

Report 08.321  
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Committee Council  
Author Chris Gray, Finance Manager

## **Financial review for the nine months ended 31 March 2008**

### **1. Purpose**

- To inform the Council of Greater Wellington's financial performance for the nine months ended 31 March 2008 and to provide an explanation of major variances by Division.
- To forecast the end of year position based on the management reviews completed with each Division.
- To inform the Council of the WRC Holdings Group's financial performance for the nine months ended 31 March 2008 and to provide explanations of variances to budget.
- To provide an interim position in terms of achievement against the published performance targets in the Council's 2007/08 Annual Plan.

### **2. Consideration by Committee**

The matters raised in this report were considered by the Finance Evaluation and Risk Committee at its meeting on 9 May 2008, (Report 08.278). The Committee resolved to refer the matters detailed in the recommendations of this report to the Council.

### **3. Significance of the decision**

The matters for decision in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3) (b) of the Local Government Act 2002.

### **4. Background**

The Council prepares monthly financial statements for review. Each quarter a more detailed review of the Council's financial results is undertaken by the Chief Executive / Chief Financial Officer with each of the Divisions.

It is timely, as a result of those reviews, to present a summary of the Council's performance for the nine months ended 31 March 2008.

In respect of the WRC Holdings Group, monthly financial statements are prepared and reviewed by management and the Boards of Directors of the individual companies within the Group. As such, only summary financial statements are presented for consideration by the Council.

## **5. Financial Performance**

### **5.1 Year to date Operating Performance**

The financial results detailed below have been split into a number of categories to improve the understanding of the financial results. In particular:

- Rates funded operations are separated from those operations funded by the water levy.
- Income and expenditure in respect of Public Transport capital expenditure.
- Forestry cost of goods sold.

The Council achieved an operating surplus of \$4,830,000 (budget \$105,000), comprising:

- Rate funded operations achieved a surplus of \$4,060,000 (budget \$1,690,000).
- The surplus from Water was \$770,000 (budget deficit \$1,587,000).

These results exclude grants and expenditure in respect of Public Transport capital expenditure and Forestry cost of goods sold. Including these amounts the Council recorded a deficit of \$733,000 (budget deficit \$14,576,000).

The WRC Holdings Group achieved a net surplus before tax of \$6,949,000 (budget \$3,694,000).

Explanations for the variances are detailed below:

## 6. Financial Summary – Council

Wellington Regional Council Summary Income Statement - Revenue For the 9 months ending 31 March 2008				
Total Operating Revenue \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	2,433	2,166	2,813	(647)
Public Transport	47,139	53,892	54,374	(482)
<b>Total Transport</b>	<b>49,572</b>	<b>56,058</b>	<b>57,187</b>	<b>(1,129)</b>
Environment	8,829	8,969	9,131	(162)
Catchment Management	20,437	19,245	20,647	(1,402)
Forestry	4,342	4,076	4,786	(710)
Regional Parks	4,932	4,883	4,911	(28)
Corporate	1,581	1,650	1,449	201
WRS	367	3,075	3,300	(225)
Finance, IT & Support Services	4,996	5,291	5,121	170
Investment in Democracy	3,367	3,480	3,469	11
<b>Rates Funded Divisional Operating Revenue</b>	<b>98,423</b>	<b>106,727</b>	<b>110,001</b>	<b>(3,274)</b>
Investment Management	4,030	3,828	4,413	(585)
Business Unit Rates Contribution	(5,774)	(6,557)	(6,557)	-
<b>Rates Funded Operating Revenue</b>	<b>96,679</b>	<b>103,998</b>	<b>107,857</b>	<b>(3,859)</b>
Water Group	20,422	20,286	20,425	(139)
<b>Rates &amp; Levy Funded Operating Revenue</b>	<b>117,101</b>	<b>124,284</b>	<b>128,282</b>	<b>(3,998)</b>
<b>Non-Operational Movements</b>				
Public Transport - Capex / Investment	7,832	10,596	28,793	(18,197)
<b>Total Council Revenue</b>	<b>124,933</b>	<b>134,880</b>	<b>157,075</b>	<b>(22,195)</b>
	-	-	-	-

