greater WELLINGTON
REGIONAL COUNCIL

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| Report | 10.37 |
| Date | 11 February 2010 |
| File | CFO/13/02/01 |
| Committee | Council |
| Author | Chris Gray, Finance Manager |

# Financial report for the six months ending 31 December 2009

## 1. Purpose

- To inform the Council of Greater Wellington's (GWRC) preliminary financial performance for the six months ended 31 December 2009 and to provide an explanation of major variances to budget by Group.
- To inform the Council of the WRC Holdings Group's financial performance for the six months ended 31 December 2009 and to provide explanations of variances to budget.
- To provide an interim position in terms of achievement against the published performance targets in the Council's 2009/10 Annual Plan.

## 2. Consideration by Committee

The matters raised in this report were considered by the Finance, Audit and Risk Committee at its meeting on 11 February (Report 10.8 refers). The recommendations contained in this report have been endorsed by the Committee for the Council's consideration and decision.

## 3. 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.

## 4. Background

GWRC prepares monthly financial statements for review. Each quarter a more detailed review of GWRC's financial results is undertaken with each of the Groups by the Chief Executive and the Chief Financial Officer.

As a result of those reviews, a summary of GWRC's performance for the six months ended 31 December 2009 is detailed in this report.

The WRC Holdings Group monthly financial statements are prepared and reviewed by management and the Boards of Directors of the individual companies within the Group. Therefore, only summary financial statements are presented for consideration by the Council.

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

# 5. Financial Performance

## 5.1 Year to date

GWRC achieved an operating surplus of $3,896,000 (budget $1,021,000) for the six months. This result excludes grants to fund public transport capital expenditure and revaluations. Including these amounts, GWRC had a net deficit of $221,000 (budget surplus $820,000).

The WRC Holdings Group achieved a net surplus before tax of $6,256,000 (budget $3,649,000).

Further details on the performance for the six months are discussed below.

## 5.2 Forecast to June 2010

GWRC is forecasting an operating surplus of $5,167,000 (budget $2,237,000) for the year ending 30 June 2010. This result excludes grants to fund public transport capital expenditure and revaluations. Including these amounts, GWRC's forecast deficit is $1,703,000 (budget surplus $1,105,000).

The WRC Holdings Group is forecasting an $8,270,000 surplus before tax compared to a budget surplus before tax of $7,758,000.

Further details are discussed below.

## 5.3 Financial Summary - Council

| Greater Wellington Regional Council Summary income statement | Last Year $000s | Actual $000s | Budget $000s | Variance $000s |
|---|---|---|---|---|
| | For the 6 months ended 31 December 2009 | | | |
| Regional rates | 38,100 | 39,546 | 39,546 | - |
| Water supply levy | 11,730 | 11,730 | 11,719 | 11 |
| Other operating revenue | 39,058 | 40,629 | 41,103 | (474) |
| **Total operating revenue** | **88,888** | **91,905** | **92,368** | **(463)** |
| Operational expenditure | (85,742) | (88,009) | (91,347) | 3,338 |
| **Operating surplus/(deficit) before transport improvement grants** | **3,146** | **3,896** | **1,021** | **2,875** |
| Operating (deficit) from transport improvements | (12,392) | (3,470) | (3,114) | (356) |
| **Operating surplus/(deficit) before unrealised items** | **(9,246)** | **426** | **(2,093)** | **2,519** |
| Non-operational movements | (564) | (647) | 2,913 | (3,560) |
| **Operating surplus/(deficit)** | **(9,810)** | **(221)** | **820** | **(1,041)** |

| Greater Wellington Regional Council Summary income statement | Last Year $(000)'s | Actual $(000)'s | Budget $(000)'s | Variance $(000)'s |
|---|---|---|---|---|
| | For the 6 months ended 31 December 2009 | | | |
| **Operational Groups** | | | | |
| Catchment Management | 1,716 | 1,674 | 1,590 | 84 |
| Environmental Management | (75) | (30) | (315) | 285 |
| Forestry | (1,036) | (948) | (336) | (612) |
| Parks and Forests | (60) | 145 | 279 | (134) |
| Public Transport | 1,852 | 818 | (316) | 1,134 |
| **Total rates funded operational surplus / (deficit)** | **2,397** | **1,659** | **902** | **757** |
| **Corporate** | | | | |
| Strategy & Community Engagement | 31 | 797 | 135 | 662 |
| Finance and Support | 788 | 664 | (82) | 746 |
| Other corporate activities | 60 | 192 | (1) | 193 |
| Investment Management | 4,429 | 4,375 | 3,846 | 529 |
| Business unit rates contribution | (4,155) | (3,490) | (3,490) | - |
| **Total rates funded operating surplus / (deficit)** | **3,550** | **4,197** | **1,310** | **2,887** |
| Water | (404) | (301) | (289) | (12) |
| **Total rates & levy funded operating surplus / (deficit)** | **3,146** | **3,896** | **1,021** | **2,875** |
| **Non-operational movements** | | | | |
| Revaluation of debt and stadium advance | (177) | - | 131 | (131) |
| Revaluation of forestry | - | - | - | - |
| Forestry cost of goods sold | (395) | (649) | (327) | (322) |
| EMU investment - GW Rail | 8 | 1 | 3,109 | (3,108) |
| Public Transport - capex / investment | (12,392) | (3,469) | (3,114) | (355) |
| **Total Council surplus / (deficit)** | **(9,810)** | **(221)** | **820** | **(1,041)** |

