

4. **DRAFT SUB-BUDGETS FOR 2003/04**



Officer responsible Financial Services Manager	Author Paul Melton, DDI 941-8413
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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 2003/04 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. These pages summarise all the significant changes between what was projected for in 2003/04 and what has been reflected in the draft budgets for 2003/04.

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. **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.**

In addition to the above decision, the Council also resolved to put in place measures to achieve cost reductions and revenue increases whereby the projected rates budget for 2005/06 would be reduced by \$10M.

It is very pleasing to report that the \$10M target has been reached and has in fact been exceeded by \$4.05M.

Details of this achievement are as follows:

	Total Rate Requirement
Draft Rates for 2005/06 [As printed on page 17 of the Draft 2003 Annual Plan]	\$176.87M
Draft Rates for 2005/06 [As per the Draft 2004 Annual Plan Projections]	\$162.82M
Rates Saving	----- \$14.05M =====

This achievement reflects a focus and commitment by a large number of individuals from throughout the Council. Since the resolution was passed by the Council, staff have worked hard to identify, quantify and factor these savings into the projections. These savings have been achieved by a combination of budget scrutiny reviews, internal business improvement reviews, and by units and teams focusing on achieving savings. Some of the savings are a result of projects being shifted (eg ocean outfall).

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.

In some instances units have not identified a substitution but have listed the new initiatives in the pink pages under the heading 'New Operating Initiatives' [not included in Draft Operating Budget]. The process of identifying an appropriate substitution has been left to the Standing Committee.

Where a Standing Committee recommends a substitution, or 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

It is pleasing to report that the draft rate increase for 2003/04 is very likely to be significantly down on the projected figure of 3.89%. The figures at this stage in the process are changing so it is not possible to be more precise other than to say that there is a downward trend from the 2003/04 rates projection.

The main factors contributing to this position are:

- **Staff Commitment**
This year management set tough guidelines for budget preparation and unit staff have made an all out effort to contain budget increases and to contribute to the \$10M rates savings target.
- **Special Fund Draw Downs**
The draft 2003/04 budget includes \$755,816 of additional draw downs from special funds. Special fund draw downs help fund the capital programme and at the same time reduce the surplus requirement which in turn lowers the rates. The \$755,816 represents the balance of funds which are no longer required and are being closed as part of the 2003/04 budget process. Approval to close these funds and draw the balances down was made by the Council in September 2002.
- **Capital Smoothing**
As part of this year's process, the Infrastructural Asset Units were asked to review their capital programmes. The objective of this review was to 'smooth' those capital items which are not likely to be started as planned. The total amount smoothed from the 2003/04 capital programme totals \$4.12M.
- **Ocean Outfall**
Although the \$36.39M ocean outfall has been included in the draft budget, it has ironically contributed to a rates reduction of 0.4% in 2003/04. The reason for this reduction is the UV sterilisation capital of \$7.95M planned for 2003/04. This expenditure is now planned to take place in 2009/10 and 2020/11.

Offsetting some of these gains are a number of cost pressures which are unavoidable and have been included in the 2003/04 draft budget. Examples of these unavoidable increases are:

- **Canterbury Public Library** \$150,000
Health and Safety issues associated with the delaminating of the exterior wall tiles.
- **Graffiti** \$300,000
Several years ago a special hotline was set up to help rid the city of graffiti. A budget of \$85,000 was approved. The hotline and follow-up approach has been very successful with graffiti being well controlled. At the time the budget was first established it was difficult to estimate what the actual costs would be. Actual expenditure over the last couple of years has been \$385,000 and in order to more accurately reflect this cost it has been necessary to increase the graffiti budget by \$300,000.

- **Sewer overflow and monitoring stations** **\$120,000**
 (This was not allowed for in the model)
 This increase relates to extra conditions imposed by the new resource consent requirements. \$60,000 for sewer overflow monitoring and \$60,000 for the maintenance of the monitoring stations – see also CWTP Resource Consent Monitoring – they are all linked.
- **CWTP Resource Consent monitoring** **\$200,000**
 (This was not allowed for in the model)
 To meet new conditions imposed under new resource consent requirements.
- **Burwood cover material** **\$210,000**
 (This was not allowed for in the model)
 To meet the new resource consent requirements at Burwood Landfill.
- **Burwood gas control** **\$800,000**
 (This was not allowed for in the model)
 To meet the new resource consent requirements.
- **Insurance** **\$449,890**
 The Council's Insurance Brokers have advised that the fallout from the losses suffered as a result of the events of September 2001 continue to impact on the cost of insurance. This together with the risks of further terrorist acts and natural disasters have resulted in a very nervous insurance market.

