11. PERFORMANCE REPORT FOR THE SIX MONTHS TO 31 DECEMBER 2010

General Manager responsible:	General Manager, Corporate Services, DDI 941-8528
Officer responsible:	Corporate Performance Manager and Corporate Finance Manager
Author:	Paul Anderson, General Manager, Corporate Services

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 six months to 31 December 2010. The budgets and targets in this paper are based on those approved by the Council in the 2009-19 LTCCP and/or 2010-11 Annual Plan.

2. The report includes an updated overview on the expected overall financial impact of the earthquake on the Council. These costs have been incorporated into the year-end forecasts.

EXECUTIVE SUMMARY

3. Attached are appendices showing summaries of:

- Performance against organisational targets as at 31 December 2010 (**Appendix 1**)
- Financial performance as at 31 December 2010 (**Appendix 2**)
- Significant capital projects (>$250,000) as at 31 December 2010 (**Appendix 3**)
- Housing development fund as at 31 December 2010 (**Appendix 4**).

Levels of Service

4. The attached report (Appendix 1) shows the forecast of Council's expected year-end performance for Level of Service delivery. The target for 2010/11 is 85 per cent or more of 2009-19 LTCCP levels of service delivered to standard. The current forecast is 89.4 per cent. 0.8 per cent of levels of service are forecast as likely to fail, and 9.5 per cent are forecast as requiring intervention. Details of these are included in Appendix 1 (note that targets shown in bold are those that were published in the LTCCP – other targets were set by Council in the Activity Management Plans for management purposes). LOS targets have been adjusted as a result of the 16 December 2010 Council resolution to reflect the impact of the earthquake.

Financial Performance

5. The key financials for the year to date are summarised in the table below, with more detail provided in Appendix 2:

	Year to Date Results			Forecast Year End Results			Forecast Carry Forward	
$000's	**Actual**	**Plan**	**Variance**	**Forecast**	**Plan**	**Variance**	**Carry Fwd**	**Result**
Financial Summary								
Operational Funding	218,687	215,151	3,536	404,114	401,041	3,073		3,073
Operational Expenditure	207,416	223,150	15,734	398,509	400,830	2,321	1,800	521
Cash operating surplus	11,271	-7,999	19,270	5,605	211	5,394	-1,800	3,594
Capital Works Programme	70,270	110,851	40,581	193,702	224,933	31,231	32,100	-869
Works Programme Funding	74,374	44,260	30,114	121,522	201,614	-80,092	75,000	-5,092
Works Programme Borrowing Required	**-4,104**	**66,591**	**70,694**	**72,180**	**23,319**	**-48,861**	**-42,900**	**-5,961**

6. As at December 2010, the year-to-date cash operating surplus of $19.3 million is expected to reduce to $5.4 million by year-end ($3.6 million after operational carry-forwards). The $13.9 million deterioration is a timing issue with delayed maintenance expenditure. The forecast result is $1.0 million better than forecast in October. The forecast assumes all earthquake related operational costs, net of recoveries, will be met by the Earthquake Recovery Fund ($11.4 million for the 2010/11 year). If Council maintains an operating surplus for the full year, staff anticipate recommending that the amount transferred to operating expenses from the Earthquake Recovery Fund is reduced, thereby preserving more of this fund for capital costs.

7. Reporting of the capital works programme has been adjusted for the impact of Council's decision to defer $56 million of capital renewals. As at 31 December, the capital works programme is $40.6 million behind budget. The full-year forecast includes known carry-forwards of $32.1 million although this is expected to increase to $75 million by year end.

8. Adjusted for carry-forwards, the capital works programme is currently forecast to be overspent by $0.9 million. A funding shortfall of $6 million due to lower development contribution revenue will be offset by the surplus from the sale of CCC Two Ltd to CCHL.

Operational Funding

9. Operational funding is forecast to be $3.1 million higher than budget, largely due to Rates income which is forecast to be $1.9 million higher than budget. This excludes $0.67 million of forecast Earthquake related rates remissions planned to be met from the Earthquake Recovery Fund. Higher-than-expected fees revenue in building inspections and building consents are still forecast but offset by lower-than-expected resource and subdivision consents, and LIMs. Both the forecast operational funding and expenditure variances are significantly lower than reporting in October due to offsetting budget being created to reflect expected costs and recoveries relating to the earthquake.

Operational Expenditure

10. Operating costs (excluding debt servicing) are forecast to be $1.4 million higher than budget at year-end, after adjusting for carry forwards. $0.7 million relates to the delay in the rollout of the parking building automation. The forecast operational carry-forward of $1.8 million relates to heritage grants not uplifted in 2010/11 and will be proposed for carry-forward to 2011/12.

