

7. SIX MONTHLY REVIEW OF FINANCIAL PLAN AND PROGRAMME 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 2000 and to update elected members on business unit surpluses and over-expenditures to enable re-allocation of resources, if this is required.

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

Expenditure with Corporate Wide Impact

Depreciation is under budget by \$0.9M. This is principally due to three 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 \$75,000. That is the result to 31 December is overstated by this amount.

As capital expenditure is funded from a combination of depreciation and operating surpluses, it is essential that any savings in this area are allowed to remain in the Operating Surplus.

Corporate Expenses

Expenditure is \$1.4M under budget principally due to interest expense being \$0.6M under budget. There is also a credit of \$0.2M from accident insurance savings. These savings, in accordance with the Council's resolution, are being transferred to a special fund to provide cover for any catastrophic ACC claim as the Council is liable to pay the first \$1.6M.

Interest expense is under budget due to lower than budgeted borrowings during the period as a result of a higher than budgeted level of carry forwards from the 1999/2000 year and lower than budgeted operating and capital expenditure in the first six months of the fiscal year. Interest expense is expected to be under budget for the full year by \$0.6 million.

Contingencies are underspent at the six months by \$0.2M but are largely earmarked for items that have yet to come to charge.

Corporate Revenues

Corporate revenue is above budget by \$1.0M due to the shortfall in interest income of \$0.8M being more than offset by higher than budgeted rates income as well as unbudgeted special corporate revenue of \$0.8M. The lower than budgeted interest income is due to interest income of \$1.8 million not being recorded until January. This leaves the net position as \$1.0M favourable. This favourable position is due to a higher than budgeted level of carry forwards from the 1999/2000 year and lower than budgeted operating and capital expenditure in the first six months of the fiscal year resulting in greater funds being available to invest. Expenditure in the second half of the year is expected to be high and this will reduce invested funds. The projected year end result is that Interest Income will exceed budget by \$0.7 million.

The rates levied for the year exceeded budget by \$0.6M and therefore rates income for the year is expected to exceed budget by this amount.

Operational Expenditure

Overall net expenditure on significant activities at \$51.7M is \$6.9M below budget for the six months to 31 December. The main items of over and under expenditure relate to:

1. **Waste Management** - At 31 December, Waste Management was under-spent against budget by \$1,059,000. This is principally due to three main factors. Firstly, revenue for cost share contributions for sewerage being \$100,000 ahead of budget. Secondly, delays with expenditure being incurred of approximately \$550,000. Thirdly invoices totalling \$300,000 have not yet come to charge. Fourthly, savings on liquid waste reticulation and pumping of \$275,000.

Offsetting, these savings and delays with expenditure being incurred or recorded, is the substantially lower than budgeted revenue from solid waste operations. This trend is expected to continue for the rest of year with budgeted volumes being 19 thousand tonnes under budgeted levels.

When the substantially lower than budgeted revenue from solid waste operations and delays with expenditure being incurred or recorded are taken into account, Waste Management Unit expected to exceed budget by \$467,000 for the year. However, expenditure reductions have been agreed with the City Services Committee that should reduce the deficit against budget for the year to \$367,000.

