

## 7. SIX MONTHLY REVIEW OF ANNUAL PLAN IMPLEMENTATION

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Corporate Plan Output: Overview	

The purpose of this report is to review the financial operations of the Council for the six months to 31 December 1999 and to update the Council on business unit surpluses and over expenditures to enable re-allocation of resources, if required.

### **COMMENT ON MAJOR CATEGORIES OF INCOME/EXPENDITURE AND VARIATIONS FROM BUDGET**

#### **Expenditure with Corporate Wide Impact**

Depreciation is under budget by \$1.4M. This is principally due to two main factors. Firstly, delays with capital expenditure that will result in the charge for the year being less than estimated. Secondly, delays in the capitalisation of projects. The depreciation on these assets will be charged in the second half of the year and will be approximately \$490,000. That is the result to the 31 December is overstated by this amount.

Electricity charges are understated by an estimated \$1.1M due to the change in electricity supplier resulting in invoices not having been received for part of October and the months of November and December. This expenditure will be brought to account when the invoices are received.

#### **Other Significant Transactions**

There are likely to be delays in the funding for the new Art Gallery in this the current financial year which could result in a shortfall for 1999/2000 of up to \$550,000 on private and business donations. In addition the receipt of Lottery Commission and other grants (\$1.6M) are likely to be delayed.

The Canterbury Rugby League Contribution to the Show Grounds relocation project is currently \$50,000 under budget. The annual budget is \$100,000 and relates to the transfer of Rugby League Park to the CRFL. The CRFL is unlikely to make this payment. It is likely to seek a review of the original arrangement that has involved payments of \$400,000 by the CRFL to the Council to date.

#### **Corporate Revenues**

Corporate revenue is principally below budget by \$1.7M due to the shortfall in interest income of \$2.0M. This is due to delays in receipt of the capital repatriation funds from Christchurch City Holdings Limited.

## **Operational Expenditure**

Overall expenditure on rate funded accounts at \$68.3M is \$2.6M below budget for the six months to 31 December. The main items of over and under expenditure likely to have an effect on the end of year results are:

***Finance Directorate*** – The \$207,000 underspending against budget is principally due FAMIS depreciation costs not being incurred yet and other expenditure on the project being rescheduled. This should result in a surplus of \$280,000 for the year.

***Management Information Services*** – The net cost currently exceeds budget by \$305,000. The major factors include the over expenditure on the Microsoft Select Agreement costs from these being higher than those budgeted; unbudgeted return of a seconded Business Analyst working on the new corporate Customer Services system and delays in actioning software development recoveries.

***Library & Information Services*** –It is expected that the final result will be close to budget at year end. A request for additional funding of \$15,000 is included later in the report.

***Plant and Building Services*** - At 31 December P & B Services is over budget by \$1.0M. This position is partly due to unbilled WIP of \$370,000. The result also includes additional costs resulting from the transfer of the Mechanical Services Section into Canroad Construction Limited. The overall net result for the year will be worse than budget by the amount of these additional costs that are still being finalised.

***Leisure*** - The over expenditure of \$569,000 is the result of a combination of factors. The major ones are as follows:

Revenue is estimated to be down by \$480,000 in the following areas:

\$50,000 for Outdoor Pools as a result of the poor summer weather.

\$140,000 reduction in revenue due to a combination of factors including the loss of the major sponsor for Classical Sparks, the impact of the delay in reopening of the Square on the Cathedral Square Stalls and the loss of three major events to the WestpacTrust Centre by Pioneer Stadium.

\$190,000 for QEII due to the impact of opening the two new pools.

\$23,000 for QEII Fun Park due to there only being two concessions remaining.

\$77,000 for QEII Stadium as a result of lower than projected usage.

Expenditure is expected to be over budget for QE II by \$72,000.

It should also be noted that admissions at the two leased pools, Wharenui and Jellie Park, have been adversely impacted by the opening of the two new pools. This may impact on the rentals that are set when the two leases are renegotiated.

