

# Financial overview

Wellington experienced a wetter summer and cooler autumn than normal. This helped offset the high demand for water during spring, when drier conditions prevailed.

Overall, the water supply system was not tested as it had been in the previous year. We supplied 54,228 million litres of potable water, 2.5% less than the previous year's total. This is the lowest supply volume since 1999/2000.

## Financial highlights

Greater Wellington Water produced a satisfactory financial outturn as these key measures demonstrate:

- Operating deficit lower than budget at \$0.116 million (budgeted deficit \$1.46M)
- Total operating costs lower than budget - \$25.8 million (budget \$26.5M)
- Interest costs held at \$3.5 million (budget \$3.8M)
- Debt reduced to \$42.3 million (budget \$42.5M)

## Operating revenue

We received additional revenue from the New Zealand Transport Agency for the use of a pipeline between Ngauranga and Petone (\$284,000) and from Citylink for the use of a communication duct between Thorndon and Petone. Porirua City Council gifted the new branch main at its Brady Reservoir to Greater Wellington, at a transfer value of \$370,000. These items had not been specifically budgeted.

## Operating costs

Personnel costs were some \$250,000 below budget, due to staff vacancies and staff time being charged to the corporate SAP asset management system project.

Materials and supplies came in at \$130,000 below budget. Lower spending on power, rates, and chemicals was offset slightly by increased insurance premiums. Chemical costs were contained, despite a marked increase in prices.

We have also increased our insurance policy for maximum earthquake damage.

## Financial costs

Interest charges were lower because the opening debt position was lower than budgeted. As a result, finance costs were some \$279,000 below budget.

The self insurance funds investment income came

in at \$966,000, slightly lower than anticipated because of the lower interest rates prevailing.

## Revaluation of water assets and depreciation charge

The Local Government Act 2002 requires that we comply with New Zealand International Financial Reporting Standards (NZ IFRS). New Zealand's equivalent to the International Accounting Standard 16 is NZ IAS 16: Property, Plant and Equipment. Under this accounting standard a valuation of assets needs to be carried out or reviewed regularly by independent qualified valuers. A valuation is typically undertaken once every five years.

CB Richard Ellis Ltd undertook a valuation of the Water Supply – property, plant and equipment assets during the year. As at 30 June 2008, the estimated replacement cost of these assets was \$558 million, with an estimated book value of \$322 million. Overall, the net change in the book value of the assets was \$48.3 million, an increase of 17.5%. The depreciation charge for the year was \$7,529,000.

## Capital expenditure

Capital expenditure came in at \$4.9 million compared with a budget of \$5.1 million. Several major projects target reduced operating costs in the future, including:

- A sodium hypochlorite plant was built at Te Marua, to produce disinfection chemical. Costs were \$674,000
- A project to generate electricity when the Te Marua storage lakes are being filled. Costs were 273,000

## Cash flow

Cash flow from operating activities for the year was \$7.6 million. This is in line with the previous year (\$7.6M).

## Financial position

GW Water's financial position is sound, with assets of \$351 million (previously \$305M) and liabilities of \$47 million (previously \$47M). Total debt is at \$42 million (previously \$43M).

## FINANCIAL SUMMARY

	June 2009 Actual \$000	June 2008 Actual \$000	June 2007 Actual \$000	June 2006 Actual \$000	June 2005 Actual \$000
Operating revenue	25,729	25,157	24,395	24,130	24,274
Depreciation	7,529	6,241	6,175	6,331	6,563
Financial costs	3,453	3,491	3,268	3,176	3,295
All other operating expenditure	14,863	14,204	15,315	14,682	13,543
Operating surplus/(deficit)	(116)	1,221	(363)	(59)	873

