Financial Overview

Net Surplus[1]

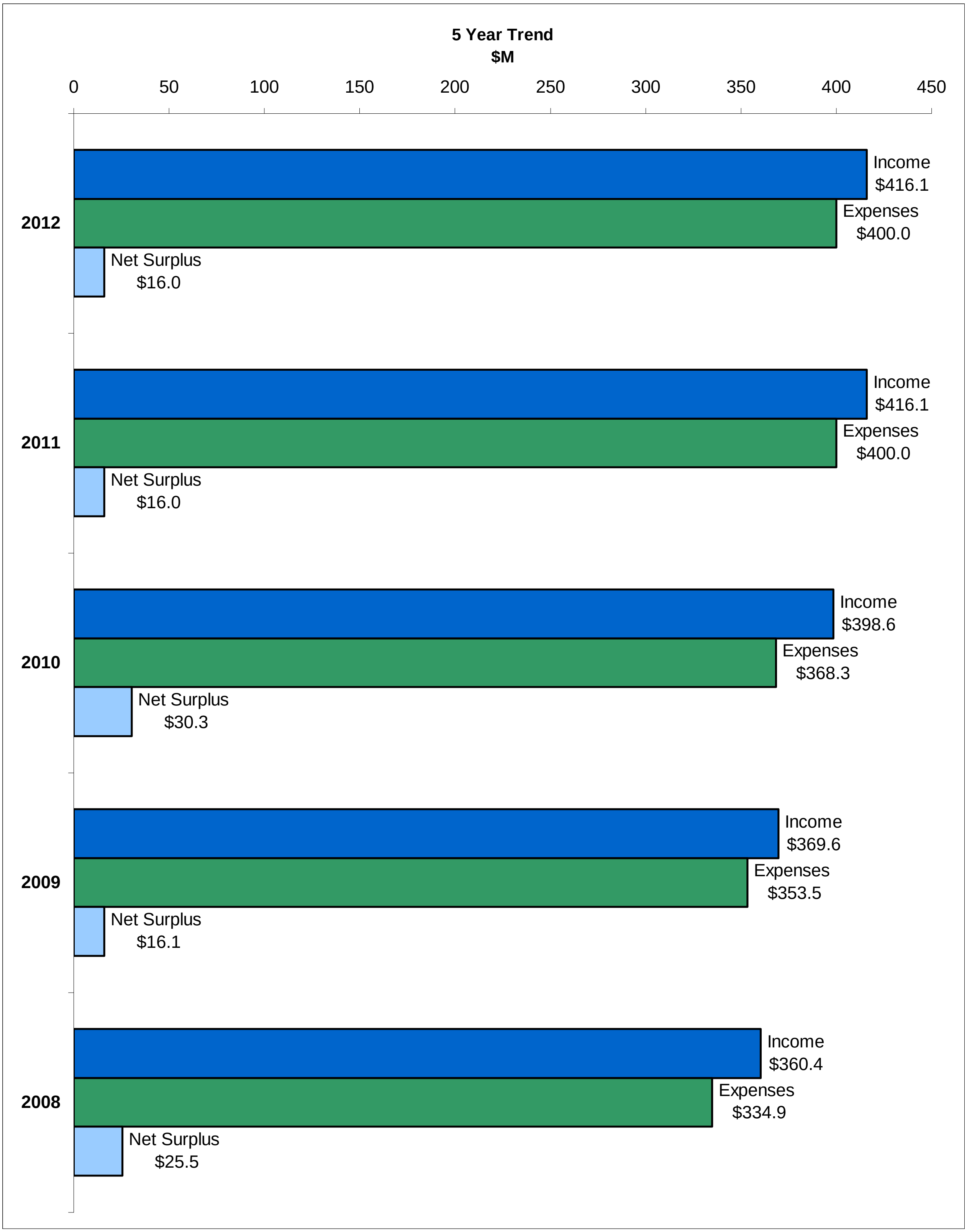
The net surplus is the difference between the expenses the Council incurred during the year and the income the Council received to fund expenses. It is represented by the following formula:

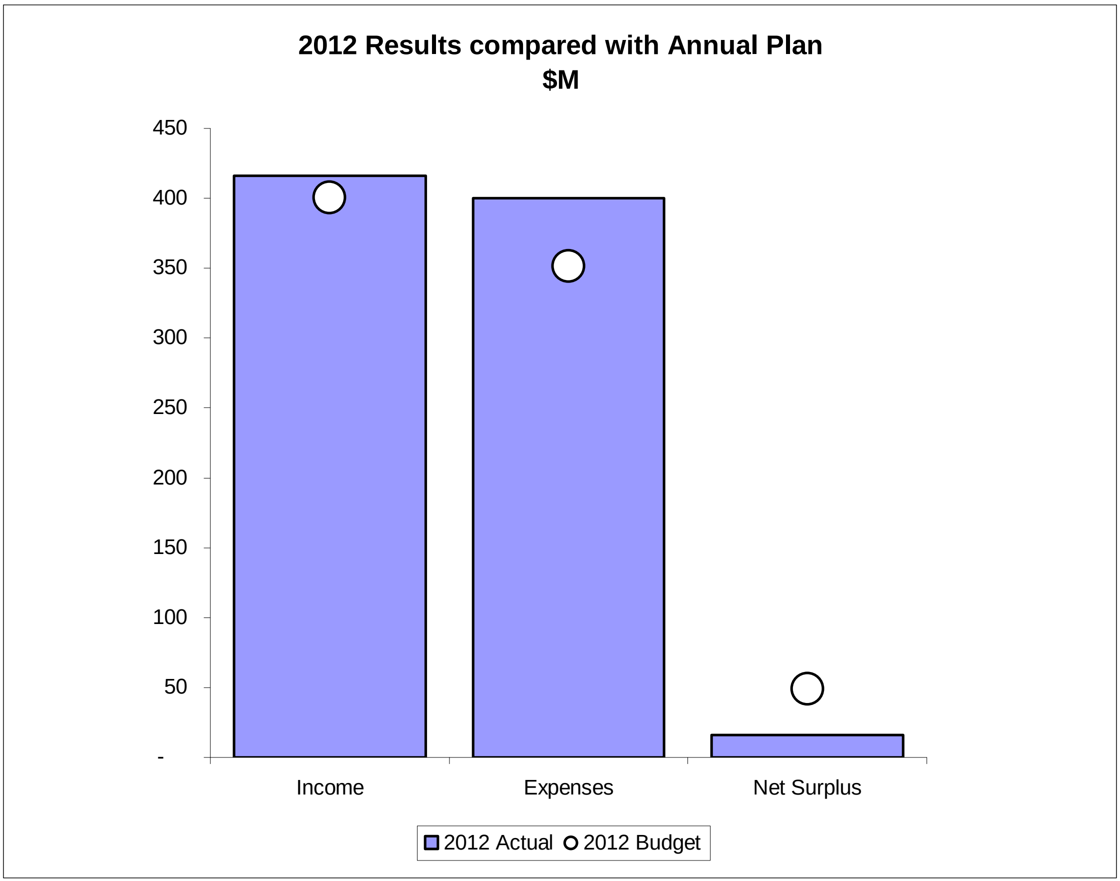
Net Surplus = Total income – Total expenses

