



Financial overview

This section provides an overview of the Council and Group's financial results for the period. For further detailed information refer to the financial statements on pages 77 to 157.

The Council reports its financial results in accordance with New Zealand International Financial Reporting Standards (NZ IFRS). These standards collectively represent generally accepted accounting practice in New Zealand. They prescribe the way we must recognise and disclose all financial transactions in our financial statements.

UNDERSTANDING THE COUNCIL'S REPORTED SURPLUS FOR THE YEAR ENDED 30 JUNE 2008

The Council has reported a net surplus of \$25.515 million compared with a budget surplus of \$3.960 million, an overall favourable variance of \$21.555 million.

Why has the Council made a surplus?

The majority of the Council's reported surplus arises from the recognition of fair value movements in our assets and liabilities. Under NZ IFRS the movement in the fair value of the assets is recognised in income in our financial statements even though the Council has not actually received any additional cash. The majority of the fair value increase for the current year relates to the increase in value of our investment properties.

For the year ended 30 June 2008 the Council's investment properties grew in value by \$22.620 million. This increase in value appears as income in the Council's Statement of Financial Performance. The Council does not budget for any increase in the value of our investment properties as we do not consider it prudent to do so because we have no reliable basis from which to predict the anticipated movement in value of these properties during the year – any increase in value will represent a favourable variance against our budget.

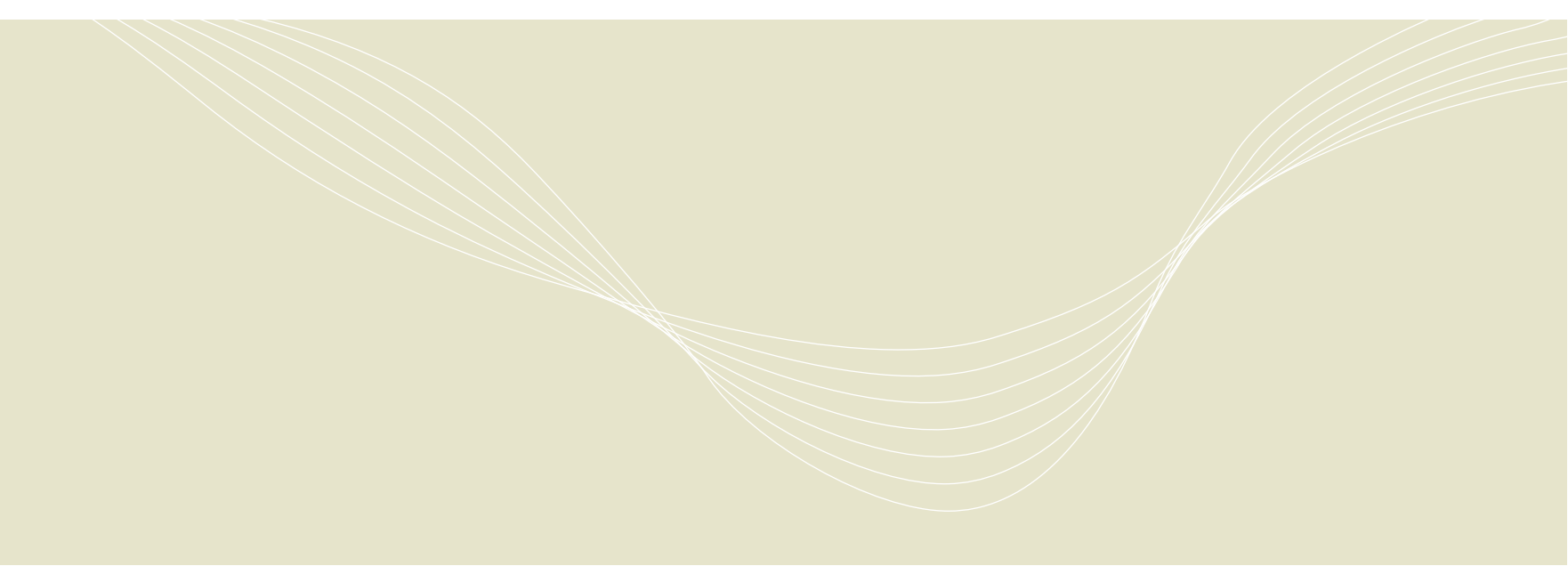
Can the Council use this additional surplus to offset the amount of rates required in future financial periods?