## 5.4 Financial Forecast - Council

| Greater Wellington Regional Council<br>Summary income statement | Last Year<br>$000s | Forecast<br>$000s | Budget<br>$000s | Variance<br>$000s |
|---|---|---|---|---|
| | For the year ended 30 June 2010 | | | |
| Regional rates | 76,628 | 79,093 | 79,093 | - |
| Water supply levy | 23,460 | 23,460 | 23,460 | - |
| Other operating revenue | 79,911 | 84,615 | 83,452 | 1,163 |
| **Total operating revenue** | **179,999** | **187,168** | **186,005** | **1,163** |
| Operational expenditure | (171,870) | (182,001) | (183,768) | 1,767 |
| **Operating surplus/(deficit) before transport improvement grants** | **8,129** | **5,167** | **2,237** | **2,930** |
| Operating (deficit) from transport improvements | (16,005) | (10,634) | (8,027) | (2,607) |
| **Operating surplus/(deficit) before unrealised items** | **(7,876)** | **(5,467)** | **(5,790)** | **323** |
| Non-operational movements | 7,561 | 3,764 | 6,895 | (3,131) |
| **Operating surplus/(deficit)** | **(315)** | **(1,703)** | **1,105** | **(2,808)** |

| Greater Wellington Regional Council<br>Summary income statement | Last Year<br>$(000)'s | Forecast<br>$(000)'s | Budget<br>$(000)'s | Variance<br>$(000)'s |
|---|---|---|---|---|
| | For the year ended 30 June 2010 | | | |
| **Operational Groups** | | | | |
| Catchment Management | 3,179 | 3,401 | 3,200 | 201 |
| Environmental Management | (273) | (506) | (412) | (94) |
| Forestry | (2,035) | (1,758) | (678) | (1,080) |
| Parks and Forests | (509) | 196 | 191 | 5 |
| Public Transport | 2,892 | 905 | (895) | 1,800 |
| **Total rates funded operational surplus / (deficit)** | **3,254** | **2,238** | **1,406** | **832** |
| **Corporate** | | | | |
| Strategy & Community Engagement | 190 | 43 | (53) | 96 |
| Finance and Support | 1,406 | 588 | (163) | 751 |
| Other corporate activities | 103 | (38) | (38) | - |
| Investment Management | 11,602 | 10,360 | 8,710 | 1,650 |
| Business unit rates contribution | (8,310) | (6,980) | (6,980) | - |
| **Total rates funded operating surplus / (deficit)** | **8,245** | **6,211** | **2,882** | **3,329** |
| Water | (116) | (1,044) | (645) | (399) |
| **Total rates & levy funded operating surplus / (deficit)** | **8,129** | **5,167** | **2,237** | **2,930** |
| **Non-operational movements** | | | | |
| Revaluation of debt and stadium advance | 7,260 | (570) | (570) | - |
| Revaluation of forestry | 182 | 1,903 | 1,903 | - |
| Forestry cost of goods sold | (1,106) | (655) | (655) | - |
| EMU investment - GW Rail | 1,225 | 3,086 | 6,218 | (3,132) |
| Public Transport - capex / investment | (16,005) | (10,634) | (8,028) | (2,606) |
| **Total Council surplus / (deficit)** | **(315)** | **(1,703)** | **1,105** | **(2,808)** |

### 5.5 Catchment management

| Financial Summary | For the 6 months ended 31 December 2009 | | | | Full year forecast 30 June 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Last Year | Actual | Budget | Variance | Last Year | Forecast | Budget | Variance |
| | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s |
| Operating revenue | 13,044 | 13,060 | 12,196 | 864 | 25,499 | 25,008 | 23,575 | 1,433 |
| Operating expenditure | 11,328 | 11,386 | 10,606 | 780 | 22,320 | 21,607 | 20,375 | 1,232 |
| **Operating surplus / (deficit)** | 1,716 | 1,674 | 1,590 | 84 | 3,179 | 3,401 | 3,200 | 201 |
| **Net capital expenditure** | 1,541 | 4,393 | 4,325 | 68 | 6,086 | 9,933 | 9,863 | 70 |

#### 5.5.1 Year to date

A favourable operating variance of $84,000, comprising higher revenue of $864,000 offset by increased operating costs of $780,000.

