

3. SIX MONTHLY REVIEW OF FINANCIAL PLAN AND PROGRAMME IMPLEMENTATION

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The purpose of this report is to review the financial operations of the Council for the six months to 31 December 2001 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 \$0.4M. 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 \$387,000. The operating surplus to 31 December is therefore 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 \$1.6M under budget principally due to interest expense being \$1.65M under budget. The other differences are principally the result of actual expenditure being made in different periods to those in which it was budgeted.

Interest expense is under budget by \$1.6M due to lower than budgeted interest rates and later than expected completion of the western stand at Jade Stadium. Interest expense is expected to be under budget for the full year by at least \$1.6M. However, the lower interest costs on the Jade Stadium Limited and Travis Finance Limited loans will be offset by lower interest income. Therefore net interest expense is expected to be under budget for the full year by \$0.7M.

Corporate Revenues

Corporate revenue is under budget by \$128.8M principally due to the delay with the repatriation of the monies from Orion from the sale of its North Island gas assets. A special dividend of \$128M was budgeted in December 2001. The necessary tax approvals are expected to be completed by early February and the repatriation of these monies should occur within the next month. However, it is now planned that \$39.4M will be repatriated by the sale of the Council's shareholdings in City Care Limited and Selwyn Plantation Board Limited to Christchurch City Holdings instead of \$47M. Consequently, the special dividend will be \$136M. As a result, there will be a surplus against budget in Council revenue of \$8M. However, this is cash flow neutral as all the funds from the capital repatriation are to be transferred to special funds.

Dividends received are \$0.75M ahead of budget due to timing of the payments.

Interest income is \$2.45M below budget. The Director of Finance advised in his report to the December meeting of the Strategy and Finance Committee that this was principally due to the delay with the repatriation of the monies from Orion and lower than budgeted interest rates. He also advised that Orion should be able to pay a higher dividend because of its higher interest earnings but this is still likely to leave a shortfall in interest income, net of the extra dividend income, of \$2M for the year. To compensate for this projected shortfall, the Council resolved to put on hold all other projects to be funded from the Capital Endowment Fund, except the Central Plains Irrigation Feasibility Study and the Domestic Marketing Campaign.

This shortfall is partially offset by higher than budgeted rates income of \$0.65M year to date.

The rates levied for the year exceeded budget by \$1.1M and therefore rates income for the year is expected to exceed budget by this amount.

The corporate transactions for the period under review are tabled.

Operational Expenditure

A summary of the net cost of service and capital expenditure against budget for each activity/unit is tabled.

Overall net expenditure on significant activities at \$78.0M is \$6.5M below budget for the six months to 31 December. The main items of over and under-expenditure relate to:

1. **City Streets** – At 31 December, City Streets was under-spent by \$1,297,000. This is principally due to three main factors. Firstly, Transfund revenue for capital works is under budget by \$1,741,000 due to the delays in the capital programme and in lodging claims. Secondly, delays with Orion charging for the underground cabling programme completed. Thirdly, maintenance works being complete and not yet coming to charge. It is expected that the final result will be close to budget at year end.
2. **Community Relations** - Currently running under budget by \$840,000. The under-expenditure relates principally to the timing of expenditure under the social initiatives programme and 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.
3. **Library and Information Services** – At 31 December, the Libraries Unit is \$831,000 under-spent. 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.
4. **City Water and Waste** - At 31 December, Waste Management was under-spent against budget by \$727,000. This is principally due to five main factors. Firstly, revenue for cost share contributions for sewerage and water supply are \$308,000 ahead of budget. Secondly, delays with expenditure being incurred. Thirdly, invoices from City Care and Meridian Energy have not yet come to charge. Fourthly, savings on liquid waste and water supply reticulation and pumping. Fifthly, lower than budgeted depreciation of \$213,000. These are partially offset by lower than budgeted dumping charges for solid waste.

When the delays with expenditure being incurred or recorded are taken into account, Waste Management Unit expects to be under budget by \$1,329,000 for the year.