The majority of the additional reported surplus does not represent additional cash collected by the Council. Of the reported surplus 89% is accounted for by the increase in value of our investment properties of \$22.620 million (and recognised as income for financial reporting purposes). Accordingly, the surplus cannot be used to offset rates or fund the Council's planned expenditure for future financial years.

It would be similar to ratepayers including the increase in value of their residential property in their annual tax return – your property may have increased in value, you may be better off as a result but you haven't received any additional cash during the year. Until you sell the property you won't receive the cash arising from the increased value.

How would the Council's accounts look without the fair value adjustments?

To assess the Council's underlying rates funded financial performance the following table takes the reported income and expenditure and identifies the various fair value transactions that are included in these reported balances. By separately identifying these items we are able to show the Council's underlying financial performance against that which had been budgeted for and therefore rates funded.



**RECONCILIATION OF STATEMENT OF FINANCIAL PERFORMANCE TO UNDERLYING FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2008**

	NOTE	CURRENT OPERATING PROFIT \$000	FAIR VALUE ADJUSTMENTS \$000	UNDERLYING FINANCIAL PERFORMANCE \$000
Income				
Revenue from rates		191,373		191,373
Revenue from operating activities		109,074		109,074
Revenue from investment property leases		13,577		13,577
Other revenues and gains	1	39,166	(22,620)	16,546
Finance income	2	7,253	(309)	6,944
TOTAL INCOME		360,443	(22,929)	337,514
Expense				
Finance expense	3	21,167	(851)	20,316
Expenditure on operating activities	4,5	250,146	(7,356)	242,790
Depreciation and amortisation		63,615		63,615
TOTAL EXPENSE		334,928	(8,207)	326,721
TOTAL OPERATING SURPLUS		25,515	(14,722)	10,793
Share of equity accounted surplus/(deficit) from associates		-		-
NET SURPLUS BEFORE TAXATION		25,515	(14,722)	10,793
Income tax expense		-		-
NET SURPLUS FOR THE YEAR		25,515	(14,722)	10,793

¹ Fair (ie market) value gain in the Council's investment properties (\$22.6m) – the annual increase in value of these properties. The Council does not budget for the change in value.

² Cash flow hedge gains transferred from equity (\$0.3m)

³ Interest rate swap movements (\$0.9m)

⁴ The other fair value movement (\$0.9m) is in relation to a \$1.6m drawdown of the \$8m loan facility to the Karori Wildlife Sanctuary Trust. The fair value adjustment reflects the expected repayments and the interest free nature of the loan.

⁵ Decrease in the fair value of the Council's loan to the Wellington Regional Stadium Trust (\$6.5m). The fair value of the loan was written down further this financial year to reflect the extension of the payback term of the loan. A gain will subsequently be recognised each year for the increase in fair value as the loan approaches the new repayment date.

As noted in the table, if we remove the fair value adjustments from the Council's reported surplus then the Council's financial performance prior to fair value adjustments is a surplus of \$10.793 million. When compared against the budgeted surplus of \$3.960 million, the Council has an underlying favourable variance of \$6.833 million.

What factors have contributed to the underlying favourable variance?

EXPLANATION OF UNDERLYING VARIANCE:

Vested Assets (non-cash in nature) ¹	10,859
Gain on disposal of property, plant and equipment	846
Unbudgeted external funding towards capital projects ²	1,214
Bequests, special and reserve funds revenue received	190
Loss on disposal of assets	(267)
Insurance costs (net of recoveries) funded through self insurance reserve	(531)
Restatement of Provisions	(2,838)
Additional net expenditure from Wellington Waterfront Project and Porirua Joint Ventures	(2,204)
Additional dividend from Wellington International Airport Limited	964
Reduction in rates revenue	(636)
Reduction in Development Contributions revenue	(385)
Plimmer Trust capital funding requirement deferred	(450)
Other net variances ³	71
TOTAL FACTORS CONTRIBUTING TO THE UNDERLYING FAVOURABLE VARIANCE	\$6,833

¹ Vested assets are those assets where ownership and control are transferred to the Council from a third party. For the 30 June 2008 financial year, the majority (\$10.5m) relates to infrastructural assets received from developers.