- Operating revenue was higher than budget due mainly to:
  - Land Afforestation grants scheme, $795,000.
  - Internal revenue for the completion of the Hutt Catchment aerial operation, $96,000
- Operating expenditure was $780,000 higher than budget due to the Land Afforestation grants scheme expenditure of $750,000
- Overall capital expenditure was in line with budget.

#### 5.5.2 Forecast to 30 June 2010

The forecast operating surplus is $201,000 ahead of budget comprising higher revenue of $1,433,000 and higher operating expenditure of $1,232,000.

Additional revenue and expenditure for the Land Afforestation programme and the Waiwhetu stream cleanup project.

Capital expenditure is forecast to be overall in line with budget.

### 5.6 Environmental management

| Financial Summary | For the 6 months ended 31 December 2009 | | | | Full year forecast 30 June 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Last Year | Actual | Budget | Variance | Last Year | Forecast | Budget | Variance |
| | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s |
| Operating revenue | 6,456 | 6,770 | 6,505 | 265 | 13,288 | 13,610 | 13,293 | 317 |
| Operating expenditure | 6,531 | 6,800 | 6,820 | (20) | 13,561 | 14,116 | 13,705 | 411 |
| **Operating surplus / (deficit)** | (75) | (30) | (315) | 285 | (273) | (506) | (412) | (94) |
| **Net capital expenditure** | 196 | 529 | 1,179 | (650) | 572 | 1,285 | 1,285 | - |

### 5.6.1 Year to date

Overall, a favourable operating variance of $285,000 comprising higher revenue of $265,000 and lower expenditure of $20,000.

- Operating revenue is ahead of budget due to additional revenue from Environsmart, EECA and Emissions carried forward from 2008/09.

- Capital expenditure was $650,000 below budget due to delays in the start of Beacon Hill building and fit-out. This project is now in the fit-out stage.

### 5.6.2 Forecast to 30 June 2010

- The forecast is expected to be in line with budget.

## 5.7 Forestry

| Financial Summary | For the 6 months ended 31 December 2009 | | | | Full year forecast 30 June 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Last Year | Actual | Budget | Variance | Last Year | Forecast | Budget | Variance |
| | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s |
| Operating revenue | 2,473 | 2,622 | 3,793 | (1,171) | 5,456 | 6,577 | 7,586 | (1,009) |
| Operating expenditure | 3,509 | 3,570 | 4,129 | (559) | 7,491 | 8,335 | 8,264 | 71 |
| **Operating surplus / (deficit)** | (1,036) | (948) | (336) | (612) | (2,035) | (1,758) | (678) | (1,080) |
| Cost of goods sold | 395 | 649 | 327 | 322 | 1,106 | 655 | 655 | - |
| **Operating surplus / (deficit) before valuation** | (1,431) | (1,597) | (663) | (934) | (3,141) | (2,413) | (1,333) | (1,080) |
| Forestry valuation | - | - | - | - | 182 | 1,903 | 1,903 | - |
| **Operating surplus / (deficit)** | (1,431) | (1,597) | (663) | (934) | (2,959) | (510) | 570 | (1,080) |
| **Net capital expenditure** | 147 | 96 | 167 | (71) | 363 | 310 | 310 | - |

### 5.7.1 Year to date

An unfavourable operating variance of $934,000, comprising lower revenue of $1,171,000, lower expenditure of $599,000 and a higher cost of goods sold adjustment, $322,000.

- Operating revenue was lower due to:

  - Higher log prices were significantly impacted by the high exchange rate and increases in shipping costs, volumes were lower than budget
  - The budget included $510,000 revenue from the emissions trading scheme which is yet to come into effect.

- Operating expenditure was lower than budget due to lower expenditure on contractors as a result of the lower volumes

- Capital expenditure is $71,000 below budget due to timing of expenditure on roads.

### 5.7.2 Forecast to 30 June 2010

Forestry is forecasting an unfavourable operating variance of $1,080,000 due mainly to no revenue from the emissions trading scheme.