# Financial statements

## COMPREHENSIVE INCOME STATEMENT For the year ended 30 June

	Notes	2009 Actual \$000	2009 Budget \$000	2008 Actual \$000
<b>Operating revenue</b>				
Water supply levies		23,460	23,460	23,460
Internal revenue		278	269	252
Other revenue (interest & external)		1,991	1,346	1,445
<b>Total operating revenue</b>		<b>25,729</b>	<b>25,075</b>	<b>25,157</b>
<b>Operating expenditure</b>				
Personnel costs		3,933	4,183	3,670
Contractor & consultant costs		1,838	1,948	1,875
Internal consultant costs	2	886	972	961
Interest costs		3,453	3,750	3,491
Depreciation		7,529	7,541	6,241
Loss / (gain) on sale		165	(14)	128
Movement in doubtful debt provision		-	-	(21)
GWRC overhead charge		984	984	853
Operating expenditure	3	7,057	7,175	6,738
<b>Total operating expenditure</b>		<b>25,845</b>	<b>26,539</b>	<b>23,936</b>
<b>Net surplus for the year</b>		<b>(116)</b>	<b>(1,464)</b>	<b>1,221</b>
<b>Other comprehensive income</b>				
Unrealised revaluation gains		45,310	-	(69)
Other reserve and equity movements		5	-	19
<b>Total comprehensive income for the year</b>		<b>45,199</b>	<b>(1,464)</b>	<b>1,171</b>

## STATEMENT OF MOVEMENTS IN EQUITY For the year ended 30 June

	2009 Actual \$000	2009 Budget \$000	2008 Actual \$000
<b>Equity as at 1 July</b>	<b>258,479</b>	<b>315,513</b>	<b>257,258</b>
Total comprehensive income for the year	45,199	(1,464)	1,171
Other reserve and equity movements	(5)	-	50
<b>Equity as at 30 June</b>	<b>303,673</b>	<b>314,049</b>	<b>258,479</b>
<b>Components of equity</b>			
Closing accumulated funds	202,190	194,063	202,311
Closing other reserves	24	-	19
Closing asset revaluation reserves	101,459	119,986	56,149
<b>Equity as at 30 June</b>	<b>303,673</b>	<b>314,049</b>	<b>258,479</b>

The accompanying notes and accounting policies should be read in conjunction with these financial statements

**BALANCE SHEET**  
As at 30 June

	Notes	2009 Actual \$000	2009 Budget \$000	2008 Actual \$000
<b>Equity</b>				
Closing accumulated funds as at 30 June		303,673	314,049	258,479
<b>Represented by:</b>				
<b>Non-current liabilities</b>				
Public debt	5	42,287	46,140	42,710
<b>Total non-current liabilities</b>		<b>42,287</b>	<b>46,140</b>	<b>42,710</b>
<b>Current liabilities</b>				
Accounts payable		978	1,474	1,376
Employee entitlements		634	564	564
GWRC treasury payables	4	2,974	1,936	1,966
<b>Total current liabilities</b>		<b>4,586</b>	<b>3,974</b>	<b>3,906</b>
<b>Total liabilities</b>		<b>46,873</b>	<b>50,114</b>	<b>46,616</b>
<b>Non-current assets</b>				
Property, plant and equipment	6	331,232	345,559	288,279
Intangible assets	7	275	149	149
Investments	8	14,478	14,481	12,761
<b>Total non-current assets</b>		<b>345,985</b>	<b>360,189</b>	<b>301,189</b>
<b>Current assets</b>				
Accounts receivable		2,453	2,279	1,934
Stocks	9	1,802	1,591	1,657
Accrued revenue		306	104	315
Treasury receivables		-	-	-
<b>Total current assets</b>		<b>4,561</b>	<b>3,974</b>	<b>3,906</b>
<b>Total assets</b>		<b>350,546</b>	<b>364,163</b>	<b>305,095</b>
<b>TOTAL NET ASSETS</b>		<b>303,673</b>	<b>314,049</b>	<b>258,479</b>

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**FUNDING STATEMENT**  
For the year ended 30 June