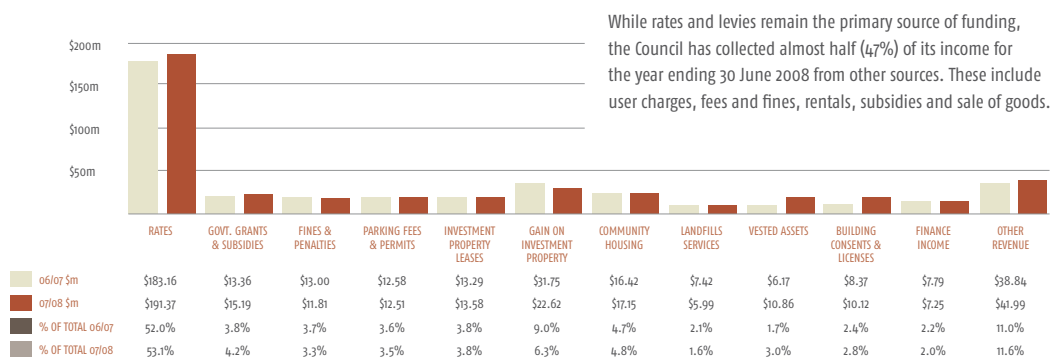
² The Council has received unbudgeted external revenue for a number of projects, including the Mt Victoria upgrade, bus lane improvements, Newlands Community Centre and Chews Lane Precinct.

³ Other net variances comprise increased programmes, projects and organisational costs. These variances are further explained in the cost of service statements in the Statement of Service Performance.

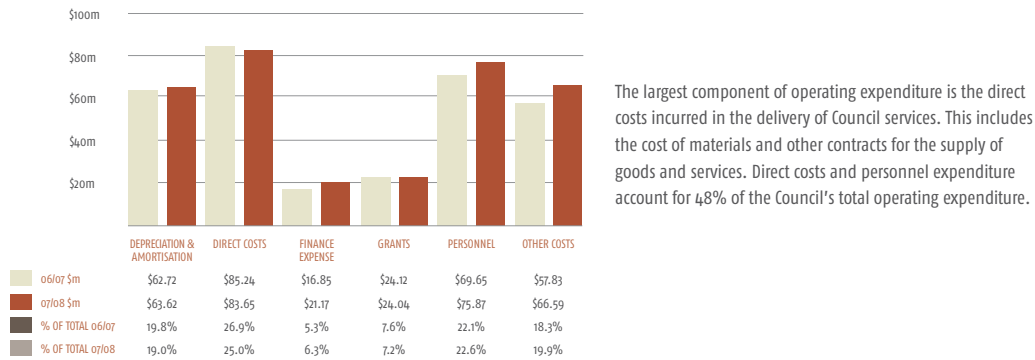


Highlights from the Council's Financial Statements

SOURCES OF THE COUNCIL'S OPERATING INCOME



UNDERSTANDING THE COUNCIL'S OPERATING EXPENDITURE



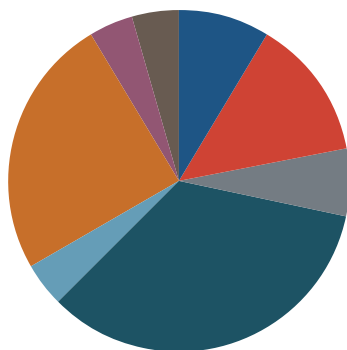
KEEPING OUR CITY RUNNING – COST OF SERVICES PER RESIDENT

The Council provides a broad range of services that enhance the well-being of residents and their quality of life and which help to make Wellington internationally competitive.

