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## **Report 01.76**

9 February 2001

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

### **Half Year Review to 31 December 2000**

#### **1. Purpose**

- 1.1 To inform the Committee of the financial performance for the first half of the 2000/2001 financial year and to provide an explanation of major variances by division.
- 1.2 To forecast the end of year position based on the management reviews completed by division.
- 1.3 To provide an interim position in terms of achievement against the published performance indicators in the Council's 2000/2001 Annual Plan.
- 1.4 To seek the approval of the Committee to additional expenditure requests from each Divisional Manager.

#### **2. Background**

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 2000/2001 have already been discussed by standing committees.

The year to date figures reflect favourable results in both operating and capital expenditure with the operating surplus ahead of budget by \$3.0 million and capital expenditure below

budget by \$2.6 million.

The forecast position to 30 June 2001 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 2000

#### 3.1 Operating Surplus

As noted above, the year to date operating result after six months reflects an operating surplus ahead of budget of \$3.0 million. Detailed variances from budget are shown in the following table:

	2000/01 YTD Actual \$000s	2000/01 YTD Budget \$000s	Actual vs Budget Variance \$000s	2000/01 Year Forecast \$000s	2000/01 Year Budget \$000s	Forecast vs Budget Variance \$000s
<b>OPERATING SURPLUS (DEFICIT)</b>						
Water Group	1,462	887	575 F	2,684	1,751	933 F
Plantation Forestry	(231)	142	373 U	2	275	273 U
<b>Utility Services</b>	<b>1,231</b>	<b>1,029</b>	<b>202 F</b>	<b>2,687</b>	<b>2,026</b>	<b>661 F</b>
Transport	157	(812)	969 F	(1,807)	(1,029)	778 U
Landcare	982	580	402 F	927	1,010	83 U
Environment	475	96	379 F	598	101	497 F
Wairarapa	479	148	331 F	(411)	73	484 U
Corporate Advisory Services	162	5	157 F	41	(13)	54 F
Finance & Admin	238	41	197 F	(138)	(326)	188 F
General Manager	5	(4)	9 F	(9)	(9)	-
Cost of Democracy	112	58	54 F	157	114	43 F
Rates Collection	205	0	205 F	350	0	350 F
<b>Net Divisional Surplus(Deficit)</b>	<b>4,046</b>	<b>1,141</b>	<b>2,905 F</b>	<b>2,395</b>	<b>1,947</b>	<b>448 F</b>
Investment Mgmt	3,838	3,762	76 F	7,687	7,579	108 F
Business Unit Rates Contribution	(2,792)	(2,792)	-	(5,584)	(5,584)	-
<b>Total Operating Surplus (Deficit)</b>	<b>5,092</b>	<b>2,111</b>	<b>2,981 F</b>	<b>4,498</b>	<b>3,942</b>	<b>556 F</b>

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

(1) *Water Group Favourable Variance of \$0.58 million, primarily due to:*

- Savings in materials and supplies of \$270,000 within the Operations area.
- Savings in financial costs of \$147,000, as a result of lower than anticipated debt levels.
- Savings relating to materials and supplies of \$82,000 within Operations-Network.

(2) *Plantation Forestry Unfavourable Variance of \$0.37 million, primarily due to:*

- The lack of availability of harvesting contractors during the first six months is the key driver for total revenue being below budget by \$1,577,000 but this has been offset to some extent by savings of \$1,157,000 in external contractors.

(3) ***Transport Favourable Variance of \$0.97 million, due to:***

- Additional Transfund NZ revenue of \$404,000 for Ganz Mavag refurbishments, which was not budgeted for.
- Wellington Interchange and Subway project delays, resulting in timing differences of \$522,000.
- Wellington CBD bus priority being implemented in the second half of the year, resulting in a timing difference of \$103,000.

(4) ***Landcare Favourable Variance of \$0.40 million, due to:***

- Savings in personnel costs of \$122,000, as there were staff vacancies in all areas.
- Savings of \$232,000 as a result of projects being re-programmed for more favourable weather conditions and projects being delayed due to inability to source materials (i.e. rock).