The overall insurance budget provision for 2003/04 has increased by 22% - this equates in monetary terms to \$449,890. The advice received from the Council's Insurance Brokers was that the overall increase should be approximately 30%. A review of the Council's insurance programme is currently being undertaken and the results of this review will be reported to the Council either in May or June 2003. The aim of the review is to endeavour to lower the cost of insurance to the Council. One of the options being considered in the review is for the Council to carry a higher level of self-insurance.
- **Paddling Pool Testing** **\$49,430**
 With the introduction of NZS 5826 : 2000 – New Zealand Standard for Pool Water Quality, a substantially more rigorous testing regime is required to be undertaken with public pools including paddling pools. This has resulted in the testing frequency being increased from two times a day to five for the eight pools managed by the Parks and Waterways Unit and consequently has a considerable cost impact.
- **Contract Traffic Management** **\$86,000**
 Changes to Transit NZ Interim Code of Practice for Temporary Traffic Control where contractors are working on road sites have resulted in additional contract costs. Stringent safety measures are now prescribed that involve considerable cost to ensure compliance. This especially applies to tree work being carried out on roads under both City Council and Transit control and also affects some work where roads are adjacent to waterways.
- **Asset Growth from New Reserve Acquisition** **\$121,170**
 Twenty-three new reserve areas have been or are anticipated to be acquired that will impact on the Parks operational budget in 2003/04. In total this equates to a further 584 hectares of reserve land being added to the system and includes the Richmond Hill block (284 Ha) and Burkes Bush (270 ha) on the Port Hills. Much of this land will be subject to minimal maintenance regimes until such time as further development is required.
- **LPG Use** **\$140,000**
 This relates to the increased cost of LPG, the sole source of water heating at QEII. LPG is becoming increasingly expensive as this natural resource decreases.

- Swimming Pool Inspections** \$144,174
 Two additional FTEs have been included to ensure city-wide compliance with the Fencing of Swimming Pools Act in accordance with the Council resolution of 26 September 2002. This work was previously carried out by one inspector on a 12 month contract, which expired in June 2002. This was then changed to a permanent position as well as adding two staff from the Building Inspection Team for a one year period until 30 June 2003, with the aim of clearing the backlog of uninspected pools. This will be followed by reinspection of all known pools every two years, which will require two FTEs.

EFFICIENCY GAINS

Efficiency and effectiveness gains are ongoing and are not always easily identified and recorded.

The 2003/04 savings fall into two categories:

- Specific items.
- The amount of inflation that the unit has been able to absorb. The model allows of 2% inflation and as part of the budget preparation process units were asked to absorb the inflation component. That portion of the inflation component not utilised by the unit has been treated as a saving.

Both categories represent contributions to the \$10M net rates saving target set by the Council on 16 July 2002.

Examples of specific items are:

- FMM/Structural savings - Team restructuring and City Care Contract** (\$166,734)
 As a result of Property Unit review and implementation of the FMM contract with City Care, two FTE positions have been disestablished.
- FMM/Structural savings - Rationalisation of specialist contracts** (\$193,637)
 Awarding of single contracts for maintenance of lifts, heating, ventilation and doors instead of multiple contractors doing similar work. Work previously split between many different contractors is now split to a smaller number resulting in better prices for contracts.
- Plant and vehicle monthly hire charges have been reduced for 2003/04.** (\$166,000)
 Reduction in charges is now due to new vehicles coming with a three year/300,000 warranty. Maintenance is met by manufacturers, with cars sold in the fourth year resulting in no repair costs.

A list of the efficiency gains relating to this Committee can be found on Schedule 1F. (Contributions towards the \$10M net rates savings target.)