11. Debt-servicing costs are forecast to be $1.9 million less than budget, due to delayed borrowing as a result of the under-delivery of the capital works programme.

Capital Works Programme

12. The Capital Works Programme is currently $40.6 million below budget (as shown in Appendices 2 and 3). The most significant variance is in the Wastewater Collection and Treatment area, which is $15.0 million below budget. This is due to delays on various projects including the Biosolids Drying Facility ($4.2 million); the Western Interceptor Future Stages ($5.3 million) and Fendalton Duplication ($3.5 million) projects. The last two are a direct result of delays caused by the September earthquake. Streets and Transport is $5.4 million behind budget due to various project delays, with the Ferrymead Bridge project alone accounting for $1.2 million of this underspend. Parks and Open Spaces, and Recreation and Leisure are also below budget due mainly to project delays ($3.6 million and $3.0 million respectively). The majority of the Corporate variance ($9.2 million) relates to Strategic Land Acquisitions ($6.5 million) as no acquisitions have been settled this financial year. Financial details of significant capital projects are shown in Appendix 3, including forecast carry-forwards and bring-backs.

13. The Capital Works Programme year-end forecast shows the current underspend improving to be $31.2 million by year-end. A significant catch-up is forecast in the Wastewater Collection and Treatment area, with an $11.0 million reduction in the current underspend signalled. The key underspends forecast are: Strategic Land Acquisitions ($10.6 million); Streets and Transport

$7.3 million due to reprogramming (Canterbury Park Access $0.2 million, Transport Interchange $0.2 million and University crossings $1.1 million), and Parks and Open Spaces $4.2 million (the main projects being the Botanic Gardens Entry Pavilion $2.6 million, which has had construction rescheduled for 2011/12; Applefields $1.9 million, which is awaiting confirmation from the Belfast Area Plan regarding land purchases, and Cashmere Ponding $1.4 million which may no longer be required, pending decisions from the developers). Note that despite the catch-up predicted above there is an expectation that the under-spend will increase to $75 million by year end.

14. In the 2009-19 LTCCP, Council approved a capital project for the renewal of the central culvert on the Main Road causeway at McCormacks Bay of $607,146. The central culvert was first constructed in 1935 and has therefore reached the end of its design life. In recent years, quarterly structural assessments have shown deterioration. Despite surviving the 4 September 2010 earthquake it has still been identified as a high priority asset for renewal as it is part of the 'lifelines route' from the City to the Port. (Currently overweight vehicles are diverted around McCormacks Bay road as a result of the condition of the central culvert).

15. The preferred scheme option for the culvert replacement has been derived as a result of four years of extensive consultation with a Project Steering Group. The Steering Group consisted of local interest groups, members of the community and Council officers, and was first established in 2006. Its mandate was to report recommendations to Council for improving the overall environmental performance of the bay and to consider how the central culvert renewal project could assist in that improved performance. This report was received and adopted by Council in June 2010.

16. The scheme estimate for the preferred option identified a total project cost of $1,285,890 in May 2010. In order to proceed to detailed design, the Capital Governance Group considered a change request for an increase in the total project budget of $680,000. The Group identified that the additional funds could be found from the Capital Governance Pool for the project, subject to Council approval.

17. Detailed design was completed prior to Christmas 2010 and construction tenders closed on 2 February. It is anticipated that works could be completed by October 2011.

18. In the 2009-19 LTCCP, Council approved a capital project of $554,000 for its contribution towards new artificial new hockey pitches in 2012/13. Due to the damage at Porritt Park, the Canterbury Hockey Association has commenced the construction of a new artificial turf at Nunweek Park. This additional pitch is required for the upcoming winter season due to the loss of the two pitches at Porritt Park. It will also allow time to properly investigate the future of Porritt Park without adversely impacting on the day-to-day operation of Hockey. It is recommended that the Council approve bringing forward this capital project from 2012/13 to 2010/11 to allow the Council's contribution to be paid in the current financial year.

Capital Funding

19. Capital grants and subsidies are $2.1 million behind budget, all of which relates to NZTA, however this is forecast to be $0.5 million ahead of budget at year-end. In addition, the forecast also includes $8.3 million of earthquake recoveries ($5.6 million Central Government, $3.5 million insurance).

20. Development Contributions are $3.6 million below budget, and have been forecast to continue at current levels in the short term resulting in a $9.0 million deficit by year-end. The surplus from the sale of CCC Two Ltd which had not been forecast will offset this shortfall.

