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Report 00.750
20 October 2000
File: CFO/2/1/5

Report to the Policy and Finance Committee
from Paul Laplanche, Finance Manager

Annual Report for the year ended 30 June 2000

1. Purpose

To report the results of the Council for the year ended 30 June 2000 and to seek Committee approval of the draft Annual Report (forwarded as a separate document).

2. Background

By 30 November each year the Council is formally required to adopt the Annual Report to enable the Audit Certificate to be released by Audit New Zealand.

Last year we completed the Annual Report within the statutory timeframe adopting it on the 23 November 1999. This was later than previous years due to the implementation of the new FIS system. This year has been the first prepared under the new financial system and this has enabled the financial section of the report to be completed with greater ease. In the future I would expect that the Annual Report would be able to be adopted about this time each year.

Erica Mason, our audit Director from Audit New Zealand, will be in attendance at the meeting on 26 October 2000 to summarise the results of the annual audit and to answer any questions that the Committee may have.

Audit New Zealand have provided clearance on the Annual Report (refer to **Attachment 2**) and will provide the signed audit certificate at the meeting of 26 October 2000, once the accounts are adopted by the Council.

3. Annual Report Document

The 2000 Annual Report has been modelled on those prepared in previous years, which is not surprising given it is fundamentally a compliance report, with the majority of disclosures required by law. The last major change to the document occurred two years ago when the Council reported its actual performance pursuant to the Local Government Amendment Act 1996 (No 3) for the first time.

However, this year additional wording has been provided in the Investment note (note 6) of the Report to clarify the current tax status of the Wellington Regional Stadium Trust and the future impact this may have if it is deemed to be a LATE. Also the Compliance against Council policies section has been brought forward in the Report to reflect the importance of this disclosure.

4. Financial Performance for the year ended 30 June 2000

4.1 Operating Surplus

The Council's operating surplus for the 1999/00 financial year was $12.6 million compared with a budgeted surplus of $4.5 million. However, the actual surplus contains a gain on sale of investment, which could be considered to be "one-off" or "abnormal" in nature.

The gain on sale of investment was a result of Council selling its investment in CentrePort to Port Investments Ltd in the 1999 financial year. The additional gain of $3.2 million in the 2000 year arose from the activation of the adjustment clause contained within the sale and purchase agreement.

While there was a significant accounting profit arising from the sale, it is important to appreciate that the benefits of the sale have already been incorporated into the Council's Long Term Financial Strategy.

Adjusting for this one-off item it is clear that, at a high level, the actual financial result for 1999/00 is more in line with budget than it first appears:

Actual Operating Surplus	$12.6 million
Less Gain on sale CentrePort	($3.2 million)
	$ 9.4 million
Less Investment Operating Surplus	($ 2.2 million)
Less Other Operating Surpluses	($ 2.7 million)
Budgeted Operating Surplus	$ 4.5 million

The investment area of the Council continues to add value by generating additional surpluses above budget (as explained below) and the rest of the surplus is spread relatively evenly across the operating areas of the Council.

Detailed variances from the budget, by activity, are shown below:

Operating Surplus (Deficit)	**1999/00 Actual $000**	**1999/00 Budget $000**	**Actual vs Budget Variance $000**
Water Supply	3,496	2,667	829F
Plantation Forestry	353	459	106U
Utility Services	**3,849**	**3,126**	**723F**
Landcare	1,474	1,110	364F
Environment	(132)	(273)	141F
Regional Transport	279	(486)	765F
Wairarapa	431	(171)	602F
Corporate Advisory Services	(20)	2	22U
Finance & Administration	(273)	(462)	189F
General Manager	(29)	(9)	20U
Cost of Democracy	111	127	16U
Rates Collection	18	-	18F
Net Divisional Expenditure	**5,708**	**2,964**	**2,744F**
Investment Management	8,229	6,057	2,172F
Business Units Rates Contributn	(4,491)	(4,491)	-
Operating Surplus (Deficit)	**9,446**	**4,530**	**4,916F**
Gain on sale CentrePort Shares	3,200	-	3,200F
Total surplus/deficit	**12,646**	**4,530**	**8,116F**

Significant components of this favourable variance are as follows:

(1) Water Supply favourable variance of $0.83 million, due to:

- Savings in direct costs (primarily contractors & consultants and personnel).
- Savings in financial costs which have been partially offset by higher than budgeted depreciation expense. The additional depreciation is due to the infrastructural asset revaluation exercise, which resulted in higher asset values.