The chart below provides a breakdown of the cost of services for each of our Strategies. The chart shows the total cost per Wellington resident – the total expenditure of the Council is a reflection of the number of residents the Council serves rather than the number of ratepayers within Wellington.

OPERATING COST BY STRATEGY

DELIVERY OF OUTPUTS (OPEX) WHAT DOES IT COST TO RUN THE CITY?



URBAN DEVELOPMENT	\$28.8m	(8.6%)	\$151 PR	\$0.41 PR PER DAY
TRANSPORT	\$44.3m	(13.2%)	\$233 PR	\$0.64 PR PER DAY
ECONOMIC DEVELOPMENT	\$21.7m	(6.5%)	\$114 PR	\$0.31 PR PER DAY
ENVIRONMENT	\$114.0m	(34.1%)	\$599 PR	\$1.64 PR PER DAY
CULTURAL WELL-BEING	\$14.0m	(4.2%)	\$73 PR	\$0.20 PR PER DAY
SOCIAL AND RECREATION	\$82.9m	(24.7%)	\$435 PR	\$1.19 PR PER DAY
GOVERNANCE	\$14.4m	(4.3%)	\$76 PR	\$0.21 PR PER DAY
COUNCIL	\$14.9m	(4.4%)	\$78 PR	\$0.21 PR PER DAY

COST OF DELIVERING INDIVIDUAL ACTIVITIES AND SERVICES TO WELLINGTON RESIDENTS

The following table provides a detailed breakdown of the cost of significant services and facilities.

ACTIVITY CLUSTER	TOTAL COST (\$'000)	PERCENTAGE	COST PER RESIDENT	COST PER RESIDENT PER DAY
Building control and facilitation	10,760	3.2%	\$56.48	\$0.15
Car parking	10,000	3.0%	\$52.49	\$0.14
City promotion & events	21,202	6.3%	\$111.30	\$0.30
Community Housing	16,726	5.0%	\$87.80	\$0.24
Community support	8,077	2.4%	\$42.40	\$0.12
Development control and facilitation	5,022	1.5%	\$26.36	\$0.07
Environmental conservation attractions	5,118	1.5%	\$26.87	\$0.07
Galleries & museums	6,245	1.9%	\$32.78	\$0.09
Gardens & beaches	12,058	3.6%	\$63.30	\$0.17
Green open spaces	13,758	4.1%	\$72.22	\$0.20
Information, consultation & decision making	14,291	4.3%	\$75.02	\$0.21
Libraries	21,366	6.4%	\$112.16	\$0.31
Public health & safety	10,886	3.2%	\$57.14	\$0.16
Public space development	10,048	3.0%	\$52.75	\$0.14
Recreation facilities and programmes	25,823	7.7%	\$135.55	\$0.37
Transport networks	33,695	10.1%	\$176.88	\$0.48
Waste reduction & energy conservation	9,291	2.8%	\$48.77	\$0.13
Wastewater & stormwater	45,565	13.6%	\$239.19	\$0.66
Water supply	27,981	8.3%	\$146.88	\$0.40
Other activities	27,016	8.1%	\$141.82	\$0.39
GRAND TOTAL	334,928	100.0%	\$1,616.34	\$4.43

The total number of residents of Wellington City is estimated to be 190,500 by Statistics NZ.

Wastewater & stormwater, transport networks and water supply make up 32% of total operating expenditure of the Council. The cost of these services per resident in Wellington is \$1.26 per day



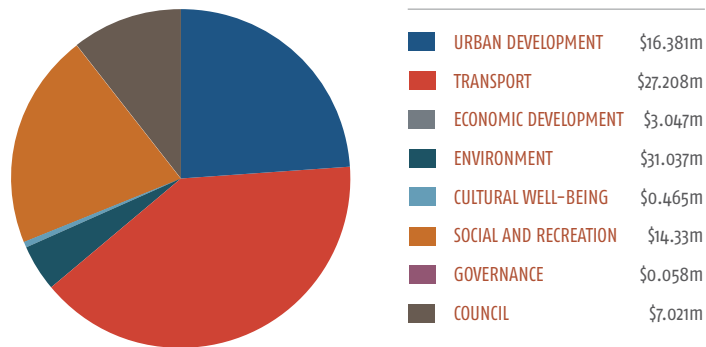
Investing in the assets of the City

COUNCIL CAPITAL EXPENDITURE PROJECTS

The Council has continued to invest in the city, completing nearly \$100 million of capital expenditure during the 2007/08 financial year as follows:

