Report **05.430**
Date 18 August 2005
File G/4/1/5 CFO/13/2/1

Committee **Policy, Finance and Strategy**
Author **Chris Gray Finance Manager**

Financial Report for the twelve months ended 30 June 2005

1. Purpose

To review the financial performance of the Council for the twelve months ended 30 June 2005. The Committee should note these results are subject to final audit. The auditors do not commence this until September.

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

Quarterly reviews between the Chief Executive/Chief Financial Officer and the Divisions have just been completed. The reviews will be made available to Councillors.

It is timely, as a result of those reviews, to present to Council the year end review. This is sooner than in previous years as this review is normally combined with the approval of the Annual Report in October.

4. Financial Performance

4.1 Year to date operating surplus

The Council's operating surplus for the 2004/05 financial year was $10.8 million compared with a budgeted operating surplus of $0.95 million, resulting in an operating surplus ahead of budget of $9.8 million. Excluding Mabey Road the surplus is $7.6 million.

The operating surplus of $10.8 million is $0.5 million ahead of the last forecast operating surplus of $10.3.

These figures may change due to the forestry valuation which has yet to be received. If there are any changes to the numbers for any reason these will be considered by Council in October when the Annual Report is approved.

2004/05 Year Actual $000s	20004/05 Year Budget $000s	Actual vs Budget Variance $000s	OPERATING SURPLUS (DEFICIT)	2004/05 Year Actual $000s	2004/05 Forecast May $000s	Actual vs Forecast Variance $000s
873	(392)	1,265 F	Water Group	873	824	49 F
(302)	(39)	263 U	Plantation Forestry	(302)	(368)	66 F
572	**(430)**	**1,002 F**	**Utility Services**	**572**	**456**	**115 F**
1,105	(1,133)	2,238 F	Transport	1,105	2,453	1,349 U
1,697	1,985	288 U	Landcare	1,697	1,558	140 F
280	(59)	339 F	Environment	280	189	91 F
(24)	(44)	20 F	Wairarapa	(24)	(350)	326 F
(57)	(6)	51 U	Corporate Advisory Services	(57)	(20)	37 U
950	39	911 F	Finance & Admin	950	453	497 F
(70)	(135)	65 F	Chief Executive	(70)	(91)	21 F
(129)	(148)	19 F	Investment in Democracy	(129)	(122)	6 U
4,323	**68**	**4,255 F**	**Net Divisional Surplus (Deficit)**	**4,323**	**4,525**	**202 U**
10,941	8,509	2,431 F	Investment Management	10,941	10,267	673 F
(7,624)	(7,624)	-	Business Unit Rates Contribution	(7,624)	(7,624)	0 F
7,639	**953**	**6,686 F**	**Total Operating Surplus (Deficit)**	**7,639**	**7,168**	**471 F**
3,155	0	3,155 F	Landcare Sale of Mabey Road	3,155	3,155	-
10,794	**953**	**9,841 F**	**Council Operating Surplus (Deficit)**	**10,794**	**10,323**	**471 F**

4.2 Actual versus Previous Forecast

The last forecast given to Council in June showed a surplus of $10.3 million compared with the draft result of $10.8 million.

The major components of the $0.5 million favourable variance from the last forecast are:

4.2.1 Investment Management favourable variance $0.673 million, primarily due to:

- Increase in value of WRC Holdings of $597,000 favourable, primarily the increase in the value of Pringle House.

4.2.2 Finance and Admin, favourable variance of $0.497 million, primarily due to:

- Increased rates collected $177,000 favourable variance
- Reduced collection and valuation costs $132,000 favourable variance.
- Reduced annual software costs resulting in $154,000 favourable variance.

