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Report to the Policy and Finance Committee
from Greg Schollum, Chief Financial Officer

Half Year Review to 31 December 1999

1. Purpose

- 1.1 To inform Council of the financial performance for the first half of the 1999/2000 financial year and to provide an explanation of major variances by division.
- 1.2 To forecast the end of year position based on management reviews by division.
- 1.3 To provide an interim position in terms of achievement against the published performance indicators in the Council's 1999/2000 Annual Plan.
- 1.4 To seek Council's approval to additional expenditure requests from each Divisional Manager.

2. Comment

Councillors will be aware that the General Manager and Chief Financial Officer conduct a comprehensive review of the organisation's performance each quarter. Copies of the half year management review documents will again be provided to Councillors as background information through the Councillors' bulletin.

Some proposals for expenditure variations during 1999/2000 have already been discussed by standing committees and these have been embodied in the recommendations contained in this report.

The year to date figures reflect favourable results in both operating and capital expenditure with the operating surplus ahead of budget by \$3.4 million, and capital expenditure below budget by \$1.3 million.

The forecast position to 30 June 2000 in respect of both operating surplus and capital

expenditure is explained in sections 4.1 and 4.2 respectively.

3. Financial Performance for the Six months to 31 December 1999

3.1 Operating Surplus

The year to date operating result after six months reflects an operating surplus ahead of budget of \$3.4 million. Detailed variances from budget are shown in the following table:

	1999/00 YTD Actual \$000s	1999/00 YTD Budget \$000s	Actual vs Budget Variance \$000s	1999/00 Year Forecast \$000s	1999/00 Year Budget \$000s	Forecast vs Budget Variance \$000s
OPERATING SURPLUS (DEFICIT)						
Utility Services	1,984	1,547	437 F	3,742	3,126	616 F
Landcare	1,184	435	749 F	1,304	1,110	194 F
Environment	135	(231)	366 F	(101)	(273)	172 F
Transport	147	(239)	386 F	(996)	(486)	510 U
Wairarapa	370	(131)	501 F	199	(171)	370 F
Corporate Advisory Services	178	(6)	184 F	147	2	145 F
Finance & Admin	35	(70)	105 F	(570)	(462)	108 U
General Manager	(30)	(4)	26 U	(98)	(9)	89 U
Cost of Democracy	(28)	52	80 U	50	127	77 U
Investment Management	3,711	3,028	683 F	6,505	6,057	448 F
Non Divisional	(2,133)	(2,245)	112 F	(4,401)	(4,491)	90 F
Total Operating Surplus (Deficit)	5,553	2,136	3,417 F	5,781	4,530	1,251 F

Significant components of this favourable year to date variance are as follows:

(1) *Utility Services favourable variance of \$0.437 million*

(a) *Water Group Favourable Variance of \$0.514 million*

- The overall operating surplus in Water Supply of \$514,000 is mainly due to savings in direct costs (primarily contractors & consultants and personnel). The contractors & consultants favourable variance of \$314,000 largely arises in the Production and Strategy and Asset areas. The \$81,000 variance in personnel is due to more operational staff time being spent on capital projects than budgeted.

(b) *Forestry Unfavourable Variance of \$0.077 million*

- The operating surplus below budget of \$77,000 in Plantation Forestry is due to logging revenue being marginally below expectations.

(2) *Landcare favourable variance of \$0.749 million*

- A significant portion of this variance relates to Flood Protection – Operations (\$447,000). This is mainly due to flood damage repairs (rebudgeted from last year) overlapping with planned annual maintenance. In addition, unbudgeted income of \$175,000 was received relating to gravel extraction, a Consent charges contribution, and film-prop sales.
- Natural forests and Regional Parks together show a favourable variance of \$190,000 due to slow project start-ups in a number of planned operations, associated with weather and other delays.

(3) ***Environment favourable variance of \$0.366 million***

- The revenue shortfall of \$110,000 is largely because the Utility Services Division has not yet been charged for its share of the drilling exercise to investigate the Moera gravel aquifer (\$46,500) as this project is running a month late.
- This shortfall in revenue is more than offset by expenditure savings of \$476,000 as follows:
 - ⇒ Underspending on external contractors and consultants of \$174,000. This relates to the Moera bore, mentioned above, and some delays in the Petroleum Storage Hazard Analysis study.
 - ⇒ Internal Charges are underspent by \$107,000. This is due to Resource Investigation demand for laboratory services currently running at a lower level than budgeted.
 - ⇒ Personnel costs are below budget by \$77,000 which is the result of new staff taking up their appointments later than planned and staff on leave without pay.

(4) ***Transport favourable variance of \$0.386 million***

- The \$297,000 favourable variance in the Public Transport department is mainly due to the expenditure on contracted services being \$155,000 below budget. Also savings in timetable display and production costs were made.
- The Transport Policy Department unfavourable variance of \$17,000 is due to two main factors. An overspend of \$67,000 occurred as a result of the Transmission Gully survey. However, this cost was offset by savings in the transport studies activity generally.
- A favourable variance of \$121,000 in the Customer Service Department is caused mainly by underspending on timetable displays and special events advertising.

