

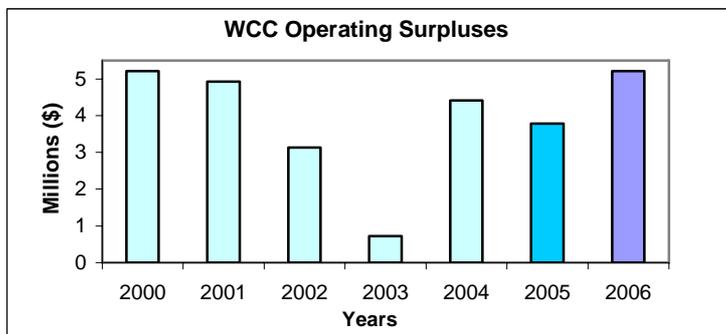
## Financial Overview

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 XX to XX.

## Financial Highlights of 2005/06

### Council Operating Surplus

The Council has delivered an actual operating surplus of \$5.2 million compared with an Annual Plan budget operating deficit of \$3.9 million. This is the seventh consecutive year that the Council has delivered an operating surplus.



The primary reasons for the overall favourable variance of \$9.1 million are:

#### ***Additional unbudgeted revenue and reduced expenditure:***

- Income received from Bequests and special and reserve funds - \$0.6 million
- Additional dividend income received from Wellington International Airport Limited (WIAL) - \$1.9 million
- Net gain on disposal of investment properties and other assets - \$3.0 million
- Favourable financing costs - \$0.9 million
- Assets vested in Council (primarily infrastructure assets following completion of development projects) - \$6.6 million
- Release of investment property revaluation reserve on disposal - \$0.8 million

#### ***Additional revenue:***

- Additional Land Transport New Zealand subsidies on transport related projects - \$0.2 million

#### ***Offset by the non-receipt of budgeted revenue and additional unbudgeted expenditure:***

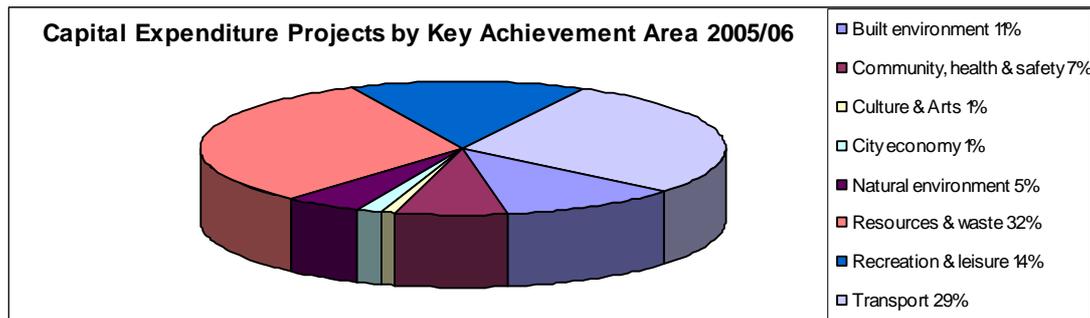
- Additional depreciation arising from revaluations and vested assets (\$5.6 million)
- Net insurance costs funded through the Self-insurance Reserve (\$0.6 million)
- Net expenditure from Wellington Waterfront Project and Council's joint ventures with Porirua City Council (\$0.5 million)
- Lower than budgeted revenue received from development contributions (\$0.2 million)

- Loss on sale of assets (\$0.2 million)
- Bad debts written off (\$0.2 million)

Other net revenue and net savings in programmes, projects and operational costs contribute the remaining \$2.4 million of the actual operating surplus.

### Council Capital Expenditure Projects

The Council has continued to invest in the city, completing \$96 million of capital expenditure during the 2005/06 financial year as follows:



Major capital expenditure projects undertaken during the year include:

- Completion of the Te Aro stormwater culvert
- Installation of a 300,000 litre pump station storage tank in Rongotai
- Upgrading of Council housing properties
- Completion of the new Karori library
- Redevelopment of Glover Park; and
- Significant progression of the Inner City Bypass.