4.2.3 Transport, an unfavourable variance of $1.3 million, primarily due to:

- Refund to LTNZ of over claimed patronage growth in 2003/2004 $1.06 million unfavourable

4.2.4 Wairarapa, favourable variance of $0.326 million, primarily due to:

- Reduced Bovine Tb control requirements resulting in net savings of $398,000 favourable variance

4.3 Actual versus Budget

The major components of the $6.7 million operating surplus when compared with budget variance are as follows:

4.3.1 Water Supply favourable variance of $1.265 million, primarily due to:

- Lower than budgeted variable expenditure including chemicals $377,000; materials $201,000; power $157,000 and lower finance costs of $272,000

- Increased other revenue $571,000 including additional internal labour recovery $176,000, Strategy and Asset sales and recoveries $327,000

4.3.2 Plantation Forestry unfavourable variance of $0.263 million, primarily due to:

- Below budgeted harvest returns as result of the on going depressed market, $892,000 unfavourable income variance

- Lower than budgeted harvest costs correlating to reduced revenue returns and slower production, $554,000 favourable variance

4.3.3 Transport favourable variance of $2.238 million, primarily due to:

- Reversal of transport accrual from 2003/2004 $2.787 million favourable

- Increase in LTNZ Financial Assistance Rate (FAR) rate to 48.1% resulting in $882,000 additional income from LTNZ

- Increase in transport operator inflation and new contract expenses net unfavourable $873,000

- Refund to LTNZ of over claimed patronage growth in 2003/2004 $1.06 million unfavourable.

- Rebudgeted Operating Expenditure
    - Metlink signage and Brand promotion delayed launch $167,000

  - Integrated ticketing $96,000
  - EE Carriage refurbishments behind schedule $297,000
  - Other projects rebudgeted $100,000
- Other savings on projects $250,000 favourable

4.3.4 Landcare, unfavourable variance of $0.288 million, due to:

- Unplanned works from January 2005 floods $625,000 unfavourable. (Note that a further $741,000 has been budgeted in 2005/06 to complete repair work.)
- Unplanned work from August 2004 storms, $142,000 unfavourable
- Central Government assistance for floods, $140,000 favourable
- Commencement of Waiwhetu Stream flood hazard study $58,000 unfavourable variance
- Completion (50% Share) of SH2 underpass at Kaitoke $95,000 unfavourable variance

4.3.5 Environment favourable variance of $0.339 million, due to:

- External revenue was down through a lower number of notified consents, $37,000 unfavourable.
- Expenditure was maintained across the division, $373,000 favourable, through less processing of consents ($41,000 favourable), Materials and Supplies $164,000 and Consultant costs $169,000 being the largest components.

4.3.6 Wairarapa favourable variance of $0.020 million, due to:

- External revenue and costs for Bovine were both substantially down, with a net favourable variance of $398,000.
- Additional net costs of $155,000 in pest animals work.
- Stock bank asset write downs of $226,000 unfavourable, including the relocation of the Scadden property section.

4.3.7 Finance, Admin favourable variance of $0.911 million, due to:

- Additional rates revenue $177,000 and lower collection and valuation costs $132,000 resulting in net $309,000 favourable variance.
- $356,000 favourable variance in IT, primarily in reduced software requirements.

- Reduced personnel costs primarily through the delay of replacements coming on board, $183,000 favourable

4.3.8 Investment Management favourable variance of $2.43 million, due to:

- Unbudgeted additional subvention revenue from CentrePort, $1.4 million.
- WRC Holdings $597,000 favourable variance primarily as a result of the increase in value of the Regional Council Centre ($496,000).
- Over the year interest rates continued to rise, resulting in the $44 million cash deposit earning $305,000 ahead of budget.
- Positive movements in cash balances throughout the year resulted in money market interest being $217,000 ahead of budget.

4.4 Net Capital Expenditure

Year-to-date net capital expenditure for the twelve months is $5.8 million below budget and $154,000 above the last forecast. Excluding the gain on Mabey Road, the favourable variance is $2.4 million.

2004/05 YTD Actual $000s	2004/05 YTD Budget $000s	Actual vs Budget Variance $000s	NET CAPITAL EXPENDITURE	2004/05 Year May Forecast $000s	Actual vs Forecast Variance $000s
4,510	5,883	1,373 F	Utility Services	4,237	273 U
4,488	4,897	410 F	Landcare	4,958	471 F
430	554	124 F	Environment	422	8 U
204	306	102 F	Transport	239	34 F
1,370	1,014	356 U	Wairarapa	846	525 U
713	1,228	515 F	Finance & Admin	796	83 F
99	88	11 U	Corporate Advisory Services	136	37 F
24	52	28 F	Investment in Democracy	52	28 F
336	531	195 F	Investment Management	334	2 U
12,173	**14,553**	**2,380 F**	**Total Capital Expenditure**	**12,020**	**154 U**
(3,385)	0	3,385 F	Sale Proceeds Mabey Rd land	(3,385)	-
8,788	**14,553**	**5,765 F**	**Total Net Capital Expenditure**	**8,635**	**154 U**

