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This report brings together the draft budgets for 1999/00. Work on the budgets has been in hand for the last six months and reflects input from a large number of individuals and community groups.

The purpose of the report is to highlight the key factors which have influenced the draft budgets. This report also provides information on the budget format, budget timetable and the recommended approach for reviewing them.

The sub-budgets which the Projects and Property Committee is responsible for are:

- Major Projects Office
- Property Management
- Property - Asset Management
- Swimming Pools (Capital)
- Cathedral Square (Capital)
- Convention Centre
- WestpacTrust Entertainment Centre

As in previous years the pink pages summarise all the significant changes. In addition the pink pages also include a section which details identified efficiency gains and any budget restructuring.

The pink pages have been printed off in a supplementary booklet.

## KEY FACTORS INFLUENCING THE OPERATING BUDGET

### Overview Comment

The Director of Finance comments as follows:

*“The Committee review of the sub-budgets is an initial stage in the budget review process which deals with sections only of the budget relating to the activities overviewed by each Committee. In parallel with this review staff are working on completion of the corporate expense and revenue budgets together with financing calculations. This represents a significant part of the budget and until it is complete*

*it is not possible to project an expected rating level for the complete budget. This overview will be available for the Annual Plan Working Party when it meets to review the complete budget at the end of February.*

*Committees are urged to look carefully at the priorities of service levels and projects as it is clear that there will not be sufficient funds to meet all the aspirations of units and committees. With the recent drop in interest rates it is expected this significant source of operating income will be reduced. I would also caution against assumptions that additional capital funds will be able to be utilised for the direct reduction in rates. It would be unwise to utilise such funds for purposes which bring only a short term benefit and careful thought should be given before commitments are made to new items ahead of those already identified in the Long Term Financial Strategy (LTFS)."*

The LTFS which was approved as part of the 1998 Annual Plan projected a rate increase of 2.92% for 1999/00 (see page 11 of the 1998 Plan). This includes an inflation factor plus an unspecified operating provision of \$500,000 which is available for new operating initiatives. Also included within the LTFS are the costs of new initiatives like recycling and the interest and depreciation costs on new capital projects like the swimming pools.

The draft sub budgets which will be reviewed by Standing Committees include committed operating increases of \$4.29M and costs attributable to growth of \$2.28M.

### **New Committed Items and Significant Increases**

The \$4.29M of new items and significant cost increases referred to above are made up of many items. Summarised below are the larger ones which appear on the schedule together with a brief comment for each:

- **Environmental Services** **\$455,000**

Includes a provision of \$300,000 to cover the cost of City Plan appeals. Also included is an extra \$55,000 for increased legal involvement in the resource consent process and \$100,000 for depreciation on the Consent 2000 system.

- **Library and Information Services** **\$587,624**

This item is made up of a full year's costs for running the Council information service (\$91,578). The information service will be piloted for a six month period in 1998/99 Plan. The 1999 provision is to cover a full year's service. Also included is additional funding of \$64,654 for the World Wide Web co-ordination project. The World Wide Web is rapidly becoming a significant tool for communication, information storage and access point for services. This increase reflects further resourcing as well as an increase in depreciation and allocated overheads.

Because of its special nature, the new library at New Brighton will incur additional costs which were not known at the time the LTFS was prepared. These costs which total \$431,369 include building and operating costs, depreciation and gantry costs.

- **Car Parking** **(Net) \$389,967**

This net increase reflects additional operating costs for the new Farmers Car Park and six months' operations on the Arthur Barnett site car park.

The Government has again increased the cost of court lodgement fees from \$25 to \$30 per lodgement and this will result in an estimated additional cost of \$50,000. The \$50,000 is included in the \$389,967.

- **Housing** **\$116,400**

This reflects the operating costs associated with two new housing projects. The Gloucester Street Inner City Housing Complex will have a full year's operation in 1999/00 and the Hornby Close (Stage 1) six months.

- **Parks** **\$657,120**

The above addition includes depreciation of \$312,423, maintenance on an additional 23 new reserves (\$68,678), maintenance of new assets from the 1998/99 capital programme (\$86,900), and transfers from the Service Centre budgets of \$154,697. The other component of the Parks increase relates to compliance costs and revenue reductions.