### Group Highlights

The Group covers the Council and its interests in associate and subsidiary entities, such as St James Theatre Trust, Capacity and the Wellington International Airport Limited. Refer to Note 31 of the financial statements for the full Group structure diagram.

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

	<b>\$ millions</b>
Net Surplus	7.4
Total Assets	5,995.0
Total Liabilities	292.9
Total Equity	5,702.1
Revaluation Movements	182.4

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

# Council Financial Performance

## Financial Performance and Movements in Equity

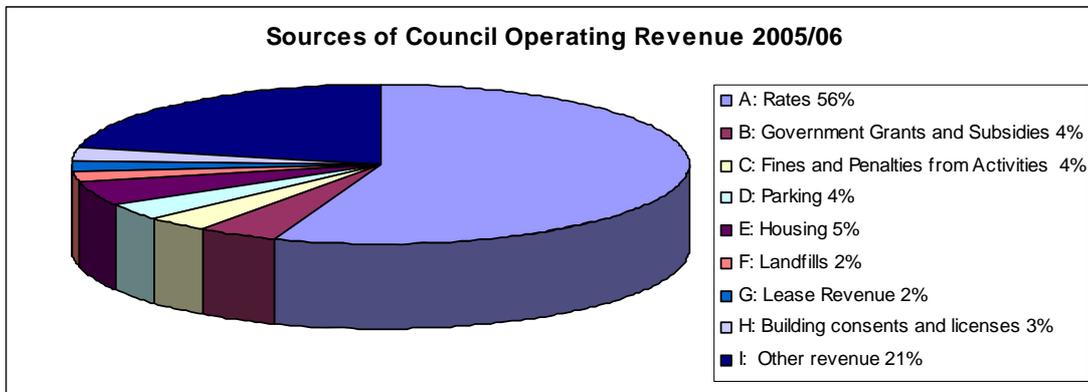
	Actual 2006 \$M	Budget 2006 \$M	Actual 2005 \$M
Operating revenue	306	282	292
Operating expenditure	301	286	288
<b>Net operating surplus</b>	<b>5</b>	<b>(4)</b>	<b>4</b>
Net increase in value of assets	108	-	797
<b>Total movements in equity for the year</b>	<b>113</b>	<b>(4)</b>	<b>801</b>
<b>Equity at end of year</b>	<b>5,563</b>	<b>4,636</b>	<b>5,450</b>

The Council has posted a small operating surplus compared to a planned operating deficit.

The Council's assets increased in value by \$108M during the year.

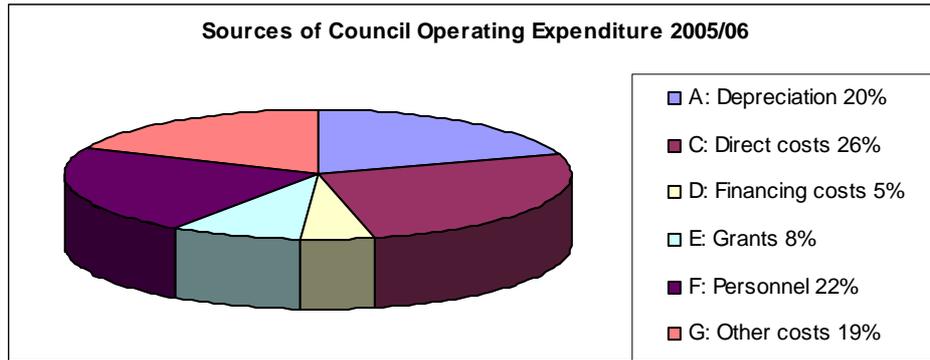
## Operating Revenue

While rates and levies remain the primary source of funding, the Council has collected almost half (44%) of its revenue for the year ending 30 June 2006 from other sources. These include user charges, fees and fines, rentals, subsidies and sale of goods.