(2) Plantation Forestry unfavourable variance of $0.11 million, due to:

- Logging revenue being below expectations and increased expenditure on contractors and consultants for road upgrade costs, the forestry scoping study and miscellaneous property charges.

(3) Landcare favourable variance of $0.36 million, due to:

- A favourable variance in Flood Protection of $311,000. This was mainly due to the receipt of unbudgeted income of $176,000 relating to underground water works from the Environment Division, gravel extraction, property leases and film-prop sales. In addition, there have been savings in financial costs due to delays in commencing Flood Protection capital works.

- A favourable expenditure variance of $67,000 in Natural Forestry. A number of projects have been completed under budget.

(4) Environment favourable variance of $0.14 million, due to:

- Savings in personnel costs of $104,000 as the Hazard Analyst and Education Co-ordinator positions were not filled until part way through the financial year. Also a staff member on unpaid leave was not replaced.

- Internal charges was $62,000 under budget because the Resource Investigations Department's demand for laboratory services was lower than expected.

(5) Regional Transport favourable variance of $0.76 million, due to:

- Operating revenue was higher than budget by $1,082,000. The increase in revenue was the result of Transfund providing additional funding for the Ganz Mavag unit refurbishment.

- Expenditure above budget by $319,000 mainly as a result of the operator contract inflation index being greater than anticipated, due to unexpected fuel price increases.

(6) Wairarapa favourable variance of $0.60 million, due to:

- Savings of $151,000 in Bovine Tb operations as a result of lower numbers of reactors, pest densities and savings achieved through competitive tendering.

- A favourable variance of $427,000 in the Operations department. This related to additional harvest revenue from the Reserve Forests business unit and additional Akura nursery income. There has been a small deficit on Soil Conservation activities.

(7) Finance and Admin favourable variance of $0.19 million, due to:

- Savings in expenditure on materials and supplies (notably within WRC occupancy and IT operations) and a vacancy in the records management area. Savings in personnel costs and consultants expenditure in the CFO activity have also contributed to the overall favourable variance.

- Savings have been partially offset by an unfavourable variance in the Finance department caused by additional expenditure on temporary staff and post go-live FIS related costs. Higher than expected depreciation expense has also contributed to this variance.

(8) Investment Management favourable variance of $2.17 million, due to:

- Savings in the Treasury area of $843,000 resulting from a combination of debt levels being lower than expected, and lower than budgeted interest costs (including the benefits of the debt buy back undertaken in June 1999).
- Additional interest revenue earned of $460,000 on the invested proceeds from the sale of the Council's CentrePort shares.
- Higher than budgeted dividend levels from WRC Holdings Group of $825,000, primarily as a result of a strong dividend stream from CentrePort Ltd.

(9) Gain on sale (Port shares) favourable variances of $3.2 million

- As noted earlier in this report, a gain on sale of $3.2 million arising from the activation of the adjustment clause by the Council in relation to the sale of its investment in CentrePort to Port Investments Ltd.

4.2 Capital Expenditure

Net capital expenditure for the year was $2.8 million below budget.

Variances from the budget by activity are shown below:

Capital Expenditure	1999/00 Actual $000	1999/00 Budget $000	Actual vs Budget Variance $000
Utility Services	4,452	4,930	478F
Landcare	3,205	3,716	511F
Environment	64	104	40F
Transport	1	169	168F
Wairarapa	306	330	24F
Corporate Advisory Services	0	14	14F
Finance & Administration	44	92	48F
Investment Management	(1,464)	0	1,464F
Cost of Democracy	0	88	88F
Total Capital Expenditure	**6,608**	**9,443**	**2,835F**

The significant components of this favourable variance are as follows:

(1) Utility Services favourable variance of $0.48 million, due to:

- A number of projects have been delayed until 2000/01 and have been rebudgeted in the next financial year.

