



Report 06.413
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Committee Policy, Finance and Strategy
Author Chris Gray Finance Manager

Financial Report for the year ended 30 June 2006

1. Purpose

- To inform the Committee of the financial performance for the year ended 30 June 2006 and to provide an explanation of the major variances by division between actual and budget.
- To provide an interim review of the Council's performance targets against the published performance targets in the 2005/06 Annual Plan.

2. Significance of the decision

The matters 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

Year end reviews between the Chief Executive/Chief Financial Officer and the Divisions have been completed. The reviews have been made available to Councillors.

4. Financial Performance

4.1 Results for the year ended 30 June 2006

The Council achieved an operating surplus for the year of \$2.106 million compared with a budget deficit of \$1.391 million. These results exclude the following items:

- Increase in the valuation of the Regional Council Centre, \$2.276 million.
- Decrease in the value of the Council's forests, \$1.745 million.
- Grants of \$2.800 million received from the Government in respect of Waitangirua Farm purchase.
- Grants in respect of Transport capital expenditure of \$0.444 million. This is discussed in section 4.7 of this report.

These items have been separated out to allow a better review of the operational results of the Council.

The valuations of The Regional Council Centre and the Forests are not prepared until after year end and as such they are not able to be included in our forecast.

4.1.1 Regional Council Centre valuation favourable variance \$2.276 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 \$3.174 million giving a total value for the building as at 30 June 2006 of \$11.820 million. The increase of \$3.174 million has been reduced by \$0.898 million, representing a deferred tax liability which may have to be paid if the building is ever sold.

4.1.2 Forestry valuation unfavourable variance \$1.745 million.

- The valuation of our forestry assets as at 30 June 2006 was \$1.745 million, lower than the cost of the Forests in our accounts. Therefore, under the accounting rules, we are obliged to write down the cost in our financial statements to the lower value.

4.1.3 Waitangirua Park Purchase unfavourable variance \$0.500 million.

- The purchase of Waitangirua Farm was not included in the budget. It was funded by a grant from the Government of \$2.80 million, a contribution of \$0.50 million from Landcorp, plus \$2.30 million from the Council. The \$0.50 million was paid by Landcorp as rent in advance for the next five years of grazing rights. This amount will be accounted for as income over the next five years.

4.2 Statement of Financial Performance.

Actual revenue of \$161.61 million is \$12.58 million below the budget of \$174.19 million. This is largely due to lower grants for capital expenditure in Transport. Direct operating expenditure of \$142.0 million is also well below the budget of \$151.8 million. Detailed explanations by Division are noted below.

External finance costs of \$4.57 million are slightly below the budget of \$4.74 reflecting lower borrowings by the Council of \$4.58 million. This reduced finance costs by \$0.32 million with higher than budgeted interest rates partly offsetting these savings. The lower debt is due to reduced capital expenditure as noted in section 4.7.

The Council's consolidated Statement of Financial Position is included as **Attachment 1**.

OPERATING SURPLUS / (DEFICIT) \$(000)'s	Year ending 30 June 2006				Actual	Budget	Variance
	Last Year	Actual	Forecast	Variance			
Water Group	873	(59)	(335)	276	(59)	(817)	758
Forestry	(637)	(574)	(883)	309	(574)	(888)	314
Regional Parks	(311)	103	261	(158)	103	(397)	500
Water Supply, Parks & Forests	(75)	(530)	(957)	427	(530)	(2,102)	1,572
Transport Policy and Strategy	(145)	31	213	(182)	31	(174)	205
Public Transport	1,076	(2,276)	(2,164)	(112)	(2,276)	(1,378)	(898)
Total Transport	931	(2,245)	(1,951)	(294)	(2,245)	(1,552)	(693)
Environment	338	237	88	149	237	(242)	479
Catchment Management	2,179	2,457	1,301	1,156	2,457	1,142	1,315
Corporate	(96)	274	(229)	503	274	31	243
Finance, IT & Support Services	949	785	613	172	785	342	443
Investment in Democracy	(78)	53	74	(21)	53	74	(21)
Divisional Operating Surplus	4,148	1,031	(1,061)	2,092	1,031	(2,307)	3,338
Investment Management	10,942	8,833	8,392	441	8,833	8,675	158
Business Unit Rates Contribution	(7,624)	(7,758)	(7,759)	1	(7,758)	(7,759)	1
Net Council Operating Surplus / (Deficit)	7,466	2,106	(428)	2,534	2,106	(1,391)	3,497
Revaluation Pringle House	-	2,276	-	2,276	2,276	-	2,276
Revaluation Forestry	-	(1,745)	-	(1,745)	(1,745)	-	(1,745)
Landcare: Sale of Mibey Road	3,155	-	-	-	-	-	-
Parks - Grant for Waitanginua Purchase	-	2,800	3,300	(500)	2,800	-	2,800
Transport - Procurement Capex	173	444	1,207	(763)	444	9,586	(9,142)
Total Council Operating Surplus	10,794	5,881	4,079	1,802	5,881	8,195	(2,314)

4.3 Actual versus Forecast

The actual operating surplus of \$2.106 million compares with the previous forecast deficit of \$0.428 million.