5. **Director of Policy** - At 31 December, the Policy Directorate is \$716,000 below budget. The under-expenditure relates principally to the timing of major grants and a number of contracts still not being completed as well as the projects on hold that were to be funded from the interest on the Capital Endowment Fund. It is expected that the final result will be close to budget at year end.
6. **Corporate Services** – The net cost currently is below budget by \$581,000. The major factors include the timing of Clean Air grants of \$258,000, deferral of expenditure through later planned replacement of vehicles and 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.
7. **Property Asset Management**– The operating surplus is \$516,000 under budget due to the net effect of a number of factors. The Art Gallery fund raising monies received to date are only \$97,000 leaving a shortfall against budget of \$153,000. There is also a shortfall with rentals of \$328,000 in part due to City Care vacating the Westminster Depot. Expenditure is under budget due to two principal factors. Firstly, planned maintenance projects for the year are still in the design or preliminary contract stage. This equates to \$929,000 of expenditure to occur in the second half of the year. There is also backlog depreciation of \$292,000 to be charged on the Bus Exchange. The year end position is expected to be \$100,000 under budget as a result of expenditure on rates and maintenance being lower than budgeted for a number of properties.
8. **Leisure** - At 31 December, the Leisure Unit is \$468,000 below budget. The under-expenditure relates to several main factors. Firstly, an unbudgeted grant of \$110,000 was received from the Turning Point 2000 Trust for a multisensory room. This will be used to fund the unbudgeted capital expenditure for the multisensory room. Secondly, the Pioneer and Centennial Leisure Centres are ahead of budget by \$208,000 due to higher than budgeted attendances. The third major factor is the timing of some contracts and other expenditure. It is expected that the final result will be close to budget at year end.

9. **Financial Services** – The net cost is running below budget by \$418,000 principally due to budget carry forwards from 2000/01 no longer being required. These amounts, totalling \$348,000, were to cover the rating infrastructural asset valuation costs and valuations of separate properties for rating purposes. The Council's valuation service provider (VSP) has subsequently advised that the rating infrastructural asset valuation costs will be lower than advised because these were performed at a national rather than a local level. The VSP also advised that the valuation costs for separate properties for rating purposes will be lower because the number of affected properties is lower than was estimated. These amounts are available to be reallocated.

The other variations against budget are principally due to the timing of expenditure.

10. **Parking** – The operating surplus is currently under budget by \$348,000. The Enforcement output is under budget by \$135,000 as Court recoveries have been on hold since October during the course of the final stages of the implementation of the Department for Courts new enforcement computer system with the first payment having just been received. This included a one-off windfall payment of approximately \$65,000 that relates to partly paid fines that have previously been retained by the department unless or until the fine was settled in full. It is expected that this output will be \$65,000 better than budget at year end.

The On-Street Parking output is behind target by \$132,000. This is primarily due to two factors, namely the deferral of the proposed commuter restraint coupon parking scheme and the knock-on effect of the *free one hour parking* initiative, i.e. people taking advantage of the free one hour in three key parking buildings rather than parking on street and paying meter fees. Whilst it is anticipated this shortfall will be partly offset by the extension of metered areas, i.e. increasing the number of metered spaces that is currently under way, an end of year shortfall in the order of \$100,000 to \$150,000 is nonetheless projected, should implementation of the proposed commuter restraint scheme be further deferred and current trends within the free parking initiative continue.

The Off-Street Parking output is behind target by \$77,000 reflecting the higher than budgeted cost of the *free one hour parking* initiative. However, the deficit for the six months is actually higher as the operational budget includes \$146,000 (full year \$292,000) of expenditure for the Ballantynes/Yee development that has yet to be made and this is offsetting the ordinary operating results. Given the second half of the financial year is typically less financially productive than the first half, it is projected the output will post an end of year worse than budget performance in the order of \$500,000 to \$550,000.

It should be noted that the Sustainable Transport and Utilities Committee is recommending to the present meeting of the Council that the free one hour parking initiative end on 31 March 2002. If this recommendation is adopted then the Parking Operations Manager advises that the expected operational shortfall for the Parking Unit for the year will be between \$250,000 and \$300,000 and not the \$500,000 to \$550,000 that this report is based on.