Wellington Regional Council Summary Income Statement - Expenditure For the 9 months ending 31 March 2008				
Total Operating Expenditure \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	2,131	1,926	2,894	968
Public Transport	47,915	53,027	54,381	1,354
<b>Total Transport</b>	<b>50,046</b>	<b>54,953</b>	<b>57,275</b>	<b>2,322</b>
Environment	8,639	8,974	9,016	42
Catchment Management	19,273	16,957	18,865	1,908
Forestry	5,078	5,238	5,594	356
Regional Parks	4,244	4,509	4,901	392
Corporate	1,314	1,479	1,486	7
WRS	655	2,632	3,300	668
Finance, IT & Support Services	4,096	4,354	4,942	588
Investment in Democracy	3,308	3,603	3,599	(4)
<b>Rates Funded Divisional Operating Expenditure</b>	<b>96,653</b>	<b>102,699</b>	<b>108,978</b>	<b>6,279</b>
Investment Management	(1,785)	(2,761)	(2,811)	(50)
Business Unit Rates Contribution	-	-	-	-
<b>Rates Funded Operating Expenditure</b>	<b>94,868</b>	<b>99,938</b>	<b>106,167</b>	<b>6,229</b>
Water Group	20,454	19,516	22,012	2,496
<b>Rates &amp; Levy Funded Operating Expenditure</b>	<b>115,322</b>	<b>119,454</b>	<b>128,179</b>	<b>8,725</b>
<b>Non-Operational Movements</b>				
Forestry Cost of Goods Sold	640	710	709	(1)
Public Transport - Capex / Investment	2	15,449	42,763	27,314
<b>Total Council Expenditure</b>	<b>115,964</b>	<b>135,613</b>	<b>171,651</b>	<b>36,038</b>
	-	-	-	-

Wellington Regional Council				
Summary Income Statement - Operating Surplus \ (Deficit)				
For the 9 months ending 31 March 2008				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	302	240	(81)	321
Public Transport	(776)	865	(7)	872
<b>Total Transport</b>	<b>(474)</b>	<b>1,105</b>	<b>(88)</b>	<b>1,193</b>
Environment	190	(5)	115	(120)
Catchment Management	1,164	2,288	1,782	506
Forestry	(736)	(1,162)	(808)	(354)
Regional Parks	688	374	10	364
Corporate	267	171	(37)	208
WRS	(288)	443	-	443
Finance, IT & Support Services	900	937	179	758
Investment in Democracy	59	(123)	(130)	7
<b>Rates Funded Divisional Operating Surplus / (Deficit)</b>	<b>1,770</b>	<b>4,028</b>	<b>1,023</b>	<b>3,005</b>
Investment Management	5,815	6,589	7,224	(635)
Business Unit Rates Contribution	(5,774)	(6,557)	(6,557)	-
<b>Rates Funded Operating Surplus / (Deficit)</b>	<b>1,811</b>	<b>4,060</b>	<b>1,690</b>	<b>2,370</b>
Water Group	(32)	770	(1,587)	2,357
<b>Rates &amp; Levy Funded Operating Surplus / (Deficit)</b>	<b>1,779</b>	<b>4,830</b>	<b>103</b>	<b>4,727</b>
<b>Non-Operational Movements</b>				
Forestry Cost of Goods Sold	(640)	(710)	(709)	(1)
Public Transport - Capex / Investment	7,830	(4,853)	(13,970)	9,117
<b>Total Council Surplus / (Deficit)</b>	<b>8,969</b>	<b>(733)</b>	<b>(14,576)</b>	<b>13,843</b>
<b>Flood Protection</b>				
Eastern	(434)	284	318	(34)
Western	1,972	1,989	1,788	201
<b>Total Flood Protection</b>	<b>1,538</b>	<b>2,273</b>	<b>2,106</b>	<b>167</b>

### 6.1 Transport Policy – under budget by \$321,000 due primarily to:

- The Wairarapa log freight project will not commence in 2007/08 resulting in lower income and expenditure.
- The Regional Land Transport Strategy is delayed until outcomes from the “Next Steps” process become known, expenditure is \$106,000 below budget.
- Expenditure on School, Community and Workplace travel plans is under budget by \$361,000. Discussions with these groups and the Territorial Authorities are continuing to determine the best way to progress these new initiatives and the budgets required to support them. It is expected that funding for these projects will be deferred until 2008/09.