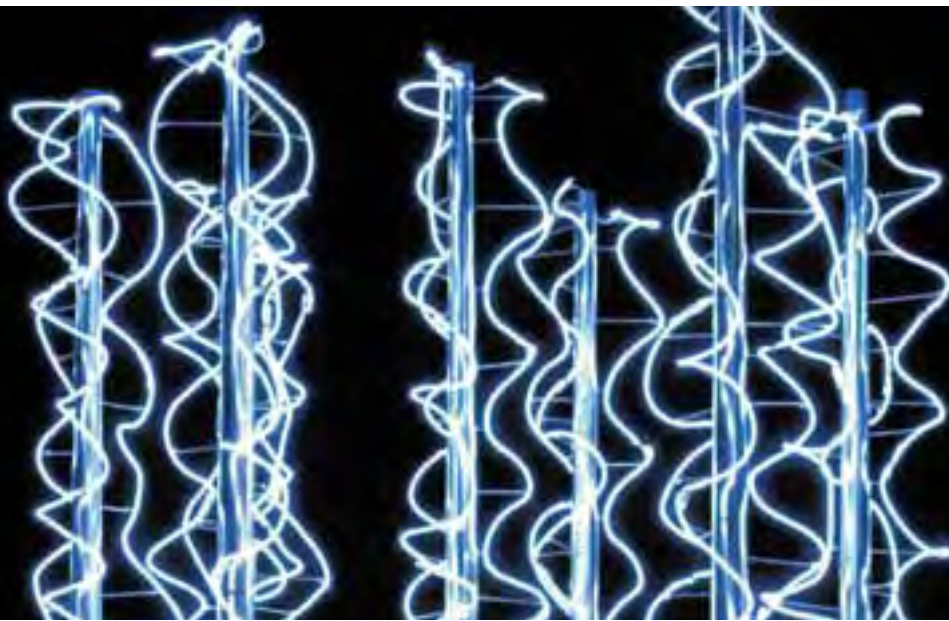
BREAKDOWN OF CAPITAL EXPENDITURE

CAPITAL EXPENDITURE PROJECTS BY STRATEGY 2007/08



Major capital expenditure projects undertaken during the year include:

- Infrastructure Upgrades
- Events Centre Upgrade
- Renovation of the Zoo hospital and amphitheatre
- Renewal of library collections
- Refurbishment of housing stock