2. **Library & Information Services** – At 31 December, the Libraries Unit is \$804,000 underspent. This is due principally to the seasonal nature of some of its expenditure and the delays in incurring expenditure on several major projects. It is expected that the final result will be close to budget at year end.
3. **Water Services** – The actual net cost of operations is currently \$684,000 under budget. This position is expected to reverse by year end because this has been principally caused by delays in receiving accounts or in progressing projects due to delays with projects due to restructuring and staff changes.
4. **Community Relations** - Currently running under budget by \$654,000. The under expenditure relates principally to a number of significant projects not being performed until the second half of the year. It is expected the final result will be close to budget at year end.
5. **Property Asset Management**– The operating surplus is principally \$452,000 under budget due to the net effect of multiple savings and delays in expenditure being less than the shortfalls in revenue, earlier than planned expenditure and unbudgeted increases in expenditure. The year end position is expected to be \$245,000 under budget as a result of expenditure on rates and maintenance being lower than budgeted for a number of properties.
6. **Parking** – The operating surplus currently exceeds budget by \$435,000. 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.
7. **Environmental Policy & Planning** – Expenditure is currently under budget by \$412,000 principally due to the payment of design and heritage grants being made later than the budget phasing provided for.
8. **Financial Services** – The net cost is running below budget by \$369,000 due to delays in the timing of expenditure. The major item is expenditure related to rating valuation services provided to the Council. There have been delays with the completion of the city’s utilities and QVNZ’s monthly charge for December was not accrued. These amounts will be paid in the second half of the year. The result for the year is expected to be close to budget.
9. **Environmental Services** – The net cost is running below budget by \$304,000. This is mainly due to the timing of revenue and expenditure. Work is continuing to accurately reflect the seasonality of the unit’s operations in its budget. The result for the year is likely to be close to budget.
10. **Corporate Services** – The net cost currently is below budget by \$219,000. The major factors include delays in either recording expenditure or in progressing projects. As a consequence, the unit’s result is expected to be close to budget at year end.
11. **Property Management, Special Projects and Services** – The actual net cost of operations is currently \$209,000 under budget. This position is expected to reverse by year end because this has been principally caused by delays in either recording expenditure or in progressing projects.
12. **City Design** – The unit currently has an operating deficit instead of the budgeted operating surplus and is currently \$203,000 behind budget. This is due to corporate restructuring during the period diverting staff from chargeable projects and the additional time required to complete several major quotation jobs. Improvement is expected in the second six months but the result for the year is estimated to be below budget by \$237,000.
13. **Management Information Services** – The net cost currently is below budget by \$194,000. The major factors include delays in either recording expenditure or in progressing projects. The result for the year is likely to be close to budget.
14. **Leisure** - The under expenditure of \$183,000 is principally the result of two factors. Revenue from the Leisure Centres is \$80,000 ahead of budget. Expenditure across all the operational outputs is slightly lower than budget due to a combination of factors including some delays in incurring expenditure. Assuming that the reduced facilities now being provided at QEII do not result in a substantial drop in patronage, the unit’s result should close to budget.

15. **Information Directorate** – The \$177,000 underspending against budget relates mainly to the new Geodata Team and is not projected to continue. This team was formed through last year's change process to rationalise the maintenance and operation of GIS systems and the provision of the related information to Council business units and external customers. A number of one off costs associated with this change mean that the Information Directorate is likely to be over budget for the year by \$195,000. This is offset by budgeted savings in 2001/02 of \$250,000.

Summary - Operating Result

Overall, it is likely that the budgeted Operating Surplus of \$7.7M will **not** be achieved because the current favourable position against budget is the result of delays in incurring or recording expenditure and there is very substantial unbudgeted expenditure that needs to be incurred as a result of the October 2000 storm. Details of this unbudgeted expenditure is contained in the 'Requests for Additional Operational Expenditure' section of this report. However, the favourable position with corporate revenues and expenses should be sufficient to cover this additional unbudgeted expenditure.

Given this, 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 2000, fixed assets expenditure is running behind budget by \$7.0M with no budget reduction for unspecified carry forwards being provided for in the 2000/01 year.

Fixed assets expenditure is principally running behind budget because of lower expenditure than budgeted on plant in the period running up to the corporatisation of maintenance services and as a result of flow on effect from the corporatisation of the Works Operations Unit on 1 December 1999. Delays in the starting of significant projects account for the majority of the remaining under expenditure. The most significant of these are Spreydon Library (1.0M) and the new Art Gallery (2.6M). There have been some savings identified and these are listed later in the report.

The budgeted net sales proceeds from the sale of surplus and development properties will be at least \$245,000 below the amount budgeted. This is principally due to the properties that remain to be sold having significant complexities and challenges.