## 5.8 Parks & forests

| Financial Summary | For the 6 months ended 31 December 2009 | | | | Full year forecast 30 June 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Last Year | Actual | Budget | Variance | Last Year | Forecast | Budget | Variance |
| | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s |
| Operating revenue | 3,242 | 3,268 | 3,254 | 14 | 6,547 | 6,528 | 6,508 | 20 |
| Operating expenditure | 3,302 | 3,123 | 2,975 | 148 | 7,056 | 6,332 | 6,317 | 15 |
| **Operating surplus / (deficit)** | (60) | 145 | 279 | (134) | (509) | 196 | 191 | 5 |
| **Net capital expenditure** | 107 | 221 | 470 | (249) | 323 | 723 | 723 | - |

### 5.8.1 Year to date

- An unfavourable operating variance of $134,000, due mainly to:
  - Staff costs $58,000 under budget due to vacancies
  - Contractors and consultants $99,000 under budget due to the timing of work and utilising internal Biosecurity resources for the Hutt Catchment aerial operations
  - Internal expenditure ahead of budget due to the timing of the completion of the Hutt Catchment aerial operation noted above, $115,000
  - Depreciation $170,000 unfavourable due to a low budget estimate.
- Capital expenditure was $249,000 below budget, due to the timing of capital projects.

### 5.8.2 Forecast to 30 June 2010

The forecast is largely unchanged from the budget.

## 5.9 Public transport

| Financial Summary | For the 6 months ended 31 December 2009 | | | | Full year forecast 30 June 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Last Year | Actual | Budget | Variance | Last Year | Forecast | Budget | Variance |
| | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s |
| Operating revenue | 40,055 | 41,265 | 42,052 | (787) | 82,351 | 83,301 | 84,392 | (1,091) |
| Operating expenditure | 38,203 | 40,447 | 42,368 | (1,921) | 79,459 | 82,396 | 85,287 | (2,891) |
| **Operating surplus / (deficit)** | 1,852 | 818 | (316) | 1,134 | 2,892 | 905 | (895) | 1,800 |
| Net capital expenditure | (9) | 0 | 60 | (59) | 14 | 97 | 97 | - |

### 5.9.1 Year to date

A favourable operating variance of $1,134,000, comprising lower expenditure of $1,921,000 offset by lower operating revenue of $787,000.

- Operating expenditure was lower than budget due to:
  - Rail operations $576,000 over budget due to a significant decline in patronage
  - The higher exchange rate and lower oil prices have resulted in decreased payments to the diesel bus operators of $1,587,000
  - Fully funded SuperGold card expenditure is $360,000 over budget for the six months
  - Operational expenditure on the real time project is not expected until later in the year, a saving of $325,000 for the six months.

### 5.9.2 Forecast to 30 June 2010

A favourable variance of $1,800,000, reflecting lower operating expenditure of $2,891,000 and lower operating revenue of $1,091,000 (due to the lower expenditure).

- Forecast operating expenditure is lower than budget due to:
  - The higher exchange rate and lower oil prices have resulted in forecast payments to the diesel bus operators being $3,972,000 less than budget
  - The continued decline in rail patronage forecast by Tranz Metro results in a forecast increase in the cost of rail operations of $1,171,000
  - Fully funded SuperGold card expenditure is forecast to be $511,000 over budget
  - Reduced operational expenditure of $505,000 for the real time information project.

## 5.10 Public transport improvement projects

| **Financial Summary** | **For the 6 months ended 31 December 2009** | | | | **Full year forecast 30 June 2010** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Last Year** | **Actual** | **Budget** | **Variance** | **Last Year** | **Forecast** | **Budget** | **Variance** |
| | **$000s** | **$000s** | **$000s** | **$000s** | **$000s** | **$000s** | **$000s** | **$000s** |
| Operating revenue | 17,990 | 37,944 | 63,063 | (25,119) | 54,985 | 107,108 | 145,940 | (38,832) |
| Operating expenditure | 30,382 | 41,413 | 66,177 | (24,764) | 70,990 | 117,742 | 153,968 | (36,226) |
| **Operating surplus / (deficit)** | (12,392) | (3,469) | (3,114) | (355) | (16,005) | (10,634) | (8,028) | (2,606) |
| **Net capital expenditure** | (13) | 551 | 4,391 | (3,840) | 603 | 1,844 | 8,967 | (7,123) |

### 5.10.1 Year to date

Overall an unfavourable operating variance of $355,000, comprising lower expenditure of $24,764,000 and lower revenue of $25,119,000.

- Operating expenditure was lower than budget due to:
  - Expenditure on the Matangi EMU project is $12,084,000 below budget due to the revision of the expected payment dates. The project remains on budget with the new trains still scheduled to be delivered from 2010
  - Rail infrastructure projects including station platforms, signalling, Johnsonville stations and McKay's to Waikanae double tracking, are under budget by $11,229,000 due to the timing on the Waikanae double tracking and electrification project
  - Rail rolling stock heavy maintenance programme is $731,000 under budget, as KiwiRail are behind their planned programme
  - The Ganz Mavag pilot refurbishment is $534,000 below budget due to the delayed start of the project.
- Capital expenditure was $3,840,000 below budget due to:
  - A number of projects have been reclassified as improvement projects from capital expenditure, as the underlying assets will not be owned by Greater Wellington, $1,684,000
  - The real time information project has commenced later than anticipated, $2,030,000.