## **6.2 Public Transport – under budget by \$872,000 due primarily to:**

- The June, September and December 2007 Land Transport New Zealand (LTNZ) inflation indexes were lower than expected, resulting in \$517,000 less expenditure on the Council's diesel bus contracts.
- Increased expenditure on trolley bus overhead wire maintenance and renewals \$132,000.
- Increased expenditure of \$315,000 due to higher charges for renewals, in respect of the rail network.
- Car park and station maintenance under budget by \$120,000, Procurement studies under budget by \$214,000. These variances are due mainly to the timing of expenditure, which are expected to reverse by year end.
- Delays in the signage maintenance programme \$166,000, this is not expected to reverse by year end.
- A number of other projects in respect of marketing, information systems and administration are below budget, totalling \$592,000. These favourable variances will continue to year end.

## **6.3 Public Transport – Improvement projects – under budget by \$9,117,000 due primarily to:**

- A number of upgrade projects such as platforms, signalling and power supply have been delayed due to the timing of the specifications of the new passenger trains and capacity issues of third parties, in particular:
  - ONTRACK Infrastructure upgrade projects; the Johnsonville line, upgrading the signals and electrical system and the McKay's to Waikanae double tracking and electrification, \$11,970,000.
  - Heavy maintenance due to Toll's operational requirements and workshop availability, \$1,033,000.
  - Extra capacity rolling stock, \$9,743,000. This is funded from the interest free Crown loan.
  - EMU related expenditure, \$3,516,000.
  - Station and carpark upgrades \$4,073,000.
- The expenditure noted above is prior to any reductions in grant income received from LTNZ and the Crown. Due to the lower expenditure, revenue is under budget by \$18,203,000.

**6.4 Environment - over budget by \$120,000 due primarily to:**

- Lower than anticipated notified consents resulted in a \$191,000 reduction in income, some of this is expected to reverse by year end.

**6.5 Catchment Management – under budget by \$506,000 due primarily to:**

- The down-sizing of the Bio Works unit has reduced staff numbers, materials and revenue from the Animal Health Board by \$200,000. This is not expected to reverse by year end.
- The timing of expenditure on river maintenance across the region has resulted in savings that are expected to reverse by year end, \$283,000.

**6.6 Forestry – over budget by \$354,000 due primarily to:**

- Lower harvesting volumes coupled with increased domestic transport and export shipping costs have reduced revenue.

**6.7 Regional Parks – under budget by \$364,000 due primarily to:**

- Permanent savings of \$61,000 in respect of the Akatarawa and Hutt 1080 operations.
- Personnel savings of \$85,000 due to staff vacancies.
- Expenditure on Lake Wairarapa below budget by \$38,000.
- The remaining \$208,000 are timing differences for contractors and materials, which are expected to reverse by year end.

**6.8 Corporate - under budget by \$208,000 due primarily to:**

- Additional revenue of \$199,000 including \$109,000 for the Emergency Management conference and \$61,000 from the Honda Tree planting program.

**6.9 Wellington Regional Strategy – under budget by \$443,000 due primarily to:**

- Grow Wellington's expenditure is less than budgeted, \$400,000, this trend is expected to continue until year end.

**6.10 Finance, IT and Support – under budget by \$758,000 due primarily to:**

- Higher internal revenue in respect of PC charges, \$112,000.
- Personnel costs lower by \$128,000 due to staff vacancies.

- Materials and supplies below budget by \$236,000 due to the phasing of expenditure and the delay of the asset management project.
- Finance costs lower by \$57,000 due to decreased capital expenditure.

#### **6.11 Investment Management – under budget by \$635,000 due primarily to:**

- Lower capital expenditure by the Divisions has reduced borrowings and the budgeted margin earned by Investment Management.
- External interest rates are higher than budget. Currently, the 90 day bank bill rate is 8.80% compared to the budget of 8.25%.
- Subvention revenue amounting to \$495,000 from Pringle House will be received in June while the budget assumed an earlier date.

#### **6.12 Water – under budget by \$2,357,000 due primarily to:**

- Decreased depreciation of \$789,000, due to the water supply assets not being revalued at 30 June 2007 as budgeted. This has reduced the asset base and therefore depreciation.
- Savings in materials and supplies \$821,000, due mainly to savings in chemicals \$402,000 and power costs \$408,000. These savings result from a 15% reduction in network charges and a lower take than budgeted from Te Marua lakes.
- Finance costs are \$396,000 below budget, due to the opening debt position being lower than budget.
- Personnel costs are \$307,000 below budget.

### **7. Finance costs**

Finance costs for the nine months were \$3,346,000 compared to the budget of \$3,699,000, a favourable variance of \$353,000. This is due to decreased borrowings resulting from lower capital expenditure. This has been partly offset by interest rates being higher than budget.

