

### 33. PERFORMANCE REPORT FOR THE FOUR MONTHS TO 31 OCTOBER 2011

<b>General Manager responsible:</b>	General Manager, Corporate Services
<b>Officer responsible:</b>	Corporate Performance Manager Corporate Finance Manager
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#### PURPOSE OF REPORT

1. The purpose of this report is to update the Council on service delivery, financial, and capital works programme performance results for the four months to 31 October 2011. The budgets and targets in this paper are based on those approved by the Council in the 2009-19 LTCCP and/or 2011-12 Annual Plan. This report would normally be delivered for the quarter ended 30 September 2011, however the reporting was deferred to allow further analysis into the costs incurred following the 13 June 2011 aftershocks.
2. The report includes an updated overview on the expected overall financial impact of the earthquake on the Council.

#### EXECUTIVE SUMMARY

3. Attached are appendices showing summaries of:
  - Levels of service graph as at 31 October 2011 (**Appendix 1**)
  - Levels of service forecast to fail to meet targets (**Appendix 1a**)
  - Levels of service requiring intervention to meet targets (**Appendix 1b**)
  - Levels of service which have had targets suspended (**Appendix 1c**)
  - Proposed new levels of service targets (**Appendix 1d**)
  - Financial performance as at 31 October 2011 (**Appendix 2**)
  - Significant capital projects (>\$250,000) as at 31 October 2011 (**Appendix 3**)
  - Housing development fund and Christchurch Earthquake Mayoral Relief fund as at 31 October 2011 (**Appendix 4**).

#### Levels of Service

4. In the post-earthquake period, a number of level of service targets were modified by the Council either using the Order in Council process or via the 2011/12 Annual Plan. As a result, most levels of service have now returned to a substantially normal footing. The exceptions are mainly targets in Water Reticulation and Wastewater that remain suspended by Council resolution.
5. Current forecasts show that Christchurch City Council is likely to deliver 85.6 percent of its levels of service to target at year end. This is in line with target and previous years.
6. **Appendix 1a** lists those levels of service that are forecast to fail their target, along with staff commentary. **Appendix 1b** lists those that targets that are marginal at present but may succeed if remedial actions are successful. **Appendix 1c** is a list of the suspended targets, and finally, **Appendix 1d** holds a small number of new targets proposed for approval by the Council. They represent work which was not being tracked or which has arisen post earthquake.
7. Please note that CDC (Canterbury Development Corporation) is in the process of refining some of its performance targets to provide more specific information around deliverables and their due dates. The proposed changes will be included in the next (half yearly) Performance Report to Council.

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## Financial Performance

8. The key financials for the year-to-date are summarised in the table below. This includes an additional section for earthquake response costs, which the Council has resolved to borrow for (to be repaid through reductions to the capital renewals programme). An expanded view of the Council's financial results is provided in **Appendix 2**:

Year to Date Results				Forecast Year End Results		
\$000's	Actual	Plan	Variance	Forecast	Plan	Variance
<b>Council Activities</b>						
Operational Funding	135,754	130,938	4,816	365,599	355,584	10,016
Less Operational Expenditure	116,477	121,889	5,412	387,988	381,658	-6,329
<b>Ratepayer cash operating surplus</b>	<b>19,277</b>	<b>9,049</b>	<b>10,229</b>	<b>-22,388</b>	<b>-26,075</b>	<b>3,686</b>
<b>Earthquake Response</b>						
Operational funding/recoveries	78,273	18,266	60,007	136,938	55,161	81,777
Operational expenditure	102,893	25,127	77,766	189,714	58,361	131,352
<b>Earthquake response</b>	<b>-24,620</b>	<b>-6,860</b>	<b>-17,759</b>	<b>-52,776</b>	<b>-3,200</b>	<b>-49,576</b>
<b>Capital Works Programme</b>	<b>13,845</b>	<b>38,744</b>	<b>24,899</b>	<b>174,726</b>	<b>178,115</b>	<b>3,389</b>
Works Programme Funding	22,571	24,710	-2,139	114,541	115,959	-1,418
Works Programme Borrowing Requirement	<b>-8,726</b>	<b>14,033</b>	<b>22,760</b>	<b>60,185</b>	<b>62,155</b>	<b>1,970</b>

