17. SIX-MONTHLY REVIEW OF ANNUAL PLAN IMPLEMENTATION RR 7026

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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 1998 and to update members on Business Unit surpluses and over-expenditures to enable re-allocation of resources, if required.

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

(a) Corporate Expenses

Expenditure is $1.7M under budget principally because interest expense is currently $1.2M lower than planned. The under-expenditure on interest expense is expected to continue for the remainder of the year resulting in an estimated saving of $2.5M for the year.

(b) Corporate Revenues

Corporate revenue is significantly ahead of budget ($14.6M) due to the additional dividend income received from Christchurch City Holdings Ltd of $17.0M, which the Council resolved was to be used for debt repayment. The major area of revenue shortfall is interest income. This is under budget by $3.2M. This means that net interest expense is currently $2.0M over budget and this position is expected to deteriorate further. The shortfall in interest income is principally due to the majority of the capital repatriation receipts being received later than they were budgeted. This has been compounded by the very sharp drop in the rate of interest paid on short-term investments. The net interest expense is now estimated to be $3.0M over budget for the year.

Other significant variations include rates revenue and cash in lieu contributions exceeding budget by $571,000 and $383,000 respectively. It is anticipated that revenue collected from these items will exceed their budgets by at least these amounts.

(c) Operational Expenditure

Overall expenditure on rate funded accounts at $66.6M is $0.6M below budget for the six months to 31 December. The main items of over and under-expenditure relate to:

(i) ***Community Relations*** - Currently running under budget by $344,000. 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.

(ii) ***Environmental Services* –** The net cost is running ahead of budget by $66,000. There are a number of reasons, including the accrual of staff holiday costs which will decline as leave is taken during January/February, revenue streams are down on last year due to a slow down in development, additional expenditure on the City Plan and employing commissioners for resource consent hearings. Continual monitoring will ensure the bulk of expenditure is within budget at year-end apart from the City Plan and resource consent hearings. A request for an additional $495,000 funding is included later in the report.

(iii) ***Economic Development* –** Overall net cost is ahead of budget by $202,000. The year-end budget is expected to be achieved as there was $263,336 owing from Work and Income NZ, for subsidies related to costs incurred in the result for the six months to 31 December 1998. This will compensate for costs incurred to 31 December 1998. A request for an additional $78,000 funding is included later in the report.

(iv) ***MIS* –** Overall net cost is below budget by $125,000. The under-expenditure relates to the timing of payments and delays in implementing major projects. The year-end result is expected to be close to budget.

(v) ***Library* –** At 31 December, the Libraries Unit is $579,000 underspent. This is due principally to the seasonal nature of some of its expenditure and the delays in incurring expenditure on several projects. It is expected that the final result will be close to budget at year-end.

(vi) ***Plant and Building Services*** - At 31 December P & B Services revenue was $1,078,000 under budget. $522,000 of the under recovery relates to the timing of invoice processing and the remainder relates to the downsizing of Works Operations. The overall net result for the year is expected to be achieved.

(vii) ***Leisure* -** The under-expenditure of $128,000 in the main relates to the seasonal factors and the timing of various projects. The year-end result is expected to be achieved.

(viii) ***Property* –** The unit's operating surplus is principally $398,000 ahead of budget due to the receipt of a $55,450 unbudgeted grant towards the Phillipstown Community Centre and under-expenditure of $150,000 on the Farmers Car park site due to the later than budgeted completion date. The remainder principally relates to the timing of expenditure. The $200,000 of savings above are available for reallocation.

(ix) ***Housing*** **–** The operating result is $298,000 ahead of budget due to higher than budgeted rental income combined with lower than budgeted expenditure as a result of the mild winter. The annual result is likely to be ahead of budget by at least $600,000. However, this surplus is not available for reallocation as it forms part of the Housing Development Fund.

(x) ***Waste Management*** - At 31 December Waste Management was under-spent against budget by $968,000. The Liquid Waste operations are $680,000 under budget principally due to delays in completing projects. Delays in incurring expenditure on Solid Waste activities meant that these operations were $288,000 under budget for the first six months. However a combination of a shortfall in revenue from refuse stations and compost sales is likely to result in a net over-expenditure of $122,000 for the year. However, this will be offset by an expected surplus from Liquid Waste Operations for the year.

(xi) ***City Streets*** - The result for the six months shows under-expenditure against budget of $837,000. There are a large number of activities and there are unders and overs with these activities. These activities are managed to ensure a balanced budget is achieved at year-end.

(xii) ***Works Operations*** - The $3.67M over-expenditure relates principally to WIP to be recharged to business units. Approximately one-third relates to infrastructural assets with the balance operational. The year-end projected result is expected to be achieved.

(xiii) ***Water Services*** **–** The Unit is $813,000 underspent for the six months ended 31 December principally due to the timing of expenditure. Traditionally heavier costs are incurred in the summer months as power consumption for pumping stations increases as the volume of water supplied increases. The year-end result is expected to be close to budget.

Summary - Operational Expenditure

Overall the year-end budget is not expected to be achieved because of the expected overrun of $3.0M in net interest expense. However, the Council Units' operational expenditure is expected to be close to budget and tight management monitoring of the situation for the remainder of the year is required.