The Council recorded a net surplus of $XX.X million. The budgeted net surplus was $X.XX million. The net surplus for the year was $XX.X million less than budgeted.

The net surplus for the year includes income that was received to pay for capital projects such as funding from NZTA for roading and Housing New Zealand for the upgrades to our social housing. These funds cannot be used to offset rates.

[1] Annual Report, Statement of Comprehensive Financial Performance, page XX


5 Year Trend
$M
0
50
100
150
200
250
300
350
400
450
2012
Income $416.1
Expenses $400.0
Net Surplus $16.0
2011
Income $416.1
Expenses $400.0
Net Surplus $16.0
2010
Income $398.6
Expenses $368.3
Net Surplus $30.3
2009
Income $369.6
Expenses $353.5
Net Surplus $16.1
2008
Income $360.4
Expenses $334.9
Net Surplus $25.5



Underlying budget variance[2]

The underlying budget variance is the difference between the budgeted and actual surplus after adjusting for items that are not used to fund operating expenditure. The underlying budget variance was $XX.X million this year.

	$M
Net surplus	
<u>Adjusted by:</u>	
Fair Value movements	
Expenditure from Wellington Waterfront Project and joint ventures	
Gain or loss on disposal of property, plant and equipment - net	
Vested assets	
Underlying net surplus	
less: budgeted net surplus	
Underlying variance	

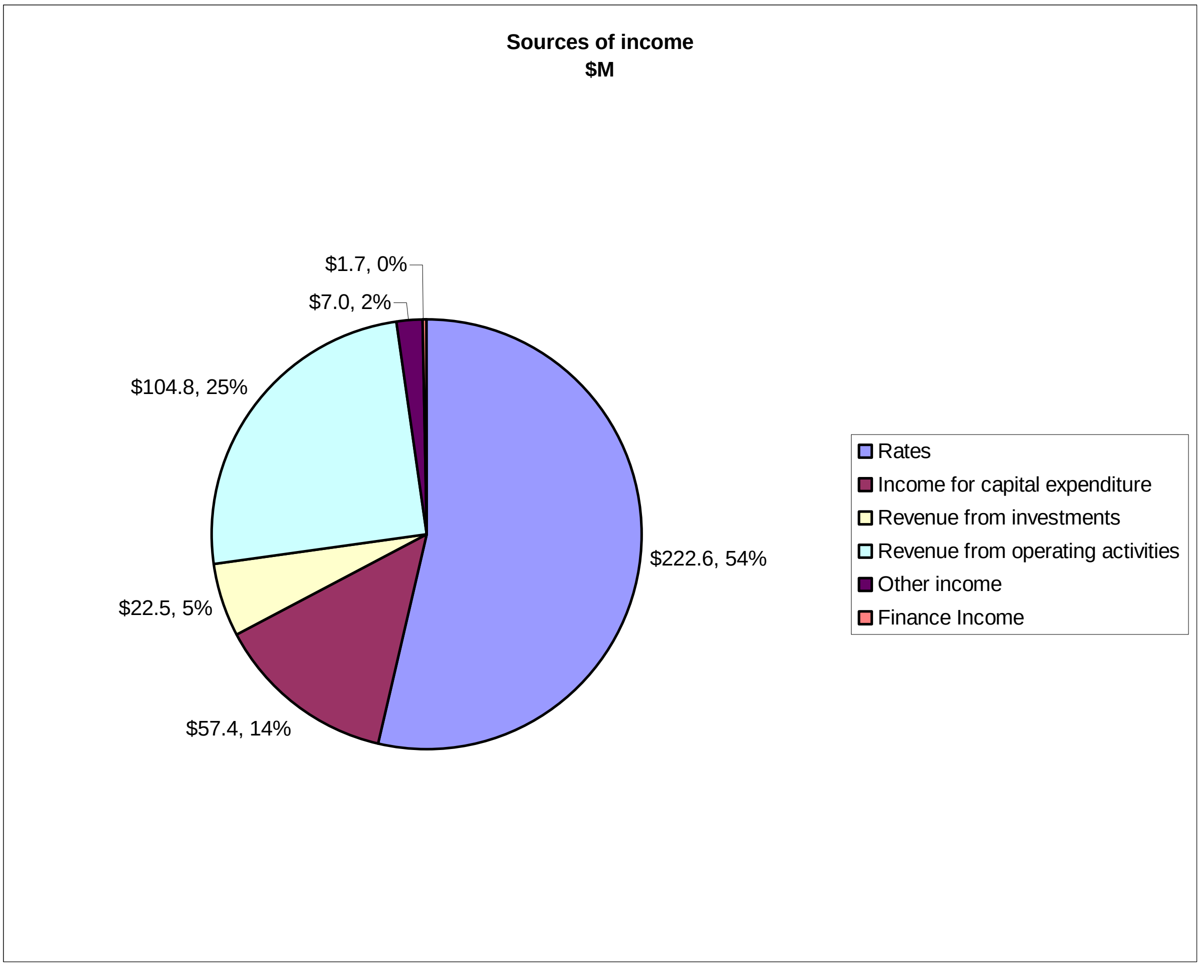
The main reason for the underlying variance was …

[2] Annual Report, Notes to the financial statements, Note 33: Major Budget Variations, page XX

Financial Performance

Income[3]

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



Rates are the main source of funding for the Council with revenue from operating activities, which includes user fees, being the next largest source. Other sources of income for the Council include income for capital expenditure income from interest and dividends.

