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Author	Chris Gray, Manager, Finance & Support

Financial report for the eight months ending 28 February 2011

1. Purpose

To inform the Council of Greater Wellington's financial performance for the eight months ended 28 February 2011 and to provide an explanation of major variances to budget by Group.

2. 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.

3. Background

Financial statements are prepared and presented to management for review each month. A detailed report is given to the Council each quarter. In the intervening months, reports to the Council are done by exception.

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

4. Financial Performance – Council

4.1 Year to date

Greater Wellington achieved an operating surplus of $2,683,000 (budget, a deficit of $1,058,000) for the eight months to 28 February. This result excludes revenue and expenditure for; public transport capital improvement projects; forestry cost of goods sold; Warm Wellington installations; and valuation movements. Including these amounts, Greater Wellington made a surplus of $528,000 (budget, a deficit of $4,884,000). Operational expenditure is below budget across most groups which is mostly forecast to come back to budget by year end.

Details of the variances and performance by Group for the eight months are discussed in section 5.

4.2 Financial summary - Council

Greater Wellington Regional Council Summary income statement	Last Year $000s	Actual $000s	Budget $000s	Variance $000s
	For the eight months ended 28 February 2011			
Regional rates	52,725	53,907	53,907	-
Water supply levy	15,640	15,640	15,640	-
Other operating revenue	53,208	52,697	53,077	(380)
Total operating revenue	**121,573**	**122,244**	**122,624**	**(380)**
Operational expenditure	(115,210)	(119,561)	(123,682)	4,121
Operating surplus/(deficit) before transport improvements	**6,363**	**2,683**	**(1,058)**	**3,741**
Operating (deficit) from transport improvements	(4,927)	309	(9,745)	10,054
Operating surplus/(deficit) before unrealised items	**1,436**	**2,992**	**(10,803)**	**13,795**
Non-operational movements	(738)	(2,464)	5,919	(8,383)
Operating surplus/(deficit)	**698**	**528**	**(4,884)**	**5,412**

4.3 Financial summary – Council by Group

Greater Wellington Regional Council Summary income statement	Last Year $(000)'s	Actual $(000)'s	Budget $(000)'s	Variance $(000)'s
	For the eight months ended 28 February 2011			
Operational Groups				
Catchment Management	2,256	2,472	2,230	242
Environmental Management	15	171	(57)	228
Forestry	(926)	(403)	(1,111)	708
Parks and Forests	275	35	(81)	116
Public Transport	1,422	(678)	(612)	(66)
Total rates funded operational surplus / (deficit)	**3,042**	**1,597**	**369**	**1,228**
Corporate				
Strategy & Community Engagement	850	158	(189)	347
Finance and Support	924	272	(118)	390
Other corporate activities	417	169	(22)	191
Investment Management	5,927	5,240	4,315	925
Business unit rates contribution	(4,653)	(4,367)	(4,367)	-
Total rates funded operating surplus / (deficit)	**6,507**	**3,069**	**(12)**	**3,081**
Water	(144)	(386)	(1,046)	660
Total rates & levy funded operating surplus / (deficit)	**6,363**	**2,683**	**(1,058)**	**3,741**
Non-operational movements				
Revaluation of debt and stadium advance	-	-	-	-
Revaluation of forestry	-	-	-	-
Forestry cost of goods sold	(739)	(1,227)	(559)	(668)
Grants for Baring Head Purchase	-	-	(1)	1
Warm Greater Wellington	-	(1,238)	(921)	(317)
EMU investment - GW Rail	1	1	7,400	(7,399)
Public Transport - improvements	(4,927)	309	(9,745)	10,054
Total Council surplus / (deficit)	**698**	**528**	**(4,884)**	**5,412**

4.4 Forecast to 30 June 2011

Greater Wellington is forecasting an operating surplus of $7,000 (budget, a deficit of $2,357,000) for the year to 30 June 2011. This forecast excludes revenue and expenditure for public transport capital improvement projects and revaluations. Including these amounts, Greater Wellington is forecasting a deficit of $3,769,000 (budget, a deficit of $5,850,000).