11. **Property Management**– The net cost is currently over budget by \$308,000 due to the net effect of several factors. Revenue, principally casual rentals of surplus property, is under budget by \$33,000. The surplus property disposal costs have been charged for \$250,000 spent to obtain a conservation covenant on the McArthurs Road property that was sold. Neither the sale nor the costs were budgeted so offsetting budgets should be established to reflect the transaction. Costs related to the Property Manager's time spent on housing matters have also been charged to this output instead of the housing output. It is expected that the final result will be close to budget at year end although the \$61,000 loss on disposal of the McArthurs Road property has yet to be charged.
12. **Housing** – The operating surplus is currently ahead of budget by \$305,000. Revenue received is over budget by \$371,311 for the year to date. This is due to how the fortnightly rental period aligns over the six monthly reporting period. One additional set of fortnightly charges has occurred.

The higher expenditure for the first six months principally reflects the fact the year's Insurance have been paid for in full when the budget has been allocated over 12 months. Offsetting this timing difference in the second half year will be higher than budgeted maintenance project costs, such as painting that were not completed in the first half of the year. These are currently in the design or contract stage. There is also backlog depreciation on the Hornby housing complex and Tommy Taylor Courts that is estimated to be \$95,000. It is expected that the final result will be close to budget at year end.

13. **Management Information Services** – The net cost is currently below budget by \$262,000. The major factors include delays in incurring expenditure or in progressing projects. The result for the year is likely to be close to budget.
14. **Public Accountability** – The net cost currently is below budget by \$230,000. The major factors include delays in incurring expenditure on discretionary projects as a result of the October elections and reduced meeting costs for the first six months due to the October elections. The result for the year is likely to be close to budget.
15. **City Solutions** – The unit's operating surplus is currently \$179,000 behind budget. This is due to a decision to eliminate the profit margin in the City Solutions staff's internal charge-out rates. This was done to provide an incentive for other business units to maximise the use of the City Solutions staff which generally represents the lowest cost option for the Council. It is planned to reduce the capital and operating budgets of the City Solutions' customer unit's budgets to ensure the savings are not lost. This task has taken longer than expected but will be actioned in the next two months. This should compensate for the shortfall in internal revenue but will result in a reduction of the budgeted operating surplus by a maximum of \$460,000.
16. **Human Resources Directorate** – The \$127,000 net overspending against budget relates mainly to delays in recharging business units for training costs incurred. The result for the year is likely to be close to budget.

Operational Shortfall

Although the Parks and Waterways Unit's net cost of service is under budget at 31 December 2001, it is expected to exceed its budget for the full year by \$300,000. The apparent better than budget performance is due to the timing of expenditure. The Parks and Waterways Unit advises that the exceptionally wet weather over the late spring and summer period has resulted in additional unanticipated costs in some areas where the additional work is not covered by fixed price contracts. The unit is hopeful that this will be able to be accommodated within existing budgets but there is potential for over-runs in sports parks, local parks, garden parks and regional parks. Both local parks and sports parks are currently running above year to date budgets and the Parks and Waterways Unit will endeavour to contain these in the second part of the financial year.

However, a shortfall against budget of \$300,000 is expected due to no budget provision being made for the depreciation charge on the PAMs Asset Management System asset. The expenditure incurred to purchase this software and to further enhance it, has been capitalised as it is an asset of the Council. However, no budget provision was made for the annual depreciation charge of \$300,000 and due to the likely over-run due to weather referred to above, the unit is unlikely to be able to absorb the budgeting error.

Summary - Operating Result

The budgeted operating surplus of \$150.0M should be exceeded by \$8M because the special dividend of \$136M for the repatriation of the monies from Orion from the sale of its North Island gas assets will be \$8M above the amount budgeted. However, this does not provide any funds for reallocation as the asset sales achieved will be less than budget by the same amount. Overall, it is likely that the balance of the budgeted operating surplus will be achieved but there is unlikely to be any significant surplus against budget as the current favourable position against budget is the result of delays in incurring or recording expenditure.

Given this, it is likely that the surplus after other transactions, exclusive of the special dividend above, 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.

Capital Expenditure and Sales

At 31 December 2001, net capital expenditure is running ahead of budget by \$17.7M. However, this is due to the budget including \$47M for the sale of the Council's shareholdings in City Care Limited and Selwyn Plantation Board Limited to Christchurch City Holdings. After adjusting for these sales, capital expenditure is running behind budget by \$29.3M.

The \$6M provision for unspecified carry forwards on page 89 of the 2002 Plan needs to be identified and be rebudgeted in 2002/03. This report identifies \$24.68M which more than covers the \$6M identified in the Plan. To achieve the ongoing benefit of this deferral, a similar provision must be included in the 2003 Plan.

