

**Report 99.17**  
10 February 1999  
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Report to the Policy and Finance Committee  
from Greg Schollum, Chief Financial Officer

## **Half Year Review to 31 December 1998**

### **1. Purpose**

- 1.1 To inform Council of the financial performance for the first half of the 1998/99 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 1998/99 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 have been provided to Councillors as background information.

Some proposals for expenditure variations during 1998/99 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 (excluding the gain on sale of investments) ahead of budget by \$1.9 million, and capital expenditure below budget by \$1.5 million. The gain on sale of \$17.7 million was explained in report 99.1 which was considered by the Committee on 2 February 1999.

The forecast position to 30 June 1999 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 1998

#### 3.1 Operating Surplus

The year to date operating result after six months reflects an operating surplus ahead of budget of \$1.9 million. Detailed variances from budget are shown in the following table:

	1998/99 YTD Actual \$000s	1998/99 YTD Budget \$000s	Actual vs Budget Variance \$000s	1998/99 Year Forecast \$000s	1998/99 Year Budget \$000s	Forecast vs Budget Variance \$000s
<b>OPERATING SURPLUS (DEFICIT)</b>						
Utility Services	1,740	1,020	720 F	3,323	2,064	1,259 F
Landcare	613	581	32 F	(66)	1,234	1,300 U
Environment	(3)	(86)	83 F	(105)	(183)	78 F
Transport	(655)	(482)	173 U	(683)	(902)	219 F
Wairarapa	(173)	(206)	33 F	(1,791)	(710)	1,081 U
Corporate Services	13	(17)	30 F	18	31	13 U
Finance & Admin	403	(188)	591 F	169	(279)	448 F
Investment Mgmt	1,694	1,034	660 F	4,378	3,822	556 F
Regional Stadium	424	214	210 F	647	478	169 F
Elected Members	(24)	(58)	34 F	(117)	(117)	-
Rates Collection	11	(3)	14 F	0	0	-
Business Units Rates Contribution	(1,814)	(1,814)	-	(3,629)	(3,629)	-
Management Savings Objective	0	310	310 U	0	621	621 U
<b>Total Operating Surplus (Deficit)</b>	<b>2,229</b>	<b>305</b>	<b>1,924 F</b>	<b>2,144</b>	<b>2,430</b>	<b>286 U</b>

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

(1) *Utility Services favourable variance of \$0.7 million*

- The overall operating surplus in Water Supply (excluding Forestry) of \$905,000 is mainly due to savings in direct costs (primarily materials and personnel). The materials variance of \$235,000 is primarily due to less power, chemicals and other materials being used. The \$317,000 variance in personnel is due to a combination of the timing of replacing staff and less overtime being worked than had been anticipated.
- Savings in financial costs of \$174,000 and additional investment revenue of \$65,000 have also contributed to the overall surplus. The savings in financial costs can be attributed to the reduced debt level, mainly because of the greater than expected 1997/1998 year end surplus which was applied to debt reduction in accordance with Council policy. Investment revenue relates to higher than budgeted interest on reserves.
- The operating deficit above budget of \$185,000 in Plantation Forestry is not inconsistent with management's expectations considering the current

market conditions. Other options are being investigated that may be able to achieve additional unbudgeted logging revenue during the remainder of the year.

(2) *Landcare favourable variance of \$0.03 million*

- Personnel costs are under budget by \$92,000 due to vacancies now largely filled, in budgeted positions across the division.
- External revenue is below budget by \$88,000 primarily due to delays in gravel extraction and other revenue associated with the Upper Rahui project.
- Flood protection operations show an unfavourable expenditure variance of \$325,000 due to floods, which is partially offset by timing variances on normal maintenance works due to consent issues.
- Natural forests and Regional Parks together show a favourable variance of \$209,000 due to delays in pest control operations, roading and general maintenance, and rural fire contingencies.

(3) *Environment favourable variance of \$0.08 million*

- Personnel costs are under budget by \$83,000 due unpaid staff absences in the Resource Policy Department (scholarship and parental leave) and time lags in replacing staff in the Division.
- Currently material costs are under budget by \$42,000. This is mainly due to reduced repairs and maintenance spending by the Harbours department. This shortfall is considered temporary with a number of navigation aids repair projects about to commence.
- Financial costs are over budget by \$32,000 which is attributable to the J Juno fine - \$18,000, and unpaid annual resource charges of \$14,000 that are now falling into the debtors “90 days and over” category. All of the overdue resource charges are expected to be recovered in full and officers are currently considering options in relation to recovery of the J Juno fine. The fact that the Courts are responsible for collection of the fine highlights an anomaly in the accountability over public money.