We received $XX.X million of income from rates[4]. Rates income comes from a number of sources including general rates levied on properties and a range of targeted rates including stormwater and sewerage rates.

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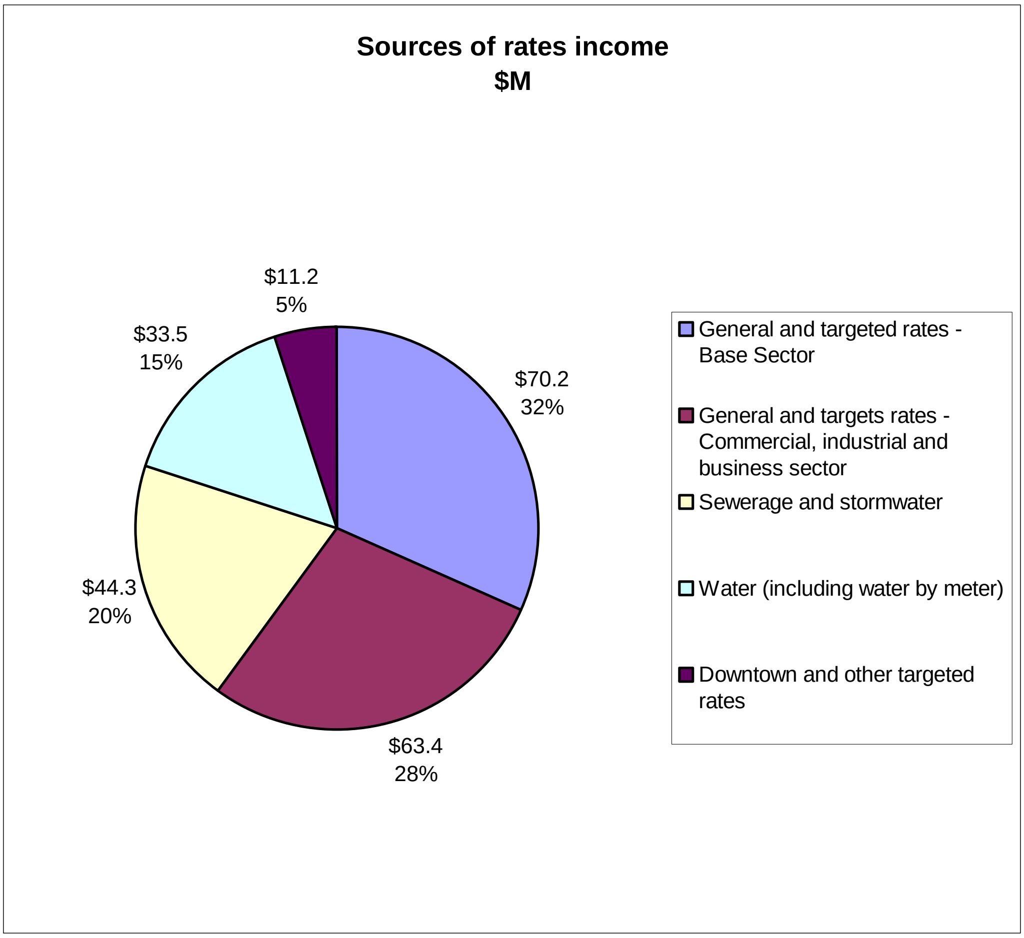
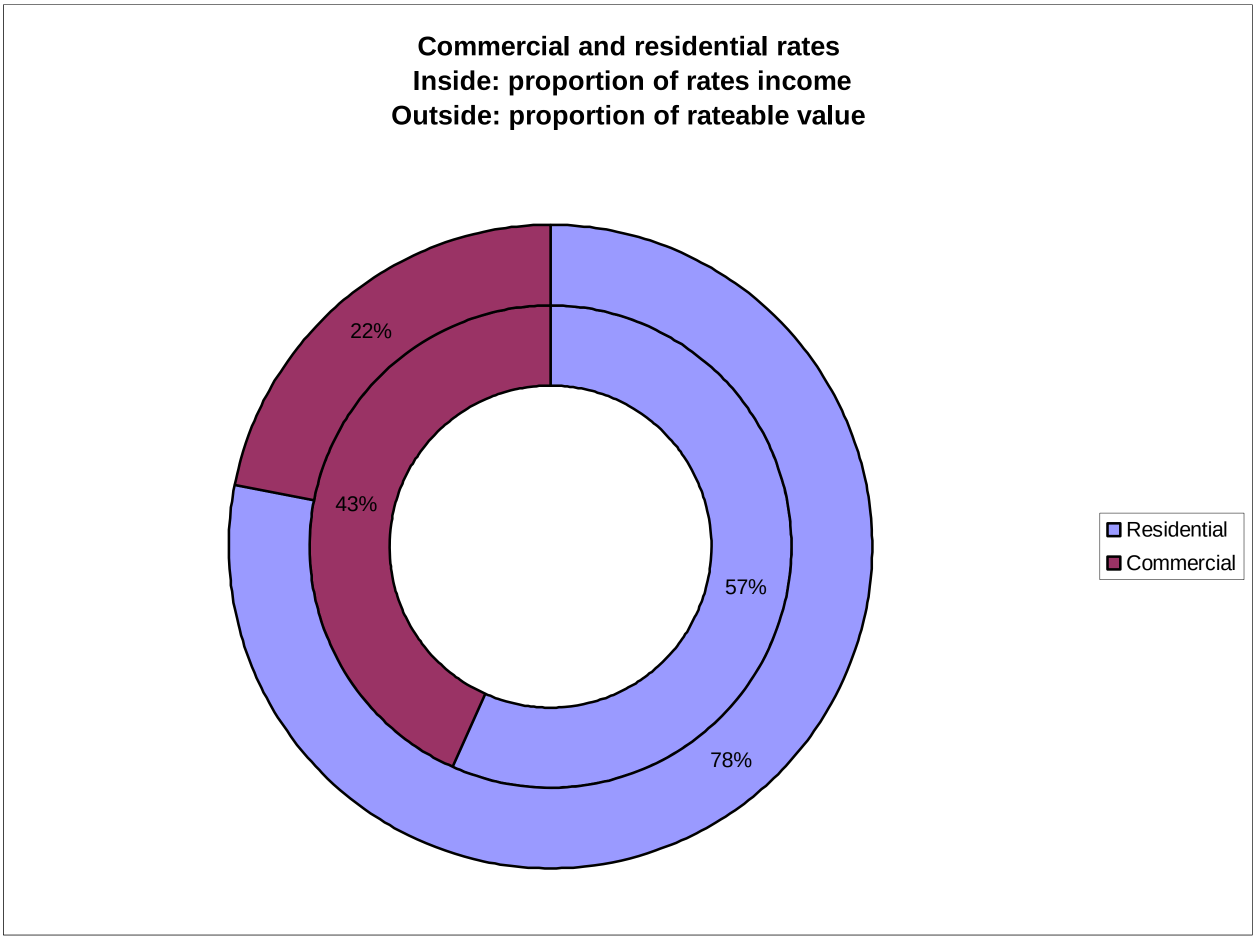
[3] Annual Report, Statement of Comprehensive Financial Performance, page XX
[4] Annual Report, Notes to the financial statements, Note 1: Revenue from rates, page XX



