

8. 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 2002 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

Attachment I contains a summary of corporate transactions for the six months to 31 December 2002 and Attachment II contains a summary of the business units' results and the Council's overall result for the same period.

Expenditure with Corporate Wide Impact

Depreciation is under budget by \$0.25M. 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 \$110,000. 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 \$0.6M under budget principally due to Corporate Development expenditure being \$0.65M under budget as a result of the timing of this expenditure and the provision of \$0.24M for loan servicing costs for Travis Finance Limited not being needed due to that company ceasing operations at 30 June 2002. These areas of under-expenditure are partially offset as a result of interest expense being \$0.34M over budget.

Interest expense is over budget by \$0.3M due to higher than budgeted interest rates. Interest expense is expected to be over budget for the full year by \$0.7M.

Corporate Revenues

Corporate revenue is over budget by \$3.1M principally due to higher than budgeted interest income of \$2.6M and higher than budgeted rates revenue of \$0.44M.

The higher than budgeted interest income is due to a combination of higher than budgeted interest rates and significantly higher levels of funds available for investment as a result of the level of reprogramming and carry forwards of capital expenditure from 2001-02 into the 2002-03 year.

The rates levied for the year exceeded budget by \$0.77M and therefore rates income for the year is expected to exceed budget by at least \$0.75M after allowing for any write-offs or corrections.

Operational Expenditure

Overall net expenditure on significant activities at \$78.7M is \$6.9M 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 over-spent by \$995,000. This is principally due to three main factors. Firstly, Transfund revenue for capital works is under budget by \$1,705,000 due to the delays in the capital programme. Secondly, delays with Orion charging for the underground cabling programme completed with this output being \$974,000 under budget year to date. Thirdly, maintenance works being complete and not yet coming to charge. It is expected that the final result will be slightly over budget at year end by \$238,000.

2. **Community Relations** - Currently running under budget by \$782,000. 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 and Information Unit is \$838,000 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 \$200,000 under budget at year end as a result of the delayed opening of the new South Library.
4. **City Water and Waste** - At 31 December, Waste Management was under-spent against budget by \$126,000. This is principally due to five main factors. Firstly, revenue is ahead of budget by \$435,000. The majority of this is \$117,000 for cost share contributions for sewerage and \$171,000 higher than budgeted amount received from Waste Management levy. Secondly, delays with expenditure being incurred. Thirdly, savings achieved through the renegotiation of the contract with the Recovered Materials Foundation.

These savings have been substantially offset by impact of lower than budgeted volumes of refuse being dumped at the Council's Transfer Stations triggering the application of the 'loss sharing' clause in the contract with City Care Limited. Higher costs for the Burwood Landfill operation due to additional consent costs, consent appeal negotiation costs and the impact of the accounting policy change on the treatment of landfill aftercare costs also offset the savings above.

When the delays with expenditure being incurred or recorded are taken into account and the ongoing impact of the lower than budgeted volumes of refuse being dumped at the Council's Transfer Stations and the higher than budgeted costs for the Burwood Landfill operation, City Water and Waste Unit expects to be over budget by \$445,000 for the year.

