

22. 9. 2011

12. PERFORMANCE REPORT FOR THE TWELVE MONTHS TO 30 JUNE 2011



General Manager responsible:	General Manager, Corporate Services
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PURPOSE OF REPORT

1. The purpose of this report is to update Council on service delivery, financial, and capital works programme performance results for the twelve months to 30 June 2011. The budgets and targets in this paper are based on those approved by Council in the 2009-19 LTCCP and/or 2010-11 Annual Plan. Council normally receives Performance Reports on a quarterly basis but this reporting cycle has been affected by the earthquakes during the 2010/11 financial year. Notwithstanding this, Council received a performance report for the eleven months to 31 May 2011 and also received updated financial forecasts during the 2011/12 Draft and Annual Plan deliberations.
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 as at 30 June 2011 (**Appendix 1**).
 - Financial performance as at 30 June 2011 (**Appendix 2**).
 - Significant capital projects (>\$250,000) as at 30 June 2011 (**Appendix 3**).
 - Housing development fund and Christchurch Earthquake Mayoral Relief fund as at 30 June 2011 (**Appendix 4**).
 - Operational carry forward requests from 2010/11 to 2011/12 (**Appendix 5**).
 - Capital carry forward requests from 2010/11 to 2011/12 (**Appendix 6**).

Levels of Service

4. After the September earthquake, a review was conducted of all Christchurch City Council levels of service and a variety of changes to targets were adopted by Council (using the Order in Council process) in December 2010. The majority of these changes simply involved excluding results for the month of September from the target, with the exceptions being in the Water Reticulation and Wastewater activities.
5. Unfortunately the February event then caused a significantly greater impact. Many services were suspended, and in other cases measurement systems either ceased to function or were otherwise rendered impractical (the annual Resident Survey, for example, was scheduled to be conducted in early March and obviously this did not occur). In short, it is not possible to make a conventional assessment of service performance for the 2010/11 year.
6. **Appendix 1** lists the Levels of Service that failed to achieve target split into two sections; those that failed for reasons related to the earthquake(s) (32.3 per cent), and those that failed for other reasons (1.6 per cent). The list of earthquake-related exceptions is quite lengthy, as most services were affected. In the interests of brevity, details are not provided in each instance as they are highly repetitive. All available details are provided for those levels of service that failed for reasons not connected to the earthquake.

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Financial Performance

7. The key financials for the year to date are summarised in the table below. An expanded view of the Council's financial results is provided in **Appendix 2**:

\$000's	Annual Results				
	Actual	Plan	Variance	Carry Fwd	Result
Financial Summary					
Operational Funding	559,319	404,651	154,669	-1,555	156,224
Operational Expenditure	586,714	405,052	-181,662	7,606	-189,268
Cash operating deficit	-27,395	-401	-26,993	6,051	-33,044
Capital Works Programme	129,498	225,610	96,111	88,398	7,713
Works Programme Funding	118,568	202,291	-83,723	77,418	-6,305
Works Programme Borrowing Requirement	10,930	23,319	12,388	10,980	1,408

8. The cash operating deficit of \$33 million after carry forwards compares to a forecast of \$25.7 million in May, and \$27.2 million presented to Council and incorporated as part of the 2011/12 Annual Plan. Key reasons for the deterioration from May are:
- an increase in carry forwards requested of \$1.5 million;
 - extra costs from the 13 June aftershock of \$3.6 million; and
 - \$5.2 million of extra costs from the Sept/Feb earthquakes (including reducing the NZTA subsidy from 90 to 75 per cent) – following the June aftershock it is expected that the emergency reinstatement subsidy rate will increase to 82-83 per cent. In addition, Council staff are continuing to work with Central Government officials with the objective of increasing the subsidy rate to 90 per cent.
9. Offsetting these was a \$3 million improvement from the CCHL forecast dividend.
10. As at 30 June, the Capital Works Programme was \$96.1 million below budget. Adjusted for net proposed carry-forwards (\$88.4 million), the capital works programme was underspent by \$7.7 million at year-end. Funding shortfalls of \$6.3 million mean the capital programme was underspent by a net \$1.4 million, reflected in reduced borrowing.