	Notes	2009 Actual \$'000	2009 Budget \$'000	2008 Actual \$'000
<b>Funds from operating activities</b>				
Funds were provided from:				
Levies received		23,460	23,460	23,460
Interest received		956	1,027	1,020
Other revenue		1,303	588	677
		<b>25,729</b>	<b>25,075</b>	<b>25,157</b>
Funds were applied to:				
Payments to suppliers and employees		14,698	15,261	14,094
Interest paid on public debt		3,453	3,750	3,491
		<b>18,151</b>	<b>19,011</b>	<b>17,585</b>
<b>Net funds from operating activities</b>	<b>10</b>	<b>7,578</b>	<b>6,064</b>	<b>7,572</b>
<b>Funds from investing activities</b>				
Funds were provided from:				
Proceeds from sale of non-current assets		10	24	30
		<b>10</b>	<b>24</b>	<b>30</b>
Funds were applied to:				
Purchase of non-current assets		510	200	89
Capital projects		4,938	5,007	3,743
		<b>5,448</b>	<b>5,207</b>	<b>3,832</b>
<b>Net funds from investing activities</b>		<b>(5,438)</b>	<b>(5,183)</b>	<b>(3,802)</b>
<b>Funds from financing activities</b>				
Funds were provided from:				
Appropriations / new loans		4,983	5,007	3,784
Transfer from reserves		-	-	-
		<b>4,983</b>	<b>5,007</b>	<b>3,784</b>
Funds were applied to:				
Repayment of public debt		5,406	4,130	5,789
Transfer to reserves		5	(19)	-
Investment additions		1,712	1,777	1,765
Repayment of current account		-	-	-
		<b>7,123</b>	<b>5,888</b>	<b>7,554</b>
<b>Net funds from financing activities</b>		<b>(2,140)</b>	<b>(881)</b>	<b>(3,770)</b>
Net increase in funds held		-	-	-
Add opening funds brought forward		-	-	-
<b>Ending funds carried forward</b>		<b>-</b>	<b>-</b>	<b>-</b>

The accompanying notes and accounting policies should be read in conjunction with these financial statements

# Notes to the financial statements

For the year ended 30 June

## 1. STATEMENT OF ACCOUNTING POLICIES

### A Reporting entity

The Greater Wellington Regional Council is a regional local authority governed by the Local Government Act 2002. For the purposes of financial reporting Greater Wellington is designated as a public benefit entity. The entity, Greater Wellington Water (GW Water) is part of the Water Supply, Parks and Forests division of Greater Wellington Regional Council. GW Water collects, treats and distributes potable water to the four territorial authority customers.

These financial statements do not include any transactions arising from Greater Wellington's parks and forests activities and investments.

### B Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Local Government Act 2002 and New Zealand Generally Accepted Accounting Practices (NZ GAAP).

These financial statements are prepared in accordance with New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS), as appropriate for public benefit entities.

### Accounting judgements and estimations

The preparation of financial statements in conformity with NZ GAAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These results form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, when the revision affects only that period. If the revision affects current and future periods, it is reflected in those periods.

### C Accounting policies

#### Basis of preparation

The financial statements are presented in New Zealand dollars, rounded to the nearest thousand. The financial statements have been prepared on a historical cost basis except for certain infrastructural assets that have been measured at fair value. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The following particular accounting policies, which materially affect the measurement of results and financial position, have been applied.

#### Budget figures

The budget figures are those approved by the Council at the beginning of the year in the Annual Plan. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Greater Wellington for the preparation of these financial statements.

#### Water supply levies

Levies, a statutory annual charge, represent charges to the territorial authorities for the collection, treatment and distribution of potable water. Levies are recognised in the year the charges are raised.

#### Property, plant and equipment

Property, plant and equipment consists of operational and infrastructure assets. Expenditure is capitalised when it creates a new asset or increases the economic benefits over the total life of an existing asset. Costs that do not meet the criteria for capitalisation are expensed.

