

KEY FACTS AT A GLANCE

PEOPLE

- Number of ratepayers: 74,372
- Number of residents: 195,500

NUMBERS

- Total assets: \$6,317.5 million
- Total liabilities: \$392.6 million
- Total income: \$398.6 million

Financial overview

During the year, we continued to manage the city's finances prudently on behalf of the people of Wellington.

The following pages provide an overview of our financial performance for the year to 30 June 2010. They provide an explanation of our financial statements and notes on pages XX to XX, so they can be more easily understood by readers with a non-financial background.

OVERALL RESULTS – AT A GLANCE

The net surplus is calculated using the formula:

- Total income – total expenses = net surplus.

The Council has recorded a net surplus for the year of \$30.3 million which has resulted in an underlying surplus of \$1.5 million.

The Council budgeted for a surplus of \$24.1 million in the 2009/10 Annual Plan. The majority of the reported surplus represents funding received from third parties for capital purposes. As this income is received for specific capital projects, it cannot be used to offset rates.

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 have had a significant impact on the underlying surplus for the year.

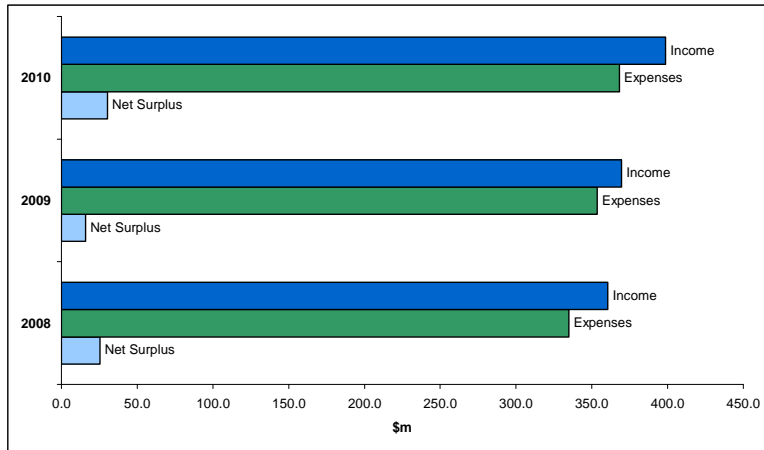
The first item was the \$14.2 million increase in the Council's provision for non-weathertight homes. The social, economic and health costs of non-weathertight homes are affecting a number of home owners and their families across the country and have had an effect on our financial results for the year.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

The second item was the receipt of two years worth 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-weathertight 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.

	\$M
Reported Council surplus	30.3
Exclude	
Fair Value movements	6.5
Expenditure from Wellington Waterfront Project and joint ventures	2.3
Additional expenditure not funded under section 100 of the Local Government Act (LGA)	1.7
Vested assets	(15.1)
Adjusted surplus	25.8
Council budgeted surplus	24.1
Underlying surplus	1.6

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

THE COUNCIL’S INCOME AND EXPENSES – THREE YEAR TRENDS

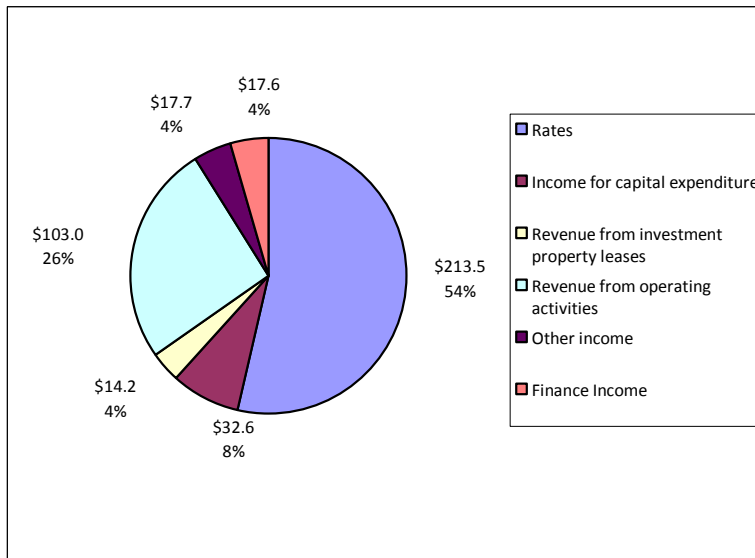


	\$M 2008	\$M 2009	\$M 2010
Income	360.4	369.6	398.6
Expenses	(334.9)	(353.5)	(368.3)
Net Surplus	25.5	16.1	30.3