### 5.10.2 Forecast to 30 June 2010

The forecast shows an unfavourable variance of $2,606,000 when compared to the budget, reflecting the expected changes in the timing of expenditure.

- Forecast operating expenditure is $36,226,000 lower than budget (with a corresponding drop in revenue) due to:
  - Expenditure on the Matangi EMU project is forecast to be $30,791,000 below budget due the expected timing of payments. The project remains on budget with the new trains still scheduled to be delivered from 2010.
  - Rail infrastructure projects including station platforms, signalling, Johnsonville station and McKay's to Waikanae double tracking are forecast to be under budget by $5,164,000. The difference is mainly timing differences on the Waikanae double tracking and electrification projects.
  - The Ganz Mavag pilot refurbishment is forecast to be $311,000 below budget due to the delayed start of the project.

- Forecast capital expenditure is $7,123,000 below budget due to:

  - $3,867,000 will not be spent as capital expenditure, these projects have been reclassified as improvement projects as the underlying assets will not be owned by Greater Wellington

  - The real time information project commenced later than anticipated and the contract was less than originally budgeted. Expenditure for the year is forecast at $1,594,000, which is $3,256,000 lower than budget.

## 5.11 Strategy & Community Engagement

| Financial Summary | For the 6 months ended 31 December 2009 | | | | Full year forecast 30 June 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Last Year | Actual | Budget | Variance | Last Year | Forecast | Budget | Variance |
| | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s |
| Operating revenue | 4,672 | 4,867 | 4,748 | 119 | 9,454 | 9,456 | 9,558 | (102) |
| Operating expenditure | 4,641 | 4,070 | 4,613 | (543) | 9,264 | 9,413 | 9,611 | (198) |
| **Operating surplus / (deficit)** | 31 | 797 | 135 | 662 | 190 | 43 | (53) | 96 |
| **Net capital expenditure** | 49 | 2 | - | 2 | 53 | - | - | - |

### 5.11.1 Year to date

Overall a favourable operating variance of $662,000, with higher operating revenue, $119,000 and lower operating costs of $543,000.

- Operating revenue was ahead of budget due to additional revenue from the Honda tree fund of $51,000 and changes to the New Zealand Transport Authority (NZTA) funding mechanism, $60,000.

- Operating expenditure was lower than budget due to:

  - Timing of expenditure on the internet and intranet upgrades, $136,000
  - Timing of payments to Grow Wellington, $67,000
  - Savings of $180,000 in Transport Strategy development projects including $41,000 on the Wairarapa corridor study and $70,000 saving on the transport model development
  - Staff costs under budget by $81,000 due to staff vacancies.

### 5.11.2 Forecast to 30 June 2010

The forecast shows a favourable variance of $96,000 due to:

- Planned update to the Regional Land Transport Programme is not anticipated this year, a saving of $150,000
- Lower forecast expenditure on the transport model $60,000.

## 5.12 Finance and Support

| Financial Summary | For the 6 months ended 31 December 2009 | | | | Full year forecast 30 June 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Last Year | Actual | Budget | Variance | Last Year | Forecast | Budget | Variance |
| | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s |
| Operating revenue | 6,477 | 6,679 | 6,545 | 134 | 13,555 | 13,290 | 13,090 | 200 |
| Operating expenditure | 5,689 | 6,015 | 6,627 | (612) | 12,149 | 12,702 | 13,253 | (551) |
| **Operating surplus / (deficit)** | 788 | 664 | (82) | 746 | 1,406 | 588 | (163) | 751 |
| **Net capital expenditure** | 1,209 | 350 | 1,237 | (887) | 2,215 | 1,515 | 1,815 | (300) |

### 5.12.1 Year to date

A favourable operating variance of $746,000 due to lower operating expenditure of $612,000 and increased revenue of $134,000, resulting from:

- Operating expenditure was lower than budget due to:
  - Staff vacancies resulting in lower personnel costs of $121,000
  - Contractors and consultants were $104,000 below budget due to the timing of expenditure
  - Lower depreciation due to reduced PC renewal costs in 2008/09 and the asset management project not yet completed, $222,000
  - Finance costs, $31,000 below budget as a result of the lower capital expenditure in 2008/09.

- Operating revenue was higher than budget due to additional rates from new properties and rates penalties.

- Capital expenditure was $908,000 below budget due to the delayed start of the telecommunications upgrade project, the GIS aerial flyover and lower costs to date on the asset management project.

### 5.12.2 Forecast to 30 June 2010

The forecast shows a favourable variance of $751,000 when compared to budget, with additional revenue of $200,000 and lower expenditure of 552,000.

- Forecast revenue is higher due to additional rates from new properties and rates penalties.

