4. 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 2003 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

A summary of the business units' results and the Council's overall result for the six months to 31 December 2003 is tabled together with a summary of corporate transactions for the same period.

Expenditure with Corporate Wide Impact

Depreciation is under budget by $0.4M. 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, the impacts of asset revaluation that cannot be accurately estimated at the time the budgets are prepared. Thirdly, errors in setting the depreciation budgets.

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. To this end, it is proposed that the surplus depreciation budgets in the City Water and Waste and Libraries and Information Units be transferred to the Art Gallery and City Transport Units.

Corporate Expenses

Expenditure is $1.7M under budget due to a combination of factors. Firstly, interest expense is under budget by $0.75M due to an error in setting the budget and delays in borrowing funds due to delays in the investment and capital programmes. Secondly, expenditure on corporate grants is under budget by $0.54M due to the timing of the grants payments. Thirdly, corporate development expenditure is $0.45M under budget as a result of the timing of this expenditure.

Interest expense is expected to be under budget for the full year by at least $0.6M.

Corporate Revenues

Corporate revenue is over budget by $3.1M principally due to higher than budgeted interest income of $1.9M, higher than budgeted cash in lieu of reserve contributions of $1.0M and higher than budgeted rates revenue of $0.2M.

The higher than budgeted interest income is principally due to significantly higher levels of funds available for investment as a result of the level of reprogramming and carry forwards of capital expenditure from 2002-03 into the 2003-04 year.

The additional cash in lieu of reserve contributions income is not available to be reallocated to cover budget shortfalls as there is a legal requirement for these funds to be used for the development of parks and reserves.

The rates levied for the year exceeded budget by $0.84M. However, income from rates penalties is below budget for the year due to better collection of rates debt. It is expected that rates income will exceed budget by at least $0.6M after allowing for any write-offs or corrections.

Operational Expenditure

Overall net expenditure on significant activities at $82.8 is $8.6M below budget for the six months to 31 December. The main items of over and under expenditure relate to:

1. **Information Directorate** – Currently running under budget by $1,044,000. This is due to a combination of factors. Firstly, the transportation projects planned for the City Development Group have been delayed. A report on the options available will be submitted to the Council in April. Secondly, requests for assistance with the preservation of heritage buildings are behind budget. The amounts involved are $47,000 and $447,000 respectively but the year end position is uncertain at this stage. In both cases, if the expenditure is not incurred in the second half of the year then carry forwards will be requested. Thirdly, some central city projects have been delayed due to the late receipt of authorisations from other organisations, and some are taking longer than expected. The total amount involved is $574,000. Again, if the expenditure is not incurred in the second half of the year then carry forwards will be requested.

2. **Community Relations -** Currently running under budget by $795,000. The under expenditure relates principally to the under expenditure of $748,000 due to the timing of grants under the social initiatives programme. 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 was $407,000 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 $60,000 over budget at year end as a result of higher operating costs being partly offset by depreciation being $40,000 lower than budget.

4. **City Water and Waste -** At 31 December, City Water and Waste Unit was under-spent against budget by $2,983,000. This is principally due to three main factors. Firstly, revenue is ahead of budget by $1,718,000. The levies and cost share contributions for water supply and sewerage are $652,000 higher than budget due to higher than planned level of building and subdivision activity. The solid waste revenue is $474,000 over budget due to higher than planned level of dumping that seems to reflect the buoyant economy. Water billing revenue is $202,000 over budget due to higher than planned usage and identification of additional users who should be subject to water billing. Trade wastes revenue is $249,000 over budget due to higher than planned volumes that reflect the buoyant economy.

   Secondly, depreciation is under budget due to economic lives being extended on some wastewater assets following the June 2003 revaluation, some depreciation budgeted in error and delays with capital expenditure being incurred. Depreciation is estimated to be $2,460,000 under budget at year end.

   Thirdly, lower than anticipated maintenance and electricity costs of $750,000.

   The City Water and Waste Unit expects to be under budget by $3,260,000 for the full year but $2,460,000 of this relates to depreciation and is therefore not available to fund other expenditure. Also $400,000 relates to contributions to capital works and is also not available to fund other expenditure.