(4) *Transport unfavourable variance of \$0.17 million*

- The \$329,000 favourable variance in the Public Transport department is mainly due to the expenditure on contracted services being \$313,000 below budget. Some of these savings are expected to be offset by increased contract costs during the remainder of the year.
- The Transport Policy Department unfavourable variance of \$621,000 is due to two factors. An overspend of \$112,000 on external contractors, because of the additional research required to develop a revised Regional Land Transport Strategy, and an overspend of \$491,000 in infrastructure grants due to the unbudgeted purchases of land for car parking purposes at Porirua \$180,000 and Paraparaumu \$315,000 railway stations.

- A favourable expenditure variance of \$86,000 in the Customer Service Department is caused mainly by underspending on timetable displays, special events advertising and personnel costs which are below budget by \$35,000. (An inspector's position is vacant and use of Temporary staff at the Ridewell call centre has been less than expected.)

(5) *Wairarapa favourable variance of \$0.03 million*

- There are a number of offsetting variances within the Operations department; including a \$134,000 favourable variance due to the timing of the Reserve Forests Silviculture program; a \$340,000 unfavourable variance on river management expenditure due to the costs of flood damage repair and a \$151,000 favourable variance in the soil conservation expenditure due to drought conditions.
- The Planning and Resources department has a favourable variance of \$77,000 largely due to the timing of contract expenditure for the consents activity and savings in personnel costs due to staff vacancies.
- The Biosecurity department has a favourable variance of \$63,000, of which \$74,000 is due to the incorrect budget phasing of the pest rates for the Bovine Tb activity. All other activities in this department show minor variances due to timing.
- The \$76,000 favourable variance in the Support Services department is mainly due to timing savings for materials expenditure and special rates revenue.

(6) *Finance & Administration favourable variance of \$0.59 million*

- Under expenditure of \$323,000 in IT and Support Services is primarily as a result of reduced expenditure on software licence fees, supplies, consultants, repairs and maintenance and personnel. The personnel cost savings of \$57,000 reflect current vacancies in the department.
- A \$233,000 favourable variance in Finance primarily relates to the FIS replacement costs budgeted as operating expenditure but now being capitalised as part of capital expenditure. This is therefore more to do with a change of accounting treatment than a real underspend.

(7) *Investment Management favourable variance of \$0.66 million*

- Savings in net financial costs of \$452,000 resulting from a combination of less Council-wide expenditure which consequently has led to debt levels being lower than expected, and lower than budgeted interest costs.
- Additional rental income of \$49,000 from Council's investment properties in Blair and Allen Streets.
- Interest revenue from the invested proceeds from the sale of Port Wellington Ltd shares of \$40,800,000 was higher than the budgeted interest revenue from convertible notes, resulting in a \$132,000 favourable variance.

(8) *Regional Stadium favourable variance of \$0.21 million*

- Additional interest income of \$169,000 was earned on funds borrowed to advance to the Wellington Regional Stadium Trust as earlier reported.

(9) *Management Savings Objective unfavourable variance of \$0.31 million*

- The 1998/99 Annual Plan incorporated a “savings yet to be found” figure of \$622,000. This amount relates to the first six months’ share. Actual savings are reflected within the favourable variances of each division.

### 3.2 Capital Expenditure

Year-to-date capital expenditure for the six months to 31 December 1998 is \$1.5 million below budget.

	1998/99 YTD Actual \$000s	1998/99 YTD Budget \$000s	Actual vs Budget Variance \$000s	1998/99 Year Forecast \$000s	1998/99 Year Budget \$000s	Forecast vs Budget Variance \$000s
<b>CAPITAL EXPENDITURE</b>						
Utility Services	2,451	3,203	752 F	6,141	6,362	221 F
Landcare	555	1,044	489 F	2,105	1,829	276 U
Environment	66	43	23 U	110	83	27 U
Transport	0	64	64 F	15	64	49 F
Wairarapa	245	313	68 F	449	570	121 F
Corporate Services	0	23	23 F	23	23	-
Finance & Admin	265	305	40 F	2,830	305	2,525 U
Investment Mgmt	0	25	25 F	0	25	25 F
Elected Members	0	42	42 F	42	42	-
<b>Total Capital Expenditure</b>	<b>3,582</b>	<b>5,062</b>	<b>1,480 F</b>	<b>11,715</b>	<b>9,303</b>	<b>2,412 U</b>