\$ million	Actual 10/11 Results				Forecast Life Results			
Summary	Total Cost	Govt Subsidy	Insur Cover	Net Cost	Total Cost	Govt Subsidy	Insur Cover	Net Cost
Response costs / impact	239.6	(156.0)	(36.1)	47.6	517.4	(302.3)	(41.2)	173.9
Rebuild Costs	39.5	(18.3)	(17.2)	4.1	2318.1	(1056.7)	(543.6)	717.8
Net Cost	279.1	(174.3)	(53.2)	51.6	2835.6	(1359.0)	(584.9)	891.7

11. The table above summarises the current estimate of the impact of the earthquakes on Council. Further detail is shown at point 50. Of the net response cost to Council to date of \$47.6 million, \$9.3 million was funded from the Earthquake Recovery fund (via renewals reductions), leaving \$38.3 million which is part of the \$33 million cash operating deficit in point 6 above, i.e. excluding the impact of the earthquake Council had an operating surplus of \$5.3 million.

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Operational Funding

12. Operational funding was \$154.7 million higher than budget at year-end. Earthquake recoveries account for \$169.9 million and additional revenue was received from trade waste charges (\$1.7 million) and higher than budgeted admittances revenue for the Ron Mueck exhibition (\$1.5 million). Partially offsetting this were shortfalls in revenue across the organisation, the most significant of which were: Parking revenue \$4.0 million (\$2.4 million off-street and \$1.6 million on-street); Regulatory Approvals \$2.8 million (Resource Consents \$1.3 million; Subdivision Consents \$0.7 million; Building Consents \$0.4 million; LIMs \$0.4 million and Building Inspections \$0.3 million); Events and Festivals \$2.8 million (largely relating to the cancellation of the Ellerslie International Flower Show); Road Network \$1.7 million (Carriageways/Kerb & Channel \$1.2 million); Recreation and Sport Services \$1.6 million (due to facility closures); and Parking Enforcement \$1.6 million.
13. Dividends revenue was \$2.3 million below budget, due to a \$2.7 million reduction in the CCHL dividend as additional subvention credits were received, partially offset by the Transwaste dividend being \$0.4 million higher. Subvention receipts were \$1.6 million lower than budget. Both revenues form part of operational funding.

Operational Expenditure

14. Operating costs (excluding debt servicing) were \$184.3 million higher than budget for the year. This was caused by earthquake costs, partially offset by an under spend of \$30.2 million in normal business operations. This was largely due to facility closures and resources being diverted to earthquake-related work. The most significant underspends were in the following activities: Road Network (\$5.1 million); Asset & Network Planning (\$3.3 million); Heritage Protection (\$3.3 million); Water Supply (\$2.6 million); Community Housing (\$2.1 million); Wastewater Treatment (\$2.1 million); Events & Festivals (\$1.6 million) and Recreation & Sports Services (\$1.2 million). The Corporate Support activity was also under budget (\$1.2 million), mainly due to rent rebates relating to the non-occupancy of the new Civic Building. Partially offsetting this was an overspend in the City and Community Long Term Policy and Planning activity (\$1.4 million) relating to work on the Central City Plan.
15. Debt-servicing costs were \$2.7 million less than budget, due to delayed borrowing as a result of the under-delivery of the Capital Works Programme.
16. Operational carry forwards of \$7.6 million have been identified. \$4.1 million of this relates to grants the key of which are Heritage and Arts Centre grants (a total of \$2.4 million); Robert McDougall Art Gallery (\$600,000); NZ Open Golf (\$450,000); QEII Sports House (\$285,000) and Riccarton Bush Trust (\$192,000). \$0.5 million is the rental rebate for the new Civic Building, which will be carried forward to fund the fit-out of other temporary corporate facilities. The balance relates to various projects either delayed or on hold as a result of the earthquakes. A detailed schedule of the operational carry forwards is shown in **Appendix 5**.
17. Of the total operational carry forwards identified, \$6.5 million has been requested to be carried forward to 2011/12, while \$1.1 million has been requested to be carried forward to 2012/13 and 2013/14. \$1.6 million of funding which has been authorised to fund some of the projects above is also carried forward.