The year end result therefore may be over budget by \$552,000. The Leisure Unit advises that this is a worse case scenario. Operational savings are being identified in other areas. However, there is limited ability to reduce maintenance expenditure as much of this was undertaken prior to the summer or before major events such as FIFA Under 17 World Soccer Championship and the World Wheelchair games.

Note: The Committee has requested the Parks and Recreation Committee to monitor the situation on a monthly basis with a view to minimising the shortfall.

**Property** –The year end position is expected to be close to budget. However, there are \$250,000 of savings that are available for reallocation due to reduced expenditure being needed for Civic Offices improvements.

**Housing** – The operating result is \$584,000 ahead of budget due to higher than budgeted rental income combined with lower than budgeted expenditure. The annual result is likely to be ahead of budget by at least \$700,000. However, this surplus is not available for reallocation as Council policy provides that it is to be transferred to the Housing Development Fund.

**Parking** – The operating surplus currently exceeds budget by \$192,000. As revenue is lower in the second half of the year, it is anticipated that the result for the year will be ahead of budget by \$100,000 so \$100,000 is available to be allocated for other initiatives.

**Water Services** - The actual net cost of operations is currently \$789,000 under budget. This position is expected to reverse by year end with the unit likely to be \$300,000 over budget.

**Waste Management** - At 31 December, Waste Management was under spent against budget by \$2,153,000. The Liquid Waste operations are \$987,000 under budget principally due to the change in electricity supplier resulting in invoices for a total of \$213,000 not having been received for the Christchurch Treatment Works and the sewerage pumping stations; higher than budgeted revenues for trade waste, reticulation and pumping; delays in commencing or completing projects, and lower maintenance costs. These trends, electricity charges excepted, are expected to continue resulting in the net cost for Liquid Waste operations being an estimated \$930,000 under budget for the year.

A combination of delays in incurring expenditure on Solid Waste activities and higher than budgeted revenue for refuse collection meant that these operations were \$1,165,000 under budget for the first 6 months. The Waste Management Unit also expects that these trends will continue with the likely result being a net under expenditure of \$618,000 for the year.

Requests for reallocation of these surpluses to capital projects are included below.

**City Streets** - The result for the six months shows under expenditure against budget of \$557,000. This is due to a number of factors. The most significant is the delay in receiving electricity charges of \$716,000 in total for street lighting and traffic lights. Underground wiring conversion is \$820,000 behind budget. Offsetting these are the lower than budgeted revenues from Transfund due to capital expenditure delays and the delays in charging capital works implementation costs to their respective capital projects. The City Streets Unit is projecting a small over expenditure of \$80,000 to \$100,000 (0.2%) at year-end. While all steps will be taken to avoid this situation, there are unknowns, especially in the maintenance which means that this small overspend may not be able to be prevented.

**Works Operations** - The year-end projected result is not expected to be achieved due to the residual costs of approximately \$1M being incurred with the transfer of its operations to Canroad Construction Limited.

### **Summary - Operating Result**

Overall, it is likely that the budgeted Operating Surplus will **not** be achieved because the current favourable position against budget is the result of delays in recording expenditure. Electricity costs are understated by \$1.1M; the depreciation on new assets, where their capitalisation has been delayed, is understated by approximately \$0.5M and projects or expenditure of at least \$0.5M, budgeted in the first half of the year, will be incurred in the second half of the year. Tight management and monitoring of the situation for the remainder of the year are required to ensure that actual result is close to budget.

It is likely that the surplus after other transactions will be better than budget as a result of the vested assets income exceeding the budget for the year. However, this does not represent cash income and is therefore not available to finance any over expenditure in other areas.