5. **Director of Policy** - At 31 December, the Policy Directorate was $183,000 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 decisions not to undertake certain promotional programmes. It is expected that the final result will be $60,000 under budget at year end.

6. **Property Management** – The net cost currently is below budget by $312,000 due to two main factors. Property Services projects, particularly the identification and disposal of surplus properties, due to staff vacancies being held open until the new organisation structure was confirmed. Carry forwards will be required for any of this expenditure not incurred by year end. Secondly, the special projects scheduled have not all proceeded to plan. The major area of under expenditure relates to Taylor’s Mistake baches. The project is due to commence in the new year but it is likely that at least $40,000 will need to be carried forward or reprogrammed into the 2004/05 year.

7. **Property Asset Management**– The operating surplus is $716,000 ahead of budget due to the net effect of a number of factors. Firstly, planned maintenance projects for the year are still in the design or preliminary contract stage. This equates to $499,000 of expenditure to occur in the second half of the year. Depreciation is $211,000 below budget for the year to date principally due to the review and extension of the economic lives of some of the service delivery properties. The year end position is expected to be $300,000 under budget as a result of the lower than budgeted depreciation. However, as the depreciation charge has been budgeted to finance capital expenditure, the $300,000 is not available for reallocation.

8. **Housing** – At 31 December, the result was $352,000 better than budget. Of this amount, $347,000 relates to maintenance expenditure that is expected to be incurred in the second half of the year.

9. **Art Gallery** – The net cost is currently over budget by $480,000. The major factor is the omission of the depreciation on the Art Gallery resulting in depreciation being over budget by $459,000 with the variance for depreciation for the full year expected to be $914,000.

   There have also been cost overruns with energy, security and staffing costs due to a combination of vastly higher than budgeted visitor numbers and a better assessment of requirements once Gallery staff had gained experience in the operation of the building. However, these cost overruns are expected to be covered by the higher than budgeted revenue from the shop and the lease of the car park to the Parking Unit. It is expected that the final result will be over budget by $905,000 at year end unless the recommended budget transfer is approved for depreciation.

10. **Parks and Waterways** – The net cost is currently below budget by $966,000. This is principally due to three main factors. Firstly, the $400,000 Linwood Outfall Drain rehabilitation work has not occurred as planned. Secondly, contributions to land drainage cost share schemes are $239,000 over budget. These funds are not available to finance over expenditure in other areas as they must be transferred to a special fund and be used to construct the land drainage assets to support these subdivisions.

    Thirdly, Waterways and Wetlands maintenance costs are under budget by $451,000 due to the timing of maintenance programmes as weed control, replanting and watering cost impact to a greater extent in the second half of the year.

    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 by $183,000. This is partly due to higher watering costs as a result of the drought, additional expenditure on tree maintenance that has been necessary as a result of a series of strong wind events and lower than budgeted revenue.

11. **City Solutions** – The net cost is currently over budget by $217,000 due to a combination of factors. These include the investment of time to perform an internal review of its operations with the aim of developing a strategic plan to maximise the savings to the Council under the ‘Total Solutions’ model. The other significant factor is the loss on internal projects, principally Riccarton and Styx pumping stations. These losses are expected to be covered in the second half of the year through improved productivity and management.

12. **Environmental Services** – The Unit’s net cost currently is below budget by $1,380,000. This is due to a combination of factors. The biggest one is higher than budgeted revenue of $816,000 due to the higher than planned level of building and subdivisional activity. As well, some IT development projects have been delayed. The budget for consultants and legal advice is under spent but the amounts related to the City Plan are expected to be expended in the second half of the year. Productivity gains have also contributed substantial savings. The result for the year is likely to be better than budget by $1,094,000 as the deferred expenditure of $500,000 above is incurred.

13. **Leisure** – At 31 December, the result was $319,000 over budget after adjusting for December revenue that was not recorded until January in the accounting records. These over expenditures relate mainly to the operation of facilities and in particular Jellie Park Aqualand. This leisure centre has continued to encounter problems with onsite plant and facilities. QEII has continued to have higher energy costs and a slight reduction in projected income. The current over expenditure includes a writedown of assets at QEII of $24,679 and rates that are now being charged on Council facilities of $29,000. A corporate provision has been made for these rates and the budget will be allocated in January.