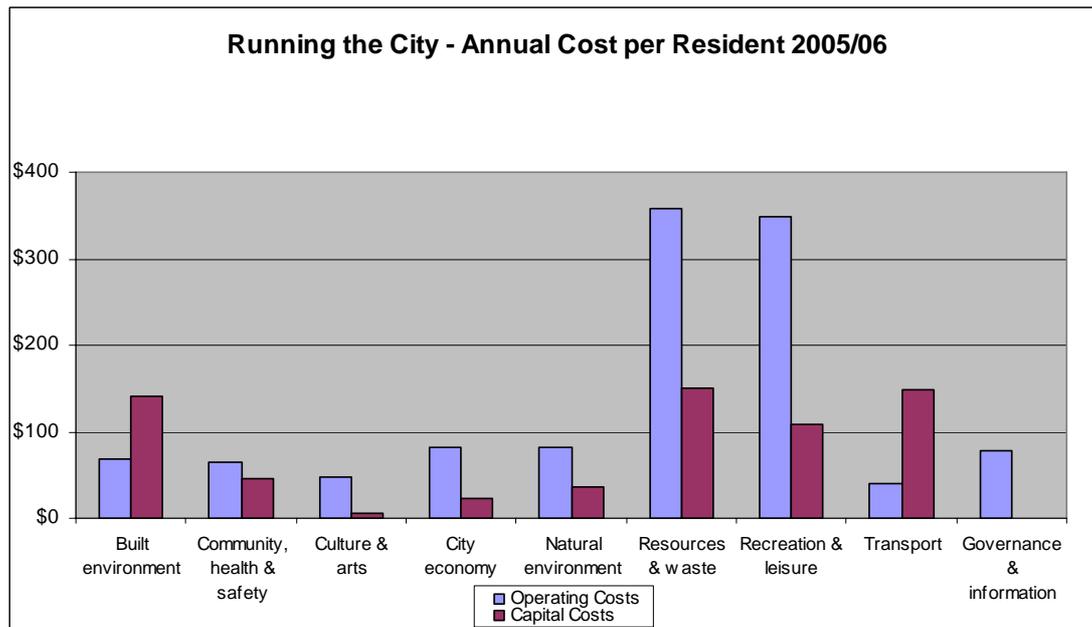
## Operating Expenditure

The largest component of operating expenditure is direct costs incurred in the delivery of Council services. This includes the cost of materials and other contracts for the supply of goods and services. Direct costs and personnel expenditure account for 49% of the Council's total operating expenditure.



## Running the City – what it cost per resident

This table outlines the proportion of operating costs and capital expenditure per Wellington resident by key achievement area. Net operating costs are amounts that the Council spent on its day-to-day operations and services such as collecting rubbish, providing street lighting and issuing building consents. Capital expenditure is the amount that the Council spent on purchasing, constructing assets (eg libraries and swimming pools).



The total number of residents of Wellington City is estimated to be 183,500 by Statistics NZ.