9. The forecast ratepayer cash operating surplus, after including additional interest costs for borrowing for the earthquake response, is \$3.7 million. Given the extent of earthquake emergency and response costs forecast to be incurred, staff will recommended that this surplus be applied to these costs in lieu of additional borrowing.
10. Council earthquake emergency and response costs for 2011/12 are expected to be higher than expected by \$49.6 million as a result of:
- Costs incurred as a result of the 13 June aftershock were not included in the Annual Plan. These costs consist of both immediate emergency costs and ongoing maintenance of the Council's network and temporary services. June emergency response costs are estimated to be \$29.9 million and are largely recoverable through Ministry Civil Defence Emergency Management subsidies (net cost to the Council of \$2.8 million). However this aftershock also caused substantial additional work to maintain the Council's network (eg jetting/sucking of sewers, clearing stormwater drains) and is forecast to increase costs to the Council by \$30.0 million this year (gross cost forecast at \$84.1 million less recoveries of \$54.1 million).
  - Underestimation of the cost of maintenance of temporary services. As well as the additional maintenance costs caused by the June 2011 aftershock, the initial estimate of maintenance of temporary services was too low by \$4.9 million, mainly in stormwater and roading. These costs have increased as further damage has become apparent to these assets. Lower than expected government subsidies add a further \$6.4 million to the net cost to the Council. Staff are looking at options for reducing these costs and will report back to the Council in the new year.
  - Finally, total rockfall costs of \$22 million were included as part of the emergency and response cost estimates in the Annual Plan. These were expected to be incurred against the capital programme, but are now being charged to earthquake response costs as they are unlikely to be eligible for capitalisation. Of the estimate of \$22 million, \$11.8 million is forecast to be spent this year with a net cost to the Council of \$4.1 million.

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11. As at 31 October, the Capital Works Programme is forecast to be \$3.4 million below budget before carry forwards. Forecast carry-forwards are \$12.4 million, the largest carry-forwards being Ferrymead Bridge, Main Rd three laning and the wastewater and water supply extension to Charteris Bay. After carry-forwards, the capital works programme is forecast to be \$9.0 million over budget at year-end due to a timing difference in the transfer of strategic land purchased to other capital projects. This will be remedied via the carry-forward process at year-end, which will reduce the forecast capital works programme to below budget.
12. The table below summarises the current estimate of the financial impact of the earthquakes on the Council for 2011/12. Further detail is shown in the table following paragraph 45.

\$ million	Actual 11/12 YTD Results				Forecast 11/12 Results					
Summary	Cost	Govt Subsidy	Insur Cover	Net Cost	Cost	Govt Subsidy	Insur Cover	Net Cost	11/12 Plan	Variance
Emergency/Response	102.9	(61.0)	(17.3)	24.6	189.7	(111.5)	(24.6)	53.6	4.1	49.6
Rebuild Costs	102.3	(52.5)	(27.3)	22.5	344.8	(134.0)	(156.2)	54.6	54.6	(.0)
<b>Net Cost</b>	<b>205.2</b>	<b>(113.6)</b>	<b>(44.5)</b>	<b>47.1</b>	<b>534.5</b>	<b>(245.5)</b>	<b>(180.8)</b>	<b>108.2</b>	<b>58.6</b>	<b>49.6</b>

## Operational Funding

13. Operational funding for the Council activities is \$4.8 million higher than budget and forecast to be \$10.0 million higher at year-end. The year-to-date variance is largely due to additional revenue from rates (including penalties) and trade waste charges, along with unbudgeted funds received for the running of various Rugby World Cup events, and donations to the Christchurch Earthquake Mayoral Relief Fund. Partially offsetting this are revenue shortfalls in the parking, building consents/inspections, housing, and commercial property areas. Revenue from trade waste charges and rates are also the main components of the forecast variance (forecast to be \$5.4 million and \$3.0 million higher than budget respectively).

## Operational Expenditure

14. Operating costs for Council activities are \$5.4 million below budget, but are forecast to be \$6.3 million over budget at year-end. The year-to-date variance is largely due to an underspend in maintenance cost in the Wastewater Collection & Treatment, Water Supply, Streets and Transport, and Parks and Open Spaces activities, as work continues to be put on hold while resources are diverted to earthquake repairs. There is also an ongoing underspend in the Recreation & Leisure, Libraries, Art Gallery and Social Housing activities due to facility closures and unoccupied housing units. Partially offsetting these, are higher than budgeted debt servicing costs (partly due to additional borrowing for earthquake costs), and non-response earthquake costs (eg cordon management, demolition processing, and the Royal Commission).
15. The majority of the unfavourable forecast variance is due to non-response earthquake costs with the most significant forecast overspend being earthquake rates remissions \$1.4 million, Royal Commission costs \$0.9 million, and earthquake building consents and inspections of \$0.9 million and \$0.6 million respectively. Debt servicing costs are \$3.8 million higher than budget although this is partially offset by \$2.5 million in additional interest revenue as a result of the Council being required to borrow funds in anticipation of government reimbursement of emergency and response costs.