Infrastructural Assets

Actual expenditure to 31 December is \$22.2M against a budget of \$36.5M. At this stage, the policy units estimate that budgeted expenditure targets will be met or the remaining budget provision will need to be carried forward. The exception is City Water and Waste Unit. The Manager has advised that \$25,000 budgeted for the regional landfill is no longer needed and that there is a further \$73,000 of savings.

Fixed Assets

Fixed assets expenditure is principally running behind budget because of delays in either starting or progressing significant projects. The most significant of these are South City Library (\$2.5M), Civic Offices upgrade (\$5.5M) and the new Art Gallery (\$4.3M). 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 \$300,000 below the amount budgeted. This is due to the Council decision that the Kennedy's Bush Road property be retained as a reserve. The other two properties budgeted to be sold this year may also not be sold as there are proposals being prepared to apply them for other uses. If these proposals are adopted then there will be a further shortfall in the budgeted net sales proceeds from the sale of surplus properties of \$200,000.

Restricted Assets

Parks \$2.0M and Property \$0.4M account for the bulk of the \$2.5M 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 and Expenses	Higher than budgeted rates income	1,100,000
	Lower than budgeted interest expense	700,000
Property Asset Management	Reduced expenditure net of revenue shortfalls	100,000
Financial Services	Carry forwards no longer needed	348,000
City Water and Waste	Increased revenue and cost savings	1,329,000

Operational Savings and Additional Revenue		\$3,577,000

Operational Shortfalls

Parking	500,000
Interest Income	2,000,000
Parks and Waterways	300,000

Estimated Operational Shortfalls against Budget	\$2,800,000

Estimated Net Operational Surplus at Year End	\$777,000
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Requests for Additional Operational Expenditure

Central Plains Water Enhancement Joint Steering Committee	Funding required for remainder of 2001/02	185,000
Parks	Buy out Upper Riccarton Domain Bowling Club lease to solve longstanding issues	65,000

		\$250,000

Fixed Assets Sales

Expected net shortfall in sales of surplus and development properties for the year	\$500,000
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Capital and Infrastructural Savings

City Water and Waste	Various savings	98,000
City Solutions	Fixed Assets	61,000

Total Savings		\$159,000

Net Capital and Infrastructural Shortfall		\$341,000
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Capital and Infrastructural Requests for Additional Expenditure

Environmental Services	Dog Control job allocation system to achieve savings factored into the reduction in dog registration charges	60,000

Total Requests for Additional Expenditure		\$60,000
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Capital and Infrastructural Projects Delayed, to be Rebudgeted in the 2002/03 year

Capital

Property	South City Library	2,497,000	
	Cathedral Junction property purchase	200,000	
	New Art Gallery	5,376,000	
	Civic Offices Upgrade	5,650,000	13,723,000

City Streets	Roading projects as per attachment		11,493,860
	Roading projects to be brought forward as per attachment		(721,440)
Libraries	South City Library furniture and fixtures		185,000

Total Capital Expenditure to be Rebudgeted in the 2002/03 year			\$24,680,420
			=====

Operational

City Streets	Net Transfund subsidies on reprogrammed capital works		792,000
	Contributions to Northland Mall and Blenheim Rd developments		1,715,000

Total Revenue to be Rebudgeted in the 2002/03 year			\$2,507,000
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COMMENTS

Operational

As noted earlier in this report, the Council may struggle to achieve its budgeted operating surplus exclusive of the special dividend from Christchurch City Holdings. 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. Therefore, it is recommended that no additional operational expenditure be authorised apart from previously approved initiatives and provision for the following two items:

- Provision for funding requested for remainder of 2001/02 for Central Plains Water Scheme project \$185,000
- Buy out of Upper Riccarton Domain Bowling Club lease to solve long-standing issues \$65,000

The Central Plains Water Scheme Steering Committee has requested funding of \$185,000 for the remainder of 2001/02 to enable the project to move forward to the next planning phase. It needs to be recognised however, that this is the first part of a longer string of funding which the Council has been requested to provide. Selwyn District Council has been requested to provide for similar amounts. As the Council will be considering this as a complete issue in the near future, it is suggested that this should be a provision only in the meantime and that commitment of the funds be subject to Council approval to make provision for the rest of the funding in its forthcoming annual plan round or from some other source.