This is mostly unchanged from the 7 month forecast position.

4.5 Financial forecast - Council

Greater Wellington Regional Council Summary income statement	For the year ending 30 June 2011 Last Year $000s	 Forecast $000s	 Budget $000s	 Variance $000s
Regional rates	79,089	80,861	80,861	-
Water supply levy	23,460	23,460	23,460	-
Other operating revenue	84,777	82,492	80,923	1,569
Total operating revenue	**187,326**	**186,813**	**185,244**	**1,569**
Operational expenditure	(178,441)	(186,806)	(187,601)	795
Operating surplus/(deficit) before transport improvements	**8,885**	**7**	**(2,357)**	**2,364**
Operating (deficit) from transport improvements	(6,042)	(10,836)	(18,021)	7,185
Operating surplus/(deficit) before unrealised items	**2,843**	**(10,829)**	**(20,378)**	**9,549**
Non-operational movements	1,561	7,060	14,528	(7,468)
Operating surplus/(deficit)	**4,404**	**(3,769)**	**(5,850)**	**2,081**

5. Financial Performance – By Group

5.1 Catchment management

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	16,721	16,324	16,575	(251)	25,104	24,795	24,680	115
Operating expenditure	14,465	13,852	14,345	493	21,767	21,651	21,250	(401)
Operating surplus / (deficit)	2,256	2,472	2,230	242	3,337	3,144	3,430	(286)
Net capital expenditure	6,380	1,806	3,174	1,368	10,659	4,546	7,916	3,370

5.1.1 Year to date

A favourable operating variance of $242,000, comprising lower revenue of $251,000 and lower operating costs of $493,000.

- Operating expenditure was lower than budget due mainly to:
  - The capitalisation of flood damage repair works for the Wairarapa River schemes.
  - Depreciation costs were $122,000 below budget due to timing of asset acquisitions.
  - Finance costs are $76,000 below budget due to lower capital spend.
- Capital expenditure is $1,368,000 below budget primarily due to the timing of the Waiwhetu and Boulcott/Hutt stop bank projects.

5.1.2 Forecast to 30 June 2011

- The forecast operating surplus of $3,144,000 is $286,000 below budget, which is $58,000 below the seven month forecast due to net personnel costs expected to be above budget.
- The forecast capital expenditure is unchanged from the seven month position.

5.2 Environmental management

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	8,883	9,066	8,955	111	13,596	13,590	13,433	157
Operating expenditure	8,868	8,895	9,012	117	13,810	14,008	13,785	(223)
Operating surplus / (deficit)	15	171	(57)	228	(214)	(418)	(352)	(66)
Net capital expenditure	613	143	213	70	1,259	253	223	(30)

5.2.1 Year to date

- Overall, a favourable operating variance of $228,000, comprising higher revenue of $111,000 and lower expenditure of $117,000.
  - Operating revenue is ahead of budget primarily due to higher than expected revenue from consents processing and deferred revenue from 2009/10.
  - Operating expenditure is below budget primarily due to reduced costs of contractors and consultants for the Biodiversity QE11 projects and in the Policy area. Commitments have recently been made in both these areas so spend will increase in the last quarter.
- Capital expenditure is currently below budget and is expected to be $30,000 higher than budget by year end.

5.2.2 Forecast to 30 June 2011

- The forecast is unchanged from the seven month position.