## Capital Works Programme

16. The Capital Works Programme is \$24.9 million below budget year to date, with \$4.2 million relating to strategic land purchases. The balance of the year-to-date variance is largely timing, with a number of projects having been delayed. Some of the key delays are the Western Interceptor Future Stages (\$3.8 million behind budget), Awatea South Basin (\$2.5 million), Carrs Road Stormwater Facility (\$2.0 million), WW Fendalton Duplication (\$1.5 million), along with a number of roading projects including road pavement replacement (\$0.8 million), Carrs Road underpass (\$0.5 million) and Canterbury Park access (\$0.5 million).

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17. The Capital Works Programme is forecast to be \$3.4 million below budget for the full year. Streets and Transport will be underspent by \$7.5 million (the key components being the Ferrymead bridge \$4.5 million; Main Road 3-Laning \$2.1 million; and the Carrs Road underpass \$1.0 million). Wastewater Collection and Treatment is forecast to be \$5.4 million below budget (various Sedimentation and Grit Tank projects \$2.3 million; WW Extension to Charteris Bay \$2.1 million; Wigram Pump Stations \$0.5 million; and Wastewater Treatment Plant Odour Containment \$0.4 million). Cultural and Learning Services are also forecast to be underspent (\$1.1 million) on art collection acquisitions.
18. Partially offsetting this is an under recovery relating to strategic land purchases (\$14 million), as the amount of held land identified to be allocated to capital projects in the current year is forecast to be significantly lower than budgeted. This is a timing difference that will be addressed via the carry-forward process.
19. Proposed net carry-forwards of \$12.4 million have currently been identified at this stage, against a budgeted \$55 million.

**Capital Funding**

20. Development Contributions revenue is \$0.9 million below budget, and forecast to be \$2.5 million by year-end. The amount able to be allocated to fund completed work is also forecast to be \$2.5 million below budget, as shown in **Appendix 2**.
21. Capital grants and subsidies (excluding earthquake capital revenues) are currently close to budget, however they are forecast to deteriorate to \$0.4 million below budget by year-end. They relate to New Zealand Transport Authority (NZTA) capital subsidies on the Streets programme.

**Operational Activities**

22. The following commentary is supported by the second table in **Appendix 2**. These figures are combined results from Council activities and the earthquake response costs.
23. City & Community Long-Term Policy & Planning – This activity is \$1.7 million below budget, largely due to an underspend on consultants fees, promotional, and staff costs, mainly in the Central City Plan, Urban Development Strategy and Environmental Policy areas. However this surplus is forecast to reduce to \$0.9 million by year-end, as some additional costs have also been factored into the forecast for the Land, Building and Infrastructure Recovery Plan.
24. District Plan – This activity is forecast to be under budget by \$0.5 million due to an underspend on consultants and legal fees relating to both Council and Private plan changes.
25. Social Housing – This activity is forecast to be \$0.7 million better than budget due to forecast maintenance and operating costs being \$1.7 million below budget, partially offset by a forecast rental revenue shortfall of \$1.0 million.
26. Civil Defence Emergency Management – This activity is forecast to be \$1.9 million higher than budget due to costs associated with the Recovery Management Office, Emergency Operation Centre and Welfare (largely staff time which is not recoverable through government subsidies). Some of this expenditure relates to costs incurred prior to 30 June but not accrued into last year's financial accounts.
27. Neighbourhood Parks – The forecast overspend of \$1.3 million relates to net earthquake costs, with \$1.0 million relating to Parks and a further \$0.3 million specifically to Parks Trees work.
28. Regional Parks – The forecast overspend of \$0.4 million largely relates to earthquake geotech assessment/mitigation costs (net of recoveries).
29. Waterways & Land Drainage – This activity is forecast to be \$6.5 million overspent, nearly all of which relates to earthquake costs (net of recoveries), with normal business operations forecast to be close to budget.

