

### 3. DRAFT SUB-BUDGETS FOR 2002/03

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The purpose of this report is to highlight the key factors which have influenced the draft sub-budgets. The report also provides information on the budget format, budget timetable and the recommended review approach.

This report brings together the 2002/03 draft budgets for which the Community and Leisure Committee is responsible. Work on the budgets has been in hand for the last five months and reflects input from a large number of individuals and community groups.

#### BACKGROUND AND PROCESS

The Standing Committee consideration of the draft budgets is the first stage in the Annual Plan review process. This stage is an opportunity for Standing Committees to review those budgets which they have responsibility for and to set priorities.

The sub-budgets which are circulated with the agenda and which the Community and Leisure Committee is responsible for are:

- Community Relations Unit (Part)
- Leisure Unit (Part)
- Property Unit - Housing

As in previous years the 'pink pages' have been collated and printed in a separate booklet. They summarise all the significant changes between what was projected for in 2002/03 and what has been reflected in the draft budgets for 2002/03.

For some time now the Council has been concerned about the projected rate increases. As part of the 2002 Annual Plan process, the unspecified sums for 2002/03 and for the subsequent two years were deleted. (Amounts deleted: 2002/03 Operating Account \$850,000, Capital Account \$2M; 2003/04 Operating Account \$850,000, Capital Account \$4M; and 2004/05 Operating Account \$850,000, Capital Account \$4M.) **This decision was made in order to contain future rate increases. The implications of this decision are that any new initiatives can only be funded by way of substitution or efficiency gain.**

Where new initiatives have been put forward, Units were asked to identify a matching substitution(s). At this stage they are only scheduled on the pink pages, but for a new initiative to be included in the budget the identified 'matching project(s)' would be removed from the budget and would be replaced by the new initiative.

Where a Standing Committee recommends a completely new initiative or a change to what is proposed by the Unit, the matching substitution should be from the same Unit or activity. What this means, for example, is that a new arts initiative would be funded from within the Art Gallery budget and not from say the Libraries budget which also happens to be the responsibility of the same Committee. Any variations to this would be the preserve of the Annual Plan Subcommittee.

#### KEY FACTORS INFLUENCING THE OPERATING BUDGET

##### Overview

2002/03 is the year in which the new rating values will be applied. Ratepayers were advised of their new values by the Council's valuation service provider, Quotable Value, in November 2001. The rating impacts are still being worked on by staff and this will be available for the Annual Plan Subcommittee meeting in late February/early March.

In addition to the valuation impacts, staff are also working on a number of corporate costs. These figures will also not be available until the Annual Plan Subcommittee meeting in late February/early March. Given this limitation, it is not possible at this stage to calculate the projected rate increase. The general impression is that it will be a difficult budget year.

The long term financial model, which was approved as part of the 2002 Annual Plan, projected a rate increase of 3.87% for 2002/03 (see page 10 of the 2002 Annual Plan). While this year's efficiency gains (total \$2.06M) are significant, their impact on the overall budget has been minimised by a number of other factors which are noted below. Indications to date indicate a draft rate increase which is in line with the 2002/03 projection of 3.87%.

The significant cost pressures for 2002/03 are:

- **Electricity** **\$621,500**

The Council's electricity supplier has indicated that there will be some large price increases for 2002/03. While line prices are projected to remain very close to their current levels, the energy component is set to rise. In dollar terms it has been estimated that such an increase will add an extra \$621,500 to the Council's total electricity bill. This is significantly above the 2% inflation margin allowed for in the Financial Model projections for 2002/03.

- **Insurance** **\$657,180**

Following the September 11 terrorist attacks in America, there has been a world-wide increase in insurance premiums. The impact on the Council's insurance premiums is approximately 50% or in dollar terms an additional \$657,180 which was not allowed for in the Financial Model projections for 2002/03.

- **Environmental Services Net Cost** **\$276,313**

The Environmental Services Unit's net direct costs for 2002/03 are 9.83% or \$276,313 more than the net projection for 2002/03. This is mainly due to a decrease in external revenue. For the past four years the Unit has not achieved its revenue targets. Consequently, the external revenue target for 2002/03 has been slightly reduced, and fees for resource consents, subdivisions, building consents and dog registration have been increased. An increase in expenditure has been largely avoided by reducing the number of full-time staff by six.