(2) Landcare favourable variance of $0.51 million, due to:

- Acceleration of the Hutt FMP phases 2 and 3 has caused a $170,000 overspend on the project during 99/00. However, the overall project budget will only be exceeded by $35,000, the result of additional investigation work needing to be undertaken.

- $700,000 for purchasing land for the Boulcott stopbank has been rebudgeted to 2000/01.

(3) Transport favourable variance of $0.17 million, due to:

- Deferment of the automatic vehicle identification project until the completion of a study on how best to integrate this technology with real time timetable display and bus priority systems.

(4) Investment Management favourable variance of $1.46 million

- Sale of the final ground leases within the Blair & Allen Street area. (These leases were transferred to the Council from the Wellington Harbour board as part of the 1989 Local Government Reorganisation.)

4.3 Overall Funding Position

The table below summarises the overall funding movements of the Council compared with budget:

	1999/00 Actual $000s	1999/00 Budget $000s	Actual vs Budget Variance $000
Regional water supply	3,496	2,667	829
Regional transport	291	(480)	771
Regional stadium	349	364	(15)
Other regional responsibilities	8,510	1,979	6,531
Operating surplus(deficit)	**12,646**	**4,530**	**8,116**
Movement in reserves	952	186	766
Add back non cash items	4,446	7,269	(2,823)
Add back investment writedown	76	-	76
Funding surplus from operations	**18,120**	**11,985**	**6,135**
Less:			
Net capital expenditure	6,609	9,442	(2,833)
Investment additions	29,601	1,448	28,153
New loans	(7,150)	(8,983)	1,833
Investment redemption	(27,667)	-	(27,667)
Net Capital Expenditure and investment	**1,393**	**1,907**	**(514)**
Working capital movement	4,116	-	4,116
Debt repayment	12,611	10,078	2,533
Net funding surplus (deficit)	-	-	-

As has been Council practice, any surpluses above budget in the Regional Water Supply and Transport areas are either applied to debt reduction or transferred into reserves in those areas. Any surplus or deficits relating to separate rating areas (eg. River and Pest rates) have also been applied to their specific reserves, in proportion to their respective funding policy ratios.

In accordance with Council policy, all surplus funds after reserve transfers and working capital requirements have been used to repay debt. This has resulted in an additional $2,533,000 of debt repayment over that budgeted.

The variances noted above under Investment additions, Investment redemption and non-cash items all primarily relate to the impact of the adjustment clause for the sale of CentrePort shares and the capital restructuring of the WRC Holdings Group undertaken in June 2000.

4.4 Financial Position

The Council's balance sheet remains strong. Net Council debt has decreased by $4.5 million resulting in a balance of $90.6 million at 30 June 2000 (compared to a budget of $94.3 million). The Council has a net debt to equity ratio of 22:78, or put another way, Council's assets are supported by 22% of debt and 78% of ratepayers' equity.

The consolidated position, incorporating the WRC Holdings Group (including CentrePort) also makes good reading with a consolidated debt to equity ratio of 26:74.

5. Non Financial Results

The Council is required by law to report in its Annual Report its achievements against the performance indicators published in the 1999/00 Annual Plan.

Reporting is therefore grouped into Council's significant activities as follows:

Environment Management
Regional Transport
Regional Water Supply
Land Management
Flood Protection
Regional Parks

In addition we have separately reported on the Cost of Democracy and the Council's involvement with the Stadium and Investments.

Overall, it is pleasing to see that the majority of performance targets have been met. Where shortfalls occurred, the reasons are clearly stated.

6. Reserve Transfers

A detailed analysis of reserve movements during the 1999/00 year is provided as **Attachment 1** of this report, along with explanations of variances between budgeted and actual reserve movements. All variances from budgeted reserve movements need to be approved by the Council as part of its adoption of the 2000 Annual Report. (The budgeted reserve movements were implicitly approved as part of the 1999/00 Annual Plan.)

7. Compliance with Treasury Management Policy

There were no instances of non-compliance with the Treasury Management Policy during the twelve months to 30 June 2000.

8. Communications

The Council's Annual Report is essentially a compliance report, which is required by law. However, Council's continued good financial performance and prudent debt management should be communicated publicly.

9. Recommendations

(1) That this report be received and the contents noted.