Infrastructural Assets

Actual expenditure to 31 December is \$25.7M against a budget of \$30.9M. At this stage, the policy units estimate that budgeted expenditure targets will be met.

The \$6M provision for unspecified carry forwards on page 101 of the 2000 Plan needs to be identified and be re-budgeted in 2001/2002. This report identifies \$4.66 million of the \$6 million identified in the plan which leaves a further \$1.34 million to be identified by the end of the year. To achieve the ongoing benefit of this deferral, a similar provision must be included in the 2001 Plan. The problem this year is that the policy units have not yet identified \$6M of projects that will not be completed where no substitution is being requested.

Restricted Assets

Parks \$1.1M and Property \$0.2M account for the bulk of the under expenditure at 31 December. The under expenditure relates to delays in implementation. It is expected that the year end projections will be achieved or the expenditure will need to be carried forward.

SAVINGS AND OVER-EXPENDITURE IDENTIFIED

Operational Savings and Additional Revenue

Corporate Revenues	Unbudgeted ACC Experience	95,000
	Rating Discounts	
	Profits returned by Canterbury Technology Park Ltd	573,000
	Higher than budgeted Rates income	600,000
	Higher than budgeted Interest Income	700,000
	Lower than budgeted Interest Expense	600,000
Property Asset Management	Reduced expenditure net of revenue shortfalls	247,000
Parking	Increased Revenue	100,000

Operational Savings & Additional Revenue		\$2,915,000

Operational Shortfalls

Parks		\$900,000
City Streets		620,000
Waste Management		367,000
Legal Services		100,000
City Design		237,000
Information Directorate		200,000

Estimated Operational Shortfalls against Budget		\$2,424,000

Estimated Net Operational Surplus at Year End		\$491,000
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Requests for Additional Operational Expenditure

Community Relations	Feasibility study for a central city multi cultural centre	30,000
Parks	Rehabilitation of Coronation Hospital site for a reserve	85,000
Leisure	Grant for Biennial Festival of Contemporary Visual Arts	45,000
Leisure	Skateboard facility supervision	20,000
Leisure	Conversion of some toilets at Denton Park from men's to women's for women's rugby	25,000
Leisure	One Stop Shop for setting up events	10,000

		\$215,000

Fixed Assets Sales

Expected net shortfall in Sales of Surplus and Development Properties for the year		\$245,000
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Capital and Infrastructural Savings

Plant & Building Services	Vehicles & Plant	800,000
Property Asset Management	Contingency & Computer Equipment	110,000
Total Savings		----- \$910,000
Net Capital & Infrastructural Savings		----- \$665,000 =====

Capital and Infrastructural Requests for Additional Expenditure

Corporate Services	- Barrier arm for Checkers Car Park to facilitate centralisation of Civic Offices car pools	25,000
Environmental Policy & Planning	Conversion of Municipal Chambers Building to the Environment Centre	200,000
City Streets	- Footpath Resurfacing cost increases	300,000
Libraries & Information	Library, Service Centre & Learning Centre in South Christchurch shortfalls	
	- Building Fit Out	600,658
	- Collections	350,000
Total Requests for Additional Expenditure		----- \$1,475,658 =====

NB: Information supporting the requests for additional funds above for both operational and capital projects is contained in Attachment II.

Capital and Infrastructural Projects Delayed to be Rebudgeted in the 2001/02 year

Property	- St Martins Library	792,000
	Linwood Service Centre Air Conditioning	140,000
	Canterbury Provincial Chambers	420,000
	- Spreydon Library Upgrade	1,750,000

City Streets-	Roading Projects as per Attachment III	2,588,509
	Roading Projects to be brought forward as per Attachment III	(1,028,659)
Total to be Rebudgeted 2001/02 year		----- \$4,661,850 -----

COMMENTS

Operational

As noted earlier in this report, the Council may struggle to achieve its budgeted operating surplus. This is due to many of the units that will come in close to budget for the year, showing as being under budget as a result of the timing or recording of expenditure. There are also significant unbudgeted costs to be incurred that have resulted from the October 2000 storm. The total amount involved is estimated to be \$7.5 million or more although there are favourable variances for some of the corporate revenues and expenses to partially offset the additional expenditure. Therefore, it is recommended that no additional operational expenditure be authorised apart from previously approved initiatives and commitments:

- Rehabilitation of Coronation Hospital site \$85,000
- Conversion of men's to women's toilets at Denton Park \$25,000

The Leisure Unit's request re the One Stop Shop for events is not supported as savings of \$10,000 should be able to be found in a budget of \$11.1M.