### **Fixed Assets Expenditure and Sales**

At 31 December 1999, fixed assets expenditure is running behind budget by \$13.3M with no budget reduction for unspecified carry forwards being provided for in the 1999/00 year. Lower expenditure than budgeted on plant in the period running up to the corporatisation of the Works Operations Unit of \$2.1M and delays in the starting of significant projects account for the majority of this under expenditure. The balance is made up of smaller sums relating to the timing of actual expenditure against budget. Some savings have been identified later in the report.

The budgeted net sales proceeds from the sale of surplus and development properties will be significantly below the amount budgeted. This is principally due to the properties that remain to be sold having significant complexities and challenges.

## SAVINGS AND OVER EXPENDITURE IDENTIFIED

### Operational Savings and Additional Revenue

Corporate Revenues	Unbudgeted ACC Experience Rating Discounts	394,000
	Dividends from CCHL	2,200,000
Commercial Property	Reduced expenditure on Civic Offices	250,000
Parking	Operational Savings	100,000
Waste Management	- Liquid Waste Savings	770,000
	- Solid Waste Savings	550,000
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Operational Savings & Additional Revenue		\$4,264,000
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### Operational Shortfalls

Interest Income		\$2,800,000
Leisure Unit	Projected budget overrun	550,000
Water Services	Projected budget overrun	300,000
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Estimated Operational Shortfalls		\$3,650,000
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<b>Estimated Net Operational Surplus over budget</b>		<b>\$614,000</b>
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### Requests for Additional Operational Expenditure

Libraries	Additional Security Costs	15,000
Waste Management	Reallocation to GIS Mapping project to facilitate efficiency gains and to RMF waste minimisation conference	200,000
Corporate	Additional grant to Beautifying Society as per July Council resolution	18,000
Legal Services	Complete Legal Compliance Programme as requested by Audit NZ	20,000
Christchurch and Canterbury Marketing	Additional operating costs of new premises	26,000
Bus Interchange Canterbury	Shortfall for legal & other costs	\$100,000
Development Corporation	ICAN Feasibility Study	29,300
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		\$408,300
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### Fixed Assets Sales

Expected net shortfall in Sales of Surplus and Development Properties for the year		\$1,777,000
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## Capital and Infrastructural Savings

Plant & Building Services	Vehicles & Plant	2,200,000	
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Total Savings		\$2,200,000	
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<b>Net Capital &amp; Infrastructural Savings</b>		<b>\$423,000</b>	
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## Capital and Infrastructural Requests for Additional Expenditure

Parks	- Giant's Nose Property on Port Hills	75,000	
	Cunningham House Roof Upgrade	61,700	
	Pier Terminus Building Site Works	105,000	
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			241,700
Waste Management	- Reallocation of operational to specified capital projects		1,120,000
City Streets	- Merivale Cycle Route		80,000
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Total Requests for Additional Expenditure			\$1,441,700
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## Capital and Infrastructural Projects Delayed to be Rebudgeted in the 2000/01 year

Property	- Fendalton Library & SC co-location	140,000	
	Canterbury Provincial Chambers	300,000	
	- Spreydon Library	2,000,000	2,440,000
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Housing	Hornby Stage I	2,050,000	
	Cecil Place	1,000,000	3,050,000
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Library & Information Services	Spreydon Library Fitout		182,729
City Streets-	Roading Projects		1,587,187
	SCATS Upgrade		(150,000)
Liquid Waste-	- Flow Monitoring	300,000	
	- Consent Hearing for CWTP	500,000	800,000
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<b>Total to be Rebudgeted 2000/01 year</b>			<b>\$7,909,916</b>
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## COMMENTS

### Operational

As noted earlier in this report, the Council is likely to struggle to achieve its budgeted Operating Surplus. This is due to many of the units showing below budgeted cost positions being in that position as a result of expenditure being incurred later than in the budget. The total amount involved, exclusive of electricity and depreciation exceeds \$1.5M. Therefore, it is recommended that no additional operational expenditure be authorised apart from previously approved initiatives and commitments:

• Bus Interchange legal costs	\$100,000
• Additional Grant to Beautifying Society	\$18,000
• Complete Legal Compliance programme	\$20,000
• Christchurch and Canterbury Marketing - new premises operating costs	\$26,000

The Library and Information Unit's request is not supported as savings of \$15,000 should be able to be found in a budget of \$9.9M.