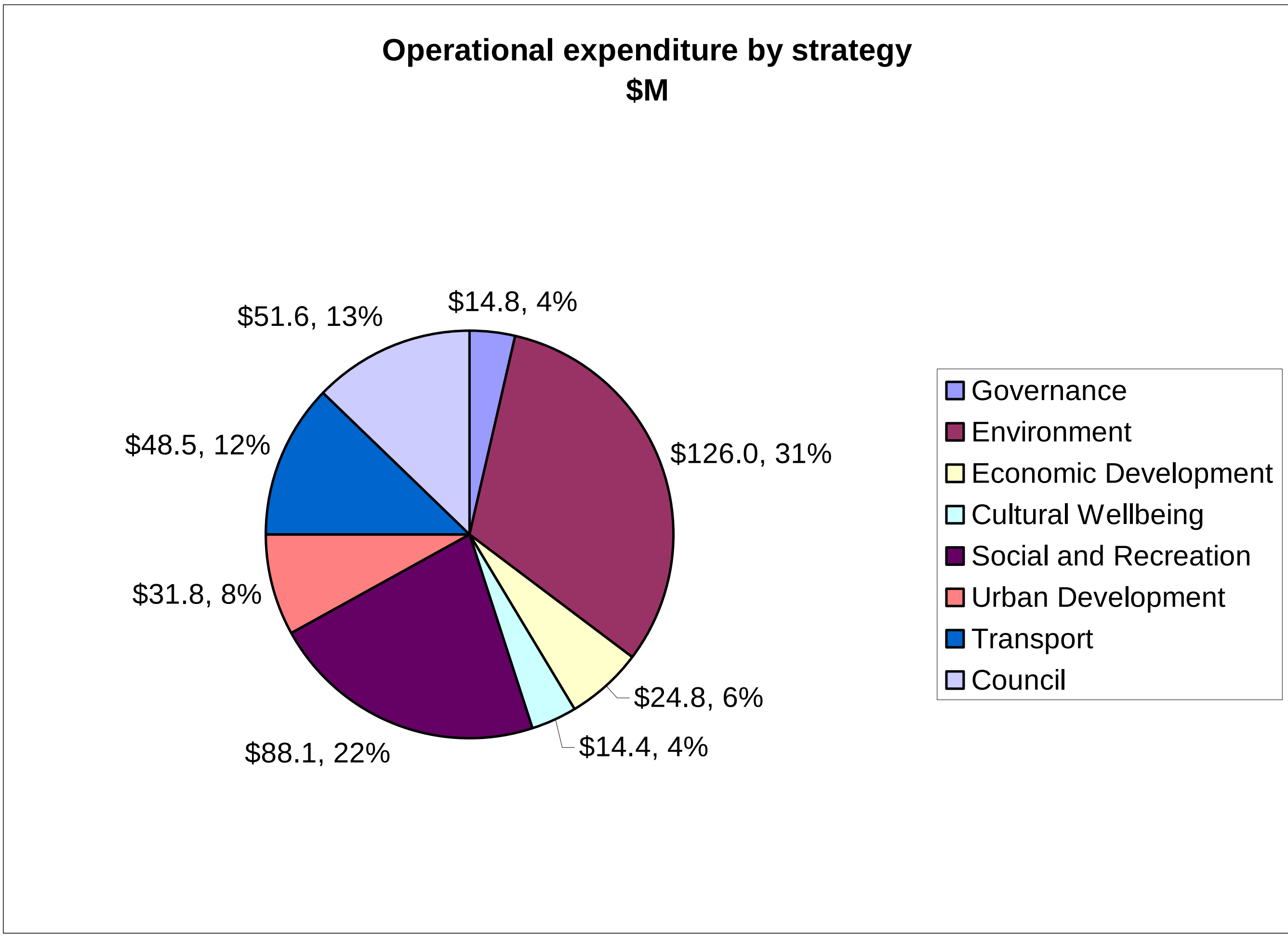
General rates revenue is collected based on value of the property. Currently commercial properties pay rates at a higher level on their rateable value than non-commercial properties. This is called the rates differential. The rates differential during the year is shown in the graph below. Currently the ratio is 1:2.8.



