Overall results – at a glance

The net surplus is calculated using the formula:

\[
\text{Net Surplus} = \text{Total Income} - \text{Total Expenses} + \text{Fair Value movements} - \text{Additional expenditure not funded under the Council budget}
\]

The Council has recorded a net surplus for the year of $30.3 million. The underlying surplus is $1.5 million.

UNDERSTANDING THE COUNCIL’S UNDERLYING RESULT FOR THE YEAR ENDED 30 JUNE 2010

The underlying financial performance outlined below shows an underlying surplus of $1.5 million versus the budgeted surplus for the year after the exclusion of fair value movements and other items that cannot be used to fund operating expenditure. There were two items which had a significant impact on the underlying surplus for the year:

- The first item was the $14.2 million increase in the Council’s provision for non-weatheright homes. The social, economic and health costs of non-weatheright homes are affecting a number of home owners and their families across the country and have had an effect on our financial results for the year. The Council is actively working with the Crown to address non-weatheright homes with the introduction of the Government’s financial assistance package.

- The second item was the receipt of two years of dividends from Wellington International Airport Limited. Total dividends received in the year were $15.4 million compared with a budget of $5.3 million which served to significantly reduce the impact of the increase in the provision for non-weatheright homes on the reported result.

We also continued to manage our costs within budgeted levels and make savings in areas such as interest costs, despite increasing financial pressures.

For a full explanation of the surplus go to page 145.

THE COUNCIL’S SOURCES OF INCOME – $M

We received $398.6 million of income from a variety of sources.

The following graph shows the various sources of the Council’s income of $398.6 million during 2009/10. While rates continue to be the main source of funding, the Council also received income from a number of other sources including funding for capital expenditure as well as fees and user charges. The breakdown is as follows:

THE COUNCIL’S SOURCES OF RATES INCOME – $M

We received $213.5 million of our income from rates. The Council receives income from general rates, and from a range of targeted rates including water, stormwater and sewerage rates. The breakdown of rates is outlined below. The second graph shows the proportion of total rates that are paid by the commercial and non-commercial sectors respectively.

THE COUNCIL’S INCOME AND EXPENSES – THREE YEAR TRENDS – $M

We examined $398.6 million of the Council’s income and expenses for the year 2009/10. The Council has budgeted to receive $374.5 million of income and to spend $368.3 million for the year.
The Council does not fund the depreciation on these assets because either:

- the replacement of the asset at the end of its useful life will be funded by a third party;
- a third party has a contractual obligation to either maintain the service potential of the assets throughout all or part of its useful life (or to replace the asset at the end of its useful life) and the Council already effectively funds this through operating grants/tariffs payable to a third party.

The total sources of funding of $348.7 million excludes income received for capital expenditure, vested assets income and other non-cash items which have been reported within income in the Statement of Comprehensive Financial Performance but which cannot be used to fund operating expenditure.

FINANCIAL POSITION

The Council’s total net worth at the end of the financial year was $5,933 million - an improvement of $26 million from 2008/09.

OVERVIEW

The biggest areas of operational expenditure are the environment, social and recreation services, and transport.

EXPENDITURE = WHAT WE SPENT

The Council’s total expenditure during the year was $368.3 million.

The following graph shows where the money was spent.

DECIDING WHO PAYS

When we’re deciding how to fund an activity (whether to use rates, user charges, or other sources of income), we consider:

- community outcomes (i.e. aspirations for the city – see page 233) that the activity contributes to;
- who benefits – individuals, identifiable parts of the community, or the community as a whole;
- the timeframe in which the benefit occurs – for example, an asset that lasts for several generations will generally be funded through borrowing and depreciation so that everyone who benefits, present and future, contributes.

Our Revenue and Financing Policy sets out how each Council activity will be funded, based on these criteria. The policy is available on our website www.wellington.govt.nz.

BREAKDOWN OF HOW WE FUNDED OUR EXPENDITURE THIS YEAR

The table below outlines how we funded our expenditure this year. The total operating expenditure to be funded of $347.2 million excludes the items in total operating expenditure that do not require funding.