5. **Director of Policy** - At 31 December, the Policy Directorate is \$206,000 below budget. The under-expenditure relates principally to the timing of projects and a number of contracts still not being completed. However, part of the surplus relates to the delay in filling one vacancy and deferral of several projects. It is expected that the final result will be \$100,000 under budget at year end.
6. **Corporate Services** – The net cost currently is below budget by \$340,000. The major factor is the higher than planned surplus of \$376,000 on the operation of the vehicle fleet. If internal charges are held at their current rates then this surplus will increase. However, there is a need to speed up the replacement of the vehicle fleet to improve fuel efficiency and reduce emissions as well as reduce the overall running costs of the fleet. The Corporate Services Manager will present a separate report to the Annual Plan meeting of the Committee outlining the issues and presenting the options to finance the proposal. One possible source of funding is to apply the higher than budgeted surplus to fund the increased capital expenditure. As a consequence, there is uncertainty as to whether the unit's result will be better than or be close to budget at year end.
7. **Property Asset Management**– The operating surplus is \$1,202,000 ahead of budget due to the net effect of a number of factors. Expenditure is under budget due to several factors. Firstly, planned maintenance projects for the year are still in the design or preliminary contract stage. This equates to \$600,000 of expenditure to occur in the second half of the year. Depreciation is \$298,000 below budget for the year to date principally due to the review and extension of the economic lives some of the service delivery properties. Electricity charges are under budget for the year to date by \$231,000 as not all charges have either been processed and/or billed. Rates charges are \$182,000 below budget for the year to date as the rates revaluation in 2002 significantly reduced the incidence of rates on commercial buildings. The year end position is expected to be \$480,000 under budget as a result of the lower than budgeted expenditure on rates and depreciation. However, as the depreciation charge has been budgeted to finance capital expenditure, the \$300,000 is not available for reallocation.
8. **Financial Services** – The net cost is running below budget by \$365,000 principally due to several factors. Funding of \$74,000 set aside for programming costs no longer being required. Additional commission received on the collection of regional council rates of \$40,000 and savings of \$11,000 on the valuation audit. These amounts are available to be reallocated.

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

9. **Parking** – The operating surplus is currently better than budget by \$325,000. The enforcement output is better than budget by \$72,000 as income has been higher than budgeted. It is expected that this output will be \$100,000 better than budget at year end.

The on-street parking output is ahead of target by \$119,000 as income has been higher than budgeted. Again, it is expected that this output will be \$100,000 better than budget at year end.

The off-street parking output is ahead of target by \$202,000 reflecting the \$122,000 charges that have yet to be recorded and the Crossing car park being \$48,000 ahead of budget. It is considered unlikely that the Crossing car park will maintain its current level of financial performance in the quieter second half of the year. The construction of the new Christchurch Women's Hospital is expected to have a \$200,000 adverse impact on revenue from the Hospital parking sub-output. Given these factors, it is projected the output will post an end of year worse than budget performance in the order of \$150,000.

10. **Operations Directorate** – The net cost is currently under budget by \$269,000 due to the net effect of several factors. Firstly, due to the timing of a number of projects that will be undertaken or completed in the second half of the year. Secondly, lower salary costs due to two positions in the communications team being unfilled. It is expected that the final result will show a surplus against budget at year end of \$100,000.
11. **Art Gallery** – The net cost is currently under budget by \$154,000. This under-expenditure year to date is almost entirely due to the budget not being fully seasonalised to reflect the timing of expenditure on exhibitions and the maintenance and enhancement of the collection. This budgeted expenditure will be incurred in the second half of the year. As well, there are extra costs with operating Our City O-Tautahi that are detailed in Attachment III. It is expected that the final result will be over budget by \$65,000 at year end.
12. **Parks and Waterways** – The net cost is currently below budget by \$759,000. Waterways and wetlands maintenance costs are \$636,000 under budget and the street landscapes output is \$150,000 under budget. The major factors include delays in incurring expenditure or in progressing projects. However, an analysis of expenditure levels to date and an assessment of maintenance programmes indicate that the end of year result will be marginally over planned budget. There are three main contributing factors to this.

A revenue deficit has occurred in farm operations where prices for cattle have plummeted from \$1,500 to \$1,000 per stock unit and sales to the end of year will yield significantly less income than planned. This deficit is estimated to be around \$82,000.

Additional expenditure on tree maintenance has been necessary as a result of a series of strong winds from August to November 2002. To date this has cost an additional \$79,853.

Over expenditure on local parks maintenance for the year to date is \$120,730. This is very similar to last financial year where similar overruns were evident which are related to a greater number of new reserves being added to the contract than anticipated. This situation is compounded by the fact that many reserves are now vested in a developed state with full maintenance regimes required. Efforts will be made to contain this expenditure as much as practicable without compromising service levels but this output is expected to be over budget by \$200,000.

Overall, it is expected that the final result will show a deficit against budget at year end of \$250,000.