- Forecast expenditure is lower than budget due to:
  - Staff vacancies resulting in lower personnel costs of $150,000
  - Lower depreciation due to reduced PC renewal costs in 2008/09 and the asset management project not yet completed, $300,000
  - Finance costs, $52,000 below budget as a result of the lower capital expenditure in 2008/09.

- Capital expenditure is forecast to be $300,000 less than budget due to:
  - Lower costs than anticipated for the asset management project by year end
  - Lower costs for GIS Aerial flyover including some sharing of costs with Territorial Authorities.

## 5.13 Investment management

| Financial Summary | For the 6 months ended 31 December 2009 | | | | Full year forecast 30 June 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Last Year | Actual | Budget | Variance | Last Year | Forecast | Budget | Variance |
| | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s |
| Operating revenue | 2,594 | 2,710 | 2,181 | 529 | 7,870 | 7,415 | 5,791 | 1,624 |
| Operating expenditure | 1,835 | 1,665 | 1,665 | - | (3,732) | (2,945) | (2,919) | (26) |
| **Operating surplus / (deficit)** | 4,429 | 4,375 | 3,846 | 529 | 11,602 | 10,360 | 8,710 | 1,650 |
| **Net capital expenditure** | 22 | 3 | - | 3 | (68) | 63 | 400 | (337) |

### 5.13.1 Year to date

The favourable variance of $529,000 is due to higher revenue from money market investments and lower than budgeted interest rates on our borrowings.

### 5.13.2 Forecast to 30 June 2010

The forecast is a favourable variance of $1,650,000. This is predominately due to lower interest rates than budgeted. Returns are expected to improve in both GWRC and WRC Holdings (resulting in higher dividends).

## 5.14 Water

| Financial Summary | For the 6 months ended 31 December 2009 | | | | Full year forecast 30 June 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Last Year | Actual | Budget | Variance | Last Year | Forecast | Budget | Variance |
| | $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s |
| Operating revenue | 13,628 | 13,706 | 14,155 | (449) | 28,079 | 28,104 | 28,332 | (228) |
| Operating expenditure | 14,032 | 14,007 | 14,444 | (437) | 28,195 | 29,148 | 28,977 | 171 |
| **Operating surplus / (deficit)** | (404) | (301) | (289) | (12) | (116) | (1,044) | (645) | (399) |
| **Net capital expenditure** | 1,902 | 2,105 | 4,057 | (1,952) | 5,438 | 6,594 | 7,951 | (1,357) |

### 5.14.1 Year to date

Overall an unfavourable operating variance of $12,000 compared to budget, due to:

- Operating revenue was $449,000 below budget primarily as a result of lower internal revenue charged to capital projects which have been delayed or deferred.

- Operating expenditure was $437,000 lower than budget due to:
  - Personnel costs are $229,000 below budget, due to staff vacancies
  - Better pricing for materials and supplies including chemicals, power and rates, $273,000. Power savings are being made due to an agreement with the energy supplier over peak load management and chemical prices have reduced back to 2008 levels after the dramatic increases during 2009
  - Increased insurance costs of $195,000 are offset by lower contributions to the water contingency reserve
  - Contractors and consultants are $74,000 below budget due to timing of projects
  - Finance costs are $81,000 below budget, due to the actual opening debt position being lower than budgeted
  - Depreciation is $286,000 over budget due to a lower budget estimate.
- Capital expenditure was $1,952,000 below budget due to timing and deferral of some projects including:
  - Hydro generation at Wainuiomata, $696,000
  - Seismic work at Stuart Macaskill Lakes $213,000
  - Network capital works programme $747,000.

### 5.14.2 Forecast to 30 June 2010

The full year forecast is showing an unfavourable variance of $399,000.

- Operating revenue is forecast to be $228,000 below budget primarily as a result of lower internal revenue for capital projects which are expected to be deferred to 2010/11.
- Operating expenditure is forecast to be $171,000 lower than budget due to:
  - Personnel costs are $171,000 below budget due to staff vacancies
  - Better pricing for materials and supplies including chemicals $99,000, power $244,000, rates $70,000, offset by increased insurance costs of $195,000
  - Lower contributions to the water contingency fund have offset the insurance increase
  - Contractors and consultants are $130,000 higher than budget due to the unplanned mains repairs at Plimmerton
  - Depreciation is $546,000 over budget due to a low budget estimate.
- Capital expenditure is forecast to be $1,357,000 below budget due to timing and deferral of some projects including:
  - Hydro generation at Wainuiomata, $1,060,000
  - Seismic work at Stuart Macaskill Lakes $52,000.