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:

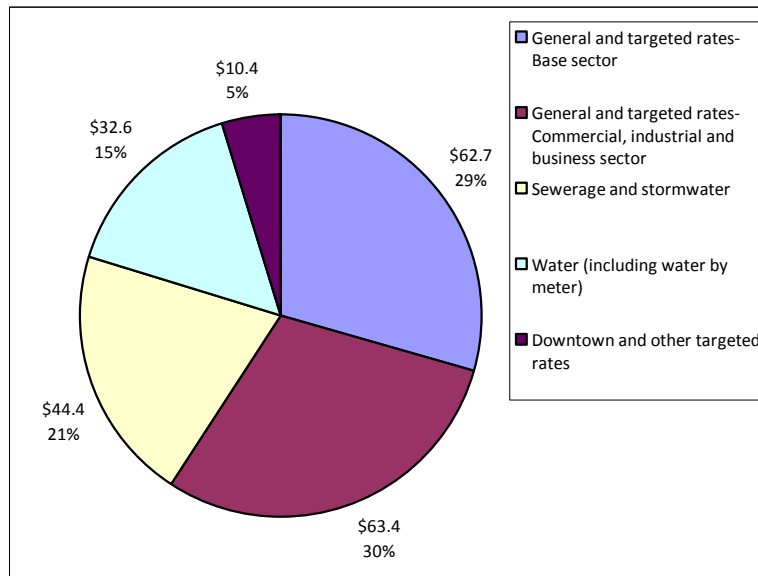
THE COUNCIL’S SOURCES OF INCOME - \$M



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 rate sources is outlined below.

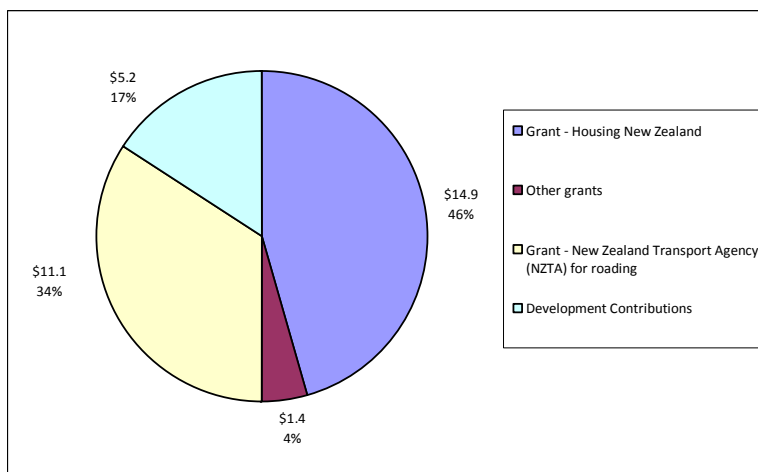
THE COUNCIL'S SOURCES OF RATES INCOME - \$M



[\\$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

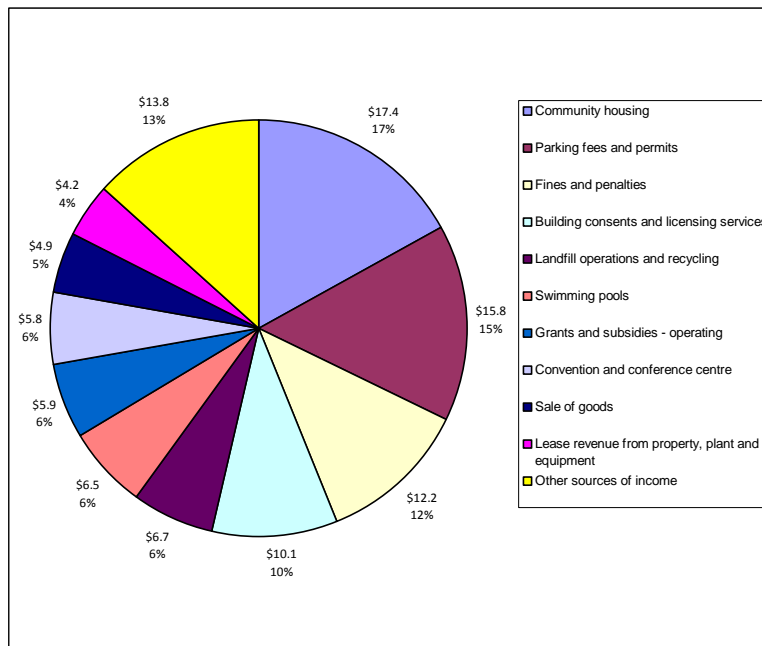


The grant from Housing New Zealand provides financial assistance over an investment period of 10 years to assist with the upgrade of the Council's housing portfolio.