13. **Public Accountability** – The net cost currently is below budget by \$229,000. The major factors include delays in incurring budgeted expenditure of \$137,000 on discretionary projects and \$75,000 due to budgets not being seasonalised. The result for the year is likely to be close to budget.

14. **Environmental Services** – The Unit's net cost currently is below budget by \$1,520,000. This is due to a combination of factors. The biggest one is higher than budgeted revenue of \$891,000. \$123,000 of this additional revenue is due to a change in the timing of recognition of consents income that has meant that this amount has been brought forward from next financial year. Productivity gains also contributed substantial savings. Offsetting these gains are additional unbudgeted costs for swimming pool fencing enforcement and legal and consulting fees for Environment Court work related to the City Plan. The amounts involved for the year are \$150,000 each or \$300,000 in total. The result for the year is likely to be a surplus of at least \$500,000 against budget.

Summary - Operating Result

At 31 December, the actual operating surplus of \$22.9M exceeds the budgeted operating surplus by \$10.6M. It is likely that the budgeted operating surplus for the year of \$15.2M will be exceeded but this is likely to be by a significantly smaller amount as the current favourable position against budget is substantially the result of delays in incurring or recording expenditure.

The surplus after other transactions will be higher again than budget as a result of the vested assets income exceeding the budget for the year. However, this additional excess 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 2002, net capital expenditure is running behind budget by \$26.2M.

The \$6M provision for unspecified carry forwards on page 141 of the 2003 Plan needs to be identified and rebudgeted in 2003/04. This report identifies \$15.15M 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 2004 Plan.

Infrastructural Assets

Actual expenditure to 31 December is \$21.6M against a budget of \$39.7M. At this stage, the policy units estimate that budgeted expenditure targets will be met or the remaining budget provision will need to be reprogrammed or carried forward.

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 (\$1.7M), Civic Offices upgrade (\$0.6M), new social housing initiatives (0.5M), hardware and software for the E-Council project deferred awaiting the outcome of the Information Management and Technology review and the provision for heritage building purchases (\$0.5M).

Over \$5 million of Property Asset Management projects scheduled for completion in 2002/03 will not go ahead this year either as a result of a Council decision, delays in obtaining consents or delays in obtaining a suitable site. These projects need to be reprogrammed.

The budgeted net sales proceeds from the sale of surplus and development properties will be at least \$448,000 below the amount budgeted. This is principally due to the Council decision that the Hunter Terrace property be retained as a reserve. The property in Bexley Road budgeted to be sold this year will not be sold as the insurance issues with it have yet to be resolved. However, there was an unbudgeted sale of the former New Brighton Library for \$220,000.

Restricted Assets

Parks \$1.2M and Property \$0.3M account for the \$1.5M 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 & Expenses	Higher than budgeted Rates Income	750,000
	Higher than budgeted Interest Income net of higher than budgeted Interest Expense	1,800,000
	Savings from restructuring Travis Finance Limited	511,000
Property Asset Management	Reduced rates costs	180,000
Financial Services	Cost savings identified	140,000
Libraries & Information Unit	Savings from delayed opening of new South Library	200,000
Policy Directorate	Cost savings identified	100,000
Operations Directorate	Cost savings identified	100,000
Environmental Services	Increased Revenue and Cost Savings	500,000

Operational savings and additional revenue		\$4,281,000

Operational Shortfalls

Parking		150,000
City Water & Waste		445,000
City Streets	(inclusive of Transfund subsidy deferral)	787,000
Leisure		375,000
Art Gallery		65,000
Parks & Waterways		250,000

Estimated operational shortfalls against budget		\$2,072,000

Estimated Net Operational Surplus at Year End		\$2,209,000
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Request for Additional Operational Expenditure

Strategy & Finance Committee	Special grant for Film South	\$100,000
	Funding for STV Poll as per report to February meeting	200,000

		\$300,000
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Fixed Assets Sales

Expected net shortfall in sales of surplus and development properties for the year		\$228,000
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Capital and Infrastructural Savings

Total savings	----- Nil -----
Net Capital and Infrastructural Shortfall	\$228,000 =====

Capital and Infrastructural Requests for Additional Expenditure

Total Requests for Additional Expenditure	----- Nil =====
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NB: Information supporting the requests for additional funds above for both operational and capital projects is contained in Attachment III.