Expenses[5]

The total expenses incurred by the Council during the year was $XX.X million which represents the cost of running the city during the year. The activities of the Council are divided into seven strategic areas of focus:

[5] Annual Report, Statement of Comprehensive Financial Performance, page XX



Governance[6] includes community engagement, Council elections and meetings.
Environment[7] includes maintaining and protecting parks, botanic gardens, coastlines and open spaces. Also includes water supply, stormwater and sewerage, landfills and Kiwi Point Quarry.
Economic development[8] includes supporting and attracting major events and promoting Wellington overseas and locally.
Cultural wellbeing[9] includes support of the Wellington Museums Trust and events in the city, Wellington City Archives and Toi Poneke.
Social and recreation[10] includes the libraries network, swimming pools, recreation centres, cemetaries, social housing, marinas, sportsfields, playgounds and skate parks.
Urban Development[11] includes assessing building consent and resource consent applications, providing funding for heritage buildings and to develop streets and other public areas.
Transport[12] includes maintaining and developing the city's transport networks and providing on-street parking spaces.

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[6] Annual Report, Our work in detail: Governance, page XX
[7] Annual Report, Our work in detail: Environment, page XX
[8] Annual Report, Our work in detail: Economic Development, page XX
[9] Annual Report, Our work in detail: Cultural Well-being, page XX
[10] Annual Report, Our work in detail: Social and Recreation, page XX
[11] Annual Report, Our work in detail: Urban Development, page XX

The areas of greatest expenditure are Environment and Social and Recreation.

The table below shows the cost per Wellington resident[13] per day for each strategy.

Cost per strategy per resident per day

Strategy	Total cost $M	Cost per resident per year $	Cost per resident per day $
Governance			
Environment			
Economic Development			
Cultural Wellbeing			
Social and Recreation			
Urban Development			
Transport			
Council			

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 (i.e. aspirations for the city – see page XX);
- **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.

Financial Position[14]

Net worth is the difference between the total assets and the total liabilities of the Council. Net worth is represented in the financial statements by the balance of equity.

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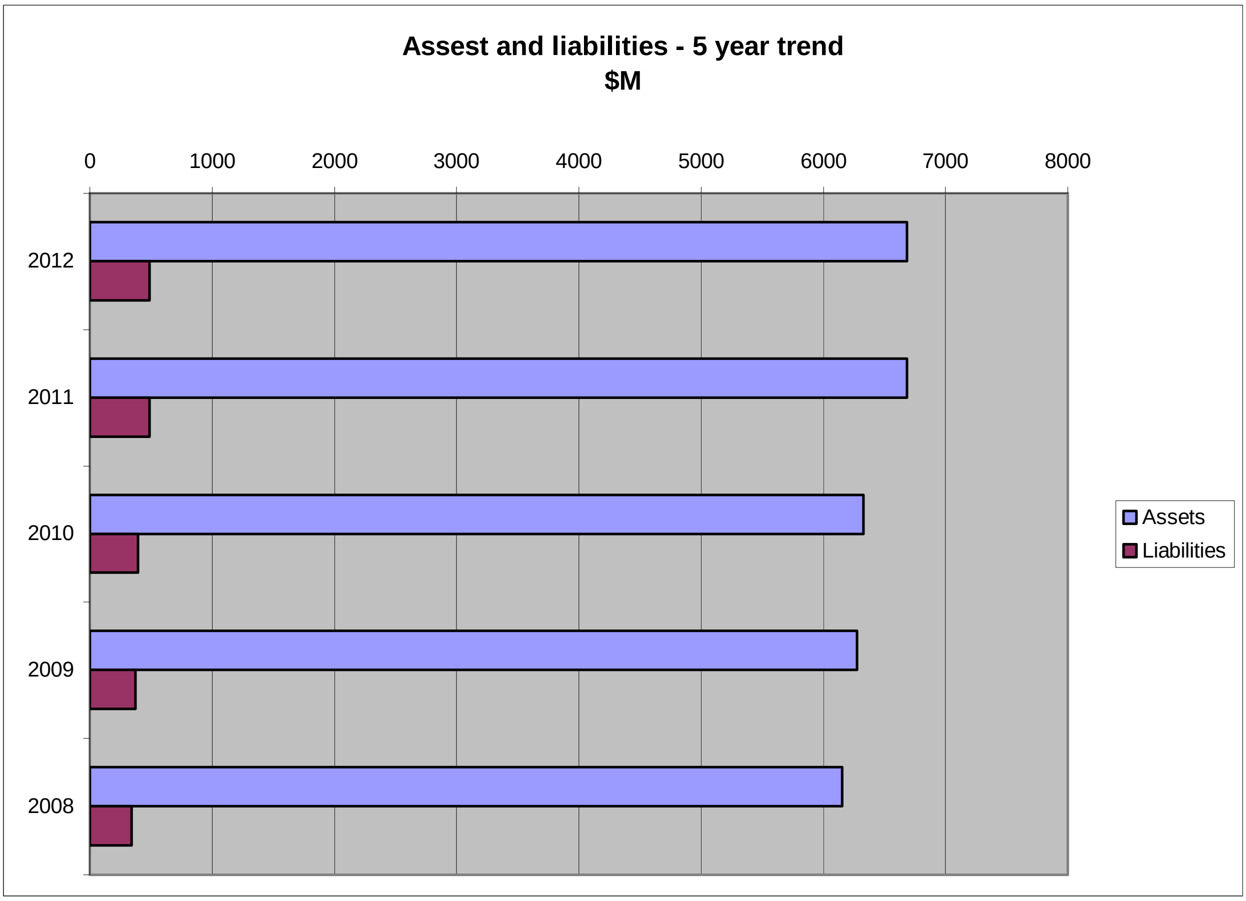
12 Annual Report, Our work in detail: Transport, page XX
13 Estimated city population to be 197,700 by Statistics New Zealand Census 2009
14 Annual Report, Statement of Financial Position, page XX

The net worth of the Council at the end of the year was $XX.X million, an increase of $XX.X million from the previous year. The main reason for the increase was the revaluation of operational land and buildings carried out during the year.[15]