The overall projection for the unit to 30 June 2004 is that the net cost will be over budget by $461,000 as the higher than budgeted level of expenditure at these facilities is only being brought into line progressively.

14. **Unit Variance from 5 Month Result** – Some units have provided to their respective Committee a report for the period ended 30 November 2003. The following units have recorded significant movement from their reported variance as at November, to that detailed in this report:

    Community Relations – The actual variance below budget has moved from $260,000 in November, to $795,000 in December. $470,000 of this movement is directly attributable to the timing of grant payments in the Community Funding output.

    Property Asset Management/Housing – The combined positive variance to budget was $660,000 for the period ended 30 November 2003. In December, that figure rose to $1,068,000. The primary cause of the movement was the recognition of some January rental income in December for both commercial and residential properties.

    City Water and Waste – The November variance was reported as $3,255,000. In December, this dropped to $2,983,000. This movement of $272,000 is largely due to the timing of capital works revenue, and additional costs incurred with Solid Waste operations during the December period.

Summary - Operating Result

At 31 December, the actual operating surplus of $22.4M exceeded the budgeted operating surplus by $13.4M. It is likely that the budgeted operating surplus for the year of $9.1M 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. However, the current favourable position against budget may be reversed but not from a cash flow perspective. There will be a loss on asset disposal cost due to State Highway changes. The State Highway changes result in a net loss in asset value, ie, the value being given away is greater than that gained. This needs to be accounted for and was not allowed for in the budget. The amount could be in the order of $10m. The exact amount is not known yet.

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 2003, net capital expenditure is running behind budget by $24.4M.

The $6M provision for unspecified carry forwards on page 144 of the 2004 Plan needs to be identified and rebudgeted in 2004/05. This report identifies $16.38M 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 2005 Plan.

Infrastructural Assets

Actual expenditure to 31 December is $23.2M against a budget of $39.0M. At this stage, the policy units, with minor exceptions, 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 with a number of small and medium sized projects. The only large project that has not started is the purchase of an invessel compost plant where the budget for the year to date was $1.6M. The budget for the year of $3.2M needs to be reprogrammed.

The Property Asset Management section has advised that four projects scheduled for completion in 2003/04 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. Housing has a similar situation regarding new residents' lounges.

The budgeted net sales proceeds from the sale of surplus and development properties will be $615,000 below the amount budgeted as Property Services projects, particularly the identification and disposal of surplus properties, due to staff vacancies being held open until the new organisation structure was confirmed. Although it is hoped to make appointments in February, the identification and disposal process is unlikely to be sufficiently advanced that any properties approved for sale, will be sold by 30 June 2004.

Restricted Assets

Parks $1.5M and heritage buildings $0.3M account for the majority of the $1.9M 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	600,000
	Higher than budgeted interest income	2,500,000
	Lower than budgeted interest expense	600,000
Financial Services	Cost savings identified	80,000
Policy Directorate	Cost savings identified	60,000
City Water & Waste	Cost savings identified	400,000
Environmental Services	Increased revenue and cost savings	1,094,000

Operational Savings and Additional Revenue		$5,334,000

Operational Shortfalls

Leisure	461,000
Art Gallery	65,000
Libraries & Information	60,000
Parks & Waterways	183,000

Estimated Operational Shortfalls against Budget	$769,000

Estimated Change in Net Operational Surplus at Year End	**$4,565,000**
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Request for Additional Operational Expenditure

Parks, Gardens & Waterways	North New Brighton Dunes Project	78,000
Strategy & Finance Committee	Protection of Brooklands Lagoon	20,000
	Canterbury Economic Development Fund grants	307,000

		$405,000
		========

Fixed Assets Sales

Expected net shortfall in Sales of Surplus and Development Properties for the year	$615,000

Capital and Infrastructural Savings

Property asset management Renewals and replacements Contingency not needed	$345,000

Net Capital and Infrastructural Shortfall	**$270,000**
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Capital and Infrastructural Requests for Additional Expenditure

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Additional costs on the construction of the new Christchurch Art Gallery	**$446,000**
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NB: Information supporting the requests for additional funds above for both operational and capital projects is tabled.

