financial overview

The following pages provide an overview of the financial performance for the year ended 30 June 2011. They provide an explanation of the financial statements and notes on pages 97 to 178 so that they can be more easily understood by non-financial readers.

Net surplus

Net surplus is calculated using the following formula:

\[
\text{Net surplus} = \text{Total income} - \text{Total expenses} = \text{Net surplus}
\]

The Council recorded a net surplus of $16.0 million against a budgeted net surplus for the year of $49.0 million. The surplus is made up of funding received specifically for capital projects and cannot be used to offset rates. This includes the funding from NZ Transport Agency and Housing New Zealand.

Underlying budget variance

The underlying variance is the remaining difference between the budgeted and actual surplus after adjusting for items that are not used to fund operating expenditure including fair value movements in financial instruments. This year there was an underlying variance of -$24.4 million.

10.1

Expenditure from Wellington Waterfront and Venues Projects and Potairs joint ventures 1.0

(Gain) or loss on disposal of property, plant and equipment – net 0.3

Vested assets (3.1)

Adjusted surplus 24.6

less: budgeted net surplus 49.0

Underlying variance (-24.4)

The main reason for the underlying variance was increase in the provision for weathertight homes of $33.9 million. This provision represents an estimate of the claims outstanding at the end of the reporting period together with an estimate of the claims incurred but not yet reported. This is the first year the provision has included an estimate for claims that have not yet been reported. Previously claims that had not yet been reported were disclosed as an unquantified contingent liability.

The provision is based on best estimates and actuarial assessments. Actual costs incurred may vary significantly from those included in this provision, especially for future claims relating to weathertightness issues not yet identified or not yet reported. More information on the movement in the provision for weathertight homes can be found in Note 23 of the financial statements.

2011 results compared with Annual Plan

The following graphs show how the rates revenue received during the year was split between commercial and non-commercial rates and how the rates base is split between commercial and non-commercial.

Revenue from operating activities is substantially comprised of fees and user charges.

Income for capital expenditure is mainly the income from Housing New Zealand to provide financial assistance for 10 years towards the upgrade of the Council’s portfolio of social housing and income received from the NZ Transport Agency which is used to part fund the Council’s transport networks and related assets.

INCOME

The Council received total income of $416.0 million during the year.

The following graph shows the various sources of income during the year. Rates are the main source of funding for the Council with revenue from operating activities being the next largest source.

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Revenue form investments 14%

Other income 1%

Income from operating activities 25%

Rates 32%

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Other income 1%

Income from operating activities 25%

Rates 32%

Rates collected from commercial and non-commercial ratepayers

Proportion of commercial and non-commercial rateable values

The following graphs show the how the rates revenue received during the year was split between commercial and non-commercial rates and how the rates base is split between commercial and non-commercial.

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## EXPENSES
The total expenditure incurred by the Council during the year was $400.0 million. The graph below shows the breakdown of expenditure by strategy.

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Cost ($M)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>14.4</td>
<td>3.6%</td>
</tr>
<tr>
<td>Economic Development</td>
<td>28.0</td>
<td>7.0%</td>
</tr>
<tr>
<td>Cultural Wellbeing</td>
<td>14.4</td>
<td>3.6%</td>
</tr>
<tr>
<td>Social and Recreation</td>
<td>120.0</td>
<td>30.0%</td>
</tr>
<tr>
<td>Transport</td>
<td>28.0</td>
<td>7.0%</td>
</tr>
<tr>
<td>Urban Development</td>
<td>10.1</td>
<td>2.5%</td>
</tr>
<tr>
<td>Governance</td>
<td>51.6</td>
<td>12.9%</td>
</tr>
</tbody>
</table>

The total expenditure of $400.0 million includes items that do not require funding. After adjusting for these items the remaining operational expenditure is $376.0 million.

### 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** 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.

### HOW WE FUNDED OUR EXPENDITURE THIS YEAR
The table below outlines how we funded our expenditure this year. The total expenditure of $400.0 million includes items that do not require funding. After adjusting for these items the remaining operational expenditure is $376.0 million.

### Financial position
The Council’s net worth at the end of the year was $6,196.4 million – an increase of $263.2 million from the previous year. The major contributor to the increase in net worth was the effect of the revaluations carried out this year on the balance of property, plant and equipment. For more detail on the revaluations see Note 18 of the financial statements.

### COUNCIL, ASSETS AND LIABILITIES - THREE YEAR TREND ($M)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total assets</th>
<th>Less total liabilities</th>
<th>Net assets at end of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$487.4</td>
<td>$250.6</td>
<td>$236.7</td>
</tr>
<tr>
<td>2011</td>
<td>$511.4</td>
<td>$250.6</td>
<td>$260.7</td>
</tr>
<tr>
<td>2012</td>
<td>$531.4</td>
<td>$250.6</td>
<td>$280.8</td>
</tr>
</tbody>
</table>

### Assets
The major assets of the Council include:

- Property, Plant and Equipment including land, buildings, drainage assets and water assets; $6,362.5 million
- Other Assets (including investment properties and investments in subsidiaries and associates); $321.3 million

### BREAKDOWN OF CAPITAL EXPENDITURE BY STRATEGY
During the year $177.5 million was spent on constructing and developing assets around Wellington. The chart below shows how much was spent on each strategy area.