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Capital Works Programme

18. The Capital Works Programme was \$96.1 million below budget. The largest variance was in the Wastewater Collection and Treatment area, which was \$26.1 million below budget. This was due to delays on various projects including the Western Interceptor Future Stages (\$9.9 million), BioSolids Drying Facility (\$5.2 million) and Fendalton Duplication (\$4.6 million), all impacted by the February earthquake. Streets and Transport was \$18.7 million behind budget due to underspends on various projects, including the Christchurch Transport Interchange and Tram Base projects (\$2.5 million and \$1.1 million respectively), and the Ferrymead Bridge (\$2.3 million) due to earthquake damage and resulting delays; Canterbury Park Access (\$2.0 million) due to the project being reprogrammed into 2011/12, and University Crossings (\$1.1 million) due to the project being reprogrammed to align with the University Master Plan. Parks and Open Spaces were \$15.9 million behind budget, the largest component being delays around Neighbourhood Reserves purchases (\$3.4 million). This was due to ongoing negotiations over some purchases of inner city sites being delayed until 2011/12, and part of the programme being put on hold following the February earthquake. Other significant project underspends were the Botanic Gardens Entry Pavilion (\$2.9 million); Applefields (\$1.9 million) and Cashmere Ponding (\$1.4 million). The majority of the Corporate variance relates to Strategic Land Acquisitions (\$14.2 million) as acquisitions were completed during the financial year. Financial details of significant capital projects are shown in **Appendix 3**, including final carry-forwards and bring-backs.
19. Net carry-forwards of \$88.4 million have identified, resulting in an underspend of \$7.7 million for the overall Works Programme.

Capital Funding

20. Development Contributions revenue was \$12.5 million below budget. The amount able to be allocated to fund completed work was \$13.9 million below budget, as shown in **Appendix 1**.
21. Capital grants and subsidies (excluding earthquake capital revenues) were \$5.9 million higher than budget, which largely reflects revenue of \$8.1 million relating to the sale of EcoCentral Ltd to CCHL, partially offset by NZTA subsidies (Streets capital revenues), which were \$2.1 million lower than budget. \$2.4 million of NZTA capital subsidy revenue will be carried forward based on the subsidised capital works requested to be carried forward.

Operational Activities

22. City & Community Long-Term Policy & Planning – This activity was \$1.6 million higher than budget. The majority of the variance relates to work on the high priority Central City Plan, with total costs of \$3.3 million incurred against a budget of \$0.3 million. This was partially offset by lower expenditure on other projects originally planned for 2010/11 (total of \$1.4 million) that were put on hold as a result of the CCP. The variance to forecast is because consultant's fees were higher than expected.
23. Heritage Protection – This activity was below budget mainly due to Heritage Incentive and Arts Centre grants not uplifted (\$1.5 million and \$0.9 million respectively, both of which have been requested to be carried forward to 2011/12). In addition there is \$0.5 million of earthquake cost recoveries.
24. Strengthening Communities – This activity was under budget largely due to savings in the Christchurch Safe City Officers programme.
25. Community Grants – These were \$0.6 million below budget, mainly due to the QEII Sports House capital grant (\$0.3 million) not being paid out this financial year (requested to be carried forward), in addition to a number of smaller grants also not paid out.
26. Social Housing – This activity was under budget due to the deferral of maintenance work (\$1.9 million) and lower depreciation costs (\$0.3 million). This is partially offset by rental revenue which was \$0.4 million below budget due to the number of uninhabitable units.