The initial cost of property, plant and equipment includes the purchase consideration and those costs that are directly attributable to bringing the asset into the location and condition necessary for its intended purpose.

Regional water supply property, plant and equipment are categorised into the following classes:

- Infrastructural assets
- Administrative buildings
- Minor equipment
- Motor vehicles
- Capital work in progress

All property, plant and equipment are initially recorded at cost.

### Stocks

Chemical stocks and spares used for maintenance and construction purposes are valued at the lower of cost or net realisable value on a first-in first-out basis. This valuation includes allowances for slow-moving and obsolete stocks.

### Depreciation

Depreciation is provided on a straight-line basis on all tangible property, plant and equipment other than land and capital works in progress, at rates that will write off assets, less their estimated residual value over their remaining useful lives. The useful lives of regional water supply assets have been estimated as follows:

- Infrastructural assets: 3 to 150 years
- Administrative buildings: 10 to 50 years
- Minor equipment: 3 to 15 years
- Vehicles: 5 to 10 years

Capital work in progress is not depreciated.

### Intangible assets

Software is carried at cost less any accumulated amortisation and impairment losses. It is amortised over the useful life of the asset: 1 to 5 years.

### Accounts receivable

Accounts receivable are stated at estimated net realisable value after allowing for a provision for doubtful debts. Specific provisions are maintained to cover identified doubtful debts. All known losses are expensed in the period in which it becomes apparent that the receivables are not collectable.

### Goods and services tax

All items in the financial statements are stated net of GST, with the exception of receivables and payables, which are stated as GST inclusive.

### Employee entitlements

A provision for employee entitlements is recognised as a liability in respect of benefits earned by employees, but not yet received at balance date. Employee benefits include salaries, annual leave and long service leave. Where the benefits are expected to be paid for within 12 months of balance date, the provision is the estimated amount expected to be paid by Greater

Wellington. The provision for other employee benefits is stated at the present value of the future cash outflows expected to be incurred. Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Income Statement as incurred.

### Funding statement

The following are the definitions of the terms used in the funding statement:

- Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which Greater Wellington invests as part of its day-to-day cash management
- Operating activities include cash received from all income sources of Greater Wellington and the cash payments made for the supply of goods and services
- Investing activities are those activities relating to the acquisition and disposal of non-current assets
- Financing activities comprise the change in equity and debt capital structure

### Changes in accounting policies

There have been no changes from the accounting policies adopted in the last audited financial statements.

### 2. Internal consultant costs and revenue

All significant internal charges between departments of GW Water have been eliminated. The internal consultant costs and revenue lines arise from GW Water's activities with other divisions within Greater Wellington.

### 3. Operating expenditure

Operating expenditure comprises payments for transportation costs, plus materials and supplies, such as chemicals and power.

### 4. Balance sheet – presentation of working capital

GW Water does not operate a separate bank account. All transactions are processed through the Greater Wellington Regional Council accounts. Such amounts are described as GWRC treasury payables.

## 5. Long-term public debt

	2009 Actual \$000	2008 Actual \$000
Balance at 1 July	42,710	44,696
New loans	4,983	3,784
Operating cash surplus applied to debt repayment	(5,406)	(5,770)
Balance at 30 June	42,287	42,710

All public debt obligations are fully secured against the rateable property of Greater Wellington Regional Council. The interest rate charged on the facility at 30 June 2009 was 7.00% p.a. (7.95% p.a. at 30 June 2008). GW Water uses any operating cash surpluses to retire debt.