# 6. Finance costs

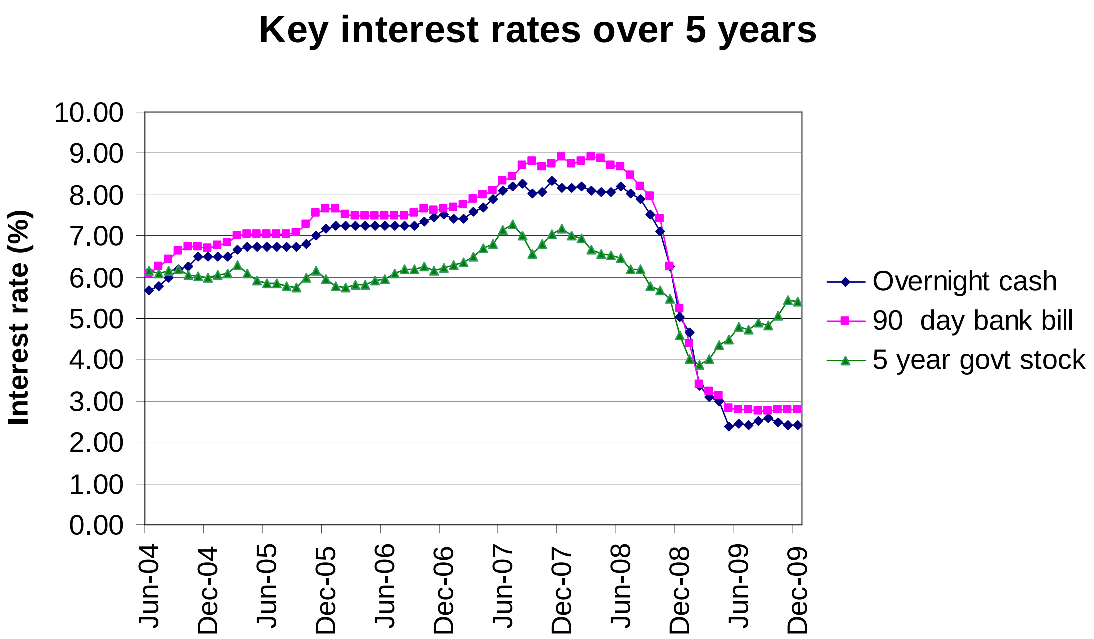
| For the 6 months ended 31 December 2009 | | | | Full year forecast 30 June 2010 | | | |
|---|---|---|---|---|---|---|---|
| Last Year | Actual | Budget | Variance | Last Year | Forecast | Budget | Variance |
| $000s | $000s | $000s | $000s | $000s | $000s | $000s | $000s |
| 2,416 | 2,427 | 2,825 | (398) | 4,908 | 5,508 | 5,999 | (491) |

## 6.1 Year to date

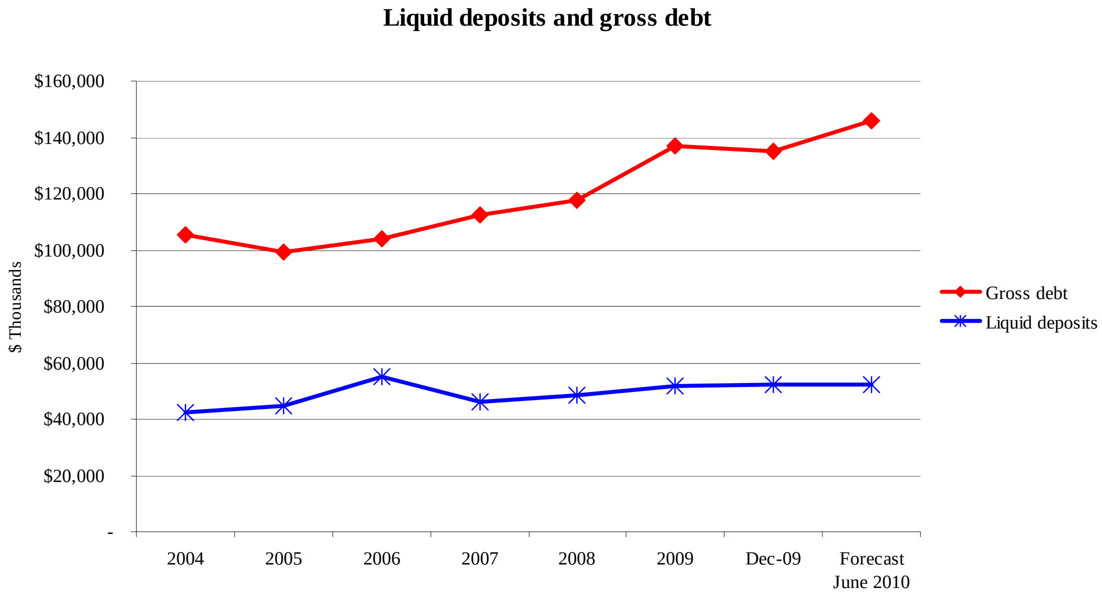
Finance costs were $2,427,000 compared to the budget of $2,825,000, a favourable variance of $398,000. The favourable variance is due to lower borrowings resulting from lower capital expenditure, actual opening debt being below budget and lower interest rates.