<table>
<thead>
<tr>
<th>TOTAL SOURCES OF FUNDING</th>
<th>ACTUAL 2008 ($M)</th>
<th>ACTUAL 2009 ($M)</th>
<th>ACTUAL 2010 ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>6,154</td>
<td>6,277</td>
<td>6,326</td>
</tr>
<tr>
<td>less total liabilities</td>
<td>(245)</td>
<td>(370)</td>
<td>(393)</td>
</tr>
<tr>
<td>Net assets at end of year</td>
<td>5,909</td>
<td>5,907</td>
<td>5,933</td>
</tr>
</tbody>
</table>

$32.6 million of the income we received was for funding of capital expenditure and so cannot be used to reduce rates.

The following graph shows where we received our capital funding from. We record this amount as income even though it is not used to fund operating activities.

THE COUNCIL’S SOURCES OF INCOME FOR CAPITAL EXPENDITURE – $M

The grant from Housing New Zealand provides financial assistance over an investment period of 10 years to assist with the upgrade of the Council’s housing portfolio.

The income from the New Zealand Transport Agency is used to help fund capital expenditure on the Council’s road corridor, which includes roads, footpaths and streetlights.

Revenue from operating activities of $103.3 million was sourced mainly from fees and user charges as listed below.

THE COUNCIL’S SOURCES OF REVENUE FROM OPERATING ACTIVITIES – $M

FINANCIAL OVERVIEW

ACTUAL 2008 ($M) | ACTUAL 2009 ($M) | ACTUAL 2010 ($M) | ACTUAL 2011 ($M) |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5,933</td>
<td>5,907</td>
<td>5,933</td>
<td>6,080</td>
</tr>
</tbody>
</table>

THE COUNCIL’S OPERATIONAL EXPENDITURE – $M

Below is a breakdown of our operational expenditure by strategic area.

EXPENDITURE BREAKDOWN OF OUR OPERATIONAL EXPENDITURE BY STRATEGY – $M

The biggest areas of operational expenditure are the environment, social and recreation services, and transport.
OUR ASSETS – WHAT WE OWN
Our major assets include:
- Property, Plant and Equipment (including land, buildings, drainage, waste and water assets) – $6,013 million.
- Other assets – $100 million.

This year the Council spent $118.2 million constructing and developing assets around the city (e.g. parks, stormwater pipes and roads). Below is a breakdown of our capital expenditure by strategic area.

BREAKDOWN OF CAPITAL EXPENDITURE BY STRATEGY – $M

For more information on the work that we have completed, see “Our Activities in Detail”.

OUR LIABILITIES – WHAT WE OWE
The major components of our liabilities include:
- Borrowings – $283.2 million
- Trade and other payables – $49.7 million
- Other liabilities – $59.7 million

The Council has hedged itself against the unexpected increases in interest rates by ensuring that a large portion of the debt is at fixed interest rates. Currently 81% of the total debt is effectively at fixed rates. The table below shows the amount of borrowings hedged against changes in interest rates by maturity.

<table>
<thead>
<tr>
<th>INTEREST RATE RISK CONTROL LIMITS (INTEREST RATE EXPOSURE)</th>
<th>POLICY LIMIT</th>
<th>ACTUAL LIMIT</th>
<th>COMPLIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3 year bucket</td>
<td>20%-60%</td>
<td>21%</td>
<td>Yes</td>
</tr>
<tr>
<td>5-10 year bucket</td>
<td>20%-60%</td>
<td>55%</td>
<td>Yes</td>
</tr>
</tbody>
</table>

The Council’s gross borrowings have increased by $20.1 million to $283.2 million as at 30 June 2010.

OUR BORROWINGS POSITION – THREE YEAR TREND – $M

The increase in the Council’s total level of borrowings reflects the utilisation of funds to complete the 2009/10 capital expenditure programme.

The Council borrows to fund the purchase or construction of new assets or upgrades to existing assets that are approved through the Annual Plan process. This included completing the extension of the City Gallery and beginning construction of the Indoor Community Sport Centre.

The Council has managed its debt well by meeting all of the core policy compliance requirements set out in the Council’s Investment and Liability Management Policy.