## 6. Property, plant and equipment

2009	Deemed cost \$000	Revaluation reserve \$000	Accumulated depreciation \$000	Net book value \$000
Land	2,925	4,941	-	7,866
Water supply infrastructure	231,845	96,520	7,225	321,140
Office equipment	307	-	169	138
Plant and equipment	366	-	292	74
Motor vehicles	1,284	-	893	391
Work in progress	1,623	-	-	1,623
	<b>238,350</b>	<b>101,461</b>	<b>8,579</b>	<b>331,232</b>

2008	Deemed cost \$000	Revaluation reserve \$000	Accumulated depreciation \$000	Net book value \$000
Land	2,925	4,941	-	7,866
Water supply infrastructure	250,826	51,209	24,086	278,029
Office equipment	283	-	154	129
Plant and equipment	501	-	309	192
Motor vehicles	1,214	-	724	490
Work in progress	1,573	-	-	1,573
	<b>257,322</b>	<b>56,150</b>	<b>25,193</b>	<b>288,279</b>

Regional water supply plant and equipment assets were revalued by John Freeman, FPINZ, TechRICS, MACostE, registered plant and machinery valuer, a director of CB Richard Ellis, at 30 June 2008, using Optimised Depreciated Replacement Cost (ODRC) methodology. Water supply buildings were revalued by Paul Butcher, BBS, FPINZ, registered valuer, a director of CB Richard Ellis, at 30 June 2008, using ODRC methodology.

Further asset revaluations are planned and these will be undertaken regularly. Water supply infrastructure assets are defined as those assets that contribute directly to the supply and distribution of water and these are valued at their component levels respectively. GW Water's asset information system holds detailed valuation information on each item. Property, plant and equipment have been accounted for in accordance with NZ IAS 16.

## 7. Intangible assets

2009	Deemed cost \$000	Revaluation reserve \$000	Accumulated depreciation \$000	Net book value \$000
Computer software	1,022	-	747	275

2008	Deemed cost \$000	Revaluation reserve \$000	Accumulated depreciation \$000	Net book value \$000
Computer software	825	-	676	149

## 8. Investments

	2009 Actual \$000	2008 Actual \$000
Asset rehabilitation fund	14,454	12,742
General reserve	24	19
	14,478	12,761

The interest rate charged on the facility as at 30 June 2009 was 7.07 % p.a. (30 June 2008: 8.83% p.a.).

## 9. Stocks

	2009 Actual \$000	2008 Actual \$000
Chemicals	188	149
Capital spares	1,614	1,508
	1,802	1,657

## 10. Reconciliation of funds from operations to operating surplus

	2009 Actual \$000	2008 Actual \$000
Reported surplus / (deficit)	(116)	1,223
<b>Add / (less) non-cash items:</b>		
Depreciation	7,529	6,241
Doubtful debt provision reduced	-	(20)
Loss / (gain) on sale	165	128
<b>Total non-cash items</b>	<b>7,694</b>	<b>6,349</b>
<b>Net cash flow from operating activities</b>	<b>7,578</b>	<b>7,572</b>

## 11. Financial instruments

### Currency risk

GW Water is not exposed to any foreign currency risk

### Credit risk

Financial instruments that expose GW Water to credit risk are principally bank balances, receivables and investments. A provision for doubtful receivables is maintained, and is monitored on a regular basis. Bank accounts are held with New Zealand-registered banks in accordance with GW Water's policy.

### Concentration of credit risk

GW Water derives the majority of its income from the regional bulk water supply levy. Regional bulk water supply levies are collected from the region's four metropolitan city councils.

### Interest rate risk

The GWRC Internal Treasury unit manages GW Water's debt. A fixed rate of interest is charged by the unit, which minimises the exposure of GW Water to interest rate fluctuations.

### Fair values

The estimated fair values of all of the financial instruments of GW Water are the book value of those investments.

## 12. Related parties

GW Water contracts other divisions of Greater Wellington Regional Council for some operational services. All such transactions are carried out on normal commercial terms.

## 13. Contingencies

GW Water had no contingent liabilities as at 30 June 2009 (\$185,000 at 30 June 2008).

## 14. Commitments

GW Water leases Level 4 of the Regional Council Centre from Greater Wellington Regional Council on an arms-length basis. As at 30 June 2009 GW Water did not have any capital works programme-related contractual commitments (\$nil at 30 June 2008).