# Council Financial Position

## Net Assets as at 30 June 2006

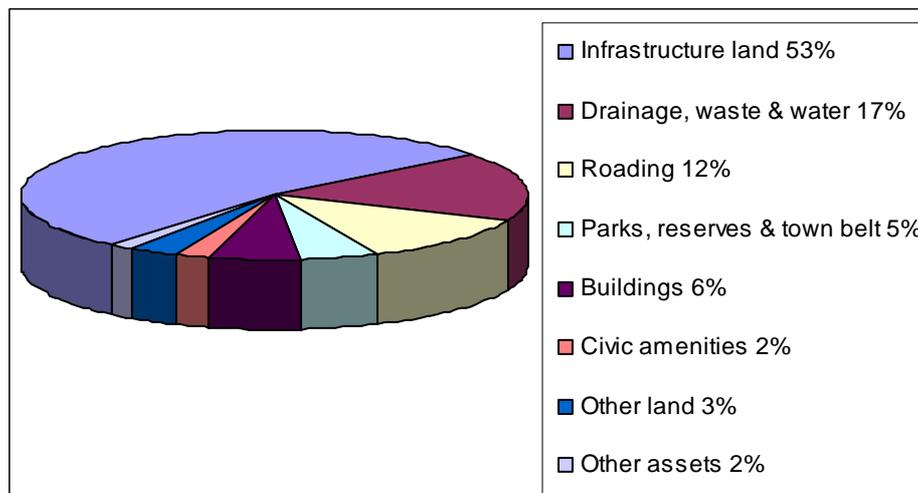
	Actual 2006 \$M	Budget 2006 \$M	Actual 2005 \$M
Total assets	5,850	4,941	5,690
less total liabilities	287	306	240
<b>Net assets at end of year</b>	<b>5,563</b>	<b>4,635</b>	<b>5,450</b>

The Council now has equity of nearly \$5.6 billion.

## Property, Plant and Equipment

Of the Council's total assets (\$5.85 billion), \$5.59 billion is invested in the property, plant and equipment of the City. The following graph identifies the major components of this property, plant and equipment:

### Composition of Property, Plant & Equipment



# Council Cash Flows

## Cash Flows

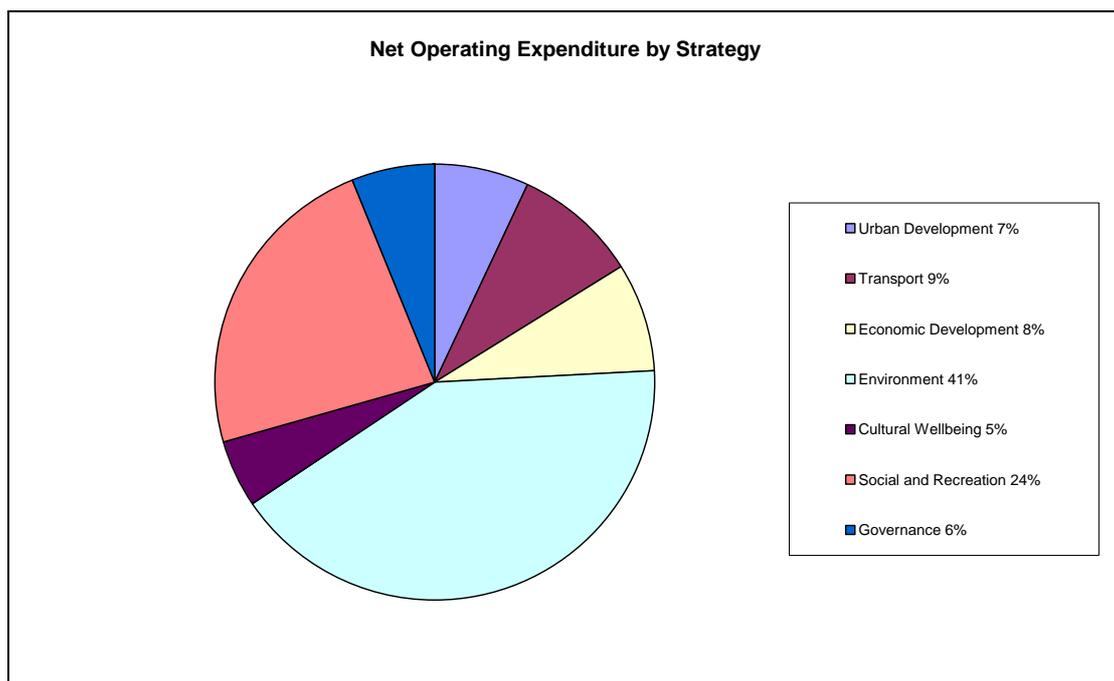
	Actual 2006 \$M	Budget 2006 \$M	Actual 2005 \$M
Net cash inflow from operating activities	53	49	56
Net cash outflow from investing activities	(104)	(112)	(78)
Net cash inflow from financing activities	47	63	23
Net cash inflow/(outflow) for the year	(4)	-	1

The Council's cash balances reduced slightly during the period. Net cash inflows from operating activities and financing activities (i.e. increased borrowings) were invested in new assets for the City and renewals/upgrades for the existing asset base.

