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. It is represented by the following formula:

Net Surplus = Total income – Total expenses

The Council recorded a net surplus of $28.2 million. The budgeted net surplus was $37.4 million. The net surplus for the year was $9.2 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 projects and Housing New Zealand for the upgrades to our social housing. As the cost for capital projects is not recorded in the Statement of Comprehensive Financial Performance the Council budgets to generate a surplus.

Total Comprehensive Income

Total comprehensive income of $42.1 million represents the net surplus of $28.2 million adjusted for fair value movements of some of our assets including plant and equipment and financial instruments such as cash flow hedges. These movements are non-cash in nature and reflect changing fair value of assets the Council owns.

Budgeted net surplus

The majority of the budgeted net surplus of $37.4 million is due to funding received from the Crown to fund capital expenditure projects.

Difference between budgeted and actual net surplus[2]

	$M
Budgeted net surplus	**37.4**
Value of assets vested to the Council These are assets transferred between the Council and an external party and are recognised as revenue or expense accordingly. The majority are infrastructural assets that have been constructed by developers and transferred to the Council on completion.	10.5
Net fair value gain/(loss) These amounts reflect changes in the fair value of our investment properties, loans to related parties and interest rate swaps. These movements are non-cash in nature.	5.7

[1] Annual Report, Statement of Comprehensive Financial Performance, page XX
[2] Annual Report, Notes to the financial statements, Note 33: Major Budget Variations, page XX

Net surplus/(deficit) from Wellington Waterfront and Venues Projects and joint ventures The financial performance (deficit) of these entities is not included in the budget (excludes fair value movements and gains or losses on the disposal of assets which are shown separately).	(6.8)
Changes to external funding for capital expenditure This income is received for specific capital projects and cannot be used to fund operating expenditure.	(6.7)
Net gain/(loss) on disposal of fixed assets The Council does not budget for gains or losses on the disposal of assets	(1.1)
Other changes Certain depreciation charges are not funded through rates as they are either fully or partly funded by external parties.	0.5
Ringfenced surpluses/(deficits) Surpluses and deficits from our housing and waste activities are ringfenced. Deficits are not rates-funded.	1.9
Underlying funding surplus/(deficit) Further breakdown follows.	(13.3)
Actual net surplus	**28.1**

Underlying funding surplus/(deficit)

Underlying net surplus/deficit is the portion of the overall net surplus/(deficit) that has arisen from changes to operating income and operational expenditure as compared to budget. The underlying funding surplus/(deficit) is an important measure of the overall financial performance of the Council during the year.

The Council has recorded an underlying funding deficit in the current year of $13.3 million. This has arisen because the Council recorded expenditure relating to a reassessment of the provision for weathertight homes, which has been partially offset by net savings in operational expenditure.

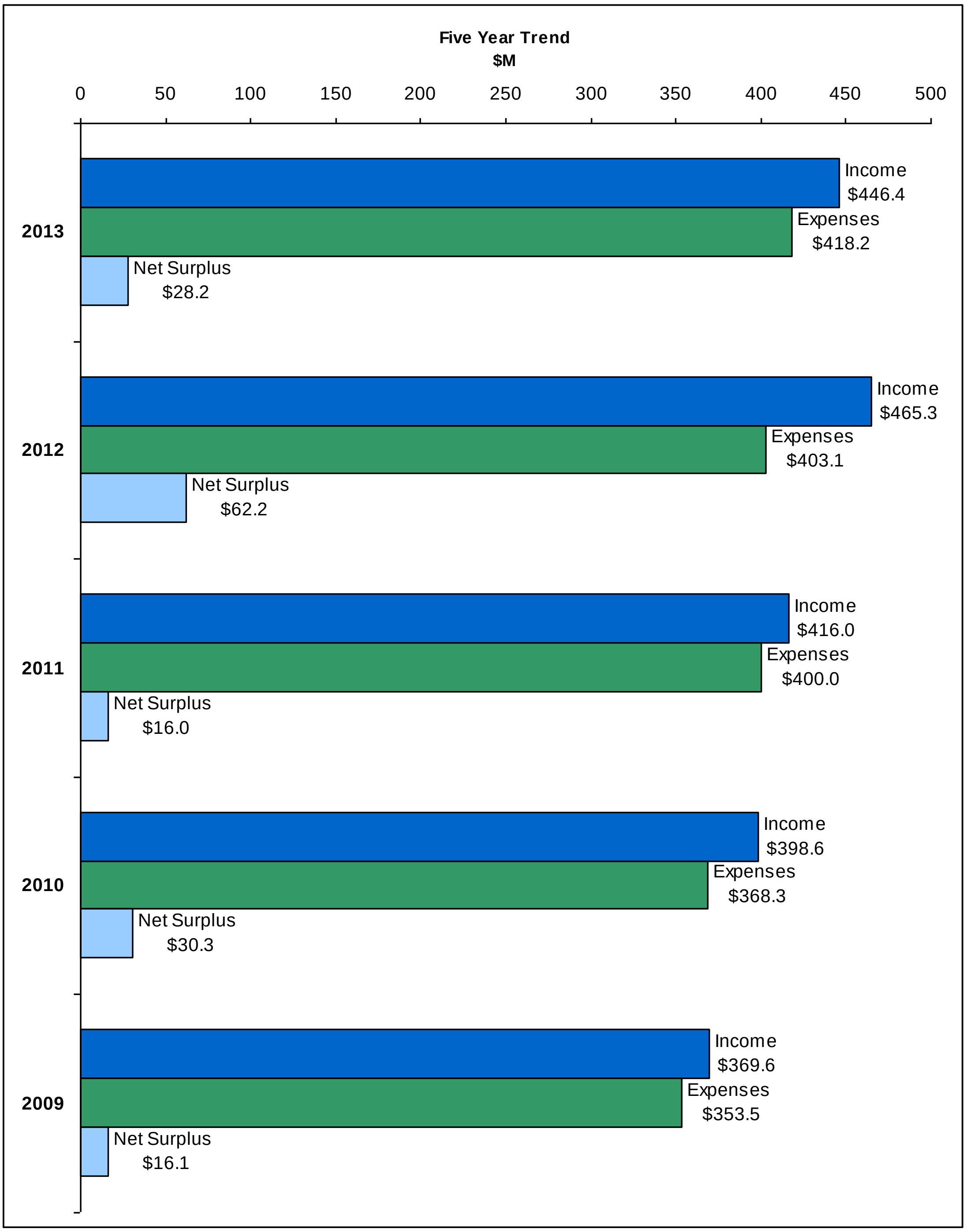
	$000
Unbudgeted net revenue/(expenditure)	
Restatement of weathertight homes provision	
Provision for storm costs	
Insurance costs (net of recoveries) funded through self-insurance reserve	
Significant changes in net revenue/(expenditure)	
Dividends in excess of budget (including Wellington International Airport Ltd)	