(5) ***Environment Favourable Variance of \$0.38 million, due to:***

- The way that the budget was originally phased has resulted in the Environmental Education work appearing to be behind schedule with a timing difference of \$83,000. In fact, the work is progressing well and we envisage the budget being fully utilised.
- Staff movements in the Division have resulted in savings of \$57,000, a portion of which is expected to be a permanent saving.
- Savings in external contractors and consultants of \$317,000. This is mainly due to iwi projects not being taken up.
- Annual resource management internal charges for the Water Group are being processed in monthly instalments instead of a single charge, resulting in income being below budget by \$87,000 for the half year.

(6) ***Wairarapa Favourable Variance of \$0.33 million, due to:***

- Bovine Tb operational savings of \$266,000 due to the timing of aerial and ground control contracts and permanent savings from the cancellation of expanded operations in Southeast Wairarapa.
- Additional revenue primarily in the Akura business unit \$86,000.

- Additional expenditure of \$66,000 to repair recent flood damage.
- (7) ***Corporate Advisory Services Favourable Variance of \$0.16 million, due to:***
- Savings of \$126,000 on Strategic Communications. This expenditure has been delayed due to the communications review currently being undertaken.
  - Savings of \$50,000 against the Community Advocacy budget.
- (8) ***Finance & Administration Favourable Variance of \$0.20 million, due to:***
- Savings in Info Tech & Support of \$295,000. This is largely due to depreciation charges being lower than budget by \$104,000 (as a result of delays in IT capex acquisitions) and savings in materials.
  - Additional FIS expenditure of \$119,000 relating to bedding down the FIS implementation.
- (9) ***Cost of Democracy Favourable Variance of \$0.05 million, due to:***
- Savings of \$54,000 on Elected members' allowances and transport costs, as there is a larger concentration of meetings in the second half of the year.
- (10) ***Rates Collection Favourable Variance of 0.20 million, due to:***
- Savings in Valuation fees and rate collection costs.

### 3.2 Capital Expenditure

Year-to-date capital expenditure for the six months to 31 December is \$2.6 million below budget.

	2000/01 YTD Actual \$000s	2000/01 YTD Budget \$000s	Actual vs Budget Variance \$000s	2000/01 Year Forecast \$000s	2000/01 Year Budget \$000s	Forecast vs Budget Variance \$000s
<b>CAPITAL EXPENDITURE</b>						
Utility Services	1,296	3,303	2,007 F	4,563	5,036	473 F
Landcare	872	1,003	131 F	3,355	2,504	851 U
Environment	169	314	145 F	373	375	2 F
Transport	24	7	17 U	94	49	45 U
Wairarapa	128	211	83 F	208	228	20 F
Corporate Advisory Services	36	0	36 U	36	0	36 U
Finance & Admin	51	289	238 F	261	336	75 F
Cost of Democracy	22	23	1 E	81	98	17 E
<b>Total Capital Expenditure</b>	<b>2,598</b>	<b>5,150</b>	<b>2,552 F</b>	<b>8,971</b>	<b>8,626</b>	<b>345 U</b>

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

(1) ***Utility Services Favourable Variance of \$2.01 million, due to:***

- Delays in starting projects resulting in a timing difference of \$1,673,000, with the major projects being:
  - Refurbishment of Orongorongo/Karori main \$691,000;
  - Plateau Road reservoir main \$374,000;
  - Water meter replacement \$175,000;
  - Seismic Protection \$174,000.
- Deferring the purchase of vehicles and plant equipment in Operations-Network, savings of \$118,000.
- Roading projects being behind schedule for Plantation Forestry, savings of \$113,000.

(2) ***Landcare Favourable Variance of \$0.13 million, due to:***

- Deferring the purchase of replacement vehicles until second half of the year, savings of \$70,000.
- Delays in capital works for Regional Parks \$112,000, Flood Protection \$279,000. These delays are mainly a result of unfavourable weather conditions and staff and material shortages.
- The above savings have been offset by delay of the planned asset sales, including Findlay Street houses (net value of \$352,000).

(3) ***Environment Favourable Variance of \$0.15 million, due to:***

- Delays in purchasing the new air monitoring station, resulting in a timing difference of \$145,000.

(4) ***Wairarapa Favourable Variance of \$0.08 million, due to:***

- Deferring the purchase of irrigation equipment for the Akura Conservation Centre to 2001/02, savings of \$36,000.
- Delays in replacement of vehicles and hydrology equipment, savings of \$39,000.

(5) ***Finance and Administration Favourable Variance of \$0.24 million***

- Deferral of the Regional Council Centre network upgrade has resulted in a timing difference of \$255,000 in Information Technology & Support.