Assets

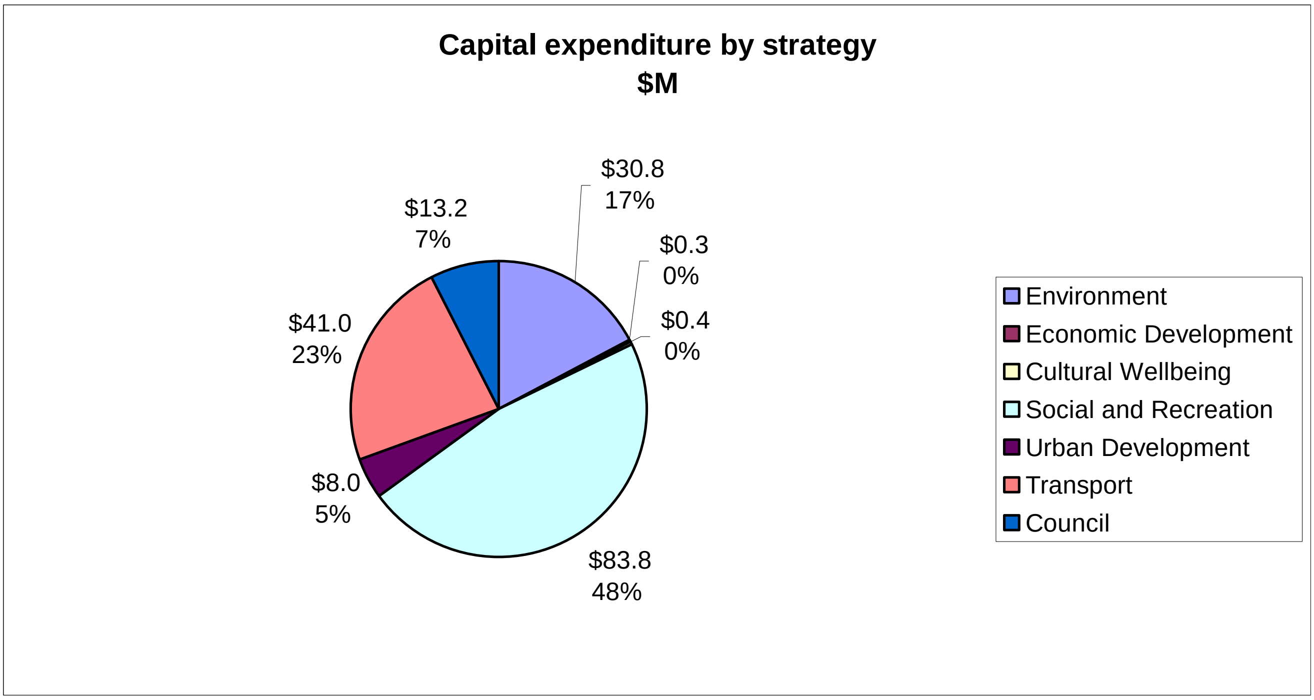
The major assets of the Council include:

- Property, Plant and Equipment (including land, buildings and infrastructure assets) – $XX.X million

- Other Assets (including investment properties and investments in subsidiaries and associates) – $XX.X million

During the year $XX.X million was spent on constructing and developing assets around Wellington which contributed to the balance of Property, Plant and Equipment. The chart below shows how much was spent on each strategy area during the year for constructing and developing assets:

[15] Annual Report, Notes to the financial statements, Note XX, page XX



Liabilities

The Council has borrowings of $XXX.X million.

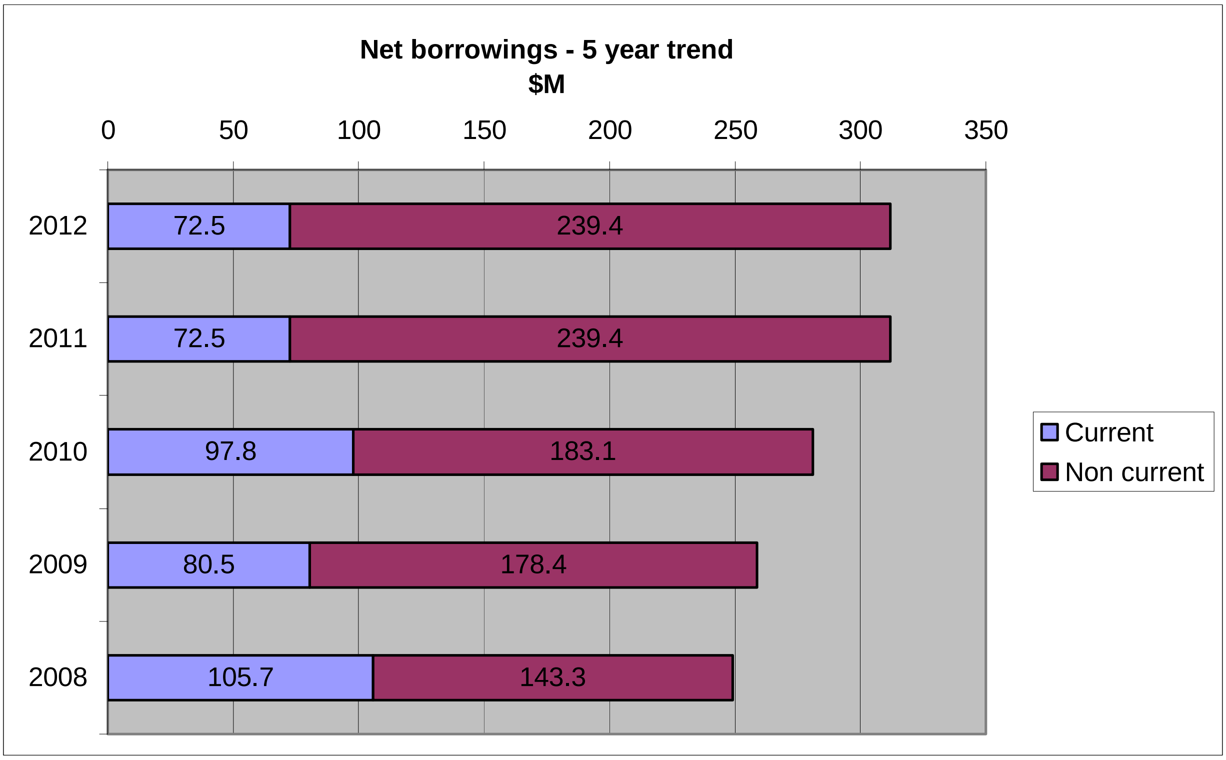
The Council uses borrowings to fund the purchase or construction of new assets or upgrades to existing assets that are approved though the Annual Plan and Long Term Plan process. This year these assets included …

Net borrowings

Net borrowings are the total borrowings less any cash or cash equivalents.