Operational Activities

21. City & Community Long-Term Policy & Planning – This activity is $0.9 million under budget, due to timing of external consultant charges, mainly in the Urban Development, Transport and Environmental Policy areas. It is forecast to be close to budget at year end.

22. Heritage Protection – This activity is $1.8 million under budget due mainly to Heritage and Arts Centre incentive grants not being uplifted ($0.9 million and $0.4 million respectively). Consultants Fees and Building Maintenance costs are also behind budget (total of $0.5 million) but are expected to be on budget at year-end. The forecast underspend has increased $0.8 million from the October report, which relates to the Arts Centre Conservation grant which is now unlikely to be paid out this financial year. This is planned to be carried forward (in addition to the $1.0 million Heritage and Arts Centre Incentive grants previously forecast).

23. Community Housing – This activity is currently $1.1 million under budget due to redecoration and grounds maintenance work on hold due to the earthquake, however this activity is forecast to be close to budget at year-end.

24. Civil Defence and Emergency Management – Although close to budget year-to-date, this activity is forecast to be $0.8 million higher than budget at year-end due to the cost of cleaning Portaloos and septic tanks for the rest of the year.

25. Art Gallery and Museums – This activity is $0.9 million below budget, which is a combination of additional admittances revenue received for the Ron Mueck exhibition of $0.4 million, as well as timing issues relating to professional advice and operating costs ($0.4 million). The year-end forecast reflects the higher than budgeted admittances revenue for Ron Mueck ($0.7 million).

26. Libraries – This activity is $0.5 million below budget; $0.2 million of this is lower than planned depreciation costs, while the balance is mainly timing around maintenance costs. Overall, this activity is forecast to be on budget at year-end.

27. Cultural and Learning Services Capital Revenues – Development Contributions are forecast to be $0.4 million less than budgeted.

28. Waterways and Land Drainage – The current underspend relates to maintenance costs ($1.6 million below budget), mainly as a result of work being diverted to other areas as a result of the earthquake, however this work is still forecast to be completed this financial year with the activity forecast to be on budget.

29. Parks and Open Spaces Capital Revenues – Waterways and Wetlands Development Contributions are forecast to be $3.0 million below budget, partially offset by Parks Development Contributions, which are forecast to be $0.8 million higher.

30. Recreation & Sports Services – This activity is $1.2 million under budget, $0.6 million of which relates to delays in operating and maintenance expenditure at the pool facilities as a result of earthquake assessments. An additional $0.5 million of the variance is timing around admittances revenue. The year-end forecast shows this activity being close to budget, factoring in planned maintenance expenditure at QEII as pools are closed for earthquake repairs in the coming months.

31. Recreation and Leisure Capital Revenues – Development Contributions are forecast to be $0.8 million less than budgeted.

32. Recyclable Materials Collection and Processing – The year-end forecast variance reflects the recognition of unplanned lease revenue (non-cash) of $0.9 million for the MRF (Materials Recovery Facility), however this is partially offset by higher than budgeted depreciation costs ($0.2 million).

33. Regulatory Approvals – This activity is forecast to be $0.3 million over budget at year-end. This is due to lower than budgeted revenue for Resource Consents ($0.7 million), Subdivision Consents ($0.7 million) and LIMs ($0.3 million). This is partially offset by higher revenue forecast in the Building Consents ($0.6 million) and Building Inspections ($1.0 million) areas.

34. Road Network – Excluding depreciation costs (which are $3.3 million lower than planned), this activity is $1.6 million below budget, mainly due to delays in maintenance expenditure ($2.5 million), partially offset by NZTA operational subsidy being $0.8 million below budget. The year-end forecast indicates this subsidy to be $0.6 million higher than budget by year-end, and the maintenance budget to be fully spent. The vast majority of the year-end forecast variance of $2.5 million below budget reflects lower depreciation costs than planned ($2.8 million).

35. Parking – This activity is forecast to be $0.8 million under-recovered at year-end. The revised forecast variance is driven by higher than planned staff costs due to the delay in the rollout of parking building automation, and a continuation of the general downturn in parking revenue.

36. Public Transport Infrastructure – This activity is $0.8 million above budget due to higher than planned depreciation costs (mainly relating to the new Transport Interchange site) although this is forecast to reduce slightly to $0.7 million by year-end.

37. Streets & Transport Capital Revenues – Total revenue is currently $2.9 million below budget, which relates to NZTA Capital Subsidy revenue and Cash DCs ($2.1 million and $0.8 million below budget respectively). While the NZTA Capital Subsidy revenue shortfall is now forecast to improve to be $0.2 million higher than budget at year end, the DCs shortfall is expected to deteriorate further to be $1.9 million below budget at year-end.