- **Art Gallery Increased Costs** **\$155,058**

Since the 2002 Annual Plan was adopted, Art Gallery staff have obtained more information on the new Art Gallery operating costs. Art Gallery staff have as part of this process also been able to identify projections which can now be reduced. The overall impact is a net increase of \$155,058.

#### **EFFICIENCY GAINS**

For a number of years now, the Council has maintained an efficiency and effectiveness drive aimed at maximising any efficiency gains. Movements in efficiency and effectiveness are ongoing and it is not easy to record all efficiency gains but those specifically recorded in the draft budgets total \$2.06M (Cr).

Last year the 'Change Proposal' savings contributed \$2.45M to the total saving of \$4.39M. While this year's savings are not as large, they do include the following significant items: the Telecommunications Contract (\$413,000), reductions to the Microsoft Licensing Fee (\$180,000), Car Parking Fine recoveries (\$250,000), a reduction in the RMF grant (\$300,000) and the Parks City Care Contract (\$108,718).

A list of the efficiency gains relating to this Committee can be found on Schedule 1F.

It should be noted that there are many ongoing efficiencies which have enabled the servicing of more customers (eg in the Libraries) or the maintenance of major facilities (eg Parks) that are not included on Schedule 1F.

#### **CAPITAL EXPENDITURE**

The capital expenditure programme can be summarised as follows:

	<b>Draft Budget 2002/03</b>	<b>Financial Model 2002/03</b>
Net Capital Expenditure	\$111.07M	\$112.46M

There are a large number of changes to Year 1 of the Capital Programme. The most significant items are noted below:

- **Corporate Revenues and Expenses** **\$764,555**

This item relates to the capitalisation of the rates collection costs. 37% of rates fund the capital programme and this is the percentage used to calculate the share of the rates collection costs which should be capitalised. This change in accounting policy has been confirmed with Audit New Zealand.

- **City Streets**

*Traffic Signal Renewal and Upgrading* **\$205,000**

This 'traffic light' funding was in the operating budget and it has been moved to the capital budget. This is a more accurate assessment of this type of expenditure.

*Gloucester/Linwood Signalisation Improvements* **\$100,000**

Like the previous item, this was in the City Streets operating budget and it has been moved to the capital budget to comply with standard accounting practice.

- **City Water and Waste** **(\$1M)**

Relates to the rescheduling of the No. 11 Pressure Main Upgrading to 2004/05.

The draft 2002/03 figure also includes an unspecified provision of \$251,500 for Community Board capital projects. At this stage in the process the Community Board projects have still to be specified and the \$251,500 is based on the capital component from 2001/02. All inflation adjustments to the draft 2002/03 programme have been funded from the unspecified inflation provision of \$2.2M (2% of total programme) which was included in the Financial Model capital projections for 2002/03.

#### **THE ATTACHED SCHEDULES**

As in previous years, service add ons have been separated out into:

- committed costs; and
- new initiatives.

Committed costs have been defined as those costs which the Council is committed to and unable to avoid. New initiatives have been defined as initiatives which the Council/Community Board or staff would like to see in the capital budget but at this stage have not been included.

The 2002/03 format is very similar to last year in that Units were asked to note on their pink pages, the changes and potential changes using the following headings:

<b>Categories</b>	<b>Totals*</b>
- New Operating Initiatives and matching substitutions	\$1.31M
- New Capital Initiatives and matching substitutions	\$3.81M
- Committed Costs – Operating Budgets	\$3.82M
- Committed Costs approved by Council during the year	\$81,800
- Committed Costs – Capital Budget	\$73,000
- Increased Costs Due to Increased Demand	\$2.04M
- Efficiency Gains	\$2.06M

\* Totals for the Council as a whole.

The categories as they relate to each Committee are:

- **New Operating Initiatives**

See Schedule 1A. These items are not in the draft budget but have been identified by Councillors, Community Boards or staff for possible inclusion. Funding would be by way of substitution with an existing operating item(s). Where a Unit has not been able to identify a matching substitution, this has been noted on the schedule.  
[There are no items in this category for the Community and Leisure Committee.]

- **New Capital Initiatives**

See Schedule 1B (attached). These items are not in the draft budget but have been identified by Councillors, Community Boards or staff for possible inclusion. Funding would be by way of substitution with an existing capital item(s). Where a Unit has not been able to identify a matching substitution, this has been noted on the schedule.