(5) ***Wairarapa favourable variance of \$0.501 million***

- The Operations department has a favourable variance of \$285,000. This is mainly due to logging revenue being ahead of budget by \$197,000 and Akura revenue being ahead of budget by \$45,000.
- The Planning and Resources department has a favourable variance of \$65,000 largely due to the timing of contractor expenditure for the consents activity.
- A favourable variance of \$133,000 in the Support Services area was mainly due to the PABX replacement, provided for at 30 June 1999 as operating expenditure in error. A corresponding unfavourable variance is shown in the capital expenditure year to date figures.

(6) ***Corporate Advisory Services Favourable Variance of \$0.184 million***

- The favourable variance primarily relates to the year to date budget of \$200,000 for Strategic Communications being underspent with, for example, the first edition of Elements being produced in December.

(7) ***Finance & Administration favourable variance of \$0.105 million***

- An unfavourable variance of \$116,000 occurred 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.
- This deficit has been offset by reduced expenditure on materials and supplies (notably within WRC occupancy and IT operations) and a vacancy in the records management area.

(8) ***Cost of Democracy Unfavourable Variance of 0.080 million***

- Councillors' fees and advertising is higher than budgeted. This is due to attendance at more meetings held this year because of the LTFS process.

(9) ***Investment Management favourable variance of \$0.683 million***

- Savings in net financial costs of \$579,000 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.
- Interest revenue from the invested proceeds from the sale of Port Wellington Ltd shares of \$40,800,000 was higher than budget, resulting in a \$87,000 favourable variance.

(10) ***Non Divisional Favourable Variance of 0.112 million***

- \$112,000 relates to valuation fees not fully accrued due to uncertainty over

amounts. Some minor savings are expected once we have received advice of all valuation charges.

3.2 Capital Expenditure

Year-to-date capital expenditure for the six months to 31 December 1999 is \$1.3 million below budget.

	1999/00 YTD Actual \$000s	1999/00 YTD Budget \$000s	Actual vs Budget Variance \$000s	1999/00 Year Forecast \$000s	1999/00 Year Budget \$000s	Forecast vs Budget Variance \$000s
CAPITAL EXPENDITURE						
Utility Services	2,051	2,784	733 F	4,543	4,930	387 F
Landcare	855	1,275	420 F	3,957	3,716	241 U
Environment	41	59	18 F	104	104	-
Transport	0	75	75 F	169	169	-
Wairarapa	231	213	18 U	384	330	54 U
Corporate Advisory Services	0	14	14 F	14	14	-
Finance & Admin	7	0	7 U	92	92	-
Cost of Democracy	0	88	88 F	88	88	-
Total Capital Expenditure	3,185	4,508	1,323 F	9,351	9,443	92 F

Significant components of this favourable year to date variance are as follows:

(1) *Utility Services favourable variance of \$0.733 million*

- The Te Marua Lakes Pipeline refurbishment has a \$456,000 favourable variance. This is a timing variance as work has been reprogrammed to April 2000 to suit operational requirements.
- The Te Marua Pump Station Standby power project is under budget by \$85,000. This is expected to be a permanent saving.
- OK Main Refurbishment work (Glenmore St) has been deferred until January to better suit traffic requirements. This has resulted in a YTD underspend of \$64,000.
- Expenditure on seismic protection and replacement of meters is under budget due to some programmes being behind schedule. This has resulted in a YTD underspend of \$197,000.

(2) *Landcare favourable variance of \$0.420 million*

- Construction start up of Waikanae SH 1 to Maple lane flood protection works was behind schedule resulting in a favourable year to date variance of \$451,000. This delay was primarily due to time required to finalise the appointment of contractors. Work has now commenced and is expected to be within budget.
- A delay in the start of programmed flood protection work at Chrystalls

Bend, Otaki River, has resulted in a \$128,000 favourable variance. Work has now commenced and is expected to be within budget.

- Overspends in other Otaki projects of \$259,000 are largely timing specifically Stress-crete (\$144,000) and Below Gas crossing (\$67,000). Mangahananene Island (\$48,000) is due to additional costs relating to the 1998 flood damage repairs. Mangahananene Island is forecast to be \$86,000 unfavourable at year-end due to additional flood damage. However, the overall Flood Damage capital project is still forecast to be \$137,000 favourable.
- Overspend on the Hutt FMP phases 2 and 3 of \$70,000 is due to rebudgeting errors from the acceleration of the plan completion date. It is expected that the overall project budget will not be materially exceeded.
- Variations in asset programme (\$61,000 favourable).