38. Wastewater Collection – This activity is forecast to be $0.6 million higher than budget at year-end, $0.4 million of which are depreciation costs.

39. Wastewater Treatment & Disposal – This activity is $1.8 million below budget, due mainly to under-spends on operating and maintenance costs (total of $1.2 million), primarily resulting from delays associated with the operation of the Bio Solids Drying Plant, which only came online full-time in November. In addition, revenue from Trade Waste Charges is $0.6 million higher than budget, and this additional revenue is forecast to continue, while operating/maintenance costs are forecast to reduce to $0.7 million below budget by year-end.

40. Wastewater Collection & Treatment Capital Revenues – Development Contributions are $1.1 million below budget, and forecast to increase to $2.8 million below budget at year-end.

41. Water Supply – This activity is forecast to be $0.5 million higher than budget at year-end due to higher than planned depreciation costs.

42. Water Supply Capital Revenues – Development Contributions are forecast to be $0.9 million less than budget.

43. Corporate Revenues & Expenses – These are forecast to be $11.5 million higher than budget, $8.6 million of which relates to earthquake capital spend recoveries (Central Government/Insurance/NZTA). Rates revenue is forecast to be $1.9 million higher than budget, due to growth and penalties, and debt servicing costs are now forecast to be $1.9 million below budget due to significantly less borrowing being required. This is partially offset by the Transwaste dividend forecast being revised down by $0.6 million.

44. Revenue recognised from Vested Assets and Land Development Contributions are forecast to be $3.9 million and $1.3 million less than budget respectively.

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FINANCIAL IMPACT OF THE EARTHQUAKE - ESTIMATE OF COSTS AS AT 31 DECEMBER 2010

45. This table summarises the current estimate of the impact of the earthquake on the Council.

$ million	Actual to Date				Forecast 10/11 Results					Forecast Life Results			
Summary	**Total Cost**	**Govt Subsidy**	**Insur Cover**	**Net Cost**	**Total Cost**	**Govt Subsidy**	**Insur Cover**	**Net Cost**	**10/11 Plan**	**Total Cost**	**Govt Subsidy**	**Insur Cover**	**Net Cost**
Earthquake Recovery Fund receipts				(22.0)				(44.0)	(44.0)				(44.0)
Unallocated Insurance receipts (GL 15215)			(18.3)	(18.3)				-					-
Net Operating Costs per below	30.7	-	-	30.7	34.1	(16.3)	(6.4)	11.4	9.7	36.4	(16.3)	(6.4)	13.7
Net Capital Costs per below	4.3	-	-	4.3	9.2	(5.2)	(3.3)	.6	-	492.2	(277.7)	(197.8)	16.8
Net Cost (Surplus funds)	35.1	-	(18.3)	**(5.3)**	43.3	(21.5)	(9.8)	**(32.0)**	**(34.3)**	528.6	(294.0)	(204.2)	**(13.6)**

46. Renewals deferred in September of $44 million ($56 million less lost NZTA subsidy ($6.4 million) less 10 per cent contingency ($5.6 million)) are being placed in an Earthquake recovery fund. $22 million has been received to date (as revenue is part of renewals rated for). Insurance receipts of $18.3 million have also been received. Operational costs of $30.7 million and capital costs of $4.3 million have been incurred to date. Details of the net spend are shown in the following tables. The Earthquake recovery fund is forecast to have a balance of $32 million at 30 June 2011. Council approval will be sought for the use of this fund, likely to be to meet any shortfall in insurance or government subsidy.

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Operating Cost Details													
Response Costs (Central Govt Funding Applies):													
Initial Emergency Works	18.3			18.3	19.7	(13.4)	(4.6)	1.7	1.6	19.7	(13.4)	(4.6)	1.7
Welfare	1.7			1.7	2.5	(1.4)		1.0	.5	2.5	(1.4)		1.0
Response Costs (CCC Funded):													
Emergency Mgmt costs	2.6			2.6	2.6	(.4)	(.2)	2.0	2.1	2.6	(.4)	(.2)	2.0
Recovery Mgmt	5.0			5.0	5.1	(.4)		4.7	4.7	5.1	(.4)		4.7
BAU Internal Cost allocations (Staff time excl CPG)	(4.8)			(4.8)	(4.8)			(4.8)	(4.8)	(4.8)			(4.8)
Misc Recovery costs	.2			.2	.2	(.0)		.2	.1	.2	(.0)		.2
Recoveries Mgmt - Council Assets	2.3			2.3	3.0	(.3)	(1.6)	1.1	.0	3.0	(.3)	(1.6)	1.1
BAU Costs:													
Fees & Charges Lost	1.8			1.8	1.8			1.8	1.8	1.9			1.9
Increased BAU Operating Costs	2.1			2.1	2.1			2.1	2.1	2.6			2.6
Reduced BAU Operating Costs	(.2)			(.2)	(.2)			(.2)	(.2)	(.2)			(.2)
Council Decisions:													
Rates Remission	.1			.1	.7			.7	.7	2.3			2.3
1hr Free Central City Parking	1.0			1.0	1.0			1.0	1.0	1.0			1.0
Band Together	.5			.5	.5	(.3)		.2	.1	.5	(.3)		.2
Total Net Operating impact	30.7	-	-	30.7	34.1	(16.3)	(6.4)	**11.4**	**9.7**	36.4	(16.3)	(6.4)	**13.7**