(d) **Fixed Assets Expenditure**

At 31 December 1998, fixed assets expenditure is running behind budget by $9.1M after adjusting for the $4M Budget Reduction. Delays in the starting of significant projects account for the majority of the 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.

Page 85 of the 1998 Plan has a provision for Unspecified Carry Forwards for fixed asset capital expenditure of $4M. Therefore $4M of the capital projects delayed to be re-budgeted in 1999/2000 should be identified as covering this provision. To achieve the on-going benefit of this deferral, a similar provision should be included in the 1999 Plan.

(e) **Infrastructural Assets**

Actual expenditure to 31 December is $16.4M against a budget of $23.9M. As noted earlier some of the $2.4M WIP from Works Operations expenditure is still to be transferred.

(f) **Restricted Assets**

Parks $1.7M and Property $0.3M and Environmental Policy and Planning, $0.4M 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.

2. SAVINGS AND OVEREXPENDITURE IDENTIFIED

(a) Operational Savings and Additional Revenue

Commercial Property	-	Expenditure Savings	150,000
	-	Grant Phillipstown Community Centre	50,000
Operational Savings & Additional Revenue			$200,000

(b) Operational Shortfalls

Net Interest Expense				$3,000,000
Mayor's Office				38,500
Environmental Services	-	City Plan	395,000	
	-	Regulatory Activities	100,000	
				495,000
Estimated Operational Shortfalls				$3,533,500
Estimated Net Operational Shortfall				**$3,333,500**

(c) Requests for Additional Operational Expenditure

Employment Services	Continue Adult Employment Initiative for remainder of 1998/99	78,000
City Streets	Roading Reform	100,000
Corporate Services	Meet expected demand with Clean Air Project in June 1999 quarter	$50,000 to $250,000

(d) Fixed Assets Sales

Expected shortfall in sales of Surplus and Development Properties for the year	$2,014,000

(e) Capital and Infrastructural Savings

Convention & Entertainment Centre	Convention Centre	100,000
Plant & Building Services	Vehicles & Plant	2,451,800
Total Savings		2,551,800
Net Capital & Infrastructural Savings		**$537,800**

(f) Capital and Infrastructural Requests for Additional Expenditure

Parks	-	Travis Wetlands Public Toilets & Car Park	85,000	
		New Brighton Foreshore Land Development	150,000	
				235,000
Property	-	Civic of Canterbury Purchase (Provision has been requested for this purchase, details of which are included in the Public Excluded section of this report)		
Convention & Entertainment Facilities	-	Artwork in Convention Centre Foyer		50,000
Total Specified Requests for Additional Expenditure				$1,135,000

NB: The Fendalton/Waimairi Community Board requested that if there was any capital expenditure surplus that consideration should be given to spending some of this on additional undergrounding of electricity cables.

(g) Capital and Infrastructural Projects Delayed to be rebudgeted in the 1999/2000 year

Property	- Fendalton Library & SC co-location	1,839,600	
	- Fendalton Library Fitout	212,600	2,052,200
Leisure	- QEII Pool		1,672,400
Parks	- Latimer Square Landscape Redevelopment	114,000	
	- Major Hornbrook Road New Reserve	5,000	119,000
Parking	- Suburban Parking Meters		275,900
City Streets	- Roading Projects		1,721,000
Waste Management	- Liquid Waste	1,300,000	
	- Solid Waste	100,000	
			1,400,000
Total to be Rebudgeted 1999/2000 year			$7,240,500

3. COMMENTS

(a) Operational

The $17M of additional dividends received are part of the budgeted capital repatriation and were allocated last year for debt repayment. Therefore, they are **not** available to offset expenditure overruns.

After adjusting for capital repatriation income, the Council is likely to be over $3M under the budgeted Operating Surplus. Therefore, it is recommended that no additional operational expenditure be authorised apart from bringing forward the budget for the Clean Air Project up to a maximum of $250,000.

(b) Capital

I have split the capital into two components, as they need to be treated differently. The projects which we know are delayed ($7.24M) should be deleted from the year's budget and rebudgeted for the next financial year. 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. There have been delays in receipt of capital repatriation funds from Orion due to the need to ensure the most tax efficient process is used. This has reduced the availability of capital and may require temporary borrowing within the financial period. Given the $3.3M projected operational shortfall and that the net capital and infrastructural savings are only $538,000, it is recommended that no additional capital expenditure be approved.

Recommendation:

1. That the information be received.

2. That sufficient funds be brought forward from the 1999/2000 Clean Air Project budget, up to a maximum of $250,000, to cover the expected shortfall.

3. That no additional capital expenditure be approved.

4. That $7.24M of identified expenditure be deleted from the 1998/99 budget and be rebudgeted in 1999/2000.

5. That $4.0M of the capital projects that have been delayed and that are to be re budgeted in the 1999/2000 year be identified as covering the 1998 Plan provision for Unspecified Carry Forwards.

6. That CCHL be asked to review its level of dividend to take account of lost interest income through delays in capital repatriation.

7. That $86,000 be allocated to the Roading Reform campaign.

Chairman's Recommendation: That the above recommendation be adopted.