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

(1) *Utility Services favourable variance of \$0.75 million*

- Project work remains broadly on schedule and is progressing according to plan. However, temporary favourable variances have arisen, primarily due to the timing of expenditure on the Wainuiomata Reaction Tank project, \$160,000, the Waterloo project to increase supply capacity, \$319,000, the project to enhance system control from Kaitoke to the Te Marua Water Treatment Plant, \$66,000, and the Te Marua to Wellington pipeline value replacement project, \$84,000.

(2) *Landcare favourable variance of \$0.49 million*

- The Pakuratahi Bridge Restoration project is under budget by \$57,000; the work programme was significantly modified at the design stage and the

changes approved by Council in December. The project is to go ahead in April 1999 and is expected to be complete by year end.

- Savings of \$49,000 have been made in the costs of publishing and public consultation for the Otaki Floodplain Management Plan (FMP). Further costs are to be incurred for the launch of the plan and “Friends of the River” Programme.
- The delayed start on the Upper Rahu construction project has resulted in a timing variance of \$119,000.
- The Wainuiomata Floodplain Management Plan is \$52,000 behind schedule, due to staff vacancies and commitments to other projects, in particular the Hutt Floodplain Management Plan (which is now on target).
- The Rimutaka Incline Roding project is \$89,000 behind schedule, due to storm damage and difficulties in appointing a sealing contractor. The program has been modified and as at December the project is 50% complete; with the remainder of the work to occur in Feb/March 1999.

## 4. Year End Forecast Position

### 4.1 Operating Surplus

The operating surplus for the year ending 30 June 1999 is forecast to be \$286,000 below the budgeted surplus of \$2.4 million. This is primarily due to the impact of the October 1998 floods which have resulted in additional unbudgeted expenditure in 1998/99 as follows:

		\$
Landcare	Flood damage	1,707,000
	Redirected maintenance budget/other revenue	(564,000)
Wairarapa	Flood damage	1,122,000
	Flood damage -weirs	320,000 (1)
		<u>(160,000)</u>
		2,425,000

- (1) 2 Weirs on the Waipoua River budgeted to be replaced from rates in later years. \$160,000 and external revenue \$160,000.

It is important to identify in which areas the Council is 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).

	1998/99 year end forecast	1998/99 year end budget	Forecast <u>vs</u> Budget variance
	(\$000)	(\$000)	(\$000)

Water supply	4,054	2,618	1,436 F
Transport	(683)	(902)	219 F
Stadium	647	478	169 F
Other Regional responsibilities	(1,874)	236	2,110 U
Total Council Position	2,144	2,430	286 U

It is important to note that other Regional responsibilities, while forecast to be \$2,110,000 unfavourable, this is due to the impact of floods as noted above \$2,425,000.

4.1.1 Material additional Operating Expenditure Items **which have been included** in the forecasts to 30 June 1999 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*

- Porirua railway station car park \$180,000  
Relates to land purchase at Porirua railway station (approved by Passenger Transport Committee - report 98.384)

- Paraparaumu railway station car park \$315,000  
Relates to land purchase at Paraparaumu railway station (approved by Passenger Transport Committee - report 98.518)

- *Wairarapa*

- Flood damage \$1,122,000  
Maximum expenditure estimated based on adequate funding available in respective schemes (approved by Rural Services and Wairarapa Committee - report 98.576 and Policy and Finance Committee - report 98.604)

- Flood damage (major items) \$320,000  
Expenditure associated with 2 weirs damaged on Waipoua river during the October 1998 floods Impact on rates \$160,000 as 50% to be funded by Masterton District Council. (considered by Rural Services and Wairarapa Committee - report 98.576 and Policy and Finance Committee - report 98.604)

- River schemes rating classification review \$25,000  
Expenditure in relation to reviewing classification of properties in the various river schemes. Further expenditure is budgeted in 1999/00 and beyond, but there is concern that

this work needs to progress in 1998/99.  
(not yet considered by the Rural Services and  
Wairarapa Committee)

- *Landcare*

- Flood Damage \$1,707,000

Expenditure estimated at the time of  
the October 1998 floods, excluding those  
works which could be deferred as non-  
urgent.