	\$ Million
Forecast deficit	(0.428)
Investment management – favourable	0.441
Catchment Management – favourable	1.156
Other Divisional variances – favourable As detailed below	0.937
Actual surplus	2.106

4.3.1 Investment Management favourable variance \$0.441 million, primarily due to:

- Increase in value of the Regional Council Centre has given rise to a tax benefit in the current year as well as reducing the overall deferred tax liability noted in section 4.1.1.

4.3.2 Catchment Management favourable variance \$1.156 million, primarily due to:

- The 2004/05 floods required major works to repair and strengthen the affected schemes. This work was forecast as operating expenditure. On review at year end it was assessed that a large proportion of this work needed to be capitalised as it resulted in overall improvement of the schemes. Thus \$1.134 million of flood protection works were accounted for as fixed assets, reducing operational expenditure.

4.3.3 Water Supply favourable variance of \$0.276 million, primarily due to:

- Expenditure on projects to develop a new water source was less than anticipated by year end.

4.3.4 Forestry favourable variance of \$0.309 million, primarily due to:

- Higher than forecast harvest volumes from Plantation Forestry.
- Savings of \$80,000 on contractors on Reserve Forestry due to varied work program.

4.3.5 Parks unfavourable variance of \$0.158 million, primarily due to:

- Additional costs associated with weed control.

4.3.6 Transport Policy and Strategy unfavourable variance \$0.182 million, primarily due to:

- Additional expenditure on the Western Corridor Studies.

4.3.7 Public Transport unfavourable variance \$0.112 million, primarily due to:

- Transport expenditure on rail and bus operations continued to be higher than anticipated.

4.3.8 Environment favourable variance \$0.149 million primarily due to:

- Net savings made across the Division compared to forecast.

4.3.9 Corporate favourable variance of \$0.502 million primarily due to:

- A reallocation of expenses occurred as a result of the restructuring.

4.3.10 Finance and Admin, favourable variance of \$0.172 million, primarily due to:

- Savings made across the Division plus year end accruals being less than forecast.

4.4 Actual versus Budget

The Council achieved a net operating surplus of \$2.106 million compared with the budgeted deficit of \$1.391 million, a favourable variance of \$3.497 million.

These amounts exclude the items noted above. The explanations for the variance in the Transport capital expenditure are noted in section 4.6.

The major components of the net \$3.497 million favourable variance in the net operating surplus are tabulated below, with more detail following.

	\$ Million
Budget net operating deficit	(1.391)
Water Group – favourable variance	0.758
Forestry – favourable variance	0.314
Regional Parks - favourable variance	0.500
Transport Policy - favourable variance	0.205
Public Transport - unfavourable variance	(0.898)
Environment - favourable variance	0.479
Catchment Management – favourable variance	1.315
Corporate - favourable variance	0.242
Finance, IT - favourable variance	0.443
Investment Management - favourable variance	0.158
Other sundry	(0.019)
Actual net operating surplus	2.106

4.4.1 Water Supply favourable variance of \$0.758 million, primarily due to:

- Lower than budgeted variable expenditure including chemicals \$53,000, rates \$155,000, contractors \$171,000 and lower personnel costs of \$118,000.
- Increased revenue of \$294,000 including additional labour charged out of \$142,000, reserve interest \$36,000 and additional laboratory revenue of \$88,000.
- Depreciation \$376,000 was less than budget, offset by asset write downs after year end of \$490,000.

4.4.2 Forestry favourable variance of \$0.314 million, primarily due to:

- Below budgeted expenditure reflecting a changed work programme throughout the year as market and weather conditions changed.
- Higher log volumes.

4.4.3 Parks favourable variance of \$0.500 million, primarily due to:

- Additional costs associated with weed control.
- \$140,000 favourable variance due to delays in the Whitireia Park ranger service as the Council has not yet taken over management of the Park.
- \$85,000 favourable variance in the removal of storm damaged trees in the Korokoro Valley.
- \$115,000 favourable variance due to delays in the production of park management plans.
- \$60,000 rebudgeted expenditure for the Mainland Island work programme.