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

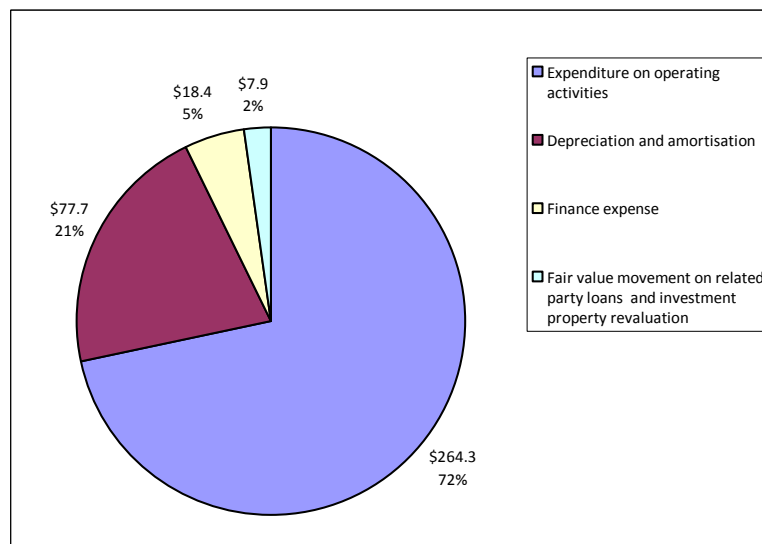


EXPENDITURE – WHAT WE SPENT

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

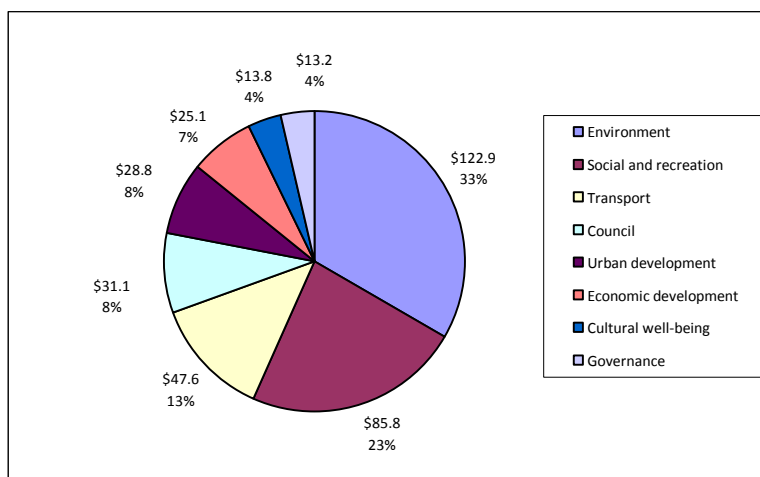
The following graph shows where the money was spent.

THE COUNCIL'S EXPENDITURE - \$M



Below is a breakdown of our operational expenditure by strategic area

BREAKDOWN OF OUR EXPENDITURE BY STRATEGY - \$M



The biggest areas of operational expenditure are the environment, social and recreation services, and transport. See page XXX for a summary of the work funded under each strategy.

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 XX) 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 \$347.1 million excludes the items in total operating expenditure that do not require funding.

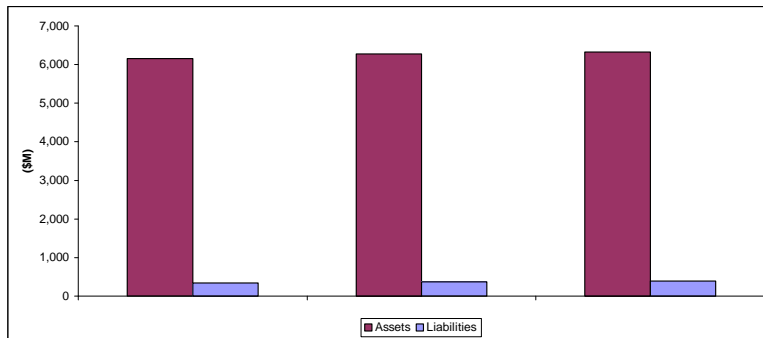
	\$M
Total operating expenditure	368.3
<u>Exclude</u>	
City housing ring-fenced surplus	1.5
Expenditure not funded under section 100 of LGA: ¹	
NZTA Transport funded projects	(7.6)
Clearwater sewerage treatment plant	(4.6)
Expenditure from Wellington Waterfront Project and joint ventures	(2.3)
Fair value movements	(8.2)
Total operating expenditure to be funded	347.0
<u>Funded by:</u>	
Rates	
General rates	33% 116.2
Targeted rates	28% 96.9
User charges and other income	
Revenue from operating activities	28% 97.1
Grants & subsidies	2% 5.9
Revenue from investment property leases	4% 14.2
Other income	1% 2.1
Finance income	5% 16.2
Underlying surplus	(1.7)
Total sources of funding	347.0

