finance & Admin                  | 205                             | 305                                | 100 F                                     | 305                                   | 305                                 | -   |
| Investment Mgmt                  | 0                               | 25                                 | 25 F                                      | 25                                    | 25                                  | -   |
| Elected Members                  |                                 | 42                                 | 42 F                                      | 42                                    | 42                                  | -   |
| <b>Total Capital Expenditure</b> | <b>2,992</b>                    | <b>4,240</b>                       | <b>1,249 F</b>                            | <b>9,303</b>                          | <b>9,303</b>                        | <b>-</b>                                    |

Significant components of this favourable year to date variance are as follows:

(1) *Utility Services favourable variance of \$0.54 million*

- Project work remains broadly on schedule and is progressing according to plan. However, temporary favourable variances have arisen due to the timing of expenditure on the Wainuiomata Reaction Tank project, \$199,000, the Waterloo project to increase supply capacity, \$251,000, and the project to enhance system control from Kaitoke to the Te Marua Water Treatment Plant, \$81,000.

(2) *Landcare favourable variance of \$0.4 million*

- The Hutt Floodplain Management Plan is behind schedule \$50,000 due to delays in appointing a project leader.
- The costs of publishing and public consultation for the Otaki Floodplain

Management Plan have been significantly less than expected this financial year. Further costs to be incurred are for the launch of the plan and “Friends of the River” Programme. At this stage the project has an overall favourable variance of \$137,000.

- The Wainuiomata Floodplain Management Plan is \$40,000 behind schedule, due to staff vacancies and commitments to other projects, in particular the Hutt Floodplain Management plan.
- The Rimutaka Incline Roding project is \$77,000 behind schedule, due to storm damage & difficulties in appointing a sealing contractor. The program has been modified and will now be completed in December and March-April 1999.

(3) *Environment unfavourable variance of \$0.05 million*

- Mainly relates to the replacement of a light van used for emergency management. The expenditure was not budgeted for in the current financial year. However, as it had become clear that the previous van was not totally suited for use in the emergency management role, this vehicle has been replaced with a four wheel drive utility. Three other vehicles were replaced during the month as per the annual budget. All of the vehicles that were replaced have now been sold.

(4) *Regional Transport favourable variance of \$0.06 million*

- Relates to the deferral of a vehicle purchase, \$10,000, and the deferment of \$50,000 of expenditure on an Automatic Vehicle Identification System. The system is being tested by the Auckland Regional Council, and at this time is not of an acceptable standard to warrant this Council to incur expenditure.

(5) *Wairarapa favourable variance of \$0.10 million*

- The timing of the expenditure on the Donald’s Creek Flood protection project, the acquisition of a carrot cutter and the delay in replacing vehicles has resulted in favourable variances of \$29,000, \$39,000 and \$24,000 respectively.

(6) *Finance and Administration favourable variance of \$0.1 million*

- The favourable variance relates to the timing of actual expenditure on the FIS project compared with the budget phasing.

#### 4. **Compliance with Treasury Management Policy**

There were no instances of non compliance with the Treasury Management Policy during the month of November 1998.

#### 5. **Recommendation**

*That the report be received and the contents noted.*

Report prepared by:

Approved for submission:

ANNE QUAINANCE  
Financial Accountant

GREG SCHOLLUM  
Chief Financial Officer

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