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:

	Draft Budget 2003/04	Financial Model 2003/04
Net Capital Expenditure	\$82.09M	\$97.89M

The main items contributing to the capital reduction of \$15.80M compared to the 2003/04 financial projection can be summarised as follows:

- MIS** (\$180,000)
 Relates to savings in the capital programme, primarily in Network Services. The net reduction over five years is \$145,000.

- **Property – Asset Management** **(\$2,305,000)**
\$1.2M Civic Office Window Replacement (Part of Civic Offices upgrade). Moved from year 1 to year 2. There is also an overall reduction in first five years of \$916,000. This primarily relates to reductions in the contingency provisions.
- **Parks and Waterways** **(\$330,000)**
Overall reduction in the first five years is \$1.7M, reflecting capital smoothing which is to ensure that the timing of works is realistic.
- **City Water and Waste** **(\$8,980,000)**
\$2.5M Refuse Station Modifications – Part of the budget moved from year 1 to year 2 to better reflect the construction phase.
The \$7.6M reduction to year 1 reflects capital changes resulting from the incorporation of the ocean outfall in the draft capital budget. The overall increase in the capital programme over the next nine years is \$36.39M and this relates to the ocean outfall.
- **City Streets** **(\$1,112,652)**
City Streets have completed an extensive review of their capital programme. Only projects that have been well scoped are included in 2003/04. This provides some certainty in terms of project completion and helps to minimise the carry forwards.

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 operating or capital budget is but at this stage have not been included.

The 2003/04 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:

Categories	Totals*
- New Operating Initiatives	\$3.28M
- New Capital Initiatives	\$6.70M
- Committed Costs – Operating Budgets	\$11.91M
- Committed Costs approved by Council during the year	\$1.60M
- Increased Costs Due to Increased Demand	\$1.54M
- Unit specific contributions to the \$10M Net rates savings target	\$9.23M

* Totals for the Council as a whole.

The categories as they relate to each Committee are:

- **Schedule 1A - New Operating Initiatives**

These items are not in the draft budget but have been identified by Councillors, Community Boards or staff for possible inclusion. Funding should be by way of substitution with an existing operating item(s).

- **See Schedule 1B - New Capital Initiatives**

These items are not in the draft budget but have been identified by Councillors, Community Boards or staff for possible inclusion. Funding should be by way of substitution with an existing capital item(s). Suggested submissions where appropriate have been noted.

- **Schedule 1C - Committed Operating Costs - Operating Budgets**

This schedule is designed to reflect the operating costs arising from capital projects or other commitments which have been made.

- **Schedule 1D - Committed Costs Approved by Council during the year - Operating**

This represents those operating items which have been approved by the Council since the 2003 Annual Plan was adopted on 16 July 2002.

- **Schedule 1E - Increased Costs due to Increased Demand**

These items reflect growth and the consequential increased demand for Council goods and services.

- **Schedule 1F – Unit Contribution to \$10M Net Rates Savings**

This schedule highlights all the efficiency gains and cost savings for those budgets for which this Committee is responsible.

- **Schedule 1G - Committed Costs – Approved by Council During the Year - Capital**

This schedule includes additional capital items to which the Council is committed and which were approved since the Annual Plan meeting on 16 July 2002.

[There are no items in this category for the Community and Leisure Committee.]

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. (Mr Barnes, the Associate Director of Finance, will be available to advise the Committee should any advice or changes be contemplated here.)
The three steps to be followed 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 new 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
- Capital Programme
- Fees Schedule
- Funding Policy details on an output by output basis

For each output there is a brief description, the objectives for 2003/04 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 2001/02 (where they are available). The budgetary provisions are generally divided into direct costs, allocated costs and revenues. In some instances the output may be broken down into sub-outputs. Sub-outputs are identifiable products/or services which are delivered as part of delivering the 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 the Fees Section. 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 (i.e. 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 late February (24, 25, 26 and 28 February 2003) and early March (3 and possibly 4 March 2003).

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; and
- recommend a Draft Annual Plan to the full Council.

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

25 March 2003	Council meeting to adopt a Draft Annual Plan
15 April to 28 May 2003	Public submission period on the Draft Annual Plan
23, 24, 25, 27 & 30 June 2003	Draft Annual Plan Hearings
15 July 2003	Council meeting to adopt the Annual Plan

Staff

- 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.