### **8. Forecast to 30 June 2008**

The Council's forecast to 30 June 2008 is a surplus of \$3,693,000 (budget \$679,000).

This comprises a surplus from rate funded operations of \$2,910,000 (budget \$2,612,000) and a surplus from Water of \$783,000 (budget deficit \$1,933,000).

These amounts exclude grants and expenditure in respect of Public Transport capital expenditure and revaluations. Including these amounts the Council's forecast surplus is \$2,249,000 (budget deficit \$14,869,000).

The current forecast has improved by \$6,099,000 compared with the previous forecasted deficit of \$3,850,000. The major change is the writedown in the value of the interest free Crown loan which funds rail rolling stock. Under the International Financial Reporting Standards loans must be reported at market value. The interest free nature of the loan and the fact that it is not repaid until 2017 reduces the value of the loan by approximately \$6 million. This revaluation had not been included in the previous forecast.

Wellington Regional Council				
Summary Income Statement - Operating Surplus \ (Deficit)				
For the Year Ending 30 June 2008				
OPERATING SURPLUS / (DEFICIT) \$(000)'s	Full Year			
	Last Year	Forecast	Budget	Variance
Transport Policy and Strategy	282	124	(133)	257
Public Transport	2,687	(145)	(112)	(33)
<b>Total Transport</b>	<b>2,969</b>	<b>(21)</b>	<b>(245)</b>	<b>224</b>
Environment	(513)	(123)	(111)	(12)
Catchment Management	1,585	2,943	3,061	(118)
Forestry	21	(1,327)	(909)	(418)
Regional Parks	187	(134)	(321)	187
Corporate	96	(80)	(51)	(29)
WRS	(221)	365	-	365
Finance, IT & Support Services	1,568	626	226	400
Investment in Democracy	84	(216)	(172)	(44)
<b>Rates Funded Divisional Operating Surplus / (Deficit)</b>	<b>5,776</b>	<b>2,033</b>	<b>1,478</b>	<b>555</b>
Investment Management	6,199	9,619	9,876	(257)
Business Unit Rates Contribution	(9,768)	(8,742)	(8,742)	-
<b>Rates Funded Operating Surplus / (Deficit)</b>	<b>2,207</b>	<b>2,910</b>	<b>2,612</b>	<b>298</b>
Water Group	(363)	783	(1,933)	2,716
<b>Rates &amp; Levy Funded Operating Surplus / (Deficit)</b>	<b>1,844</b>	<b>3,693</b>	<b>679</b>	<b>3,014</b>
<b>Non-Operational Movements</b>				
Revaluation of Debt and Stadium Advance	4,256	6,235	780	5,455
Revaluation Forestry - Revaluation	529	3,029	3,029	-
Forestry Cost of Goods Sold	(1,745)	(1,285)	(1,118)	(167)
Public Transport - Capex / Investment	(9,466)	(9,423)	(18,239)	8,816
<b>Total Council Surplus / (Deficit)</b>	<b>(4,582)</b>	<b>2,249</b>	<b>(14,869)</b>	<b>17,118</b>
<b>Flood Protection</b>				
Eastern	(220)	538	519	19
Western	2,637	2,564	2,444	120
<b>Total Flood Protection</b>	<b>2,417</b>	<b>3,102</b>	<b>2,963</b>	<b>139</b>

The significant variances between forecast and budget are:



### **8.1 Transport Policy – under budget by \$257,000 due primarily to:**

- Delays in the “Next Steps” process and Travel Plan implementation are forecast to remain for the remainder of this year.

### **8.2 Public Transport – over budget by \$33,000 due primarily to:**

- With oil prices currently over US \$110/barrel, an additional \$200,000 (rates component) has been added to the forecast expenditure.
- Charges for renewals of the rail network are forecast to be \$200,000 above budget.
- Trolley bus overhead maintenance and renewals are estimated to cost \$359,000 more than budget. Discussions are being held with Wellington Cable Car Company to minimise this cost overrun.
- Offsetting these are delays and savings to:
  - Signage maintenance, \$185,000
  - Metlink marketing and information systems, \$311,000
  - Total mobility \$100,000
  - Administration, \$193,000 due to staff vacancies.