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27. Civil Defence Emergency Management – The year-end result of \$21.4 million higher than budget was due to the following variances: EOC Emergency Mgmt Costs: \$16.9 million; Recovery Management Office: \$3.7 million; Recovery Assistance Centres \$0.5 million; and EQ Welfare: \$0.3 million.
28. Art Gallery & Museums – This activity was \$1.3 million favourable to budget, largely due to higher than budgeted admittance revenue for the Ron Mueck exhibition, in addition to the Canterbury Museum capital grant (\$0.6 million) not being paid out (requested to be carried forward to 2012/13). This was partially offset by lower retail sales revenue as a result of the Gallery Shop being closed for a significant period following the February earthquake.
29. Libraries – This activity was \$1.4 million under budget, represented by lower operating and depreciation costs (\$0.9 million and \$0.8 million respectively) partially offset by lower revenue (\$0.3 million), primarily due to library closures.
30. Cultural & Learning Services Capital Revenues – Development Contributions were \$0.5 million lower than budget.
31. Neighbourhood Parks – This activity was \$5.0 million below budget, due mainly to revenue from the partial sale of 189 Wigram Road (\$5.8 million) for the Southern Motorway project. This was partially offset by \$0.9 million of earthquake-related maintenance costs and consultants fees.
32. Garden & Heritage Parks – This activity was underspent due to delays in maintenance and operating costs (\$0.3 million), in addition to the Riccarton Bush Trust capital grant (\$0.2 million) not being paid out (requested to be carried forward to 2011/12).
33. Waterways & Land Drainage – This activity was below budget due to a \$1.1 million underspend in normal business operations as works were put on hold and resources diverted to other work, partially offset by earthquake-related costs of \$0.6 million.
34. Parks and Open Spaces Capital Revenues – Waterways and Wetlands Development Contributions were \$3.0 million below budget, while Parks Development Contributions were \$1.4 million below. This was partially offset by \$0.2 million of earthquake capital recoveries.
35. Events & Festivals – This activity was over budget at year-end due almost entirely to the cancellation of the Ellerslie International Flower Show (the overall loss from the show was \$1.5 million). There was also a delay in one of the Council sponsored Golf Events (NZ Golf Open \$450,000) which has been requested to be carried forward.
36. Recreation and Leisure Capital Revenues – Development Contributions were \$0.8 million lower than budget.
37. Residual Waste Collection & Disposal – This activity was \$0.5 million below budget, reflecting the inclusion of the earthquake cost recoveries (\$1.3 million), in addition to a \$1.1 million return from EcoCentral due to the profit share agreement in place. This was partially offset by higher than budgeted refuse disposal costs (\$2.0 million) reflecting additional tonnages going to landfill.
38. Commercial/Industrial Waste Minimisation – This activity was underspent due to Target Sustainability services being significantly downgraded following the February earthquake.
39. Refuse Minimisation & Disposal Capital Revenues – The year-end variance reflects the earthquake infrastructure rebuild insurance recoveries.
40. Enforcement & Inspections – The majority of the year-end variance was due to the lack of parking enforcement activity in the CBD (\$1.0 million), while a further \$0.5 million were earthquake-related costs.
41. Regulatory Approvals – This activity was \$2.9 million over budget (building inspections \$0.9 million, building consents \$0.7 million, resource consents \$0.7 million, LIMs \$0.3 million, and subdivision consents \$0.2 million). Also included were \$0.3 million of earthquake-related costs, in addition to \$0.2 million of costs associated with the new Earthquake Building Services Unit (as yet unbudgeted), however these were partially offset by lower general public advice costs (\$0.4 million).