¹ 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.

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....



	Actual 2008 \$M	Actual 2009 \$M	Actual 2010 \$M
Total assets	6,154	6,277	6,326
less total liabilities	(341)	(370)	(393)
Net assets at end of year	5,813	5,907	5,933

OUR ASSETS – WHAT WE OWN

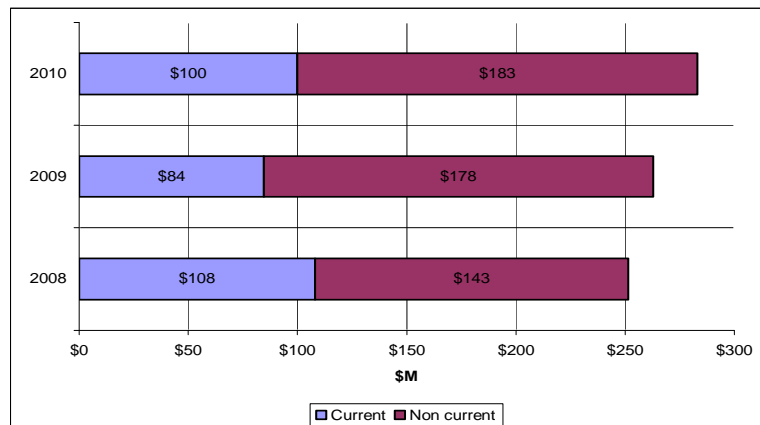
Our major assets include:

- Property, Plant and Equipment (including land, buildings, drainage, waste and water assets) - \$6,013 million.
- Investment Properties - \$213 million
- Other assets - \$100 million.

OUR LIABILITIES - WHAT WE OWE

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



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.

Prudential limits	Policy Limit	Actual	Compliance
Borrowings as a % of equity	<10%	5%	Yes
Borrowings as a % of income	<150%	71%	Yes
Net interest as a % of annual rates income	<15%	8%	Yes

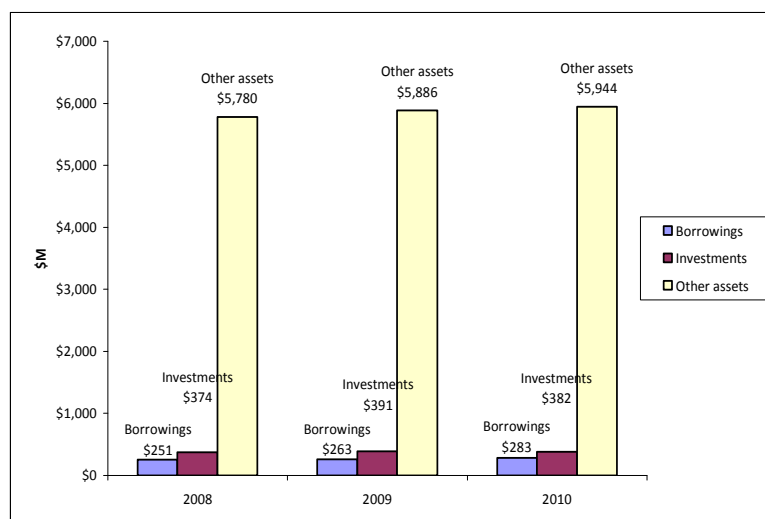
The Council has hedged itself against the unexpected increases in interest rates by ensuring that a large portion of the debt is at fixed interest rates. Currently 81% of the total debt is effectively at fixed rates. The table below shows the amount of borrowings hedged against changes in interest rates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

Interest rate risk control limits (interest rate exposure)	Policy Limit	Actual	Compliance
<i>Broken down as follows:</i>			
1 - 3 year bucket	20% - 60%	21%	Yes
3 - 5 year bucket	20% - 60%	24%	Yes
5 - 10 year bucket	20% - 60%	55%	Yes

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 table below shows the maturity profile of our total facilities.