### **8.3 Public Transport – Improvement projects – under budget by \$8,816,000 due primarily to:**

- A number of upgrade projects such as platforms, signalling and power supply have been delayed due to the timing of the specifications of the new passenger trains and capacity issues of third parties, including:
  - ONTRACK infrastructure upgrades; the Johnsonville line, upgrading the signals and electrical system, and the McKay’s to Waikanae double tracking and electrification, \$18,286,000.
  - Heavy maintenance expenditure \$1,199,000.
  - Additional capacity rolling stock \$9,395,000, this is funded from the interest free Crown loan.
  - EMU related expenditure \$2,942,000.
  - Station and carpark upgrades \$3,597,000.

- The expenditure noted above is prior to any reduction in grant income received from LTNZ and the Crown, accordingly revenue is forecast to be under budget by \$26,021,000.

#### **8.4 Catchment Management – over budget by \$118,000 due primarily to:**

- The downsizing of the BioWorks unit with the associated costs. This will be largely funded from existing reserves.

#### **8.5 Forestry - over budget by \$418,000 due primarily to:**

- Lower revenue due to lower volumes and higher transport costs.

#### **8.6 Regional Parks - under budget by \$187,000 due primarily to:**

- Savings in personnel costs due to staff vacancies, \$95,000 and lower 1080 operations costs \$100,000.

#### **8.7 Investment Management – under budget by \$257,000 due primarily to:**

- Higher interest income of \$150,000 from the Council’s deposits, due to the higher interest rates.
- Interest income from the Divisions is down by \$707,000 due to lower capital expenditure reducing the Council’s borrowing.
- The lower borrowings will reduce interest costs by \$300,000.

#### **8.8 Water – under budget by \$2,716,000 due primarily to:**

- Lower depreciation, \$1,015,000 as the water supply assets were not revalued at 30 June 2007 as budgeted. This has reduced the asset base and therefore depreciation.
- Savings for chemicals and power are expected to continue, \$873,000.
- Lower personnel costs due to staff vacancies \$385,000.
- Lower finance costs, \$343,000, the result of lower debt levels.

### **9. Capital Expenditure**

#### **9.1 Year to date**

Actual capital expenditure is \$7,495,000 compared with the budget of \$17,752,000. The significant variances are noted below.

Wellington Regional Council				
Capital Expenditure and Transport Investment Additions				
For the 9 months ending 31 March 2008				
Capital Expenditure and Transport Investments \$(000)'s	Year to Date			
	Last Year	Actual	Budget	Variance
Transport Policy and Strategy	-	32	17	(15)
Public Transport	70	8	360	352
Public Transport Investment Additions	11,049	95	5,270	5,175
<b>Total Transport</b>	<b>11,119</b>	<b>135</b>	<b>5,647</b>	<b>5,512</b>
Environment	250	91	1,083	992
Catchment Management	2,345	4,908	5,018	110
Forestry	229	199	304	105
Regional Parks	357	212	296	84
Corporate	181	52	-	(52)
WRS	-	-	-	-
Finance, IT & Support Services	545	114	1,363	1,249
Investment in Democracy	-	50	49	(1)
<b>Rates Funded Divisional Capital and Investment expenditure</b>	<b>15,026</b>	<b>5,761</b>	<b>13,760</b>	<b>7,999</b>
Investment Management	22	9	950	941
<b>Rates Funded Capital and Investment expenditure</b>	<b>15,048</b>	<b>5,770</b>	<b>14,710</b>	<b>8,940</b>
Water Group	2,683	1,725	3,042	1,317
<b>Rates &amp; Levy Funded Capital and Investment expenditure</b>	<b>17,731</b>	<b>7,495</b>	<b>17,752</b>	<b>10,257</b>
<b>Flood Protection</b>				
Eastern	150	514	678	164
Western	1,930	4,259	4,092	(167)
<b>Total Flood Protection</b>	<b>2,080</b>	<b>4,773</b>	<b>4,770</b>	<b>(3)</b>

## 9.2 Public Transport – under budget by \$5,527,000 due primarily to:

- A number of upgrades to the stations and platforms are delayed due to the finalisation of the specifications of the new Matangi EMUs, \$4,073,000.
- Contractual payments for the EMUs are later than budgeted, \$643,000. The project remains on schedule.
- CBD Metlink signage rollout is delayed due to a review of the design of the new signs. Expenditure is under budget by \$327,000.

## 9.3 Environment – under budget by \$992,000 due primarily to:

- Property issues which have now been resolved have delayed the Beacon Hill facility upgrade. Expenditure is currently \$600,000 under budget.
- Later than expected spend on the groundwater model, \$250,000, this is expected to reverse by year end.