The CDC's request for additional funding for the ICAN feasibility study is not supported as the Council consciously budgeted a specific amount.

The Leisure Unit's request for funding of the anticipated shortfall has not been recommended for approval as the Unit should endeavour to minimise this shortfall. It has however been taken into account in assessing the overall corporate position as some shortfall can be expected. The calculated shortfall for Water Services has also been similarly treated.

Of the savings identified, \$1.32 million relate to the Waste Management Unit and were identified by the Unit as savings that could be made to fund other needs of the unit or increased capital commitments. These requests are all worthwhile reallocations or commitments already incurred within the unit and should be supported, namely:

Operating:

▪ GIS Mapping project to facilitate efficiency gains	\$150,000
▪ Underwrite Waste Minimisation Conference	\$50,000
▪ Capital: Shortfall in Trailer Weighing Project	\$500,000
▪ Site Purchase Randolph Street Pumping Station	\$100,000
▪ CWT - UV Trials	\$150,000
▪ CWT - Asbestos removal	\$200,000
▪ CWT - Land Mecca Place	\$70,000
▪ GIS Mapping Part only to balance savings identified	<u>\$100,000</u>
Total	<b><u>\$1,320,000</u></b>

After taking account of the above-mentioned items, the impact on the Operational Surplus is negative. In the context of the Council's overall budget the calculated amount is relatively small but in view of the expected tight operating result from the next six months, it is recommended that no further allocations be made at this time.

## Capital

The capital has been split into two components, as they need to be treated differently. The projects which we know are delayed (\$7.91M) should be rebudgeted for the next financial year. \$1.91 million can be treated as carry forwards and the remaining \$6 million deleted from this year's budget to match the expectation of the Annual Plan for a reduction in the total capital works. As noted earlier in this report the rebudgeting of the \$6 million will require a similar adjustment for next year to balance the impact of this rebudgeting arrangement. This action will give more certainty to the current year's capital funding requirements and help optimise interest costs. As these projects have already been approved and are only delayed, units need certainty that they will be retained in the next year's budget for planning purposes.

Given the likely operational shortfall and that there is only a small net capital and infrastructural saving, it is recommended that apart from the Waste Management Unit items detailed above and the specific Parks Unit requests listed (which are in the nature of committed works or relate to health and safety), that no additional new capital expenditure be approved.

The Statement of Financial Performance for the period 1 July to 31 December 1999 is attached.

- Recommendation:**
1. That the information be received.
  2. That, provided the Waste Management Unit specify the source of the savings of \$1.32 million to the satisfaction of the Director of Finance, the reallocations referred to above totalling that amount, be approved.
  3. That provision be made for \$18,000 to cover the additional grant to the Beautifying Society, \$20,000 for the completion of the Legal Compliance Programme, \$100,000 for the Bus Interchange initial feasibility and legal costs and \$26,000 for Christchurch and Canterbury Marketing premises cost.
  4. That no additional operating expenditure be approved.
  5. That \$241,700 of the expected net capital expenditure savings be reallocated to cover the committed Parks Unit's projects noted above.
  6. That no additional capital expenditure be approved.
  7. That \$7.91M of identified expenditure be deleted from the 1999/00 budget and that \$1.91 million be carried forward to 2000/01 and the balance be rebudgeted in 2000/01.



8. That \$6.0M of these capital projects that have been delayed and that are to be re budgeted in the 2000/01 year be identified as covering the 1999 Plan Provision for Unspecified Carry Forwards.
9. That \$150,000 of the SCATS2 upgrade and computer costs budget be brought forward to 1999/00.
10. That \$80,000 be provided for part funding of the purchase of property for the Merivale cycle route.