5.3 Forestry

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	3,879	4,707	4,305	402	6,373	7,054	6,461	593
Operating expenditure	4,804	5,110	5,415	305	7,365	8,161	8,123	(38)
Operating surplus / (deficit) before cost of goods sold	(925)	(403)	(1,110)	707	(992)	(1,107)	(1,662)	555
Cost of goods sold*	740	1,227	560	(667)	1,125	1,793	839	(954)
Operating surplus / (deficit) before valuation	(1,665)	(1,630)	(1,670)	40	(2,117)	(2,900)	(2,501)	(399)
Forestry valuation	-	-	-	-	6,010	2,256	2,256	-
Operating surplus / (deficit)	(1,665)	(1,630)	(1,670)	40	3,893	(644)	(245)	(399)
Net capital expenditure	90	221	223	2	184	429	334	(95)

* cost of goods sold is a non cash accounting adjustment

5.3.1 Year to date

- A favourable operating variance of $707,000, prior to cost of goods sold, due to:
  - Higher operating revenue than budget primarily due to improved log prices.
  - Operating expenditure is below budget including reduced costs of contractors and consultants by $224,000 as there was a reduction in harvested volume over the quarter and a saving in interest costs of $47,000.
- The non cash variance for cost of goods sold of $667,000 reflects the higher valuation of the forestry investment at 30 June 2010 compared to budget.
- Capital expenditure is on par with budget.

5.3.2 Forecast to 30 June 2011

- The forecast is unchanged from the seven month position.

5.4 Parks & forests

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	4,375	4,127	4,173	(46)	6,574	6,259	6,259	-
Operating expenditure	4,100	4,092	4,254	162	6,682	6,674	6,672	(2)
Operating surplus / (deficit)	275	35	(81)	116	(108)	(415)	(413)	(2)
Grants for Baring Head purchase	-		-	-	1,100	-	-	-
Operating surplus / (deficit)	275	35	(81)	116	992	(415)	(413)	(2)
Baring Head purchase			-	-	1,775	-	-	-
Net capital expenditure	255	116	223	107	459	367	367	-

5.4.1 Year to date

A favourable operating variance of $116,000, comprising reduced revenue of $46,000 and lower expenditure of $162,000.

- Operating revenue is $46,000 lower primarily due to the timing of work for other Greater Wellington operational groups.
- Expenditure was above below budget due primarily to:
  - Reduced contractor and consultant charges of $107,000 due to delays in the Whitireia Park and Wainuiomata 1080 drop projects.
  - Savings of $56,000 for costs associated with the Wairarapa Moana Wetlands as this is now managed by Catchment Management.

5.4.2 Forecast to 30 June 2011

The forecast is unchanged from the seven month position.

5.5 Public transport

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	54,589	55,130	56,209	(1,079)	83,289	83,595	84,786	(1,191)
Operating expenditure	53,167	55,808	56,821	1,013	82,534	85,222	86,017	795
Operating surplus / (deficit)	1,422	(678)	(612)	(66)	755	(1,627)	(1,231)	(396)
Net capital expenditure	17	23	143	120	18	183	200	16

5.5.1 Year to date

An unfavourable operating variance of $66,000, comprising lower expenditure of $1,013,000 and reduced revenue of $1,079,000 (which is as a result of the lower expenditure).

- Operating revenue is $1,079,000 below budget due to:
  - Grants and Subsidies revenue (excluding SuperGold card) being $1,323,000 below budget which reflects the overall reduction in operational expenditure.
  - Grants and Subsidies related to SuperGold card expenditure is $384,000 above budget because of higher numbers of SuperGold card passengers.
- Operating expenditure is $1,013,000 below budget primarily due to:
  - Savings of $1,188,000 on rail operations expenditure. Grant expenditure to Tranz Metro is reduced because of unplanned revenue from Matangi commissioning. Expenditure on rolling stock maintenance was also lower than budget.
  - Savings on diesel bus contracts of $551,000. Year to date oil prices have been higher than budgeted but these have been offset by higher exchange rates.
  - SuperGold card expenditure $390,000 higher than budget due to increased patronage as mentioned above, SuperGold is 100% funded by NZTA.

5.5.2 Forecast to 30 June 2011

The forecast is mostly unchanged from the seven month position.