## 4. Year End Forecast Position

### 4.1 Operating Surplus

The operating surplus for the year ending 30 June 2001 is forecast to be \$0.6 million above the budgeted surplus of \$3.9 million. This is primarily due to favourable variances within the following areas of the Council:

- Water Supply - a mixture of expenditure savings, primarily financial costs and increased revenue.
- Environment - savings within direct costs, specifically personnel and contractors & consultants.

These favourable variances have been partially offset by unfavourable variances within the following areas of the Council:

- Plantation Forestry - expected to remain unfavourable at the end of the year due to the pace of harvesting compared to original plan.
- Transport – expected to exceed budget due to additional projects being funded from the Transport reserve.
- Wairarapa - exceeding budget due to the additional costs relating to last year's flood damage repairs.

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

	2000/01 year end forecast (\$000)	2000/01 year end budget (\$000)	Forecast vs Budget variance (\$000)
Water supply	2,684	1,751	933 F
Transport	(1,807)	(1,029)	778 U
Other Regional responsibilities	3,621	3,220	401 F
Total Council Position	4,498	3,942	556 F

#### 4.1.1 *Material additional Operating Expenditure Items are as follows:*

- *Transport*

- kick start funding projects:

Newlands/Churton Park Bus improvements \$727,000

(Report 00.751)

NB: All other kick start projects are subject to Council approval as part of the budget review  
20/2/01

- *Landcare*
  - Regional Parks Flood damage \$74,000  
(Report 00.789)
  - Waikanae river gravel extraction \$52,000  
resource consent  
(Report 01.05)
  - Land swap with HCC – costs \$100,000  
(Report 00.840)  
[brought into the 2000/01 year to enable work to get underway in current year]
- *Wairarapa*
  - Aerial Photography \$45,000  
(replacement photos for entire Region)
  - Bush retirements from active grazing \$15,000  
(in conjunction with QEII Trust)
  - Scheme Rating review \$15,000  
Upper Ruamahanga
- *Finance and Administration*
  - Upgrade cost to new version of SAP software \$180,000  
  
(Potential withdrawal of maintenance for payroll module with effect from 30/11/01 may necessitate an upgrade to version 4.6C earlier than we anticipated – 2003/04. Officers are vigorously opposing the need for the upgrade but if unsuccessful work will need to commence immediately).

**4.2** The forecast capital expenditure position for the year ending 30 June 2001 is expected to be \$0.35 million above the budgeted level of \$8.6 million.

This is primarily due to the acceleration of the Flood Protection capital works in the Otaki

river needed to be completed earlier than planned as a result of last year's floods.

4.2.1 ***Material additional Capital Expenditure Items are as follows:***

- *Utility Services*

- Motor protection – (Waterloo) (new switchboard) to be loan funded	\$115,000
- Noise/vibration reduction (Waterloo) to be loan funded	\$30,000
- Forestry roading (Rimutaka Incline) to be loan funded	\$150,000



## **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 2000.

## **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 operating expenditure items:*
  - (a) *\$727,000 in the Transport budget to fund the Newlands/Churton Park Bus improvements.*
  - (b) *\$74,000 in the Landcare budget to fund the Regional Parks flood damage.*
  - (c) *\$52,000 in the Landcare budget to fund the Waikanae River gravel extraction resource consent process.*
  - (d) *\$100,000 in the Landcare budget to fund the costs of preparing for the land swap with Hutt City Council.*
- (3) *That the Committee approve the following additional operating expenditure items:*
  - (a) *\$45,000 in the Wairarapa budget to fund aerial photography work across the Region.*
  - (b) *\$15,000 in the Wairarapa budget to fund bush retirements.*

- (c) *\$15,000 in the Wairarapa budget to fund the Upper Ruamahanga Scheme Rating Review.*
  - (d) *\$180,000 in the Finance and Administration budget to fund the upgrade cost of the Council's Financial Information System.*
- (4) *That the Committee approve the following additional capital expenditure items:*
- (a) *\$115,000 in the Utility Services budget for motor protection (Waterloo).*
  - (b) *\$30,000 in the Utility Services budget for noise vibration reduction (Waterloo).*
  - (c) *\$150,000 in the Utility Services budget for forestry roading.*

GREG SCHOLLUM  
Chief Financial Officer

**Attachment 1 : Treasury Management Policy Compliance Report**