- **Committed Operating Costs - Operating Budgets**

See Schedule 1C (attached). This schedule is designed to reflect the operating costs arising from capital projects or other commitments which have been made.

- **Committed Costs Approved by Council during the year**

See Schedule 1D (attached). This represents those operating items which have been approved by the Council since the 2002 Annual Plan was adopted on 12 July 2001.

- **Increased Costs due to Increased Demand**

Schedule 1E (attached). These items reflect growth and the consequential increased demand for Council goods and services.

- **Efficiency Gains**

See Schedule 1F (attached). This schedule highlights all the efficiency gains and cost savings for those budgets for which this Committee is responsible.

- **Committed Costs – Capital Budget**

See Schedule 1G (attached). This schedule includes additional capital items to which the Council is committed.

## REVIEW APPROACH

The suggested approach is to:

- (a) Review the level of service for each output and where appropriate confirm that level.
- (b) Confirm the individual funding of each output. The funding details for each output reflects the work of the Financial Policy Review Subcommittee which met between September and December 2000. At these meetings the funding of each output was reviewed on the basis of the three step process required by the legislation.

The three steps are:

- **Identification of benefits.** These may be general and/or direct. For a small number of outputs a third category, controlling negative effects may also apply eg Dog Control.
- **Modifications.** The Council has the discretion under this step to consider fairness, transition impacts, Council policy and the interests of ratepayers.
- **Selection of funding tools.** This third step in the process relates to the consideration of the funding tool to be used eg User Charges, Uniform Annual General Charge or Sewer/Land Drainage/Water/General Rate.

- (c) Consider the proposed operating initiatives (Schedule 1A). In addition to Schedule 1A, Standing Committees should also identify any other new initiatives and potential substitutions with which to fund new initiatives. The substitution needs to be of equal value. Once approved by the Committee, the new initiatives and matching substitutions will go forward to the Annual Plan Subcommittee as a recommendation.

A copy of the Strategic Objectives from the 2002 Strategic Statement is attached (see Schedule 1H). Committee members may need to refer to these when ranking items.

- (d) Confirm the draft capital programme and consider any new capital initiatives (Schedule 1B). The Strategic Objectives may need to be referred to here as well.

It should be noted that once approved then the new capital initiatives and matching substitutions will go forward to the Annual Plan Subcommittee as a recommendation.

## **BUDGET FORMAT**

The budget is presented in an output format. Outputs represent the goods, services or products which are being 'bought' for the community by the Council. In most cases there is one output per page.

The draft sub budget sections in sequential order are:

- Operating Budget
- 2002/03 Capital Section
- Ten Year Capital Programme
- Fees Schedule

For each output there is a brief description, the objectives for 2002/03 are stated and the measures which will be used to assess whether the objectives have been met are also listed along with the actual results from 2000/01 (where they are available). The budgetary provisions are generally divided into direct costs, allocated costs and revenue. In some instances there is also a sub output which includes all the overhead costs relating to an output. Budgets are always shown on the opposite page to the budget text. Also included are the Funding Policy details for each output. These are to be found on the pages immediately following each output. On the funding text page (left hand side) the funding rationale is documented. On the funding calculation page (right hand side) the method of funding the output is detailed. The funding pages only apply to those outputs which are service delivery outputs (ie delivered by way of service or product to the public).

The funding calculation page is broken down into three sections, Costs, Modifications, and Funding. These sections mirror the three stages outlined above and should be followed to determine how a particular output is to be funded.

## **TIMETABLE**

The next step in the process is for the draft budgets to be referred to the Annual Plan Subcommittee. The Subcommittee meets in the late February (25, 26 and 27 February 2002) and early March (1 March 2002).

The Subcommittee will:

- consider the overall strategy;
- consider the projects and programmes requested by Committees and assess overall priorities;
- consider funding issues and financial policies;
- recommend a Draft Annual Plan to the full Council; and

Details of the other steps in the process are as follows:

27 March 2002	Council meeting to adopt a Draft Annual Plan
28 March to 20 May 2002	Public submission period on the Draft Annual Plan
18, 19, 20 & 21 June 2002	Draft Annual Plan hearings
11 July 2002	Council meeting to adopt the Annual Plan and Strategic Plan

- Recommendation:**
1. That the draft operating and capital outputs be confirmed.
  2. That any new operating or capital initiatives plus matching substitutions be referred to the Annual Plan Subcommittee for approval.