4.4.4 Transport Policy favourable variance of \$0.205 million, primarily due to:

- Various studies were not completed during the year, namely the Travel Plan study, and the Wairarapa log freight project.

4.4.5 Public Transport unfavourable variance \$0.898 million, primarily due to:

- Rail, bus and ferry inflation costs were \$3.01 million higher than our budget due to increases in the inflation indices set by Land Transport each quarter. This is a large increase over the \$1.60 million forecast at the end of the March quarter. The last two indices prepared by Land Transport increased significantly over and above the estimates prepared by Public Transport. The increases in inflation were largely driven by rises in the diesel price.
- Savings in signing the Trolley Bus contract due to lower maintenance costs for the overhead wires, \$0.70 million, caused by the delay in signing the new contract. This saving in costs is only a timing issue as this work will be done in 2006/7.
- Delays to the integrated ticketing and real time information projects have reduced expenditure by \$0.90 million.
- Delays in signing the Rail Contract have meant lower operational expenditure for the rail rolling stock projects, \$1.00 million.

4.4.6 Environment favourable variance \$0.479 million, primarily due to:

- Revenue from the Meridian wind farm consent application of \$196,000 was not budgeted for and assisted in offsetting the increased costs associated with the hearings.
- Personnel costs were below budget by \$175,000 reflecting the difficulty in promptly recruiting replacement staff.
- Consultants were less than budget by \$70,000 due to a lower requirement for laboratory and technical assistance.
- Internal charges were less than budget by \$76,000 due to less requirements for consent monitoring.

4.4.7 Catchment management favourable variance \$1.315 million, primarily due to:

- The 2004/05 floods required major review and strengthening works to the river schemes. On review at year end it was clear that \$1.134 million of this work has resulted in the overall improvement of the schemes and therefore the costs are required to be capitalised and not treated as operational expenditure.
- The cut back in the Bovine Tb programme by the Animal Health Board resulted in \$3.10 million less expenditure and \$2.60 million less revenue, a net \$0.50 million saving compared to budget. This was offset by the non-completion of some contracts due to the weather and availability of contractors.
- Additional expenditure of \$0.30 million on scheme maintenance and other programmes was spent and approved during the year.

4.4.8 Corporate favourable variance \$0.242 million, primarily due to:

- Additional revenue was received from the Honda Treefund program of \$59,000 and \$50,000 from the sale of emergency management plans, stretchers and contributions to emergency management initiatives.
- \$73,000 saving in contractors and consultants on projects across the Division.

4.4.9 Finance and Admin, favourable variance of \$0.443 million, primarily due to:

- The net contribution from rates was \$193,000 ahead of budget, mainly due to penalties.
- Personnel costs were \$146,000 less than budget due to timing and the difficulty in recruiting staff.
- Materials and supplies were \$127,000 less than budget reflecting lower expenditure within the IT department.
- \$50,000 was spent on pandemic supplies that was not budgeted.
- Additional audit and printing expenditure for the LTCCP of \$49,000 was incurred.

4.4.10 Investment Management favourable variance \$0.158 million, primarily due to:

- Increase in the value of the Regional Council Centre has given rise to a tax benefit in the current year, partly offsetting the overall deferred tax liability.

4.5 Total Revenue

The table below shows the divisional breakdown of revenue. Actual revenue was \$12.58 million less than budget. The major variances are:

- Reduced capital expenditure in Public Transport resulted in a \$9.14 million unfavourable variance as Land Transport grants are only received once the expenditure has occurred.
- Reduced project expenditure in Public Transport \$3.74 million.
- Transport Policy was lower by \$1.71 million. Travel Plan Co-ordination Study delayed \$0.50 million. Wairarapa log freight not progressed yet \$0.70 million and other studies delayed as the Western Corridor study and consultation progressed.
- Waitangirua Farm grants \$2.80 million favourable.
- Catchment Management \$2.09 million unfavourable, primarily because of the reduced Animal Health Board programme.