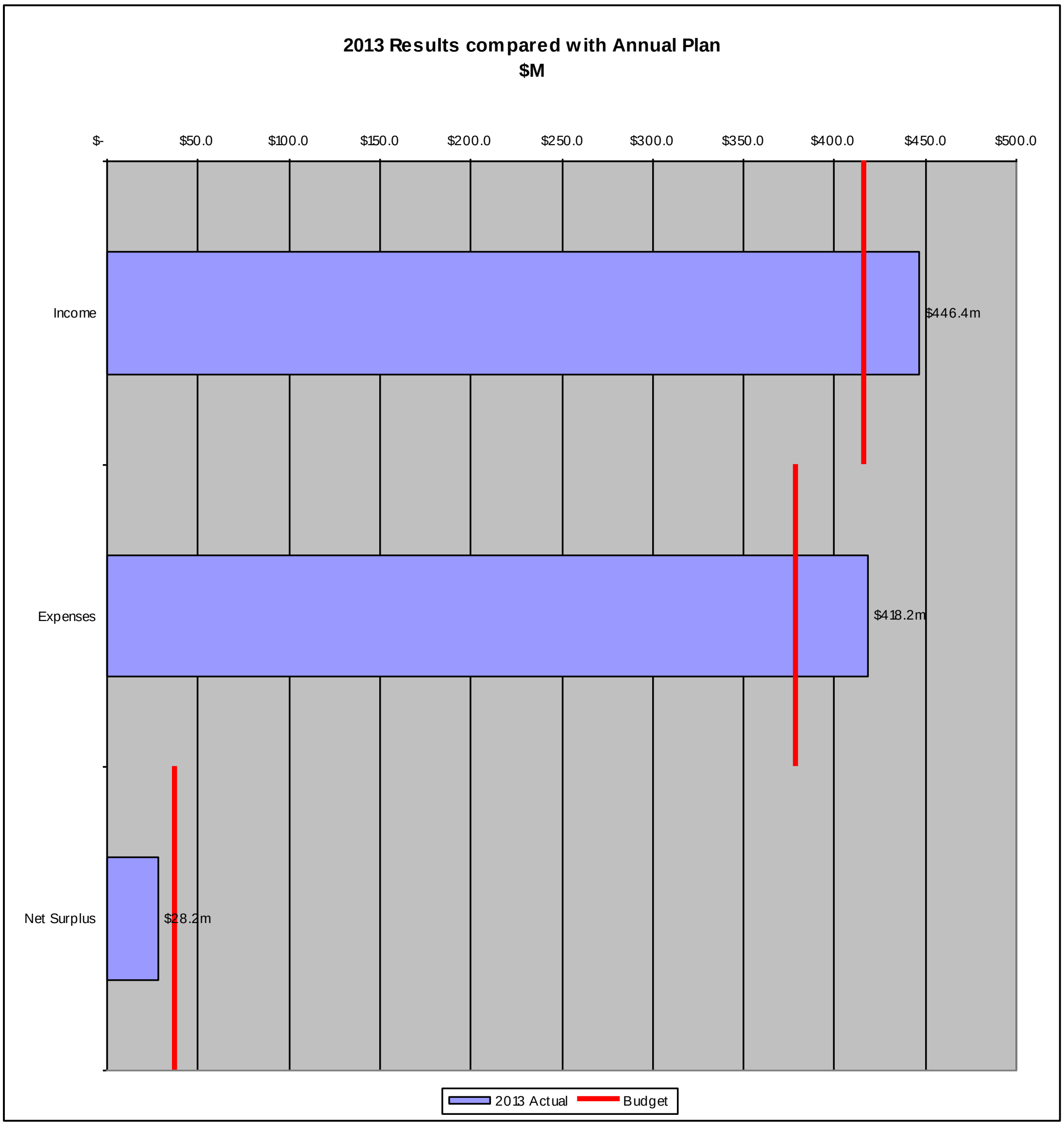
Movement in income from activities	
Movement in depreciation	
Movement in rates revenue	
Movement in net interest expense	
Other net variances	
Total underlying funding surplus/(deficit)	**-**

The movement in the weathertight homes provision is separately funded through a combination of rates and borrowings, so is added back to calculate the underlying surplus available for use. The Council has already agreed to use $3 million of the 2012/13 surplus to fund the Wellington Economic Initiatives Development Fund and therefore has an underlying funding surplus to carry forward of $10.5 million.

	$000
Opening underlying funding surplus from previous years	
Movement in underlying fundingsurplus/(deficit) from this year's result	
Items separately rates-funded	
Movement in weathertight homes provision	
Adjusted available underlying surplus	**-**
Transfer to reserves	
Funding the Economic Development Fund	
Remaining underlying funding surplus to carry forward	**-**

Financial performance





Income[3]

The Council received total income of $446.4 million during the year.