**9.4 Catchment Management – under budget by \$110,000 due primarily to:**

- Land purchase costs for Connolly St were higher than anticipated, \$240,000. The excess land will be sold once the project is completed.
- Expenditure on LWVDS stopbank upgrade behind budget.
- A number of flood projects are running behind schedule and will be rebudgeted to 2008/09.

**9.5 Finance, IT and Support Services – under budget by \$1,249,000 due primarily to:**

- The selection and implementation of the Asset Management System has been delayed with only limited expenditure on this projected expected this year. The purchase of replacement PCs will be brought forward to June 2008.

**9.6 Water – under budget by \$1,317,000 due primarily to:**

- A number of capital projects are running behind schedule. Further details of these projects are discussed in Section 9.4.

**10. Capital Expenditure - forecast to 30 June 2008**

Forecast capital expenditure is \$16,203,000 compared with the budget of \$25,150,000.

Wellington Regional Council				
Capital Expenditure and Transport Investment Additions				
For the Year Ending 30 June 2008				
Capital Expenditure and Transport Investments \$(000)'s	Full Year			
	Last Year	Forecast	Budget	Variance
Transport Policy and Strategy	-	32	17	(15)
Public Transport	70	332	398	66
Public Transport Capital & Investment Additions	(101)	1,956	6,982	5,026
<b>Total Transport</b>	<b>(31)</b>	<b>2,320</b>	<b>7,397</b>	<b>5,077</b>
Environment	443	659	1,359	700
Catchment Management	4,226	6,480	7,689	1,209
Forestry	328	359	380	21
Regional Parks	514	297	336	39
Corporate	209	20	-	(20)
WRS	-	-	-	-
Finance, IT & Support Services	531	1,564	1,539	(25)
Investment in Democracy	5	49	49	-
<b>Rates Funded Divisional Capital and Investment expenditure</b>	<b>6,225</b>	<b>11,748</b>	<b>18,749</b>	<b>7,001</b>
Investment Management	38	50	1,405	1,355
<b>Rates Funded Capital and Investment expenditure</b>	<b>6,263</b>	<b>11,798</b>	<b>20,154</b>	<b>8,356</b>
Water Group	4,162	4,405	4,996	591
<b>Rates &amp; Levy Funded Capital and Investment expenditure</b>	<b>10,425</b>	<b>16,203</b>	<b>25,150</b>	<b>8,947</b>
<b>Flood Protection</b>				
Eastern	713	971	895	(76)
Western	3,257	5,255	6,545	1,290
<b>Total Flood Protection</b>	<b>3,970</b>	<b>6,226</b>	<b>7,440</b>	<b>1,214</b>

### 10.1 Public Transport - under budget by \$5,092,000 due primarily to:

- A number of our upgrades such as stations and carpark are delayed awaiting completion of specifications from third parties, \$3,597,000.
- Contractual payments for the EMUs are later than budgeted, \$957,000. The project remains on schedule.
- CBD Metlink signage rollout is delayed due to a review of the design of the new signs. This expenditure is forecast to be under budget by \$450,000 with the funding rebudgeted to 2008/09.

### 10.2 Environment – under budget by \$700,000 due primarily to:

- Property issues which have now been resolved have delayed the Beacon Hill facility upgrade. Expenditure on design is now underway; however the construction will now occur in 2008/09.

### **10.3 Catchment Management – under budget by \$1,209,000 due primarily to:**

- Delays in the South Waitohu project; the extended Chrystalls stop bank and the Waiwhetu flood improvements have resulted in the capital under spend. These projects will be rebudgeted to 2008/09.

### **10.4 Water – under budget by \$591,000 due primarily to:**

- Deferral of the emergency water supply pumping station in Whitehead Road \$207,000.
- Delay in commencing the proposed new CBD reservoir \$100,000.
- Scope changes to a number of projects, in particular:
  - Treatment plant projects
  - Pumping stations
  - Pipeline projects.

## **11. Finance Costs**

Finance costs for the Council are forecast at \$4,675,000 compared with the budget of \$4,975,000. The favourable variance is due to lower levels of borrowing offset by higher interest rates. The Council's forecast borrowings will be below budget by around \$20 million compared with budget.