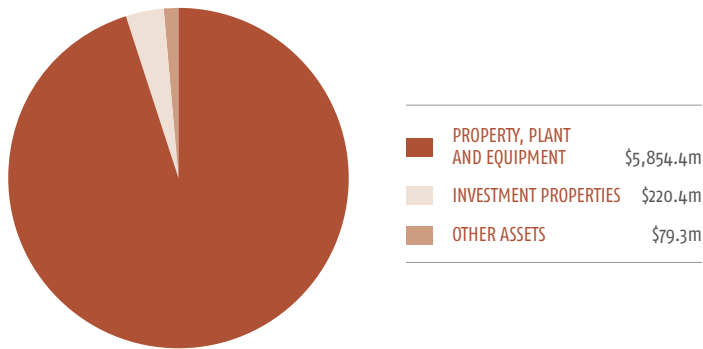


The Council's Financial Position

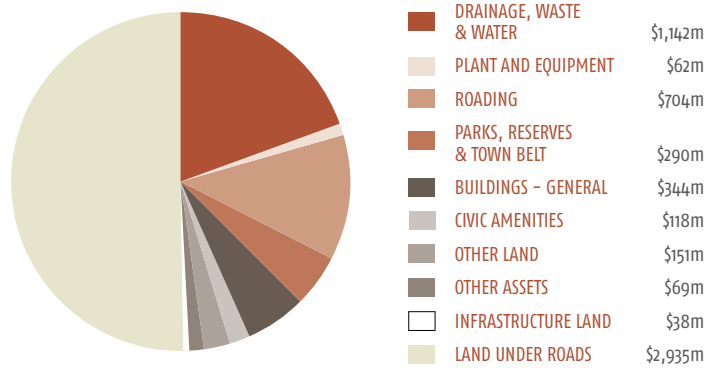
The Statement of Financial Position reflects a net asset position of \$5,813.1 million for the Council as at 30 June 2008. This comprises total assets of \$6,154.1 million, less total liabilities of \$341.0 million. Further information in respect of key Statement of Financial Position balances is outlined below.

BREAKDOWN OF OUR ASSETS

COMPOSITION OF THE COUNCIL'S ASSETS (ACTUAL 2008)



BREAKDOWN OF PROPERTY PLANT AND EQUIPMENT AND INTANGIBLE ASSETS



Infrastructure land and land under Wellington's roads, makes up more than half of Council's Property Plant and Equipment assets.

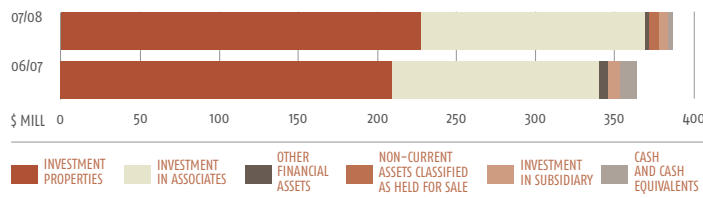
Essential network infrastructure assets for drainage waste and water accounts for a further 19% (\$1,142 million) of the Council's property plant and equipment.



BREAKDOWN OF OUR INVESTMENTS

This asset category comprises investment properties, investments in associates, such as Wellington International Airport Limited and the Wellington Regional Stadium Trust, cash and cash equivalents and other financial assets. During the year there was a significant increase in investment properties following the annual revaluation.

INVESTMENT POSITION – AS AT 30 JUNE 2008



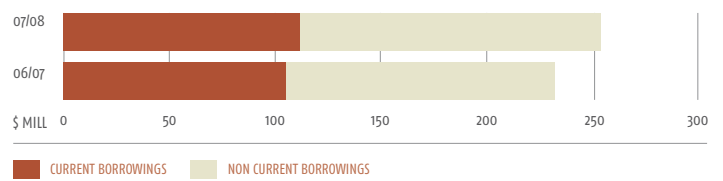
The Council's investment portfolio has increased in value from \$360.761 million to \$381.562 million (an overall increase of \$20.801 million). Growth in the value of the Council investment properties accounts for \$22.620 million of the total growth in investments.

Note: that the Council's investment in associates (including WIAL) is reflected in these figures at the Council's share of the company's equity, not at the value recorded in the Council line within the financial statements where this investment is reflected at original cost.

BORROWINGS

The Council's gross borrowings have increased by \$22.2 million to \$251.6 million as at 30 June 2008. The increase in the Council's level of borrowings reflects the utilisation of funds to complete the 2007/08 capital expenditure programme. The Council borrows to fund the purchase of new assets that Councillors have approved through the Annual Plan process.

BORROWINGS POSITION – AS AT 30 JUNE 2008

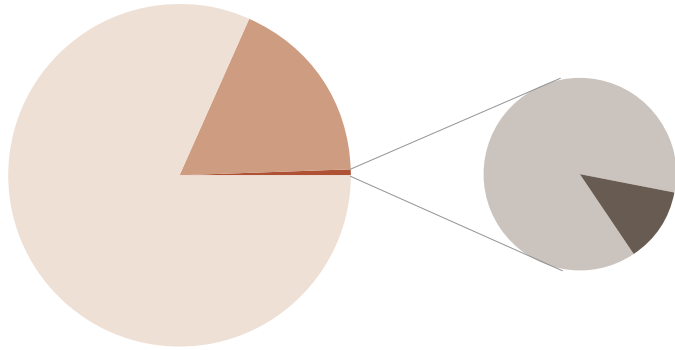


The Council's borrowing portfolio at 30 June 2008 was \$251.554 million compared with a planned budget position of \$295.275 million (a reduction against budget of \$43.721 million).