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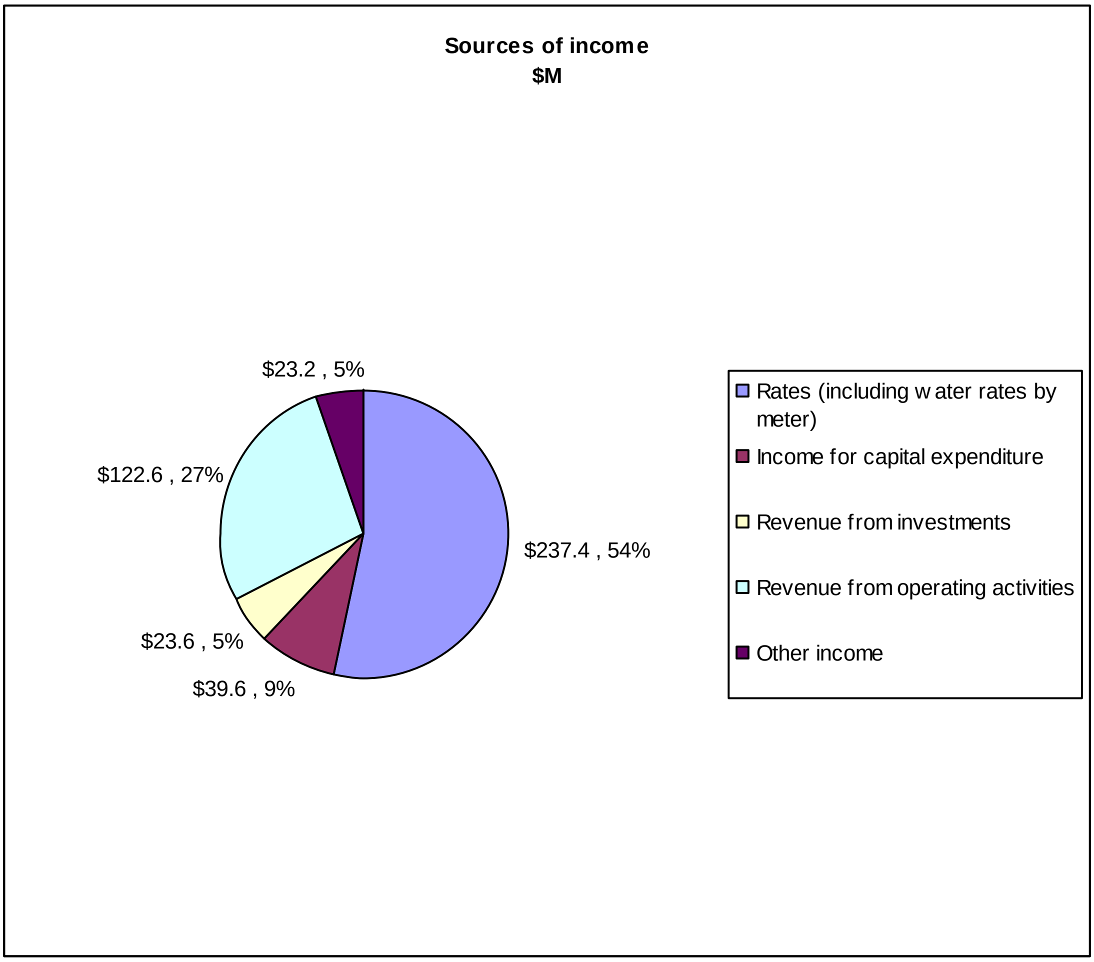
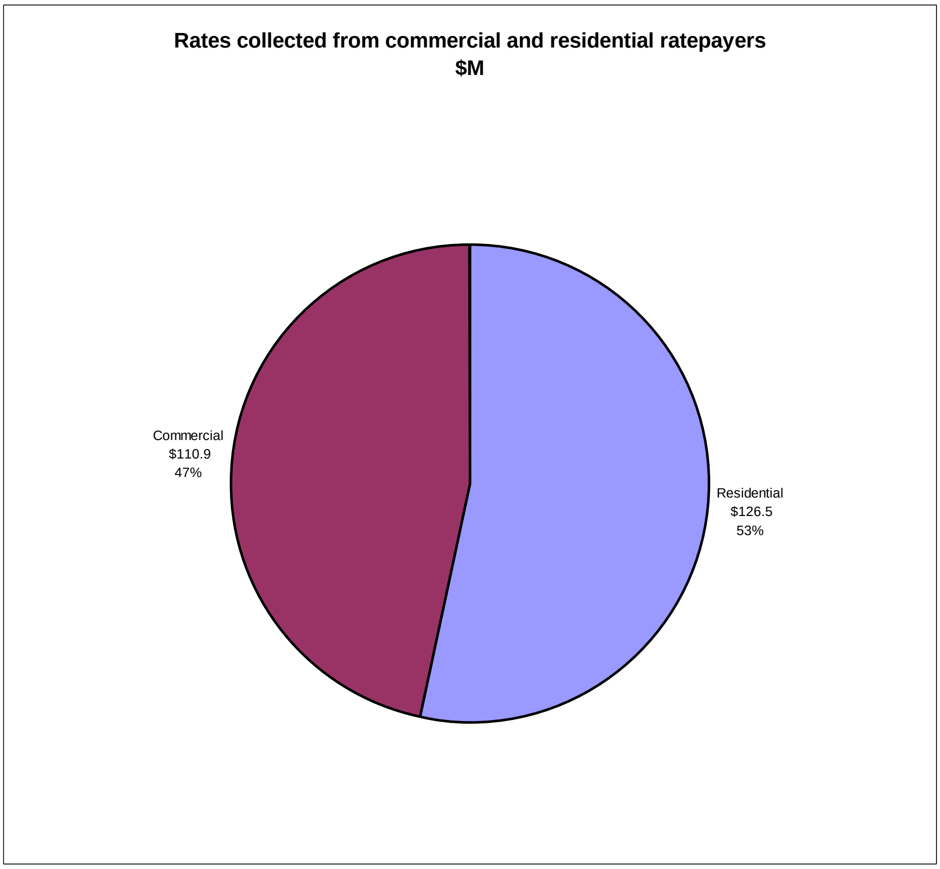
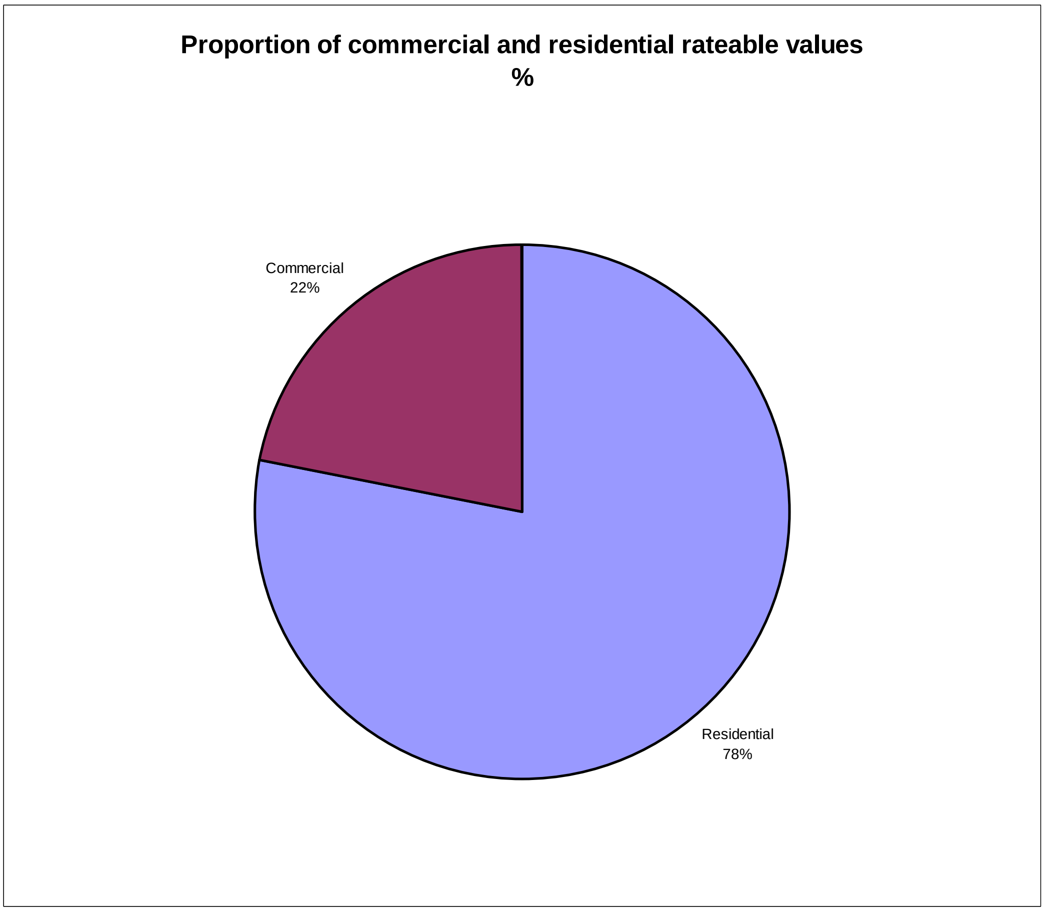
3 Annual Report, Statement of Comprehensive Financial Performance, page XX