An additional sum of \$65,000 is required to buy the Upper Riccarton Domain Bowling Club out of their lease agreement to free up additional land at the domain to solve a number of long-standing issues with other clubs (soccer, cricket and tennis) on the site and car park provision. This is a one-off opportunity to achieve this and is likely to be supported by the Community Board, which has been requested to provide a contribution of \$40,000 to effect the proposal.

Provision should first be made for funding of the anticipated operational shortfalls. Both of the units concerned have initiated steps to minimise the shortfalls and to minimise the risk of the problems occurring in the 2002/03 year.

Capital

The \$25.40M of projects should be rebudgeted for the next financial year. \$6M should be deleted from this year's budget to cover the provision in the Financial Plan for a reduction in the total capital works. As noted earlier in this report, the rebudgeting of this amount will require a similar adjustment for next year to balance the impact of this rebudgeting arrangement. The remaining \$19.4M should be carried forward. 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 the attachment that there is benefit in bringing forward from 2002/03, capital projects with a value of \$721,440 to help ensure that the ten year capital programme is achieved. Therefore, this request is supported.

The Environmental Services Unit has requested additional spending on the Dog Control Job Allocation system to facilitate operational efficiencies that were taken into account in setting the dog registration fees. However, no budget provision existed for this required additional spending on the system.

The Environmental Services Unit is currently under budget by \$188,000. However, this is due to the timing and recording of expenditure. Revenue is running 7-8% below budget and it has only been through holding expenditure that this has been achieved. Some of this expenditure will be incurred in the second half of the year. The Environmental Services Unit advises that unless building and planning activity levels increase, the unit will struggle to meet its budget.

The Environmental Services Unit's request for this additional spending to facilitate operational efficiencies that were taken into account in setting the dog registration fees, is supported because it will enable part of the planned cost savings to be achieved which is in the Council's long term interest of improving efficiency.

SUMMARY

Subject to the adoption of the budget reallocations and adjustments recommended below, the Council should achieve the adjusted, budgeted, ordinary operating surplus.

The changes recommended to the budgeted operating surplus only relate to committed Council initiatives.

As is the case each year, some of the planned capital works will not be completed due to a combination of factors. It is recommended that \$25.40M of the capital works that will not be completed, be rebudgeted into 2002/03 with some capital projects brought forward into 2001/02 to partially offset this.

There are no projected savings that are available to fund new initiatives.

Summary of Surpluses and Proposed Reallocations

	Operational	Capital	Total
Estimated Net Surpluses	3,577,000	(341,000)	3,236,000
Proposed Allocation to Operational Shortfalls	(2,800,000)		(2,800,000)
Proposed Allocation to Additional Expenditure Requests -			
Operational	(250,000)		(250,000)
Capital		(60,000)	(60,000)
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	\$527,000	(\$401,000)	\$126,000
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Recommendation:

1. That the information be received.
2. That provision be made to cover the projected operational shortfalls.
3. That provision be made for \$185,000 to provide the opportunity to cover the additional funding requested for the remainder of 2001/02 for the Central Plains Water Scheme project but that this provision not be expended until the Council has made provision for the rest of the funding in its forthcoming draft annual plan round or from some other source.
4. That provision be made for \$65,000 to cover the buy-out of Upper Riccarton Domain Bowling Club lease to solve long-standing issues and to enable the frontage of the park to be opened up for aesthetic and safety reasons.
5. That \$341,000 of the expected operational savings be reallocated to finance the expected shortfall in asset sales net of expected capital expenditure savings.
6. That \$60,000 of the expected operational savings be reallocated to finance the Dog Control job allocation system to achieve savings factored into the reduction in dog registration charges.
7. That \$25.40M of identified capital expenditure and the \$2.51M of related revenue, be deleted from the 2001/02 budget and be rebudgeted in 2002/03.
8. That \$0.72M of the 2002/03 and 2003/04 capital programme for City Streets be brought forward to 2001/02.
9. That the net \$24.68M of capital projects that have been reprogrammed, be identified as covering the 2002 Plan provision for unspecified carry forwards.
10. That authorisation be given to the Director of Finance and the Director of Projects to work with the City Solutions' internal customers to action the reductions that are needed in their capital and operating budgets to reflect that City Solutions internal charge-out rates no longer include a margin to achieve the budgeted surplus.