Total Operating Revenue \$(000)'s	Last Year	Actual	Budget	Variance
Water Group	26,969	27,121	26,827	294
Forestry	5,448	5,348	5,382	(34)
Regional Parks	6,214	6,789	6,571	218
Water Supply, Parks & Forests	38,631	39,258	38,780	478
Transport Policy and Strategy	2,923	2,741	4,455	(1,714)
Public Transport	55,151	64,056	67,801	(3,745)
Total Transport	58,074	66,797	72,256	(5,459)
Environment	12,555	12,620	12,416	204
Catchment Management	27,556	27,610	29,703	(2,093)
Corporate	1,420	1,899	1,719	180
Finance, IT & Support Services	6,472	6,543	6,414	129
Investment in Democracy	3,829	4,340	4,340	-
Divisional Operating Revenue	148,537	159,067	165,628	(6,561)
Investment Management	8,546	7,058	6,737	321
Business Unit Rates Contribution	(7,624)	(7,757)	(7,759)	2
Net Council Operating Revenue	149,459	158,368	164,606	(6,238)
Revaluation Pringle House	-	-	-	-
Revaluation Forestry	-	-	-	-
Landcare: Sale of Mabey Road	-	-	-	-
Parks - Grant for Waitangirua Purchase	-	2,800	-	2,800
Transport - Procurement Capex	173	444	9,586	(9,142)
Total Council Operating Revenue	149,632	161,612	174,192	(12,580)

4.6 Total Expenditure

The table below shows the divisional breakdown of expenditure. Actual expenditure was \$10.26 million less than budget. The major variances are:

- Public Transport expenditure was \$2.84 million lower as the delay signing the Rail Contract reduced project expenditure.
- Transport Policy expenditure was \$1.92 million. Travel Plan co-ordination study delayed; (\$0.5 million); Wairarapa log freight not progressing (\$0.7 million) and other studies delayed as the Western Corridor study and consultation progressed.
- Catchment Management expenditure was \$3.41 million lower, primarily through the reduced Animal Health Board programme and the capitalisation of scheme work expenditure.
- Other divisional expenditure was below budget.

Total Operating Expenditure \$(000)'s	Last Year	Actual	Budget	Variance
Water Group	26,096	27,180	27,644	(464)
Forestry	6,085	5,922	6,270	(348)
Regional Parks	6,525	6,686	6,968	(282)
Water Supply, Parks & Forests	38,706	39,788	40,882	(1,094)
Transport Policy and Strategy	3,068	2,710	4,629	(1,919)
Public Transport	54,075	66,332	69,179	(2,847)
Total Transport	57,143	69,042	73,808	(4,766)
Environment	12,217	12,383	12,658	(275)
Catchment Management	25,377	25,153	28,561	(3,408)
Corporate	1,516	1,625	1,688	(63)
Finance, IT & Support Services	5,523	5,758	6,072	(314)
Investment in Democracy	3,907	4,287	4,266	21
Divisional Operating Expenditure	144,389	158,036	167,935	(9,899)
Investment Management	(2,396)	(1,775)	(1,938)	163
Business Unit Rates Contribution	-	-	-	-
Net Council Operating Expenditure	141,993	156,261	165,997	(9,736)
Revaluation Pringle House	-	(2,276)	-	(2,276)
Revaluation Forestry	-	1,745	-	1,745
Landcare: Sale of Mabey Road	(3,155)	-	-	-
Parks - Grant for Waitangirua Purchase	-	-	-	-
Transport - Procurement Capex	-	-	-	-
Total Council Operating Expenditure	138,838	155,730	165,997	(10,267)

4.7 Capital Expenditure

Excluding the purchase of the Waitangirua Farm and investments, net capital expenditure for the twelve months was \$15.048 million compared with the budget of \$26.442 million, a variance of \$11.39 million. This variance reduces to \$6.41 million if the farm is included. As noted in previous reports, the main reason for this variance is the low level of capital expenditure in Public Transport.

Capital Expenditure \$(000)'s	Last Year	Actual	Budget	Variance
Water Group	4,226	6,664	6,349	315
Forestry	333	179	238	(59)
Regional Parks	519	320	519	(199)
Water Supply, Parks & Forests	5,078	7,163	7,106	57
Transport Policy and Strategy	-	37	-	37
Public Transport	204	505	7,725	(7,220)
Transport - heavy maintenance	-	-	4,270	(4,270)
Total Transport	204	542	11,995	(11,453)
Environment	582	349	470	(121)
Catchment Management	5,465	6,411	5,365	1,046
Corporate	99	62	219	(157)
Finance, IT & Support Services	716	508	1,282	(774)
Investment in Democracy	49	13	5	8
Divisional Capital expenditure	12,193	15,048	26,442	(11,394)
Parks - Waitangirua Purchase	-	5,600	-	5,600
Landcare: Sale of Mabey Road	(3,385)	-	-	-
Investment Management	336	4	620	(616)
Business Unit Rates Contribution	-	-	-	-
Council Capital expenditure	9,144	20,652	27,062	(6,410)

4.8 Actual versus Budget

Significant components of the \$6.41 million favourable budget variance are:

4.8.1 Waitangirua Farm purchase unfavourable variance of \$5.600 million, primarily due to:

- The purchase of the Farm was not budgeted for. The total asset cost was \$5.60 million with \$2.30 million being contributed by the Council.