Appendix 2


Sources of income
$M
$23.2 , 5%
$122.6 , 27%
$237.4 , 54%
$23.6 , 5%
$39.6 , 9%
Rates (including w ater rates by meter)
Income for capital expenditure
Revenue from investments
Revenue from operating activities
Other income


Rates collected from commercial and residential ratepayers
$M
Commercial
$110.9
47%
Residential
$126.5
53%



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 $237.4 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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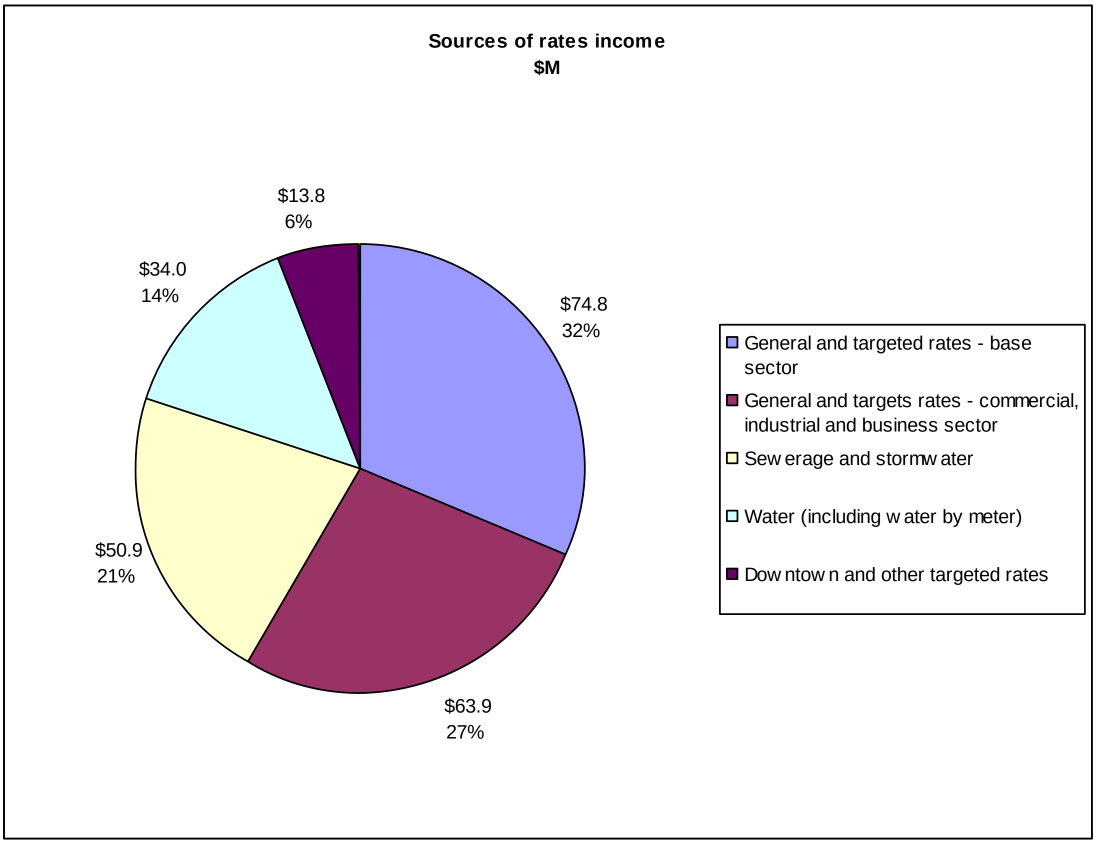
[4] Annual Report, Notes to the financial statements, Note 1: Revenue from rates, page XX