Capital and Infrastructural Projects Delayed, to be Rebudgeted in the 2003/04 or Subsequent Years

Capital

Property	-	New premises for St Albans Educare	340,000	
		Cathedral Junction property purchase	3,000,000	
		Redcliffs/Sumner Childcare facility	293,000	
		Civic Offices upgrade	1,560,500	5,193,500

City Water & Waste		Fitzgerald Avenue Water Pumping Station	210,000	
		Sewerage Pumping Station 11 Treatment Plant upgrade-clarifiers 3 & 4	500,000	
		Lifelines project – Ferrymead Bridge	2,000,000	
			116,700	2,826,700

City Streets-		Roading projects as per Attachment IV		7,200,402
		Roading projects to be brought forward as per Attachment IV		(75,000)

		Total Capital Expenditure to be Rebudgeted in the 2003/04 or subsequent years		\$15,145,602
				=====

Operational

City Streets		Net Transfund Subsidies on Reprogrammed Capital Works		549,000

		Total Revenue to be Rebudgeted in the 2003/04 year		\$549,000
				=====

COMMENTS

Operational

As noted earlier in this report, the Council should comfortably achieve its budgeted operating surplus. However, it is recommended that no additional operational expenditure be authorised apart from previously approved initiatives and commitments below to enable all projects to be prioritised as part of the Annual Plan process.

- Special Grant to Film South \$100,000
- Unbudgeted cost of STV Poll 200,000

Provision should first be made for funding of the anticipated operational shortfalls. The units concerned have initiated steps to minimise the shortfalls and to minimise the risk of the problems occurring in the 2003/04 year.

Capital

The \$15.15M of projects, that we know are delayed, should be rebudgeted for the next financial year. \$6M should be treated as unspecified carry forwards and be deleted from this year's budget to cover the \$6M provision in the 2003 Financial Plan for unspecified carry forwards. 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. 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 IV that there is benefit in bringing forward from 2003/04, capital projects with a value of \$75,000 to help ensure that the ten year capital programme is achieved. Therefore, this request is supported.

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 \$15.22M of the capital works that will not be completed, be rebudgeted into 2003/04 or subsequent years with some capital projects brought forward into 2002/03 to partially offset this.

It is not proposed that the projected savings that could be available to fund new initiatives are used for this purpose to ensure that all new initiatives are prioritised together as part of the Annual Plan process.

Summary of Surpluses and Proposed Reallocations

	Operational	Capital	Total
Estimated Net Surpluses	4,281,000		4,281,000
Proposed Allocation to Shortfalls	(2,072,000)	(228,000)	(2,300,000)
Proposed Allocation to Additional Expenditure Requests -			
Operational	(300,000)		(300,000)
Capital			
	----- \$1,909,000 =====	----- (\$228,000) =====	----- \$1,681,000 =====

- Recommendation:**
1. That the information be received.
 2. That provision be made to cover the projected operational shortfalls.
 3. That provision be made for \$100,000 to cover the additional funding required for the special grant for Film South and \$200,000 for the cost of running the STV poll.

4. That \$228,000 of the expected operational savings be reallocated to finance the expected shortfall in asset sales net of expected capital expenditure savings.
5. That \$15.22M of identified capital expenditure and the \$0.55M of related revenue, be deleted from the 2002/03 budget and be rebudgeted in 2003/04 or subsequent years.
6. That \$75,000 of the 2003/04 capital programme for City Streets be brought forward to 2002/03.
7. That the net \$15.15M of capital projects that have been reprogrammed, be identified as covering the 2003 Plan provision of \$6M for unspecified carry forwards.
8. That the unallocated residual surplus of \$1.68M be allocated to the Income Equalisation Reserve and be applied by the Annual Plan Subcommittee to smooth rate increases in future years.
9. That the Riverlaw Terrace neighbourhood improvement project be removed from the programme because the Spreydon/Heathcote Community Board do not support the proposed work.