(considered by Landcare Committee - report  
98.555 and Policy and Finance Committee  
- report 98.604)

[N.B. unbudgeted capital expenditure of  
\$2,975,000 was also approved for inclusion  
in the 1999/00 Annual Plan.]

Officers in Landcare now believe it will  
be logistically possible to bring forward  
some of this capital work into the 1998/99  
year which would be desirable to minimise  
ongoing erosion and flood risks. This is  
currently estimated at \$350,000 - \$400,000 but  
has not been forecast in 1998/99.

- Wainuiomata-Orongorongo catchment security \$141,000

Expenditure associated with providing a ranging  
service in the Wainuiomata-Orongorongo water  
catchment.

Funding split:   Water           70%  
                          Landcare       30%

Impact on rates funded activities \$40,000.

(considered by Landcare Committee - report  
99.13 and Utility Services Committee - report  
98.495)

4.1.2   Material additional items **which have not been included** in the forecasts to  
30 June 1999 are as follows:

- *Landcare*

- Flood damage to Regional Parks \$68,000

Estimated costs of damage to Regional  
Parks and recreational areas (not included  
in river flood damage) principally on the Hutt  
River trail.

(not yet formally considered by the Landcare  
Committee - included in the Divisional Manager's  
report to the 9 February 1999 meeting)

**4.2**   The forecast capital expenditure position for the year ending 30 June 1999 is  
expected to be \$2.4 million above the budgeted level of \$9.3 million.



This is primarily due to two factors:

- The estimated cost of Council's new Financial Information System \$2.5 m
- The acceleration of the Hutt Floodplain Management Planning process (within overall project budget) \$0.25 m  
\$2.75 m

4.2.1 Material additional capital items **which have been included** in the forecasts to 30 June 1999 are as follows:

- *Finance and Administration*

- New FIS system \$2,500,000  
Expenditure associated with the replacement of Council's Financial Information System (approved by Policy and Finance Committee - report PE98.364)  
The cost of the FIS project has already been incorporated into budgets in each area for 1999/00 and beyond.

- *Landcare*

- Hutt Floodplain Management Plan \$242,000  
Relates to acceleration of Hutt Floodplain Management planning process previously budgeted to occur over next 4 financial years (considered by Landcare Committee as part of the approval of the project plan - report 99.10)

4.2.2 Material additional capital items **which have not been included** in the forecasts to 30 June 1999 are as follows:

- *Landcare*
  - Replacement of Whareroa beach toilets (QE Park) \$85,000
  - This will not have any rates impact as the funding to service the debt is already in the budget, as the project was planned and budgeted in 1997/98.
  - Unfortunately when the project was delayed in 1997/98 due to poor tender prices and consent issues, it was inadvertently not rebudgeted into 1998/99. (considered by Landcare Committee - report 98.521)

## 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 month of December 1998. However, **Attachment 1** which covers the six month period, indicates the incidence of non-compliance noted in the September financial report.

## 7. 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) *\$180,000 in the Transport budget to fund the purchase of Porirua railway station carpark.*
  - b) *\$315,000 in the Transport budget to fund the purchase of the Paraparaumu Railway Station carpark.*
  - c) *\$1,122,000 in the Wairarapa budget to fund the cost of flood damage.*
  - d) *\$320,000 in the Wairarapa budget to fund the cost of replacement of 2 weirs on the Waipoua River (WRC share \$160,000).*
  - e) *\$25,000 in the Wairarapa budget to fund the cost of the river scheme rating classification review.*
  - f) *\$1,707,000 in the Landcare budget to fund the cost of flood damage.*

- g) *\$141,000 in the Landcare budget to fund the cost of security in the Wainuiomata-Orongorongo catchment (WRC rate impact \$40,000).*
  - h) *\$2,500,000 in the Finance and Administration budget to fund the cost of the new Financial Information System.*
  - i) *\$242,000 in the Landcare budget to fund the acceleration of the Hutt Floodplain Management Plan.*
- (3) *That the Committee approve the following additional expenditure which has not yet been incorporated into the forecast financial figures:*
- a) *\$68,000 in the Landcare budget to fund the cost of flood damage to Council's Regional Parks and recreational area.*
  - b) *\$85,000 in the Landcare budget to fund the cost of replacement of the Whareroa beach toilets - QE Park - WRC rate impact - NIL.*
- (4) *That the Committee note the resulting forecast figures will be included in future monthly financial reports.*

GREG SCHOLLUM  
Chief Financial Officer

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