5.6 Public transport improvement projects

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	51,091	83,930	120,227	(36,297)	78,286	151,441	206,348	(54,907)
Operating expenditure	56,018	83,621	129,972	46,351	84,328	162,277	224,369	62,092
Operating surplus / (deficit)	(4,927)	309	(9,745)	10,054	(6,042)	(10,836)	(18,021)	7,185
External debt revaluation gains /(loss)	-	-	-	-	(1,146)	-	-	-
Operating surplus / (deficit)	(4,927)	309	(9,745)	10,054	(7,188)	(10,836)	(18,021)	7,185
Net capital expenditure	764	465	4,281	3,816	2,531	4,753	5,911	1,158

5.6.1 Year to date

Overall, a favourable operating variance of $10,054,000, comprising lower expenditure of $46,351,000 and lower revenue of $36,297,000.

- Operating expenditure was lower than budget due to:
  - Expenditure on the Matangi EMU project is $35,931,000 below budget due to revision of the expected payment dates for the trains. This saving is offset by the reduction in Investment Management – Matangi Purchase discussed in section 5.11.1
  - Rail infrastructure projects $15,068,000 over budget reflecting the timing of payments for the Waikanae double tracking and electrification projects and stabilising platforms.
- Capital expenditure was $3,816,000 below budget due mainly to the change in timing of the payments for the real time project roll out.

5.6.2 Forecast to 30 June 2011

The forecast is mostly unchanged from the seven month position.

5.7 Strategy & Community Engagement

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	6,394	5,918	5,995	(77)	9,533	9,186	9,147	39
Operating expenditure	5,544	5,760	6,184	424	8,440	9,223	9,442	219
Operating surplus / (deficit)	850	158	(189)	347	1,093	(37)	(295)	258
Net capital expenditure	2	54	176	122	(17)	415	410	(5)

5.7.1 Year to date

Overall, a favourable operating variance of $347,000, comprising lower expenditure of $424,000 and lower revenue of $77,000.

- Operating revenue is lower than budget due to delays in the Transport Model, a project for which GW receives a grant from NZTA.
- Operating expenditure was lower than budget primarily due to:
  - Delays in the climate change work programme and reduced expenditure in Transport Planning totalling $225,000.
  - Reduced expenditure of $104,000 on contractors and consultants as a result of using internal resources for the upgrade of the intranet.

5.7.2 Forecast to 30 June 2011

The forecast deficit has reduced from the seven month position due to savings expected in contractors and consultants costs for the intranet upgrade project.

5.8 Corporate

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	4,115	4,324	4,301	23	6,198	6,490	6,453	37
Operating expenditure	3,698	4,155	4,323	168	5,696	6,787	6,687	(100)
Operating surplus / (deficit)	417	169	(22)	191	502	(297)	(234)	(63)
Net capital expenditure	-	61	73	12	9	57	103	46

This includes democratic services; elected members; people and capability and managing emergencies

5.8.1 Year to date

A favourable operating variance of $191,000 comprising lower expenditure of $168,000 and increased revenue of $23,000.

- Operating costs were less than budget primarily due to the timing of invoices for the election and the delayed Remuneration Authority declaration finalising payments to elected Councillors.

5.8.2 Forecast to 30 June 2011

The forecast is mostly unchanged from the seven month position.

5.9 Finance and Support

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
Operating revenue	5,387	5,317	5,176	141	8,145	7,764	7,764	-
Operating expenditure	4,463	5,045	5,294	249	7,339	8,154	8,104	(50)
Operating surplus / (deficit)	924	272	(118)	390	806	(390)	(340)	(50)
Net capital expenditure	387	378	577	199	790	847	847	-

5.9.1 Year to date

A favourable operating variance of $390,000 comprising lower expenditure of $249,000 and increased revenue of $141,000.

- Operating revenue was above budget due to the timing of additional rates and penalties and increased investment revenue.
- Operating costs were less than budget due to:
  - Materials and supplies are lower than budget due to the timing of costs particularly with ICT projects.

5.9.2 Forecast to 30 June 2011

The forecast is unchanged from the seven month position.