## 6.2 Forecast to 30 June 2010

Finance costs are forecast to be $491,000 below budget due to lower debt due to slower capital spend, a lower actual opening debt position and lower interest rates.



# 7. Debt




The above graph represents GWRC's and WRC Holdings' gross debt position coupled with cash deposits.

GWRC's debt, including WRC Holdings, was $134.6 million at 31 December 2009, compared with $137.2 million on 30 June 2009. The position is down on year end reflecting an improvement in the working capital position.

The $134.6 million excludes the $12.2 million written down in respect of the Government loans. The write down is due to the interest free nature of the loans. With the write down included, GWRC's debt, including WRC Holdings, as at 31 December 2009 was $122 million. This debt excludes CentrePort.

It should be noted that GWRC has currently $50.8 million on deposit.

## 7.1 Stadium debt

In June 2007 the Council approved the restructuring of the Stadium debt of $18,985,000, which had been borrowed from the ANZ at a fixed interest rate of 8.55% until 2018.

The Stadium debt was repaid to the ANZ in late June 2007, including a break cost of $419,000, and was initially refinanced using GWRC's commercial paper programme.

The debt is currently funded at 6.21% until February 2012.

From February 2012 until early 2018 an interest rate swap is in place, should it be required, to fix the base borrowing rate at 5.75% plus the lenders margin. It is likely significant savings will result from this debt restructure. Current estimates are in the order of $1.5 million. The current balance of this loan at 31 December 2009 is $15,856,394.

# 8. Annual plan performance targets

Group managers have reported their expectation that all significant annual plan performance targets will be achieved by 30 June 2010.

# 9. WRC Holdings

The following table summarises WRC Holdings group of companies (the Group) operating results for the period ended 31 December 2009.

**WRC HOLDINGS GROUP**
INCOME STATEMENT
**FOR THE PERIOD ENDED 31 DECEMBER 2009**

| | | | | | **Full year forecast to 30 June 2010** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Last Year $000** | **Actual $000** | **Budget $000** | **Variance $000** | **Last Year $000** | **Forecast $000** | **Budget $000** | **Variance $000** |
| **Total Revenue** | 30,513 | 35,231 | 33,709 | 1,522 | 60,877 | 67,465 | 67,485 | (21) |
| **Operating Expenses** | 20,200 | 23,689 | 24,310 | 621 | 41,927 | 48,049 | 48,126 | 78 |
| **Earnings Before Interest & Tax ( EBIT )** | **10,313** | **11,542** | **9,399** | **2,143** | 18,950 | 19,416 | 19,359 | 57 |
| **Less:** | | | | | | | | |
| Finance costs | 4,558 | 5,286 | 5,750 | 464 | 8,481 | 11,146 | 11,601 | 455 |
| Revaluation (loss) | - | - | | - | (11,046) | | | |
| **Net Surplus Before (Deficit) Tax** | **5,755** | **6,256** | **3,649** | **2,607** | **(576)** | **8,270** | **7,758** | **512** |

**Notes:**
(1) Includes a summary consolidation of CentrePort Ltd's results before providing for minority interests.

The Group achieved a surplus before tax for the period of $6,256,000 compared with the budget of $3,649,000, providing a favourable position to the budget of $2,607,000.

CentrePort contributed $2,384,000, emanating from higher revenues and lower costs including interest. The balance of the favourable position arises from lower borrowing costs on the $44 million debt.

## 9.1 Forecast to 30 June 2010

The Group is a forecasting a surplus before tax of $8,270,000 compared to a budget of $7,758,000, giving a favourable variance of $512,000. This is primarily due to lower interest costs and the improved result in CentrePort.

# 10. Compliance with Treasury Management Policy

A new Treasury Management Policy came into effect on 1 July 2009. There is a one year's grace period to comply with the new policy. Currently GWRC does not comply in two areas (refer **Attachment 3**):

- GWRC's level of fixed rate debt cover being greater than Policy (97% v 95% policy).
- The debt maturity profile being shorter than Policy levels.

The debt maturity profile is likely to comply with policy in May 2010 when two of GWRC’s mature and have to be replaced.

## 11. Communication

No communications are necessary at this time.

## 12. Recommendations

*That the Council*:

1. ***Receives** the report.*

2. ***Notes** the content of the report.*

| Report prepared by: | Report approved by: |
|---|---|
| Chris Gray | |
| Chris Gray<br>Finance Manager | Barry Turfrey<br>Chief Financial Officer |

Attachment 1: Funding Impact Statement

Attachment 2: Balance Sheet

Attachment 3: Compliance with Treasury Risk Management Policy