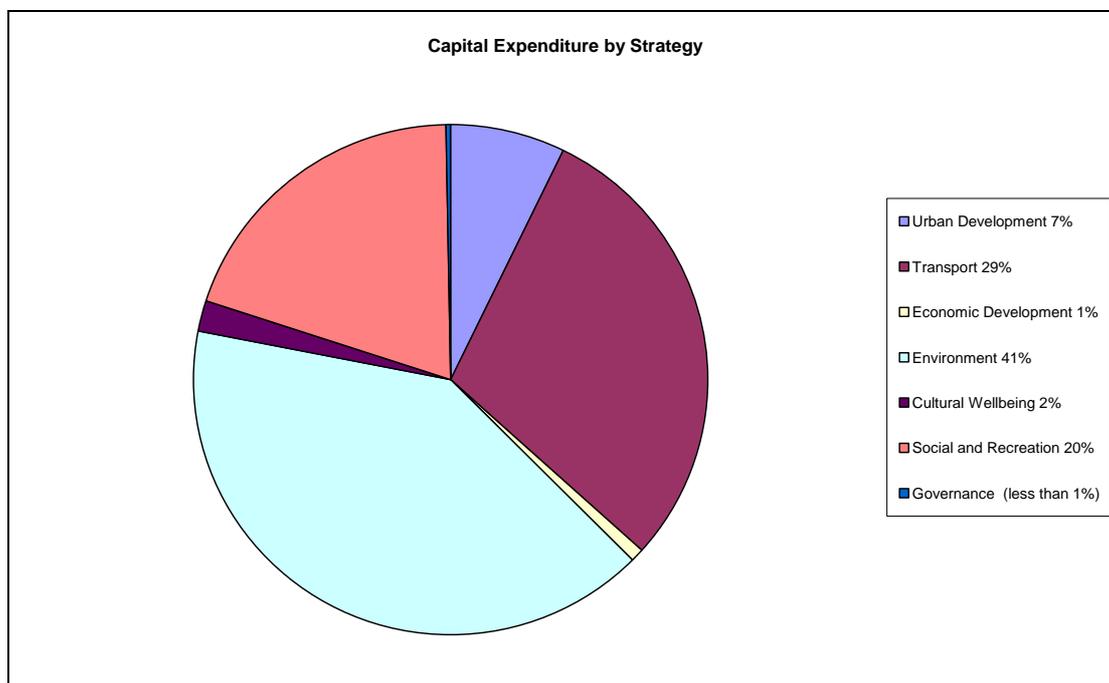
## Looking Forward

The Council's financial results for the year ended 30 June 2006 reflect the delivery of high quality, cost-effective services and outputs to the residents of Wellington. Looking ahead, our 2006/07 Long Term Council Community Plan (LTCCP) sets out the Council's planned operating and capital expenditure programmes for the years 2006/07 through 2015/16. The following graphs highlight the Council's spending plans by key achievement area for the 2006/07 financial year:

### Net Operating Expenditure by Strategy



## Capital Expenditure by Strategy



## Transition to New Zealand equivalents of International Financial Reporting Standards (NZ IFRS)

The Council will adopt NZ IFRS for the period commencing 1 July 2006. We have included a summary within this Annual Report which highlights how we are managing the transition, the key differences in accounting policies that are likely to arise from adopting NZ IFRS and the likely impact of NZ IFRS on the Council's financial statements. The summary is included on pages **XX** to **XX**. The Annual Report for the year ending 30 June 2007 will include the Council's first set of financial statements prepared in accordance with NZ IFRS.

Neil Cherry  
**Chief Financial Officer**