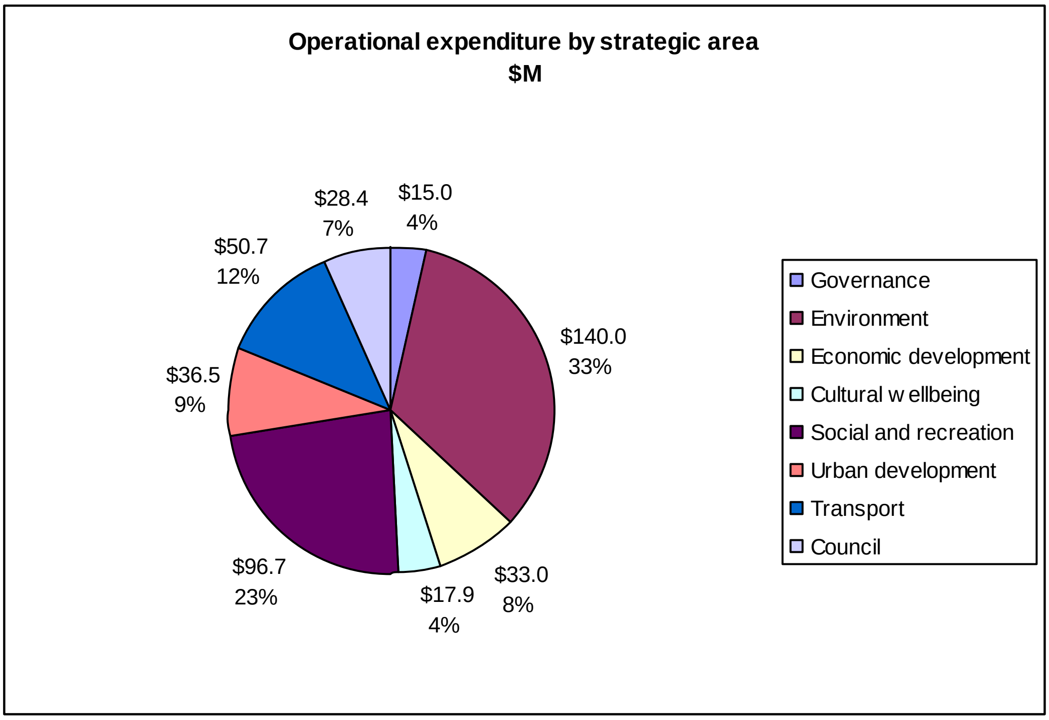


General rates revenue is collected based on property rateable values. Currently commercial properties pay rates at a higher level on their rateable value than non-commercial properties. This is called the rates differential. The rates differential during the year is shown in the graph below. Currently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

Expenses[5]

The total expenses incurred by the Council during the year were $418.2 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



The table below shows the cost per Wellington resident[6] per day for each strategic area.

Cost per strategic area per resident per day

Strategic area	Total cost $M	Cost per resident per year $	Cost per resident per day $
Governance	15.0	75	0.20
Environment	140.0	700	1.93
Economic development	33.0	165	0.45
Cultural wellbeing	17.9	90	0.25
Social and recreation	96.7	483	1.32
Urban development	36.5	182	0.50
Transport	50.7	253	0.70
Council	28.4	142	0.39
	418.2	$2,090	$5.74

[6] Estimated city population to be 200,100 by Statistics New Zealand

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.

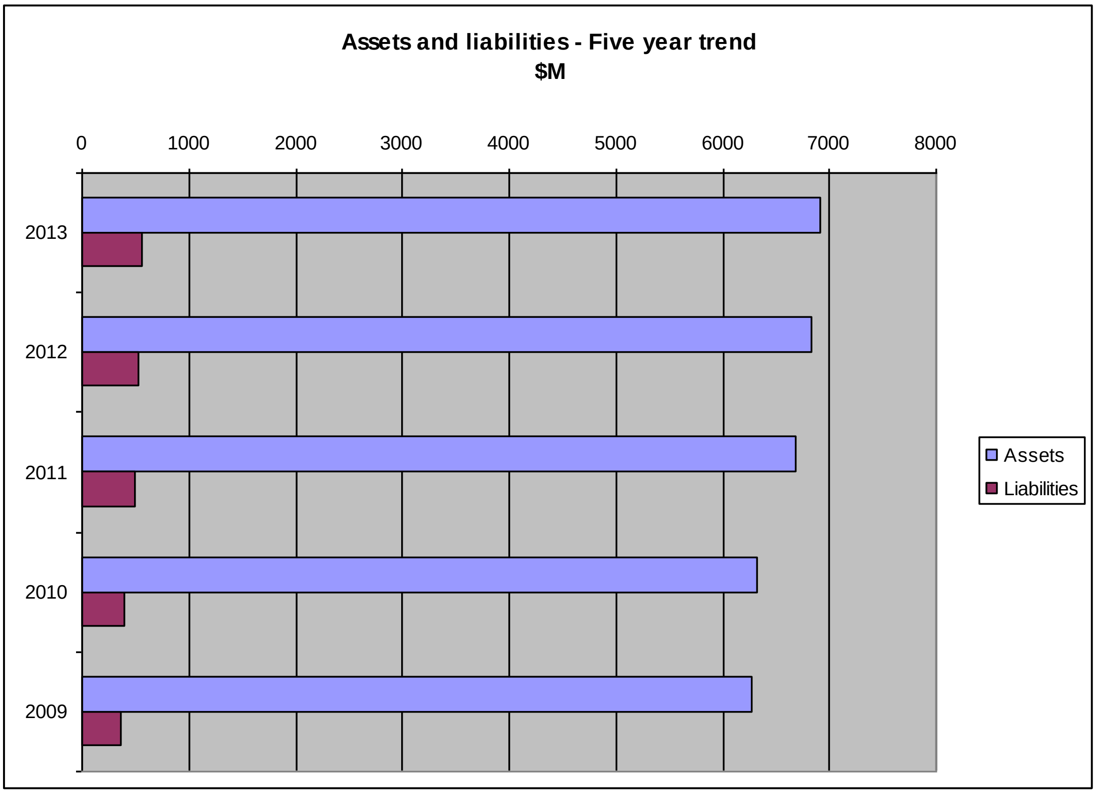
Our Revenue and Financing Policy sets out how each Council activity will be funded, based on these criteria. The policy is available on our website www.Wellington.govt.nz

Financial Position[7]

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.

The net worth of the Council at the end of the year was $6,348.4 million, an increase of $42.1 million from the previous year. The main reasons for the increase were the net surplus generated for the year and the fair value movement in our cash flow hedges.[8]

[7] Annual Report, Statement of Financial Position, page XX
[8] Annual Report, Notes to the financial statements, Note 26 Hedging reserve, page XX