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30. Harbours and Marine Structures – The favourable forecast variance of \$0.5 million is due to additional fees revenue expected from the 82 cruise ship visits scheduled during the October – April season.
31. Parks and Open Spaces Capital Revenues are \$5.5 million higher than budget, mainly due to higher earthquake capital recoveries as a result of higher capital expenditure on stormwater (mainly stop bank works). Development contributions are \$0.7 million below budget. While earthquake capital revenues are forecast to be on budget, development contributions are forecast to be \$2.1 million below budget (Parks \$1.6 million and Waterways & Wetlands \$0.5 million).
32. Refuse Minimisation & Disposal Capital Revenues – The current unfavourable variance of \$2.1 million is due to the expectation that we will be unable to claim any recovery on the set up of the Burwood Resource Recovery Park. However, Staff will continue to discuss recovery of these costs with central government.
33. Regulatory Approvals – This activity is \$2.3 million over budget. \$2.2 million of this is earthquake costs (net of recoveries), of which \$1.4 million relates to rockfall assessments, \$0.4 million to earthquake building consents and inspections, and a further \$0.3 million to cost associated with the Royal Commission. Net earthquake costs are forecast to increase to be \$6.0 million higher than budget (\$3.2 million rockfall costs, \$0.9 million Royal Commission, \$0.7 million building consents, \$0.5 million miscellaneous earthquake administration work, \$0.3 million resource consents and \$0.3 million building inspections). Normal business operations are forecast to be \$0.5 million over budget, mainly due to lower revenue forecast in the Building Consent review and Building Inspections areas.
34. Road Network – This activity is \$5.6 million over budget. \$5.0 million relates to earthquake costs (net of recoveries), and depreciation costs are \$1.3 million higher. This is partially offset by an underspend on normal business operations of \$0.7 million, mainly in the Streets Trees (\$0.3 million) and Bridges/Structures (\$0.3 million) areas. Net earthquake costs and depreciation costs are forecast to be \$8.6 million and \$1.0 million higher than budget respectively, while normal business operations forecast to be \$0.7 million lower.
35. Parking – This activity is \$0.6 million over budget mainly due to lower than budgeted revenue from parking fees (\$0.5 million Off-Street and \$0.2 million On-Street), partially offset by lower depreciation costs. Parking revenue is forecast to deteriorate further by year-end (Off-Street parking \$1.0 million and On-Street parking \$0.4 million lower).
36. Public Transport Infrastructure – This activity is \$0.9 million below budget due to lower depreciation costs relating to the Transport Interchange site.
37. Streets & Transport Capital Revenues are \$21.0 million below budget, which relates to NZTA capital subsidies and insurance recoveries relating to the infrastructure rebuild, as very little subsidisable costs have been incurred to date, however the forecast is to be on budget at year-end. The forecast variance largely relates to Streets NZTA capital subsidies, which are forecast to be \$0.5 million higher than budget.
38. Wastewater Collection – This activity is \$6.4 million over budget largely due to earthquake costs (net of recoveries) of \$6.8 million and depreciation costs \$0.7 million higher than budget, partially offset by an underspend on normal business operations of \$1.1 million, as resources continue to be diverted to earthquake repairs. Earthquake costs are forecast to increase significantly by year-end, to be \$24.7 million higher than budget (mainly relating to below ground repairs).
39. Wastewater Treatment & Disposal – This activity is \$2.7 million below budget, mainly due to higher than budgeted revenue from Trade Waste charges (\$2.3 million) as a result of increased volumes of tankered waste being disposed at the Wastewater Treatment Plant. The balance is largely due to operating/maintenance cost savings due to the BioSolids plant not operating at full capacity. The majority of the forecast variance also relates to trade waste charges (forecast to increase to be \$5.4 million higher than budget at year-end).

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40. Wastewater Collection & Treatment Capital Revenues are \$27.0 million below budget, nearly all of which are earthquake capital revenues related to the infrastructure rebuild (\$24.1 million Wastewater Treatment Plant, \$2.0 million Wastewater Reticulation and \$0.9 million Pump Stations). These are forecast to be on budget at year-end. Cash development contributions are close to budget.
41. Water Supply – This activity is \$1.9 million higher than budget due to net earthquake costs (\$2.2 million) and depreciation costs (\$0.7 million), partially offset by an underspend on normal business operations of \$1.0 million as resources continue to be diverted to earthquake repairs. While net earthquake costs are forecast to increase to \$4.0 million higher than budget (\$2.7 million below ground and \$1.3 million above ground), normal business operations and depreciation cost variances are forecast to remain close to current levels.
42. Water Supply Capital Revenues are \$1.4 million below budget, due to infrastructure rebuild timing (forecast to be on budget at year-end). Cash development contributions are close to budget and are forecast to remain so at year-end.
43. Corporate Revenues & Expenses are \$37.7 million better than budget, \$38.3 million of which relates to earthquake capital recoveries. The balance of the year-to-date variance (\$0.8 million unfavourable) is represented by higher debt servicing costs (\$2.0 million), net corporate earthquake costs (\$2.2 million higher than budget, largely rates remissions). Partially offsetting this is rates revenue which is \$2.8 million higher than budget (\$1.2 million rates income and \$1.6 million penalties) and contributions made to the Christchurch Earthquake Mayoral Relief Fund of \$0.6 million. Excluding earthquake capital revenues (which are forecast to be on budget), a slight overall improvement is forecast by year-end (\$0.2 million).