4.8.2 Water Supply unfavourable variance of \$0.315 million, primarily due to:

- Additional expenditure of \$1.168 million was approved for the Karori pumping station and the relocation of the Kaitoke main at Haywards.
- \$0.490 million additional spend on other projects received approval.
- Total savings of \$1.20 million for other projects were achieved during the year.

4.8.3 Parks favourable variance of \$0.199 million, primarily due to:

- \$100,000 favourable variance due to the rebudget of the Queen Elizabeth Park toilet replacement program.
- \$70,000 favourable variance due to the delay in starting the Whitireia Park Service.

4.8.4 Public Transport – Capex favourable variance \$11.485 million, primarily due to:

Public Transport Capital Expenditure	Year to Date		
	Actual \$ 000's	Budget \$ 000's	Variance \$ 000's
RS - Capex - New EMU's	441	1,000	(559)
RS - Capex - Heavy Maintenance	-	4,270	(4,270)
RS - Capex - Rolling Stock Other	-	1,625	(1,625)
RS - Capex - Station Maintenance	-	2,400	(2,400)
RS - Capex - Rail Security	-	1,280	(1,280)
J'Vill Mall Review	-	1,000	(1,000)
Concessionary Card Id	-	270	(270)
Total Mobility Project	-	50	(50)
			-
Other Transport Assets	64	100	(36)
Total Public Transport	505	11,995	(11,490)

The delays in signing the Rail Contract are the main factor in the capital expenditure being well below budget.

4.8.5 Catchment management unfavourable variance \$1.046 million, primarily due to:

- The capitalisation of \$1.13 million of flood protection works that were budgeted to be expensed during the year.

4.8.6 Finance and Admin, favourable variance of \$0.774 million, primarily due to:

- SAP upgrade project delayed, \$350,000 rebudgeted.
- IT projects delayed, \$319,000 rebudgeted.

4.8.7 Investment Management, favourable variance of \$0.616 million, primarily due to:

- Capital expenditure for the Wairarapa office delayed and rebudgeted.

5. Funding Position

Council Funding Statement \$(000)'s	Last Year	Actual	Budget	Variance
Operating Surplus(Deficit)	10,794	5,882	8,195	(2,313)
Add Back Non Cash Items	(5,961)	(9,091)	(9,567)	476
Reserve Investments Movements	-	-	(87)	87
Funding Surplus (Deficit) from Operations	16,755	14,973	17,675	(2,702)
Net Capital Expenditure	(8,913)	(20,652)	(27,062)	6,410
Other Debt and Investment Movements	2,092	(1,501)	(1,595)	94
Working Capital Movements	(3,947)	5,405	-	5,405
Other Balance Sheet Movements	-	(167)	(1)	(166)
External Debt Movements	(5,987)	1,942	10,983	(9,041)
Net Funding Surplus(Deficit)	-	-	-	-

From a funding perspective, the surplus for the year is \$2.31 million below budget. The main factor is the lower grants received from Land Transport in respect of Transport capital expenditure. However, the lower capital expenditure has improved the Council's debt position overall compared with budget.

The full Council funding statement is included as **Attachment 2**.

6. Statement of Financial Position

The Council Statement of Financial Position shows the budget and actual year-end financial position.

The Statement of Financial position is included as **Attachment 3**.

7. Reserves

The approval of the final reserve movements by Council will be included in the October meeting when the Annual Report is considered.

8. Annual 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.

9. Compliance with Treasury Management Policy

As at 30 June 2006 all Treasury Management Policy limits have been met with one exception (refer **Attachment 4**).

The Council's forestry activity has an actual debt to forestry market value ratio of 83% compared to the policy limit of 70%. This ratio is based on the current valuation.

Parks and Forests have breached their internal borrowing limits due to the purchase of Waitangirua Farm in June 2006.

10. Communications

No communications are necessary at this stage. A media release on the results will be prepared once the audit and annual report are approved in October.

11. Recommendations

That the Committee recommend that Council:

1. *receive the report.*
2. *note the content of the report.*

Report prepared by:

Chris Gray
Finance Manager

Report approved by:

Barry Turfrey
Chief Financial Officer

Attachment 1: Statement of Financial Performance

Attachment 2: Funding Statement

Attachment 3: Statement of Financial Position

Attachment 4: Compliance with Treasury Management Policy