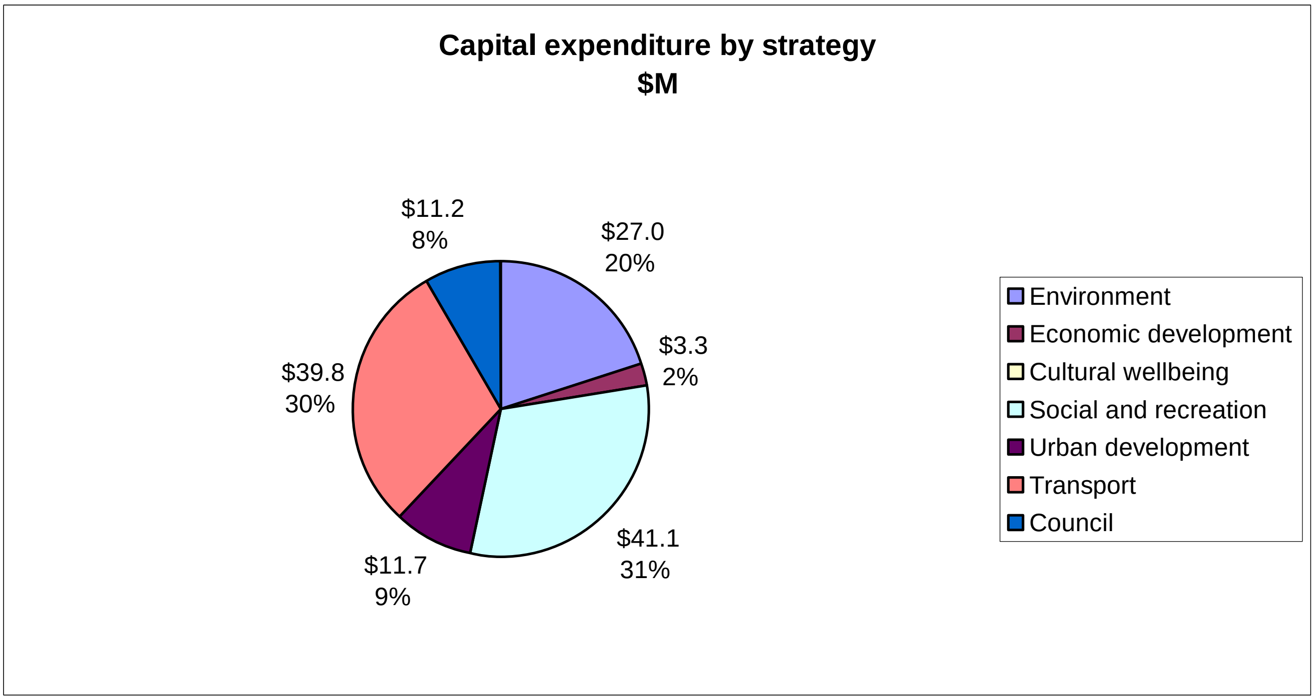
Assets

The major assets of the Council include:

- Property, plant and equipment (including land, buildings and infrastructure assets) – $6,546.3 million

- Other assets (including investment properties and investments in subsidiaries and associates) – $365.0 million

During the year $134.1 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 strategic area during the year for constructing and developing assets:



To help spread the cost of assets to everyone who benefits, the Council budgets to recover a certain amount of the value of the asset each year. This amount is called depreciation.[9] Depreciation spreads the cost of an asset over its useful life.

Liabilities

The major liabilities of Council include:

- gross borrowings - $388.3 million[10]
- other liabilities (including trade and other payables) - $174.6million.

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.

Net borrowings

Net borrowings are the total borrowings less any cash and cash equivalents.[11]

Net borrowings = gross borrowings – cash and cash equivalents

The gross borrowings of $388.3 million,[12] less the balance of cash and cash equivalents of $44.4 million, results in a net borrowings balance of $343.9 million at the end of the year.

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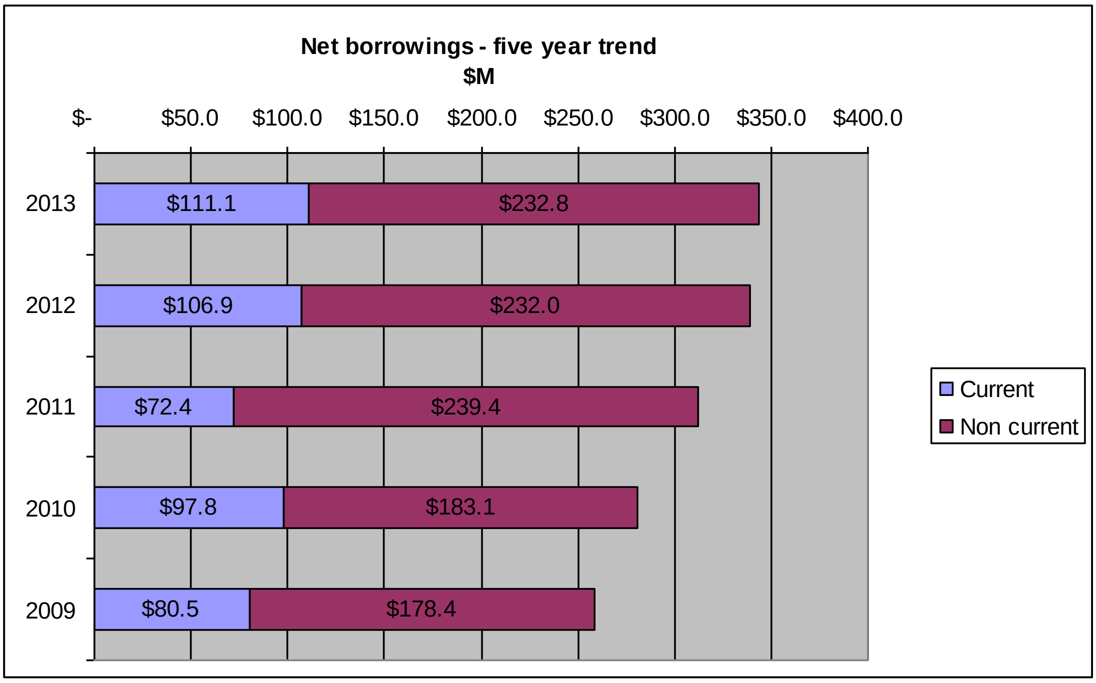
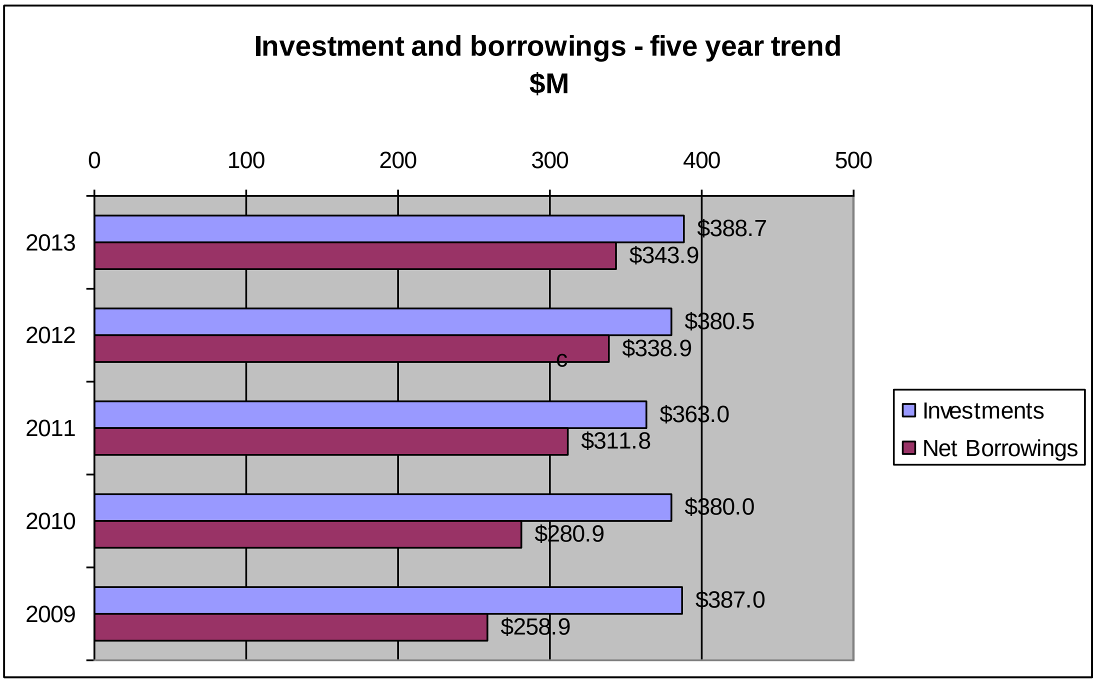
[9] Annual Report, Statement of Comprehensive Financial Performance, page XX
[10] Annual Report, Notes to the financial statements, Note 21 Borrowings , page XX
[11] Annual Report, Notes to the financial statements, Note 10 Cash and Cash Equivalents , page XX
[12] Annual Report, Notes to the financial statements, Note 21 Borrowings, page XX