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## FINANCIAL IMPACT OF THE EARTHQUAKE - ESTIMATE OF COSTS AS AT 31 OCTOBER 2011

44. Emergency and earthquake response costs are forecast to be \$49.6 million higher than plan in 2010/11, largely as a result of the 13 June aftershocks.
45. There will be some response costs in future years, these are identified as temporary maintenance works in the rebuild estimate and principally relate to sewer and roading. There may also be rockfall costs and a share of residual demolition costs from Canterbury Earthquake Recovery Authority (CERA).

\$ million	Actual 11/12 Year To Date Results				Forecast 11/12 Results					
Emergency & Response Costs	Cost	Govt Subsidy	Insur Cover	Net Cost	Cost	Govt Subsidy	Insur Cover	Net Cost	11/12 Plan	Variance
Roading Emergency Work	1.2	3.2	0.0	(2.0)	21.4	16.0	0.0	5.4	-	5.4
Welfare and other Emergency Work	3.6	3.1	0.0	0.5	5.5	1.2	0.2	4.2	-	4.2
Other Response Costs	33.4	15.8	6.1	11.5	19.0	1.4	8.8	8.8	-	8.8
Temporary Maintenance Work	62.4	37.8	9.0	15.6	132.5	84.7	14.0	33.8	4.1	29.8
Demolition	(0.0)	(0.1)	0.0	0.0	(0.1)	0.0	0.0	(0.1)	-	(0.1)
Rockfall	2.8	1.2	0.8	0.8	12.3	8.1	0.0	4.2	-	4.2
Other	(1.3)	-	0.5	(1.8)	(1.9)	0.1	0.6	(2.7)	-	(2.7)
<b>Total Emergency and Response Costs</b>	<b>102.1</b>	<b>61.0</b>	<b>16.4</b>	<b>24.6</b>	<b>188.7</b>	<b>111.5</b>	<b>23.6</b>	<b>53.6</b>	<b>4.1</b>	<b>49.6</b>

\$ million	Actual 11/12 YTD Results				Forecast 11/12 Results					
Infrastructure Rebuild	Cost	Govt Subsidy	Insur Cover	Net Cost	Cost	Govt Subsidy	Insur Cover	Net Cost	11/12 Plan	Variance
Facilities	.5	1.2	.8	2.5	66.4	(.0)	(52.2)	14.2	3.8	10.4
Water	.6	(1.3)	(.9)	(1.6)	14.2	(8.5)	(5.7)	-	.0	(.0)
Sewer	21.7	(13.1)	(1.8)	6.8	136.4	(43.4)	(91.4)	1.6	.7	.9
Stormwater	9.9	(5.9)	(2.8)	1.1	16.8	(4.7)	(3.2)	8.9	5.4	3.5
Greenspace	.0	.0	-	.1	6.5	-	(1.3)	5.2	5.2	.0
Transport	.6	(.2)	(.3)	.1	103.5	(77.3)	(2.4)	23.7	38.4	(14.7)
Contractor setup costs unallocated	69.0	(33.2)	(22.3)	13.4	.9	-	-	.9	.9	-
<b>Total Rebuild Costs</b>	<b>102.3</b>	<b>(52.5)</b>	<b>(27.3)</b>	<b>22.5</b>	<b>344.8</b>	<b>(134.0)</b>	<b>(156.2)</b>	<b>54.6</b>	<b>54.6</b>	<b>(.0)</b>

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46. As well as looking at further opportunities to minimise earthquake response costs (especially maintenance of temporary services), staff are working on preparing a revised estimate of earthquake capital and response costs, which will include an estimate of the financial impact of the June earthquake. Staff have been in ongoing discussions with CERA, Treasury and Department of Internal Affairs on the cost sharing arrangements for the future. Government has not yet finalised its position but it is expected that this will be ready to incorporate into a revised estimate for Council in March 2012.

**Do the Recommendations of this Report Align with 2009-19 LTCCP budgets?**

47. Yes – there are none.

**LEGAL CONSIDERATIONS**

**Have you considered the legal implications of the issue under consideration?**

48. Yes – there are none.

**ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS**

49. Both service delivery and financial results are in direct alignment with the LTCCP and Activity Management Plans.

**Do the recommendations of this report support a level of service or project in the 2009-19 LTCCP?**

50. As above.

**ALIGNMENT WITH STRATEGIES**

51. Not applicable.

**CONSULTATION FULFILMENT**

52. Not applicable.

**STAFF RECOMMENDATIONS**

It is recommended that the Council receive the report.