Net Borrowings = Gross Borrowings – Cash and Cash Equivalents

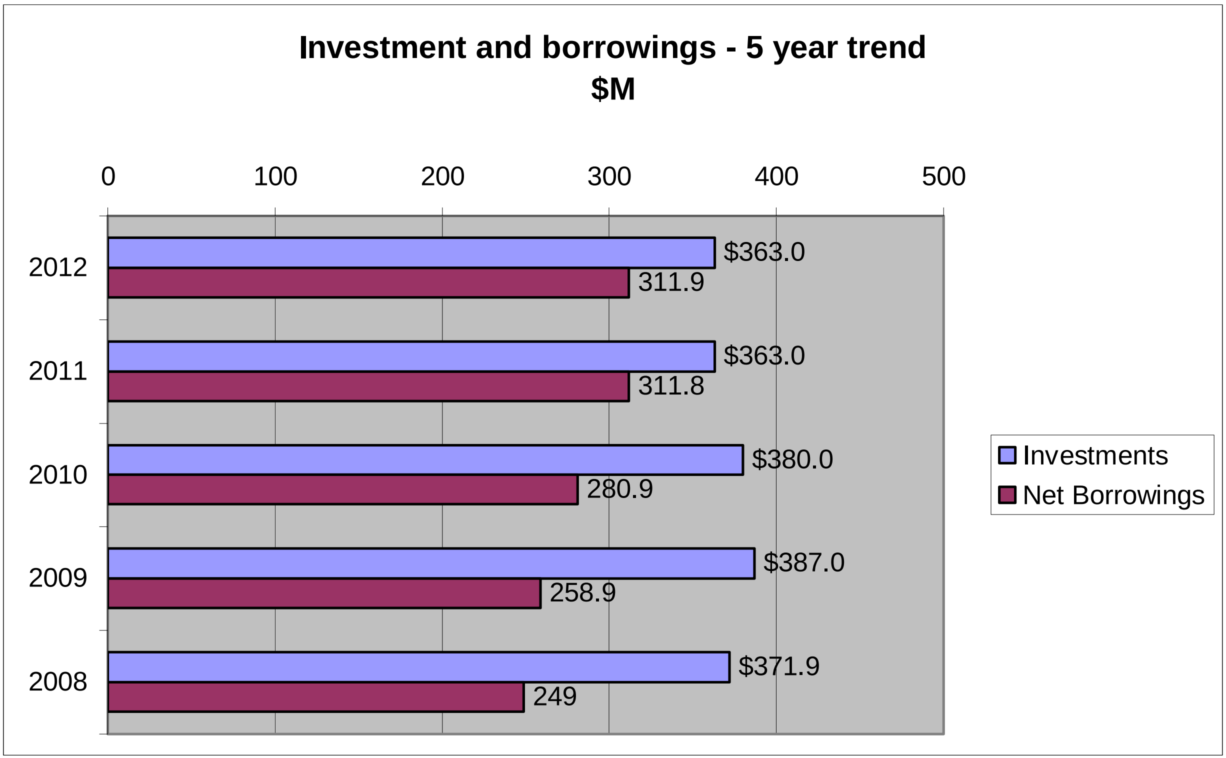
The gross borrowings were $XX.X million, less the balance of cash and cash equivalents of $XX.X million results in a net borrowings balance of $XX.X million at the end of the year.



Net borrowings increased by $XX.X million during the year. The increase in net borrowings during the year is $XX.X million less than budgeted in the 2012 Annual Plan and $XX.X million less than budgeted in the 2009-2019 Long Term Plan. In both cases the reason for the difference is due to changes in the timing of capital projects and savings in capital expenditure.

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 five years.



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 maintained its AA credit rating with Standard and Poors. The credit rating is a comparative measure of the financial strength of the Council. The AA credit rating held by the Council is the highest credit rating attributed to councils across New Zealand. Holding and maintaining such a high credit rating provides a range of benefits to the Council that would not otherwise be available. These benefits include access to lower cost borrowings and access to a wider range of borrowing alternatives.

The council has met all of the core policy compliance requirements set out in the Council's Investment and Liability management Policy.

The prudential limits are set out in the table below:

Prudential limits	**Policy Limit**	**Actual**	**Compliance**
Borrowings as a % of equity	<10%	5.1%	Yes
Borrowings as a % of income	<150%	75.5%	Yes
Net interest as a % of annual rates income	<15%	8.2%	Yes

Notes:
* Equity is based on the 30 June 2012 Annual Report
* Net interest, Net borrowings, Annual Rates and Income are based on 30 June 2012 figures

The Council uses hedging to reduce the impact of changes in interest rates. By hedging the floating rates they effectively become fixed rates. The Investment and Liability Management Policy sets out both upper and lower hedging limits. At the end of the year some XX% of the interest on borrowings was effectively fixed due to hedging.

Interest rate risk control limits (interest rate exposure)	**Policy Limit**	**Actual**	**Compliance**
Fixed interest proportion	50% - 95%	85%	Yes
Broken down as follows:			
1 - 3 year bucket	20% - 60%	25%	Yes
3 - 5 year bucket	20% - 60%	29%	Yes
5 - 10 year bucket	20% - 60%	46%	Yes

Liquidity is a measure of the Councils ability to access cash when required. 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. The limits for liquidity are set out in the Investment and Liability Management Policy. There are some $XX.X million of unused facilities available at 30 June to cover future spending requirements and ensure that the Council has adequate access to funds at all times.