Net borrowings increased by $5.0 million during the year. The net borrowings at the end of the year is $10.1 million less than budgeted in the 2012/13 Long-Term Plan. 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%	5.5%	Yes
Borrowings as a % of income	<150%	78.7%	Yes
Net interest as a % of annual rates income	<15%	8.4%	Yes
Notes: * Equity is based on the 30 June 2013 Annual Report * Net interest, net borrowings, annual rates and income are based on 30 June 2013 figures			

The policy limit for net borrowings as a percentage of income for the Council of 150% is significantly less than the Local Government Funding Agency policy limit of 250%. The Council is comfortably in compliance with the prudential limits set out in the Investment and Liability Management Policy.

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 76% of the interest on borrowings was effectively fixed due to hedging.[13]

Interest rate risk control limits (interest rate exposure)	Policy limit	Actual	Compliance
Fixed interest proportion	50 - 95%	84%	Yes
Broken down as follows:			
1 - 3 year bucket	20 - 60%	24%	Yes
3 - 5 year bucket	20 - 60%	23%	Yes
5 - 10 year bucket	20 - 60%	53%	Yes

[13] Annual Report, Notes to the financial statements, Note 31 Financial instruments, page XX

Liquidity is a measure of the Council's 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 $151.5 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.[14]

Liquidity/funding risk (access to funds)	Policy limit	Actual	Compliance
Liquidity/funding risk (access to funds)	>110%	114%	Yes
Broken down as follows:			
1 - 3 year bucket	20 - 60%	60%	Yes
3 - 5 year bucket	20 - 60%	21%	Yes
5 - 10 year bucket	15 - 60%	19%	Yes

Notes:

* "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.

	2013 $M	**2012 $M**	**2011 $M**	**2010 $M**	**2009 $M**
Net surplus	**30.4**	50.0	8.2	23.5	16.0
Total assets	**7,081.3**	7,006.3	6,841.9	6,485.6	6,443.0
Total liabilities	**(570.6)**	(540.1)	(495.1)	(397.6)	(375.4)
Total equity	**6,510.7**	6,466.2	6,346.8	6,088.0	6,067.6