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42. Road Network – The year-end result of \$6.4 million over budget was due to \$17.3 million of earthquake-related maintenance costs, partially offset by lower costs in normal business operations (\$3.4 million) due to work being put on hold, in addition to lower than budgeted depreciation costs (\$7.5 million). The year-end result was \$7.5 million higher than forecast in May, largely due to the final NZTA earthquake recoveries being calculated at 75 per cent, where previously they had been forecast at 90 per cent recoverable, and the inclusion of June 13 aftershock costs.
43. Active Travel – This activity was \$1.6 million below budget, mainly due to an underspend on maintenance costs (\$0.9 million) as resources were diverted to earthquake-related maintenance, in addition to lower than planned depreciation costs (\$0.7 million).
44. Parking – This activity was \$3.9 million over budget, with revenue below budget (\$2.4 million Off-Street and \$1.5 million On-Street). Overall costs were close to budget, with an overspend on staff costs of \$1.1 million due delay in the roll out of the automation of the car parking buildings, partially offset by lower operating costs (\$0.8 million) due to parking building closures, and lower depreciation costs (\$0.4 million).
45. Public Transport Infrastructure – This activity was \$1.5 million above budget due to higher than planned depreciation costs (mainly relating to the new Transport Interchange site).
46. Streets & Transport Capital Revenues were \$3.4 million below budget which relates to NZTA Capital Subsidy revenue and Cash Development Contributions (\$2.1 million and \$1.9 million below budget respectively), however this is partially offset by NZTA infrastructure rebuild recoveries (\$0.6 million).
47. Wastewater Collection – This activity was \$0.9 million higher than budget, represented by earthquake and depreciation costs (\$1.3 million and \$0.8 million higher than budget respectively), partially offset by a \$1.2 million underspend in normal business operations as work was put on hold and resources diverted to earthquake repairs.
48. Wastewater Treatment & Disposal – The year-end result was a combination of additional trade waste charges (\$1.7 million), in addition to significant underspend on contract and maintenance costs (total of \$2.4 million, mainly around delays associated with the operation of the Bio Solids Drying Plant), and resources being diverted to earthquake work.
49. Wastewater Collection & Treatment Capital Revenues – The year-end variance reflects the earthquake infrastructure rebuild insurance recoveries (\$6.0 million), partially offset in the year-end variance by development contributions, which were \$3.5 million below budget.
50. Water Supply – The year-end variance is due to earthquake-related costs \$1.3 million higher than budget, in addition to higher than budgeted depreciation expenses (\$1.8 million), however this is partially offset by a significant underspend in normal business operations (\$1.9 million) as work was put on hold and resources diverted to earthquake repairs.
51. Water Supply Capital Revenues – The year-end variance reflects the earthquake infrastructure rebuild insurance recoveries (\$2.0 million), partially offset by a \$1.6 million variance in development contributions.
52. Corporate Revenues & Expenses – These were \$39.3 million favourable to budget, of which \$28.6 million relates to earthquake capital spend recoveries (Central Government \$14.1 million and Insurance \$14.5 million). Other favourable variances were the surplus on the sale of EcoCentral \$8.1 million; rates \$2.7 million higher than budget (rates income \$1.9 million and penalties \$0.8 million); lower debt servicing costs of \$2.7 million; higher interest revenue of \$1.4 million, in addition to a donation of \$5.5 million to the Earthquake Mayoral Relief Fund. Partially offsetting this was \$4.6 million of corporate earthquake-related maintenance costs; the shortfall in dividends and subvention receipts of \$3.9 million, and \$1.2 million of earthquake rates remissions.
53. Revenue recognised from Vested Assets and Land Development Contributions was \$9.3 million and \$2.4 million less than budget respectively.

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FINANCIAL IMPACT OF THE EARTHQUAKE - ESTIMATE OF COSTS AS AT 30 JUNE 2011

54. Operating costs and direct business impacts of \$239.6 million have been incurred to date, along with \$39.5 million of rebuild costs. Recoveries of \$61.5m have been received to date from government and insurers. The cost to Council for 10/11 net of expected recoveries is \$51.6 million. \$13.4m is funded from the Earthquake Recovery fund, the balance of \$38.2m is included in the operating deficit of \$33 million. The Earthquake recovery fund has a balance of \$35.2 million at 30 June 2011.

