

## 8. 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 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) 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.

#### (b) Other Significant Transactions

The contributions to the construction of the new Art Gallery are only \$35,000 compared to a budget of \$1,498,284 for the six months and \$2,996,560 for the year. The balance of the grant from the Community Trust is \$344,000 and will be paid before the end of the year. It is expected that \$450,000 of the monies pledged will be received in the second half of the year. This leaves a shortfall on private and business donations of approximately \$550,000. There could also be a **further** shortfall of \$1.6M if grants are not received from the Lotteries Commission and the Department of Cultural and Internal Affairs of \$600,000 and \$1M respectively.

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.

(c) **Corporate Expenses**

Expenditure is \$0.9M under budget principally due to the timing of \$0.44M of grants payments. In addition, there is a credit of \$0.49M from Accident Insurance savings. These savings are being transferred to a special fund to help fund the fixed overhead previously charged to the Works Operations Unit and the Mechanical Services Section prior to their transfer into Canroad Construction Limited.

(d) **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 awaiting IRD binding rulings. Since 1 July the Council has been funding all operations and capital expenditure from working capital sources which have substantially reduced and the debt repayment reserve has not been available to produce interest income. Assuming the capital repatriation comes to hand by the end of March, the end of year interest earnings should be approximately \$2.3M against a budget of \$5.1M – a shortfall of \$2.8M. However, the budgeted income from CCHL dividends is \$24.8M but updated forecasts of CCHL indicate total dividends of \$30M should be available for the Council. Of this amount \$3M is in lieu of debt repayment obligations that are being transferred from CCHL to the Council in the interests of financial efficiency. This will, at year end, leave a dividend income of \$27M, which is \$2.2M ahead of the Annual Plan & Budget. The net position is a shortfall of at least \$0.6M.

(e) **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 relate to:

- (i) ***Public Accountability*** – The budget is currently underspent by \$307,000 principally due to the budget for the referendum on amalgamation of the City with the Banks Peninsula District Council being spread evenly across the year. Another contributing factor is the \$53,000 of Community Board discretionary spending that has yet to be allocated.
- (ii) ***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.
- (iii) ***Community Relations*** - Currently running under budget by \$566,000. 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.

- (iv) ***Environmental Policy & Planning*** – Expenditure is currently over budget by \$283,000 due to the payment of design and heritage grants being made earlier than the budget phasing.
- (v) ***Environmental Services*** – The net cost is running below budget by \$485,000. This is mainly due to the timing of expenditure. Legal costs for the City Plan will be incurred later than anticipated but there will be no budget saving as amounts unspent will need to be carried forward to 2000/01. Other costs are traditionally higher in the second half of the year.
- (vi) ***Financial Services*** – The net cost is running below budget by \$203,000 due to delays in the timing of expenditure. The major item is expenditure related to rating valuation services provided to the Council. This will be paid in the second half of the year.
- (vii) ***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.
- (vii) ***Library & Information Services*** – At 31 December, the Libraries Unit is \$451,000 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. A request for additional funding of \$15,000 is included later in the report.
- (viii) ***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.
- (ix) ***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 QE II due to the impact of opening the two new pools.

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

\$77,000 for QE II 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.

- (viii) **Property** – The operating result is principally \$158,000 under budget due to the net effect of multiple savings and delays in expenditure exceeding the shortfalls in revenue, earlier than planned expenditure and unbudgeted increases in expenditure. 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.
- (viii) **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.
- (ix) **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.

- (x) **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. \$373,000 of the under expenditure is due to the change in electricity supplier resulting in invoices not having been received for waterways & wetlands as well as water supply for part of October and the months of November and December. Maintenance costs are also below budget but this is principally due to the timing of this expenditure. In addition, no expenditure has yet been incurred on two major projects. These are the irrigation feasibility studies and the long term water strategy development which have total budgets of \$150,000 and \$100,000 respectively. The major factor that is likely to result in a relatively small over expenditure for the year, is that the depreciation budget is understated by \$160,000 due to the revaluation of buildings and Infrastructure Assets at 30 June 1999.
- (xi) **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.

- (xii) **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.

- (xiii) **Works Operations** - The \$3.4M over expenditure relates principally to Work in Progress (WIP) to be recharged to business units and some residual costs related to the transfer of its operations to Canroad Construction Limited. Part of the WIP relates to infrastructural assets and will not impact on the operational result. The year-end projected result is not expected to be achieved due to the residual costs 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.

### **(d) 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 \$6M provision for unspecified carry forwards on page 96 of the 1999 Plan should be identified and be re-budgeted in 1999/2000. Therefore \$6M of the capital projects to be delayed should be identified as covering this provision. To achieve the ongoing benefit of this deferral, a similar provision must be included in the 2000 Plan.

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.

(e) **Infrastructural Assets**

Actual expenditure to 31 December is \$19.2M against a budget of \$24.4M. Some of the \$1.3M WIP from the Works Operations Unit is for Infrastructural Assets.

(f) **Restricted Assets**

Parks \$1.1M and Property \$0.2M and Environmental Policy and Planning, \$0.5M 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**

Corporate Revenues	Unbudgeted ACC Experience	394,000
	Rating Discounts	
	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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(b) **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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Estimated Net Operational Surplus over budget		<b>\$614,000</b>
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(c) **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	Shortfall for legal & other costs	\$100,000
Canterbury Development Corporation	ICAN Feasibility Study	29,300
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		\$408,300
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(d) **Fixed Assets Sales**

Expected net shortfall in Sales of Surplus and Development Properties for the year	\$1,777,000
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(e) **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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(f) **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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NB: Information supporting the requests for additional funds above for both operational and capital projects is contained in the attachment.



(g) **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 as per Attachment III		1,587,187
	SCATS Upgrade as per Attachment III		(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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3. **COMMENTS**

(a) **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 (refer attached for details) 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>

The Waste Management Unit advise that the Randolph Street Pumping Station which is provided for in the 2008/09 budget can be reduced by \$100,000. The asbestos had been programmed over five years but with approval of the Council was done all at once. There is insufficient in the upgrade fund to provide for the balance of both projects. Budgetary provision has not been made for the purchase of the Mecca Place land. The opportunity to acquire the land has arisen since the last budget was prepared.

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.

**(b) 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.

It will be noted in the attachment that there is benefit in bringing forward from 2000/01 a budget of \$150,000 for the purchase of SCATS computer equipment for traffic light control. In view of the potential savings, which can be made, and the deferrals identified by the unit, this request is supported.

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.

- 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.

**Chairman's**

**Recommendation:** That the above recommendation be adopted.