Provision should first be made for funding of the anticipated operational shortfalls. Each of the units concerned has initiated steps to minimise the shortfalls and to minimise the risk of the problems occurring in the 2001/02 year.

Capital

The capital should be split into two components, as they need to be treated differently. The value of projects, net of the value of reprogrammed projects which we know are delayed (\$4.66M), should be rebudgeted for the next financial year. The full amount of \$4.66M should be treated as carry forwards and be deleted from this year's budget to partially match the expectation of the Financial Plan for a reduction in the total capital works. As noted earlier in this report the rebudgeting of this part of the budgeted \$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 net 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.

It will be noted in Attachment III that there is benefit in bringing forward from 2001/02, capital projects with a value of \$1,028,659 to help ensure that the ten year capital programme is achieved. Therefore, this request is supported.

The City Streets request for additional spending to cover cost increases for footpath resurfacing is supported because of the Council's commitment to renew a targeted physical level of footpath annually.

The Corporate Services Unit's request for additional spending to facilitate centralisation of the Civic Offices car pools is supported because it will enable part of the planned cost savings to be achieved.

The request for additional spending for the conversion of the Municipal Chambers into the Environment Centre is supported because this is a committed Council initiative and delays are likely to increase the overall cost.

The request for additional spending for the Library, Service Centre & Learning Centre in South Christchurch is partially supported. The Council has been seeking to extend the Spreydon Library for a number of years but there have been major challenges with each option investigated that have prevented this occurring. Similarly, various options have been investigated, without identifying a suitable site that was available, for a new site for St Martins' Library so those who use this library receive a similar level of service to that provided at other libraries in the network. Reallocation of surplus funds to finance expenditure on collections would expedite the service improvements that library users in the south of the city have been promised for several years.

SUMMARY OF SURPLUSES AND PROPOSED REALLOCATIONS

	Operational	Capital	Total
Estimated Net Surpluses	2,915,000	665,000	3,580,000
Proposed Allocation to Operational Shortfalls	(2,424,000)		(2,524,000)
Proposed Allocation to Additional Expenditure Requests-			
Operational	(110,000)		(110,000)
Capital	(210,000)	(665,000)	(875,000)
	<u>\$171,000</u>	<u>Nil</u>	<u>\$71,000</u>

Recommendation:

1. That the information be received.
2. That provision be made to cover the projected operational shortfalls.
3. That provision be made for \$85,000 to cover the cost to rehabilitate the Coronation Hospital site for a reserve and \$25,000 to provide for the conversion of some men's toilets to women's to support women's rugby at Denton Park.
4. That \$525,000 of the expected net capital expenditure savings be reallocated to cover the following additional capital expenditure requests:

Barrier Arm for Checkers Car Park	25,000
Fit out Municipal Chambers for Environment Centre	200,000
Footpath Resurfacing Cost Increases	300,000
5. That the \$140,000 balance of the expected net capital expenditure savings plus \$210,000 of the expected net operational surplus be reallocated to finance expenditure on collections for the Library, Service Centre & Learning Centre in South Christchurch.
6. That \$5.68M of identified expenditure be deleted from the 2000/01 budget and be rebudgeted in 2001/02.
7. That \$1,028,659 of the 2001/02 capital programme for City Streets be brought forward to 2000/01.
8. That a net \$4.66M of capital projects that have been reprogrammed, be identified as partially covering the 2000 Plan Provision for unspecified carry forwards.