(2) That the following net amounts, in addition to those budgeted, be added to or deducted from, the respective reserves:

(a)	*Hutt Ground Water*	*($41,000)*
(b)	*Transport Rate*	*$852,000*
(c)	*Bovine Tb Rate*	*$61,000*
(d)	*Wairarapa Schemes – Catchment Awhea*	*($2,000)*
(e)	*Wairarapa Schemes – Catchment Whareama*	*($2,000)*
(f)	*Wairarapa Schemes – Catchment Maungaraki*	*$2,000*
(g)	*Wairarapa Schemes – Drainage*	*$11,000*
(h)	*Wairarapa Shingle Royalty*	*$1,000*
(i)	*Water Operations Network*	*($62,000)*
(j)	*Rivers Transit Maintenance*	*($11,000)*
(k)	*Wairarapa workshop*	*($10,000)*
(l)	*Akura Nursery*	*$40,000*
(m)	*Stadium*	*($7,000)*
(n)	*Wairarapa Schemes – River LWVD*	*($32,000)*
(o)	*Wairarapa Schemes – River Waiohine*	*($58,000)*
(p)	*Wairarapa Schemes – River Upper Ruamahana*	*($15,000)*
(q)	*Wairarapa Schemes – River Waipoua*	*($5,000)*
(r)	*Wairarapa Schemes – River Waiangawa*	*($16,000)*
(s)	*Wairarapa Schemes – River Lower Tauera*	*($46,000)*
(t)	*Wairarapa Schemes – River Lower Whangatarere*	*$6,000*
(u)	*Wairarapa Schemes – River Upper Mangatarere*	*$1,000*
(v)	*Wairarapa Schemes – Opaki Water Supply*	*$10,000*
(w)	*River Rate – Hutt City*	*$5,000*
(x)	*River Rate – Kapiti Coast*	*$21,000*
(y)	*River Rate – Porirua City*	*$1,000*
(z)	*River Rate – Upper Hutt City*	*($83,000)*
(aa)	*River Rate – Wellington City*	*$6,000*
(ab)	*Flood Contingency*	*($408,000)*
(ac)	*Rural Fire Contingency – Natural Forestry*	*($266,000)*
(ad)	*Rural Fire Contingency – Plantation Forestry*	*($18,000)*
(ae)	*Harbours – Navigation Aids*	*($7,000)*
(af)	*Expense Rebudget – Otaki Rating Scheme*	*$14,000*
(ag)	*Expense Rebudget – KCDC Exercise*	*$10,000*
(ah)	*Expense Rebudget – BVTB Ferret Control*	*$15,000*
(ai)	*Expense Rebudget – Resource Investigations Vehcile*	*$24,000*
(aj)	*Expense Rebudget – IT Operations Capex*	*$67,000*
(ak)	*Expense Rebudget – Microsoft License Agreements*	*$40,000*
(al)	*Expense Rebudget – Council Secretariat Vehicle*	*$23,000*
(am)	*Expense Rebudget – Maoribank Groynes*	*$15,000*

(an)	*Expense Carry Forward - IT Operations Capex*	*$14,000*
(ao)	*Expense Carry Forward – Lab System*	*$9,000*
(ap)	*Expense Carry Forward – Communications Vehicle*	*$14,000*
(aq)	*Expense Carry Forward – Landcare Vehicle*	*$14,000*
(ar)	*Expense Carry Forward – FIS Purchasing System*	*$60,000*

(3) That in line with Council policy, the remaining surplus after reserve transfers and working capital requirements be applied to debt reduction.

(4) That the Financial Statements and accompanying notes for the year ended 30 June 2000 be adopted subject to receipt of the Audit Report, and that any minor adjustments requested by Audit New Zealand be considered by officers and, if necessary, amended, pursuant to resolution (5) below.

(5) That the 2000 Annual Report be adopted and published subject to any minor editorial amendments which should be approved by the Chairman.

Report prepared by:	Approved by:
PAUL LAPLANCHE Finance Manager	NIGEL HUTT Acting Chief Financial Officer

Attachment 1: **Department Reserve Analysis**

Attachment 2: **Letter from Audit NZ advising of audit clearance for the Annual Report**

2000 Draft Annual Report is enclosed as a separate attachment to this report