5.10 Investment management

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	3,640	3,406	2,714	692	7,785	6,849	5,001	1,848
Operating expenditure	(2,287)	(1,834)	(1,601)	233	(3,403)	(2,324)	(1,970)	354
Operating surplus / (deficit)	5,927	5,240	4,315	925	11,188	9,173	6,971	2,202
Net capital expenditure	3	54	42	(12)	-	160	160	-

5.10.1 Year to date

Operating revenue is $692,000 ahead of budget due to a higher level of deposits and interest margins received. Expenditure is lower than budget due to lower financial costs.

5.10.2 Forecast to 30 June 2011

The forecast is unchanged from the seven month position.

5.11 Investment management – Non operational movements

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating surplus / (deficit)	1	1	7,400	(7,399)	5,490	8,593	15,107	(6,514)

5.11.1 Year to date – Matangi investment

The Matangi trains will be owned by Greater Wellington Rail Limited, a Council owned subsidiary. In order to account for this in the Greater Wellington accounts, Greater Wellington will purchase shares in Greater Wellington rail for the non-central government funded share of the Matangi cost. As noted in section 5.6, payments for the Matangi trains are later than scheduled resulting in a $7,399,000 budget variance.

5.11.2 Forecast– Matangi investment

The forecast is unchanged from the seven month position.

5.12 Warm Greater Wellington

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	-	26	21	5	-	31	31	-
Operating expenditure	-	1,264	942	(322)	282	1,415	1,415	-
Operating surplus / (deficit)	-	(1,238)	(921)	(317)	(282)	(1,384)	(1,384)	-
Net capital expenditure	-	-	-	-	-	-	-	-

5.12.1 Year to date

Overall an unfavourable operating variance of $317,000 primarily due to the programme being taken up by more ratepayers than expected in its first year.

Council approved $3 million per annum for the programme and only the ratepayers participating in the scheme are charged a targeted rate to fund the programme.

5.12.2 Forecast

The forecast is unchanged from the budget.

5.13 Water

Financial Summary	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year $000s	Actual $000s	Budget $000s	Variance $000s	Last Year $000s	Forecast $000s	Budget $000s	Variance $000s
Operating revenue	18,243	18,295	18,586	(291)	27,708	27,782	27,810	(28)
Operating expenditure	18,387	18,681	19,632	951	28,210	29,251	29,491	240
Operating surplus / (deficit)	(144)	(386)	(1,046)	660	(502)	(1,469)	(1,681)	212
Net capital expenditure	2,817	3,579	6,830	3,251	6,190	8,920	10,070	1,150

5.13.1 Year to date

Overall a favourable operating variance of $660,000 compared to budget, due to:

- Reduced internal revenue, $291,000, primarily due to less time charged to capital projects.
- Operating expenditure was $951,000 lower than budget due to:
  - Contractors and consultants $272,000, due to lower than expected activity with regards to condition rating and engineering investigations into assessing the feasibility of constructing Lake 3 for water storage. This is a timing issue we and expect the costs to flow through in the second half of the year.
  - Reduced finance costs of $166,000 as internal debt is lower than budgeted.
  - Internal charges are $474,000 under budget, offsetting the lower internal revenue due to changes in the work programme.

- Capital expenditure is $3,251,000 under budget due to a mixture of savings, delays and some increased expenditure across the capital works programme.

5.13.2 Forecast to 30 June 2011

The forecast is unchanged from the seven month position.

6. Finance costs

Finance Costs

	For the eight months ended 28 February 2011				Full year forecast 30 June 2011			
	Last Year	Actual	Budget	Variance	Last Year	Forecast	Budget	Variance
	$000s	$000s	$000s	$000s	$000s	$000s	$000s	$000s
	3,249	3,444	4,428	984	5,159	6,079	7,020	941

6.1 Year to date

The favourable variance of $984,000 results from lower borrowings as a result of lower capital expenditure and an improved working capital position.

6.2 Forecast to 30 June 2011

Finance costs are forecast to be $941,000 favourable to budget due to the timing of the capital expenditure spend and improved working capital position.

7. Communication

No communications are necessary at this time.

8. 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