### Liabilities
The major liabilities of Council include:

- Gross borrowings – $331.4 million
- Other liabilities (including trade and other payables); $156.0 million

### NET BORROWINGS
Net borrowings is calculated using the following formula:

\[
\text{Net borrowings} = \text{Gross borrowings} - \text{Net borrowings in cash and cash equivalents}
\]

The gross borrowings were $331.4 million, less the balance of cash and cash equivalents of $10.4 million results in a net borrowings balance of $321.1 million as at 30 June 2011.

Net borrowings increased by $30.9 million during the year. The increases in net borrowings during the year is $44.1 million less than budgeted in the 2011 Annual Plan and $42.0 million less than budgeted in the 2009–2010 Long Term Plan. In both cases the reason for the difference is due to changes in project timing and savings in capital expenditure.

### Net Current and non-current borrowings ($M)

The Council uses borrowings to fund the purchase or construction of new assets or upgrades to existing assets that are approved though the Annual Plan process. This year these assets included the construction of the Indoor Community Sports Centre, $31.0 million, and the housing upgrade project, $40.3 million.
INVESTMENT POSITION
The Council continues to maintain a strong investment position when compared with the level of borrowings. The graph below compares the balance of investments and net borrowings over the last three years.

Investments and net borrowings - three year trend ($M):

<table>
<thead>
<tr>
<th>Year</th>
<th>Investments</th>
<th>Net Borrowings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>387.0</td>
<td>258.9</td>
</tr>
<tr>
<td>2010</td>
<td>311.8</td>
<td>280.9</td>
</tr>
<tr>
<td>2011</td>
<td>363.0</td>
<td>379.7</td>
</tr>
</tbody>
</table>

The balance of investments primarily comes from investment properties, our share of the net assets of our associates (including Wellington International Airport Limited) and other financial assets.

Borrowings compliance
During the year the Council received a credit rating from Standard and Poor’s. The long-term rating is AA+ with a stable outlook and the short-term rating is A-1+. This is a tremendous outcome for the Council and will provide greater access to debt markets and access to funds at all times. The table below shows the maturity profile of our total facilities.

<table>
<thead>
<tr>
<th>Bucket</th>
<th>Net Borrowings as % of Income</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>5–10 year</td>
<td>20%–60%</td>
<td>Yes</td>
</tr>
<tr>
<td>1–3 year</td>
<td>15%–40%</td>
<td>Yes</td>
</tr>
<tr>
<td>0–3 year</td>
<td>25%–30%</td>
<td>Yes</td>
</tr>
</tbody>
</table>

"Liquidity" is defined as: Current borrowings + committed loan facilities divided by 12 month peak spending requirements and ensures that the Council has adequate access to funds at all times. The table below shows the liquidity profile of our total facilities.

Looking forward
The results for the year ended 30 June 2011 reflect the delivery of high quality, cost effective services and products to the residents of Wellington. The 2011/12 Annual Plan sets out the Council’s planned operating expenditure programmes for 2011/12. The following graphs highlight the Council’s spending plans for the 2011/12 financial year.

<table>
<thead>
<tr>
<th>Activity</th>
<th>2011/12 Forecasted ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>20.4</td>
</tr>
<tr>
<td>Urban Development</td>
<td>26.1</td>
</tr>
<tr>
<td>Social and Recreation</td>
<td>11.7</td>
</tr>
<tr>
<td>Cultural Wellbeing</td>
<td>2.9</td>
</tr>
<tr>
<td>Economic Development</td>
<td>5.6</td>
</tr>
<tr>
<td>Environment</td>
<td>3.7</td>
</tr>
<tr>
<td>Governance</td>
<td>3.9</td>
</tr>
</tbody>
</table>

The Council manages its liquidity risk by ensuring we have unused facilities available to fund future spending and by ensuring the maturity of our borrowings is well spread. There are some $101 million of unused facilities available at 30 June to cover future spending requirements and ensures that the Council has adequate access to funds at all times.

Glossary
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 (63%), Chaffers Marina Holding Ltd (12%), Wellington International Airport Limited (40%) and Wellington Regional Stadium Trust (50%).

Cash and cash equivalents – includes cash as well as deposits which mature in less than three months.

Current asset – an asset that can readily be converted to cash or will be used to repay a liability within 12 months of balance date.

Current liability – a liability that is required to be discharged within 12 months of balance date.

Depreciation (amortization) – an expense charged each year to reflect the estimated cost of using our assets over their lives.

Investment properties – these are properties that are primarily held for their capital or rental income.

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

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’s assets and liabilities prudently. These limits are outlined in the Investment and Liability Policy in the Long Term 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 (eg roads built by a developer as part of a subdivision).