Liquidity/funding risk (access to funds)	Policy Limit	Actual	Compliance
Liquidity/funding risk (access to funds)	>110%	110%	Yes
<i>Broken down as follows:</i>			
0 - 3 year bucket	20% - 60%	56%	Yes
3 - 5 year bucket	20% - 60%	24%	Yes
5 - 10 year bucket	15% - 60%	20%	Yes

The Council continues to maintain a strong investment position when compared to the level of borrowings. ...



The Council's investments include cash and cash equivalents, investment properties, our share of the net assets of our associates (including Wellington International Airport) 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 Ltd.
- We received \$14.2 million from the lease of our investment properties

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:

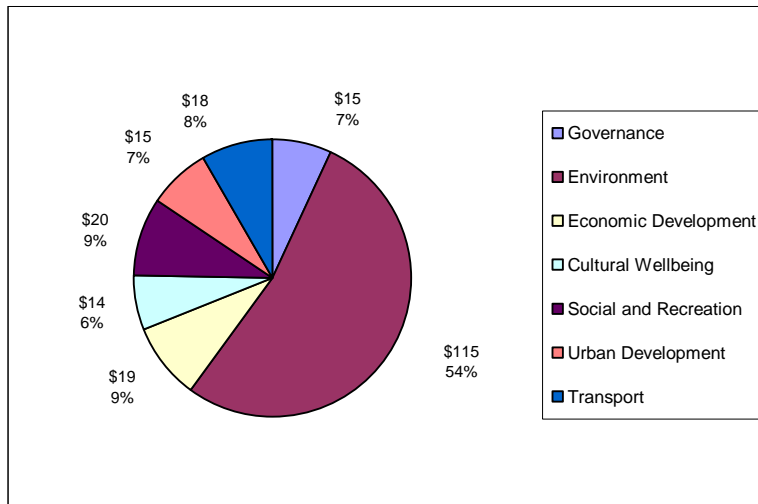
	2008	2009	2010
	\$M	\$M	\$M
Net surplus	35	16	30
Total assets	6,306	6,443	6,486
Total liabilities	(346)	(375)	(398)
Total equity	5,960	6,068	6,088

LOOKING FORWARD

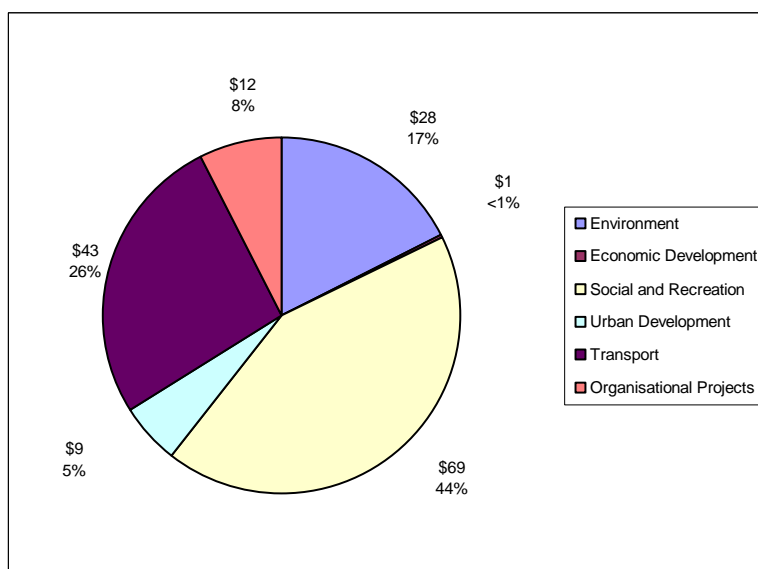
The Council's financial results for the year ended 30 June 2010 reflect the delivery of high quality, cost-effective services and products to the residents of Wellington.

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 NET OPERATING EXPENDITURE BY STRATEGY 2010/11 - \$M



FORECAST CAPITAL EXPENDITURE BY STRATEGIC AREA 2010/11 - \$M



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 (63%), Chaffers Marina Holding Ltd (15%), Wellington International Airport limited (34%) and Wellington Regional Stadium Trust (50%).

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 Garty

Chief Financial Officer