BREAKDOWN OF COUNCIL EQUITY AT 30 JUNE 2008

EQUITY BREAKDOWN 2007/08



REVALUATION RESERVES	\$1,039m	RESTRICTED FUNDS	\$21m
OTHER	\$24m	HEDGING RESERVE	\$3m
ACCUMULATED FUNDS AND RETAINED EARNINGS	\$4,750m		

Total Council Equity at 30 June 2008 is \$5,813.1 million. This represents an increase of 3.8% from the position at 30 June 2007.

The increase in Accumulated Funds and Retained Earnings is almost entirely due to the recorded profit of \$25.5 million.

The majority of the increase in Revaluation Reserves is due to the revaluation of infrastructure assets of \$189.7 million.

Hedging Reserves have decreased due to changes in the fair value of interest rate swaps.

GROUP HIGHLIGHTS

The Group covers the Council and its interests in associate and subsidiary entities, including the Wellington International Airport Limited and Council Controlled Organisations such as St James Theatre Trust and Capacity. Refer to Note 34 of the financial statements for the full Group structure diagram.

Highlights for the consolidated Group for the period are as follows:

	ACTUAL 2007/08 \$m	ACTUAL 2006/07 \$m
Net surplus	35	36
Total Assets	6,306	6,051
Total Liabilities	346	319
Total Equity	5,959	5,732

For further information on the subsidiaries and associates refer to the detailed notes on pages 145 to 150

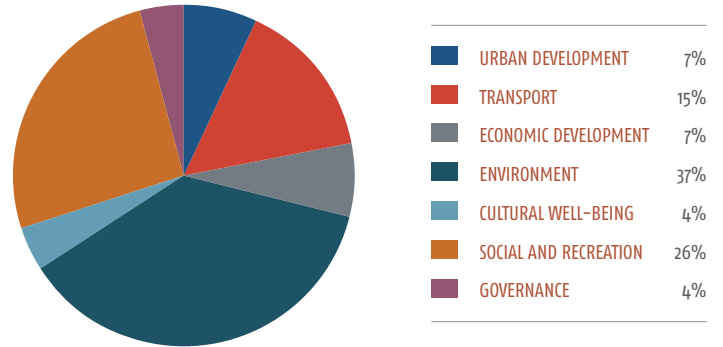


Looking Forward

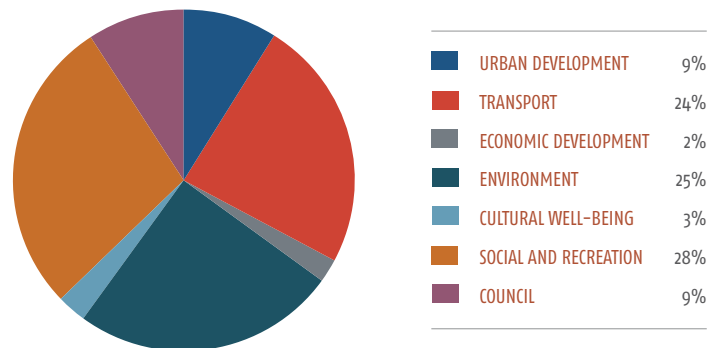
The Council's financial results for the year ended 30 June 2008 reflect the delivery of high quality, cost-effective services and outputs to the residents of Wellington.

Looking ahead, our 2008/09 Annual Plan sets out the Council's planned operating and capital expenditure programmes for 2008/09. The following graphs highlight the Council's spending plans by key achievement area for the 2008/09 financial year:

FORECAST NET OPERATING EXPENDITURE BY STRATEGY 2008/09



FORECAST CAPITAL EXPENDITURE BY STRATEGY 2008/09



NEIL CHERRY CHIEF FINANCIAL OFFICER