4. Year End Forecast Position

4.1 Operating Surplus

The operating surplus for the year ending 30 June 2000 is forecast to be \$1,251,000 above the budgeted surplus of \$4.5 million. This is due to favourable variances across most areas of the Council:

- Utility Services expecting permanent savings within direct costs specifically personnel and external contractors & consultants.
- Landcare expecting permanent savings within Flood Protection due to lower tender prices for flood repair works, unexpected additional revenue and savings in net financial costs.
- Environment expecting permanent savings within direct costs specifically personnel and contractors & consultants area.
- Transport exceeding budget due to additional costs relating to the planning of the Western Corridor programme as well as additional infrastructure expenditure. (approved by the Passenger Transport Committee in September 1999.)
- Wairarapa expecting additional income from logging sales and ongoing cost savings within the Bovine Tb activity.
- Corporate areas expecting cost savings in the strategic communications area offset by additional costs relating to the FIS implementation.
- Investment management expecting additional income from the \$44 million Bank deposit due to higher interest rates and an increase in the investment amount (due to the adjustment clause.)

It is important to identify which areas of the Council are forecasting surpluses and deficits to assist Council to decide on additional expenditure items later in this report. (As there are different communities of interest involved).

	1999/00 year end forecast	1999/00 year end budget	Forecast Vs Budget variance
	(\$000)	(\$000)	(\$000)
Water supply	3,369	2,666	703 F
Transport	(996)	(486)	510 U
Stadium	364	364	0 F
Other Regional responsibilities	3,044	1,986	1,058 F
Total Council Position	5,781	4,530	1,251 F

4.1.1 Material additional Operating Expenditure Items **which have been included** in the forecasts to 30 June 2000 are as follows:

[N.B. items have generally been included in forecasts on the basis that they have already been considered by standing committees]

- *Transport*

- Wellington Station subway development \$500,000
(Reserve funding approved by Passenger Transport Committee - report 99.454)

- Sundry bus shelters \$70,000
(Reserve funding approved by Passenger Transport Committee - report 99.454)

- *Wairarapa*

- Wairarapa Irrigation Study \$10,000

- Additional Flood Repair Costs \$45,000
(Approved at time of Oct 98 floods but not rebudgeted into the 99/00 year)

- *Landcare*

- Totara Grove Planting \$19,000

- Bridge Rd Flood Repairs \$40,000

- *Communications*

- Stadium Open Day \$25,000

4.1.2 Material additional items **which have not been included** in the forecasts to 30 June 2000 are as follows:

- *Landcare*

- Waitohu consent process \$25,000

- Wainuiomata investigation \$20,000

4.2 The forecast capital expenditure position for the year ending 30 June 2000 is expected to be \$0.09 million below the budgeted level of \$9.4 million.

This is primarily due to two offsetting factors:

- The acceleration of the Hutt Floodplain Management Planning process,
- Cost savings within the Utility Services capital expenditure programme.

4.2.1 Material additional capital items **which have been included** in the forecasts to 30 June 2000 are as follows:

- *Landcare*
 - Hutt Floodplain Management Plan \$232,000
(Relates to acceleration of Hutt Floodplain Management planning Process.)
 - Mangahanene Island (Otaki) \$86,000
(Additional works due to further flood damage)
 - Chrystalls Stopbank Land purchase \$108,000
(Approved by Landcare Committee PE 99.690, funded from project savings)
- *Utility Services*
 - Instrumentation & Process Control Upgrades \$210,000
(approved by Utility Services Committee - report 00.50 on 10 February 2000)

5. Annual Plan Performance Indicators

Divisional Managers have reported their expectation that all significant annual plan performance indicators will be achieved.

6. Compliance with Treasury Management Policy

There were no instances of non-compliance with the Treasury Management Policy during the six months to December 1999.

7. Communications

Council's half year results again reflect solid operational and financial performance

which should be reported to the community.

8. Recommendations

- (1) *That this report be received and the contents noted.*
- (2) *That the Committee confirm the following additional expenditure which has been incorporated into the forecast financial figures:*
 - a) *\$500,000 in the Transport budget to fund the Wellington Station subway development.*
 - b) *\$70,000 in the Transport budget to fund the construction of a number of additional bus shelters.*
 - c) *\$10,000 in the Wairarapa budget to fund the Councils share of the Wairarapa Irrigation Study.*
 - d) *\$45,000 in the Wairarapa budget to fund the remaining flood damage repairs to Waipoua river scheme.*
 - e) *\$19,000 in the Landcare budget to fund Totara Grove planting costs.*
 - f) *\$40,000 in the Landcare budget to fund the additional cost of flood repairs (Bridge Road).*
 - g) *\$25,000 in the Communications budget to fund the Council's share of the Stadium Open day.*
 - h) *\$232,000 in the Landcare budget to fund the acceleration of the Hutt Floodplain Management Plan.*
 - i) *\$86,000 in the Landcare budget to fund the additional flood repairs capital expenditure on Mangahanene Island.*
 - j) *\$108,000 in the Landcare budget to fund the purchase of land for Crystals Stopbank extension.*
 - k) *\$210,000 in the Utility Services budget to fund the upgrade of instrumentation and process controls within the Treatment plants.*
- (3) *That the Committee approve the following additional expenditure which has not yet been incorporated into the forecast financial figures:*
 - a) *\$25,000 in the Landcare budget to fund investigations on the Waitohu stream.*
 - b) *\$20,000 in the Landcare budget to fund investigations on the Wainuiomata river.*

GREG SCHOLLUM
Chief Financial Officer

Attachment 1: Treasury Management Policy Compliance Report