<table>
<thead>
<tr>
<th>PRUDENTIAL LIMITS</th>
<th>POLICY LIMIT</th>
<th>ACTUAL LIMIT</th>
<th>COMPLIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowings as a % of equity</td>
<td>&lt;15%</td>
<td>5%</td>
<td>Yes</td>
</tr>
<tr>
<td>Borrowings as a % of income</td>
<td>&lt;15%</td>
<td>71%</td>
<td>Yes</td>
</tr>
<tr>
<td>Net interest as a % of annual rates income</td>
<td>&lt;15%</td>
<td>8%</td>
<td>Yes</td>
</tr>
</tbody>
</table>

The Council manages its liquidity risk by spreading the maturity of debt by ensuring we have unused facilities available to fund future spending and by ensuring the maturity of our borrowings is well spread. There are $77 million of unused facilities available at 30 June 2010 to cover future spending requirements and ensure the Council has adequate access to funds at all times. The following table shows the maturity profile of our total facilities

GROUP HIGHLIGHTS
The Group covers the Council and its interests in associate and subsidiary entities, including Wellington International Airport Limited, St James Theatre Trust and Capacity. Refer to Note 37 of the financial statements for the full Group structure diagram. Highlights for the Group are as follows:

- Total assets: 6,306
- Total liabilities: (346)
- Total equity: 5,960

LOOKING FORWARD
The Council’s financial results for the year ended 30 June 2010 reflect the delivery of high quality, cost-effective services and products to the residents of Wellington.

The 2010/11 Annual Plan sets out the Council’s planned operating and capital expenditure programmes for 2010/11. The following graphs highlight the Council’s spending plans for the 2010/11 financial year.

FORECAST OPERATING EXPENDITURE BY STRATEGY 2010/11

The Council’s investments include cash and cash equivalents, investment properties, our share of the net assets of our associates (including Wellington International Airport Limited) as well as our other financial assets.

Key investment highlights during the year include:
- We received $15.4 million in dividends from our investment in Wellington International Airport Limited.
- We received $14.2 million from the sale of our investment properties.
Our work in detail

This section contains our statements of service performance and detailed commentary about what we did in each of our seven strategic areas.

Survey information
Every year we commission surveys of Wellington city residents to find out what Wellingtonians think of the city and our services and facilities. This report uses information from those surveys conducted by independent research company Nielsen. The annual sample of 1000 residents aged over 15 is representative of the Wellington population in terms of ward, age and gender. The maximum standard margin of error is +/-3.99%.

Financial reporting
The net costs referred to in the "what it cost" tables include both direct and indirect costs. Direct costs can be directly attributed to the activity. Indirect costs include things like staff time, office space and information technology costs which relate to the overall costs of running the organisation. These indirect costs are allocated as overheads across all activities.

Glossary of Terms and Definitions
Amortisation/Depreciation – an expense charged each year to reflect the estimated cost of using our assets over their lives. Amortisation relates to ‘intangible’ assets such as software (as distinct from physical assets, which are covered by the term depreciation).

Associates – are entities that the Council owns a share of but does not control. Our share of the associates’ surplus/deficit and net assets is recorded in the Group financial statements. The Council’s associates are Basin Reserve Trust (50%), Capacity (62.5%), Chaffers Marina Holding Ltd (11.7%), Wellington International Airport Limited (34%) and Wellington Regional Stadium Trust (55%).

Cash and Cash Equivalents – includes cash as well as deposits which mature in less than 3 months.

Fair Value – essentially reflects the market value of assets or liabilities.

Investment Properties – these are properties that are primarily held by the Council to earn rental income.

Liquidity/Funding Risk – this is the risk that the Council will not have access to the required funds to meet its present obligations.

Prudential Limits – these are limits applied to the level of borrowings to ensure we are managing the Council’s assets and liabilities prudently. These limits are outlined in the Investment and Liability Policy in the Long Term Council Community Plan.

Ring-fenced – funds that can only be used for a specific purpose.

Vested Assets – assets that are created by others and passed into Council ownership (i.e. roads built by a developer as part of a subdivision).

Peter Garth
Chief Financial Officer