4.5 Actual versus Forecast

Significant components of the $0.154 million unfavourable forecast variance, excluding Mabey Road sale, are as follows:

4.5.1 Utility Services unfavourable variance of $0.27 million, primarily due to:

- Delays in projects (see budget variation below)

4.5.2 Landcare favourable variance of $0.47 million, primarily due to:

- A number of projects in both Parks and Forests and Flood Protection did not progress as far as was planned.
- Savings on Strand Park channel Realignment, $245,000 favourable variance
- The issue of sourcing quality rock continues to be an issue for the division.

4.5.3 Wairarapa unfavourable variance of $0.525 million, primarily due to:

- Significant new flood protection measures being completed during the year**.**

4.6 Actual versus Budget

Significant components of the $2.4 million favourable budget variance (excluding the sale of Mabey Road) are as follows:

4.6.1 Utility Services favourable variance of $1.37 million, primarily due to:

- Delays in SH2 – SH58 pipeline deviation
- Delays in relocation of the Karori Pumping Station
- Delays in relocation of the Point Howard Pumping Station

4.6.2 Landcare favourable variance of $0.410 million, primarily due to:

- Delay in the Jim Cook project $315,000.
- A number of other projects in both Parks and Forests and Flood Protection did not progress as far as was planned by year end.

4.6.3 Transport favourable variance of $0.1 million, primarily due to:

- Delays in purchasing contract management system, $93,000 favourable

4.6.4 Wairarapa unfavourable variance of $0.36 million, primarily due to:

- The development of flood protection assets for River Schemes as mentioned earlier

4.6.5 Finance and Admin favourable variance of $0.515 million, primarily due to:

- Savings in SAP server replacements, $100,000 favourable
- Midlife update to SAP and associated software delayed until 2005/2006, $350,000 favourable

4.6.6 Investment Management favourable variance of $0.2 million, primarily due to:

- Upgrade to budgeting system to cater for new LTCCP requirements delayed until 2005/2006, $195,000 favourable.

5. Funding Position

2004/05 Year Actual $000s	2004/05 Year Budget $000s	Actual vs Budget Variance $000s	Funding Statement	2004/05 Year May Forecast $000s	Actual vs Forecast Variance $000s
10,794	953	9,841 F	Operating surplus (deficit)	10,323	471 U
5,859	8,969	3,109 U	Add back non-cash items	6,368	509 F
0	0	-	Reserve investment movements	(1,382)	1,382 U
16,654	**9,922**	**6,732 F**	**Funding Surplus (Deficit) from Operations**	**15,310**	**(1,344)**
(8,913)	(14,553)	5,640 F	Net capital expenditure	(8,635)	279 F
2,093	2,146	54 U	Other investment movements	2,117	24 F
(3,845)	0	3,845 U	Net Working capital movements	79	3,924 F
0	0	-	Internal debt movements	(206)	206 U
(5,987)	2,485	8,472 U	External debt movements	(8,664)	2,677 U
0	**0**	**0 F**	**Net Funding Surplus (Deficit)**	**0**	**0**

5.1 The increased surplus over budget of $6.7 million has helped generate a funding surplus of $16.6 million (budget of $9.9 million). This has been used primarily to repay debt over budget of $6 million, while the remainder has increased the Council's cash deposits ($2.5 million) and working capital.

External debt as at 30 June 2005 is now $57.9 million, budget ($66.2 million) while cash deposits are $2.5 million (budget $0 million).

6. Reserves

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

7. Annual Performance Targets

Divisional Managers have reported that they achieved all significant annual performance plan targets.

8. Compliance with Treasury Management Policy

As at 30 June 2005 all Treasury Management Policy limits have been met with one exception (refer **Attachment 1**).

GWRC forestry management activity has an actual debt to forestry market value ratio of 74% compared to the policy limit of 70%. This ratio is based on the current valuation. It is unlikely that the new valuation will improve the current position. This is due to downward revaluation of forests, which in turn is driving by the lower log prices, reducing the operation's ability to repay debt.

9. Communications

No communications are necessary.

10. 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: Compliance with Treasury Management Policy