Liquidity/funding risk (access to funds)	**Policy Limit**	**Actual**	**Compliance**
Liquidity/funding risk (acess to funds)	>110%	114%	Yes
Broken down as follows:			
0 - 3 year bucket	20% - 60%	46%	Yes
3 - 5 year bucket	20% - 60%	30%	Yes
5 - 10 year bucket	15% - 60%	25%	Yes

* "Liquidity" is defined as: Current borrowings + committed loan facilities divided by 12 month peak borrowings (for the purposes of measuring liquidity short dated Commercial Paper is excluded)

Group highlights

The Group comprises the Council and its interests in associate and subsidiary entities. These entities include Wellington International Airport Limited and Capacity. Refer to Note 38 of the financial statements for the full Group structure diagram.

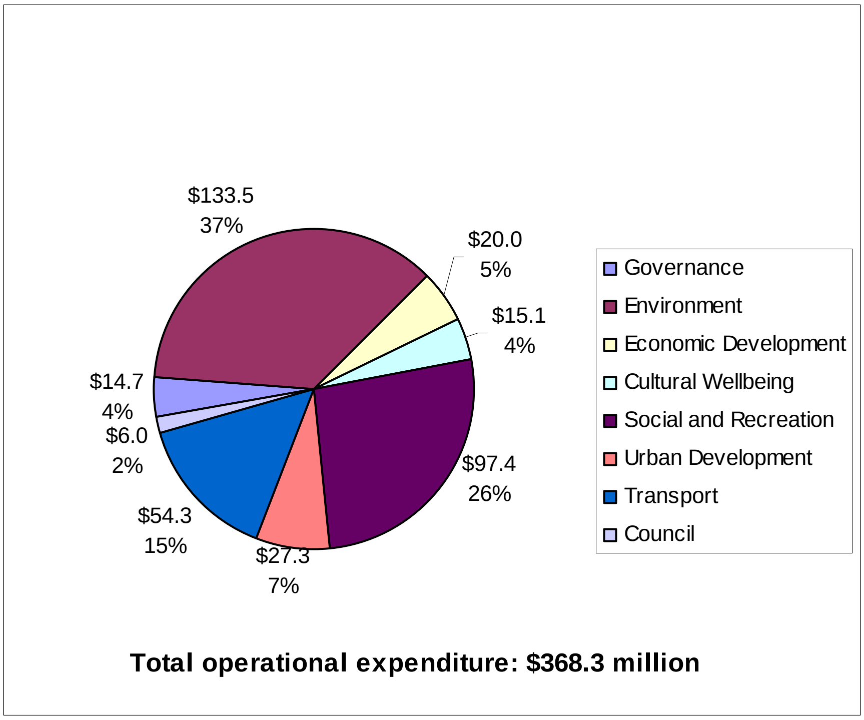
	2012 $M	**2011 $M**	**2010 $M**	**2009 $M**	**2008 $M**
Net surplus	**8.2**	8.2	23.5	16.0	35.0
Total assets	**6,841.9**	6,841.9	6,485.7	6,443.0	6,306.0
Total liabilities	**(495)**	(495)	(398)	(375)	(346)
Total equity	**6,346.8**	6,346.8	6,088.0	6,067.6	5,960.0

Looking forward

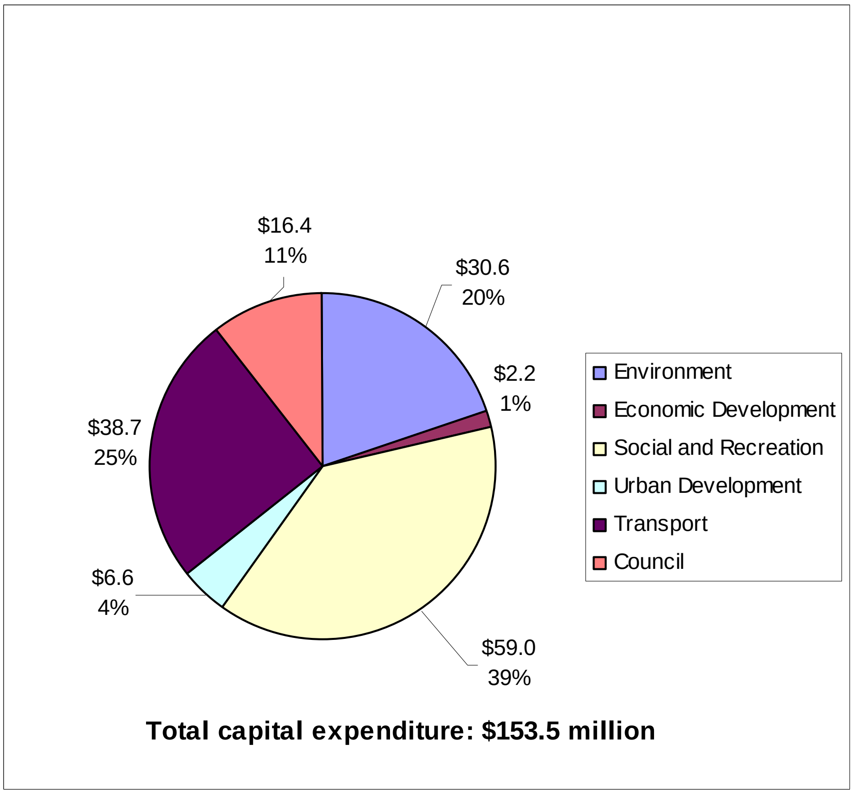
The results for the year ended 30 June 2012 reflect the delivery of high quality, cost effective services and products to the residents of Wellington.

The 2012/13 Annual Plan sets out the Council's planned operating expenditure programmes for 2012/13. The following graphs highlight the Council's spending plans for the 2012/13 financial year.

Operational Expenditure 2012/13 ($M)



Capital Expenditure 2012/13 ($M)



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 (34%) 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 (amortisation) – 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).

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 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 (e.g. roads built by a developer as part of a subdivision).