## **12. Debt**

Council debt as at 31 March was \$72.2 million, an increase of \$6.0 million from 30 June 2007. The increase is due in the main to further draw downs on the Crown loans to fund the rail rolling stock, offset by a reduction in working capital, the Stadium and forestry loans.

The \$72.2 million includes the written down value of the Government loan, due to its interest free nature. If the write down is excluded, the Council's debt as at 31 March is \$74.2 million.

WRC Holdings Ltd debt as at 31 March was \$44.0 million, unchanged from 30 June 2007. This amount excludes debt borrowed by CentrePort Ltd.

It should be noted that the Council has a total of \$47.8 million on deposit. This comprises \$33.0 million in liquid financial deposits; the remainder consists of self insurance funds for water supply and flood protection.

Debt as at 30 June 2008 is forecast at \$79.0 million in the Council and \$44.0 million in WRC Holdings Ltd, a total of \$123.0 million. This forecast excludes any write down of the Government loans.

This is lower than the budget by \$20 million, due to reduced spending on capital expenditure and lower levels of working capital than at 30 June 2007.

### **12.1 Stadium debt**

In June of this year the Council approved the restructuring of the Stadium debt which now stands at \$18,201,000 compared to \$18,985,000 at 30 June 2007.

The debt was originally borrowed from the ANZ at a fixed interest rate of 8.55% until 2018. The Council requested regular updates on the cost of refinancing this debt.

The interest rate risk on this debt has been fixed to January 2009 at a cost of 8.33% compared with the previous interest rate of 8.55% and the 90 day bank bill rate of 8.79%.

## **13. Income Statement, Funding Statement and Balance Sheet**

The above financial statements are attached (refer **Attachments 1, 2 and 3**). A number of points should be noted:

- Forecast personnel costs for 2007/08 are below both budget and last year's actual costs.
- All direct operating costs are forecast to be below budget.
- The improved forecast surplus and lower capital expenditure results in lower borrowings for the Council.

## **14. Annual Plan Performance Targets**

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

## **15. WRC Holdings**

The following table summarises WRC Holdings group of companies and CentrePort's (76.9% owned) operating results, before any unrealised increase or decrease in the value of investment properties, for the period ended 31 March 2008.

WRC HOLDINGS GROUP  
INCOME STATEMENT  
FOR THE PERIOD ENDED 31 MARCH 2008

	YTD Last Year \$000	YTD Actual \$000	YTD Budget \$000	Full Year Budget \$000	Full Year Forecast \$000	Last Year Actual \$000
TOTAL REVENUE	39,182	42,562	42,562	56,749	59,362	57,116
OPERATING EXPENSES	27,614	28,867	32,204	42,938	42,047	39,151
EARNINGS BEFORE INTEREST & TAX	11,568	13,695	10,358	13,811	17,315	17,965
INTEREST EXPENSE	6,186	6,746	6,665	8,886	8,910	8,449
REVALUATIONS						14,519
NET SURPLUS (DEFICIT) BEFORE TAX	<b>5,382</b>	<b>6,949</b>	<b>3,694</b>	<b>4,925</b>	<b>8,405</b>	<b>24,035</b>

### 15.1 Group results for the nine months ending 31 March 2008

The group achieved a net surplus of \$6,949,000 before tax compared with the budget of \$3,694,000. Higher earnings in CentrePort and reduced expenditure in respect of the impairment of investments are the main contributors to the better than expected result. The improved CentrePort result is due to higher volumes and increased margins.

### 15.2 Group forecast to 30 June 2008

The forecast surplus before tax is forecast at \$8,405,000 compared to the budget of \$4,925,000. The contributors to the favourable forecast compared to budget are:

- CentrePort: \$2,242,000 improved operating result.
- Pringle House - \$295,000 higher rental and lower depreciation charge, \$171,000.
- Greater Wellington Rail \$1,430,000, due to no impairment cost.
- Interest expense is up on budget by \$488,000.



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

As at 31 March 2008, all Treasury Management Policy limits have been complied with apart from the internal borrowing limits for Forestry and Parks. Refer to **Attachment 4**.

## **17. Communications**

No communications are necessary at this time.

## **18. Recommendations**

*That the Council:*

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

Report prepared by:

Report approved by:

**Chris Gray**  
Finance Manager

**Barry Turfrey**  
Chief Financial Officer

**Attachment 1:** Income Statement

**Attachment 2:** Funding Statement

**Attachment 3:** Balance Sheet

**Attachment 4:** Compliance with Treasury Management Policy