\$ million	Actual 10/11 Results				Forecast Life Results			
Operating Costs	Total Cost	Govt Subsidy	Insur Cover	Net Cost	Total Cost	Govt Subsidy	Insur Cover	Net Cost
/1-3,5 Initial Emergency Works	55.7	(45.7)	(8.7)	1.2	55.7	(45.7)	(8.7)	1.2
/4 Initial Roothing Emergency Works	58.3	(42.6)	(2.2)	13.4	58.3	(42.6)	(2.2)	13.4
/8 Welfare / Caring for the displaced	10.8	(9.8)	-	1.0	10.8	(9.8)	-	1.0
<i>Response Costs:</i>								
/6 Emergency Management costs (EOC)	36.5	(7.4)	(1.7)	27.5	36.5	(7.4)	(1.7)	27.5
/7 Recovery Management	11.0	(.2)	(.0)	10.7	11.0	(.2)	(.0)	10.7
BAU Internal Cost allocs (Staff time excl CPG)	(22.0)	-	-	(22.0)	(22.0)	-	-	(22.0)
Misc Recovery costs	.9	-	(.0)	.9	.9	-	(.0)	.9
Demolition Works	11.1	(6.3)	(4.2)	.6	51.1	(6.3)	(4.2)	40.6
/9 Recovery Work - Council Assets	76.7	(44.0)	(17.9)	14.8	84.9	(44.0)	(17.9)	23.0
/11 Increased Costs of Operating	(1.4)	-	(1.4)	(2.7)	165.4	(146.2)	(6.6)	12.6
Infrastructure Rebuild Management Office	-			-				-
Building Consents and Inspections	.8			.8				-
CERA	.1	-	-	.1	.1	-	-	.1
<i>BAU Costs:</i>								
Fees & Charges Lost	13.5			13.5	34.6			34.6
Reduced CCHL Dividend	-			-	38.6			38.6
Increased BAU Operating Costs	4.9			4.9	16.4			16.4
Reduced BAU Operating Costs	(20.3)			(20.3)	(29.6)			(29.6)
<i>Council Decisions:</i>								
Rates Remission	1.8	-	-	1.8	3.5	-		3.5
1hr Free Central City Parking	1.0			1.0	1.0			1.0
Band Together net cost	.2	-	-	.2	.2			.2
Total Net Operating impact	239.6	(156.0)	(36.1)	47.6	517.4	(302.3)	(41.2)	173.9
\$ million	Actual 10/11 Results				Forecast Life Results			
Infrastructure Rebuild	Total Cost	Govt Subsidy	Insur Cover	Net Cost	Total Cost	Govt Subsidy	Insur Cover	Net Cost
Facilities	4.4	(1.2)	(.8)	2.3	239.8	-	(226.5)	13.4
Water	4.3	(1.2)	(.8)	2.3	152.9	(79.9)	(72.6)	.5
Sewer	6.1	(1.0)	(5.0)	.1	789.9	(412.6)	(373.2)	4.1
Stormwater	.0			.0	108.9	(42.9)	(30.7)	35.3
Greenspace	.6	(.2)	-	.4	42.9	(2.3)	(9.2)	31.3
Transport	.9	(.6)	(.0)	.2	981.2	(614.9)	-	366.4
Unallocated / setup costs	23.3	(14.0)	(10.5)	(1.2)	8.0			8.0
Retreat / LAPP Liability / Shortfall Allow etc					(5.6)	95.8	168.6	258.8
Total Net Capital impact	39.5	(18.3)	(17.2)	4.1	2318.1	(1056.7)	(543.6)	717.8

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55. As above.

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

56. Yes – there are none.

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

57. Yes – there are none.

ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS

58. 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?

59. As above.

ALIGNMENT WITH STRATEGIES

60. Not applicable.

CONSULTATION FULFILMENT

61. Not applicable.

STAFF RECOMMENDATIONS

It is recommended that Council:

- a) Receive the report.
- b) Approve operational carry forward requests from 2010/11 of \$7.6 million as detailed in **Appendix 5**, to enable completion of projects in 2011/12-14.
- c) Approve net capital carry forward requests from 2010/11 of \$88.4 million as detailed in **Appendix 6**, and an NZTA capital subsidy carry forward of \$2.4 million to enable completion of capital projects in 2011/12 or later as indicated.
- d) Approve the transfer of \$4.1 million from the Earthquake Recovery Fund (Deferred Renewals) to fund the net capital cost to Council of the Infrastructure Rebuild in 2010/11.
- e) Authorise the General Manager Corporate Services to borrow to fund the operating deficit for 2010/11.