$ million	Actual to Date				Forecast 10/11 Results					Forecast Life Results			
Summary	**Total Cost**	**Govt Subsidy**	**Insur Cover**	**Net Cost**	**Total Cost**	**Govt Subsidy**	**Insur Cover**	**Net Cost**	**10/11 Plan**	**Total Cost**	**Govt Subsidy**	**Insur Cover**	**Net Cost**
Capital Cost Details													
Facilities	.2	-		.2	.2		(.2)	.0	-	45.7		(44.5)	1.1
City Water & Waste	3.7			3.7	8.1	(4.8)	(2.9)	.3	-	329.6	(197.8)	(131.4)	.5
Greenspace	.1			.1	.5		(.2)	.3	-	28.1		(21.9)	6.3
Transport	.3			.3	.4	(.4)		.0	-	88.7	(79.9)		8.9
Total Net Capital impact	4.3	-	-	4.3	9.2	(5.2)	(3.3)	**.6**	**-**	492.2	(277.7)	(197.8)	**16.8**

47. The Council management is taking independent advice from its insurance brokers (AON) to ensure it maximises the recovery of costs from both Central Government and its insurers. This includes ensuring the resulting capital works programme and claims processes are well structured to meet the insurer and re-insurers' requirements. Claims to date include:

- A claim for $6.4 million was lodged on 5 November 2010 relating wholly to "caring for the displaced" (primarily costs incurred keeping people in their own homes). Central Government paid $3.3 million of this claim on 24th December 2010. A claim from Council's insurers will be made for $2.1 million of the unpaid amount and reimbursement of the remainder ($934,000) is being discussed with Central Government.

- A second claim was lodged on 17 December, for approximately $6.9 million of costs in caring for the displaced plus $0.4 million for other response costs. Council is awaiting a response in regards to this claim but we anticipate receiving 60 per cent of the claim with the remainder falling under LAPP.

- EQC have paid $483,000 of claims to date, predominately for damage to housing units under $10,000 in value.

- A further claim will be lodged this month for infrastructure costs (as at 30 December 2010 we had incurred $6.6 million) on Central Government and LAPP for their respective 60:40 split.

- The LAPP component of the three claims totals $7.5 million of which we have already received a $6 million advance.

- No claim has been lodged as yet under the Material Damage policy. While assessments are proceeding well and some purchase orders have been raised for remedial work, actual payments made are minor and well below the $5 million advance received from Civic Assurance.

48. Council approval is sought to adjust operating budgets for the changes shown in the table above to reflect the impact of the earthquake on the Council budgets. Delegation is sought for the General Manager Corporate Services to make adjustments to Council budgets to reflect the forecast operating cost and revenues as shown in paragraph 45.

FINANCIAL IMPLICATIONS

49. As above.

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

50. Yes – there are none.

LEGAL CONSIDERATIONS

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

51. Yes – there are none.

ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS

52. 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?

53. As above.

ALIGNMENT WITH STRATEGIES

54. Not applicable.

CONSULTATION FULFILMENT

55. Not applicable.

STAFF RECOMMENDATIONS

It is recommended that the Council:

(a) Receives the report.

(b) Delegates to the General Manager Corporate Services authority to approve the operating budget changes shown in paragraph 45 of this report to reflect the impact of the earthquake on Council's operating budget.

(c) Approves the transfer of $680,000 from the Capital Governance Pool to the McCormacks Bay Central Culvert Replacement Project in order to proceed to construction.

(d) Approves bringing forward $554,000 from the 2012/13 Capital Works Programme to 2010/11 for the Council's contribution towards the creation of an artificial Hockey Pitch at Nunweek Park.