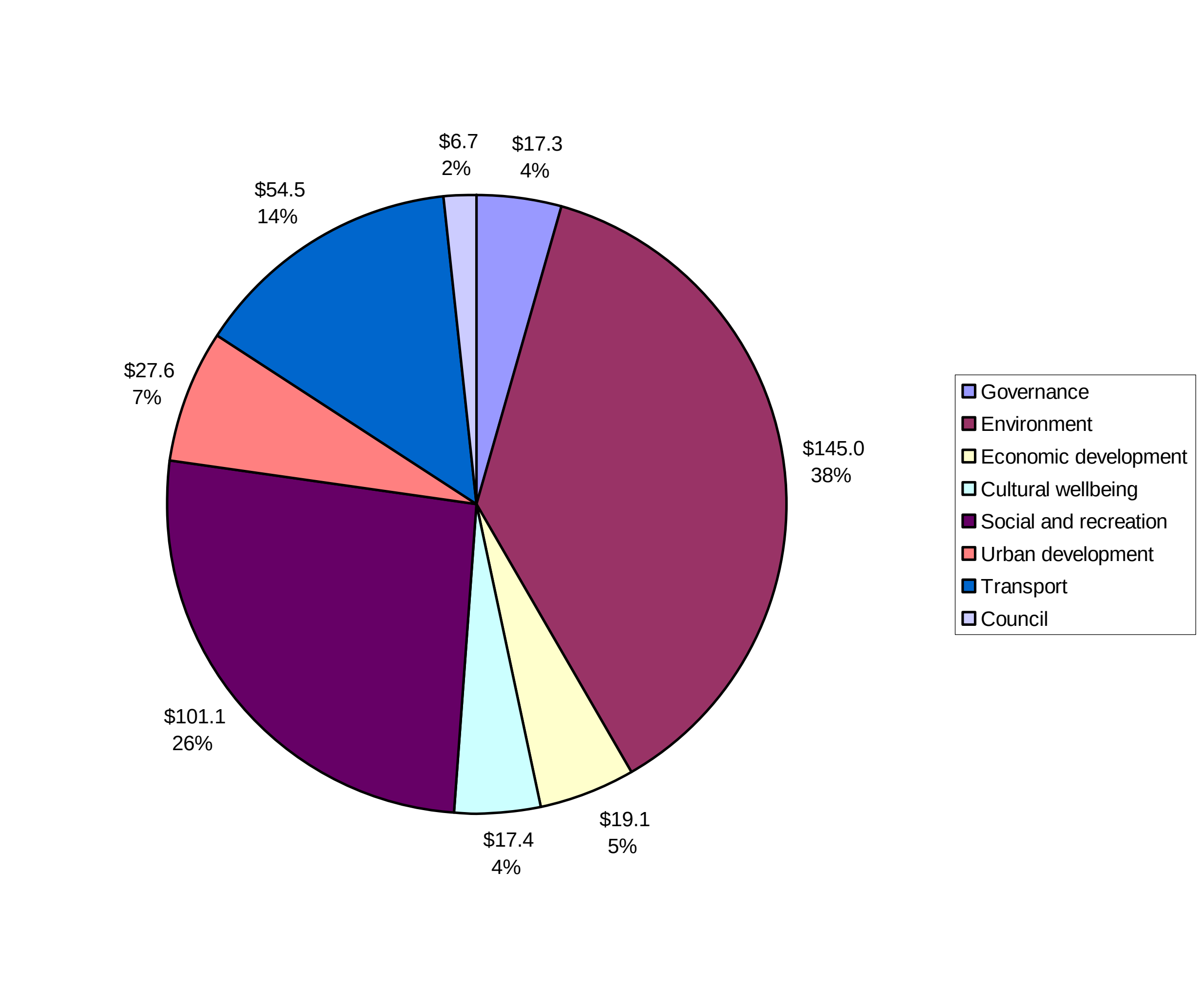
Looking forward

The results for the year ended 30 June 2013 reflect the commitment of the Council to deliver high quality, cost effective services and products to the residents of Wellington.
The 2013/14 Annual Plan sets out the Council's planned operating expenditure programmes for the 2013/14 year.

The following graphs highlight the Council's spending plans for the 2013/14 financial year.

[14] Annual Report, Notes to the financial statements, Note 21 Borrowings, page XX

Operational expenditure 2013/14 ($M)



Total operational expenditure: $388.7 million.

Capital expenditure 2013/14 ($M)

Total capital expenditure $139.7 million. This does not include the $32.7 million of capital expenditure carried forward from the 2012/13 financial year.[15]

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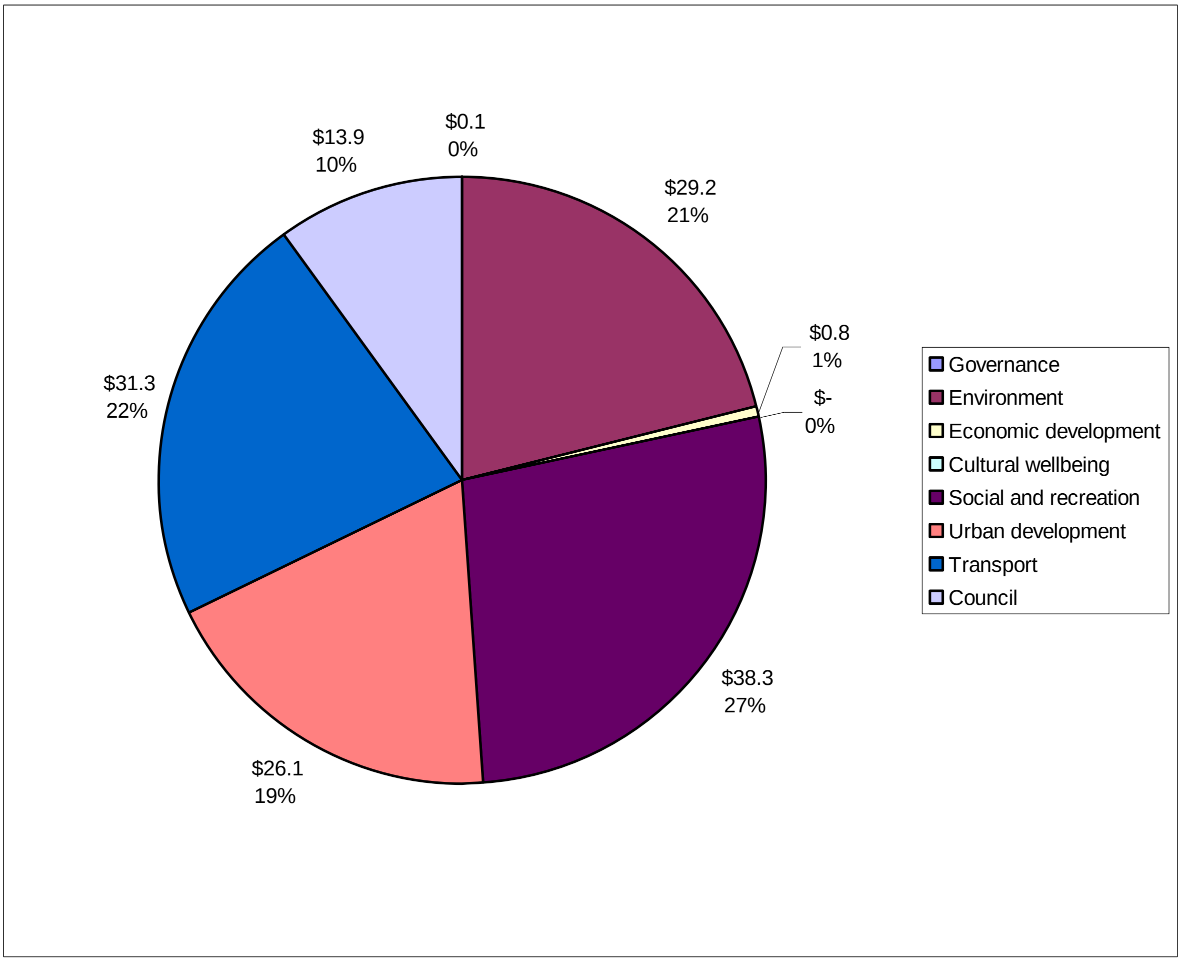
[15] Annual Report, Notes to the financial statements, Note 34 Analysis of capital expenditure by strategy, page XX

Appendix 2


$0.1
0%
$29.2
21%
$0.8
1%
$-
0%
$38.3
27%
$26.1
19%
$31.3
22%
$13.9
10%
Governance
Environment
Economic development
Cultural wellbeing
Social and recreation
Urban development
Transport
Council