Capital and Infrastructural Projects Delayed, to be Rebudgeted in the 2004/05 or Subsequent Years

Capital

Property Asset Management -	Shirley Community Centre structural strengthening	460,000	
	Riccarton Town Hall disabled access	30,600	
	Redcliffs/Sumner childcare Facility	280,000	
	Upper Riccarton Community Centre	140,000	910,600

City Water & Waste	Water Supply Improvements	200,000	
	Sewerage Pumping Station 11	1,800,000	
	Treatment Plant Upgrade-Clarifiers Dewatering Wells & Trickling Filter	1,300,000	
	Treatment Plant Upgrade-Digesters 5 & 6	1,000,000	
	New Compost Plant	3,152,000	
		-------------	7,452,000
City Streets-	Roading Projects		8,702,653
	Roading Projects to be brought forward		(681,681)

Total Capital Expenditure to be Rebudgeted in the 2004/05 or Subsequent Years			**$16,383,572**
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Operational

City Streets	Net Transfund Subsidies on Reprogrammed Capital Works	1,113,000

Total Revenue to be Rebudgeted in the 2004/05 year		**$1,113,000**
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Property	Taylor's Mistake baches	40,000	
	Central City site demolition costs	140,000	
		-----------	180,000
City Development Group	Central City Strategy & Projects	150,000	
	Special character precinct upgrade	150,000	
		-----------	300,000

Total Operational Expenditure to be Rebudgeted in the 2004/05 year			**$480,000**
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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 except for the three projects detailed below to enable all projects to be prioritised as part of the Annual Plan process:

- Protection of Brooklands Lagoon $20,000
- North New Brighton Dunes Project 78,000
- Canterbury Economic Development Fund grants 307,000

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 2004/05 year.

Capital

The $17.07M 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 2004 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.

That there is benefit in bringing forward from 2004/05, capital projects with a value of $682,000 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 do not compromise the annual planning process.

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 $17.07M of the capital works that will not be completed, be rebudgeted into 2004/05 or subsequent years with some capital projects brought forward into 2003/04 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 Overall Position

	Operational	Capital	Total
Estimated Net Surpluses	5,334,000	345,000	5,679,000
Proposed Allocation to Shortfalls	(769,000)	(615,000)	(1,384,000)
Proposed Allocation to Additional Expenditure Requests -			
Operational	(307,000)		(307,000)
Capital		(446,000)	(446,000)
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	$4,258,000	($716,000)	$3,542,000
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Recommendation:

1. That the information be received.

2. That provision be made to cover the projected operational shortfalls.

3. That budget provision be made for $20,000 to cover the additional funding required for the protection of the Brooklands Lagoon, $78,000 for the North New Brighton dunes project and $307,000 to facilitate the agreed level of assistance from the Canterbury Economic Development Fund.

4. That budget provision be made for $446,000 to cover the additional funding required for the construction of the new Christchurch Art Gallery.

5. That the Property asset management renewals and replacements contingency budget be reduced by $345,000, the amount no longer needed and be allocated to partially finance the expected shortfall in asset sales.

6 That $270,000 of the expected operational savings be reserved to finance the remainder of the expected shortfall in asset sales.

7 That $17.07M of identified capital expenditure and the $1.1M of related revenue, be deleted from the 2003/04 budget and be rebudgeted in 2004/05 or subsequent years.

8. That $682,000 of the 2004/05 capital programme for City Streets be brought forward to 2003/04.

9. That the net $17.07M of capital projects that have been reprogrammed, be identified as covering the 2004 Plan Provision of $6M for unspecified carry forwards

10. That the surplus depreciation budgets in the City Water and Waste, Facilities Management and Libraries and Information Units be transferred to the Art Gallery and City Transport units to cover the shortfalls in the latter units' depreciation budgets.