- **Waste Management** **(Net) \$2.43M**

The Waste Management figure reflects increased funding for the Recovered Materials Foundation (RMF), reduced revenue as a result of waste minimisation and increased competition in the market place.

The RMF funding increase (\$743,000) will provide the RMF with a material price equalisation fund and will also fund further business and technological development.

The reduced revenue reflects the success of the Council's waste minimisation policies in both the liquid and solid waste areas. This trend will continue and is not peculiar to Christchurch City Council. It is well recognised internationally that successful waste reduction policies result in reduced revenue flows and in increased operating costs from an ever reducing waste tonnage.

The Composting Plan revenue projections have also had to be revised downwards to reflect increased competition in the market place.

- **Public Accountability** **\$107,000**

Reflects the increases in elected member meeting allowances which were approved at the inaugural Council meeting on 4 November 1998.

## **EFFICIENCY GAINS**

At the meeting to adopt the 1997 Plan, it was resolved that the Council maintain an efficiency and effectiveness drive aimed at maximising any efficiency gains. Because movements in efficiency and effectiveness are ongoing it is not easy to record many of them but those specifically recorded in the draft budgets total \$1.8M (Cr). They cover a wide variety of Council activities and are detailed on Schedule 1E.

Many ongoing efficiencies are reflected in the servicing of more customers (eg in the Libraries) or maintenance of major facilities (eg Parks) are not included here.

There are a number of reviews and projects under way which are likely to lead to further ongoing efficiencies in the future. They include a new financial system (FAMIS), an advertising review, a security review and a car pool review. These are not far enough advanced to include in the draft budget.

## **CAPITAL EXPENDITURE**

The capital expenditure programme can be summarised as follows:

	<b>Draft Budget 1999/00</b>	<b>LTFS 1999/00</b>
Net Capital Expenditure	\$82.96M	\$80.24M

The draft 1999/00 figure includes \$2.61M for unspecified capital expenditure plus an allowance of \$749,100 for Community Board capital projects. All inflation adjustments to the draft 1999/00 figures have been funded from the unspecified inflation provision (\$1.51M) which was included in the LTFS projections.

While there have been a large number of increases and decreases to the projected capital programme, the net effect is a programme which is \$2.7M ahead of the projected programme. This increase can be directly attributable to the shifting of carriageway and footpath resurfacing from operating to capital expenditure (\$3.17M). This is in order to comply with changes to the depreciation methods which were foreshadowed during the 1998 Annual Plan process.

## **NEW INITIATIVES, COMMITMENTS AND BIDS**

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

- committed new initiatives; and
- uncommitted new initiatives.

Committed new initiatives have been defined as those costs which the Council is committed to and unable to avoid (see previous section headed 'New Committed Items and Significant Increases'). Uncommitted new initiatives have been defined as initiatives which the Council/Community Board or staff requested.

The 1999/00 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>
- Committed Costs (operating) [included in the draft operating budget]	\$4.29M
- Increased costs due to increased demand [included in draft operating budget]	\$2.28M
- New operating initiatives [not included in draft operating budget]	\$3.43M
- New capital initiatives [not included in draft operating budget]	\$14.18M
- Efficiency gains [specifically included in draft operating budget]	\$1.86M (CR)

\*The totals for the Council as a whole.

The categories as they relate to the Projects and Property Committee costs/projects are:

- **Committed Costs - Operating Budgets**

See Schedule 1A (attached). This schedule is designed to reflect the operating costs arising from capital projects, previous commitments made by the Council or cost increases.

- **Increased Costs due to Increased Growth - Operating Budgets**

See Schedule 1B (attached). These items reflect city growth and the consequential increased demand for goods and services.

- **New Operating Initiatives**

See Schedule 1C (attached). These items are not in the draft budget but have been identified by Councillors, Community Boards or staff for inclusion. They represent bids for the unspecified operating provision.

- **Bids for the Unspecified Capital Sums**

See Schedule 1D (attached). There are no bids for the unspecified capital sum.

## REVIEW APPROACH

The suggested review approach of the 1999/00 Draft Sub-Budgets 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 policy was adopted in 1998 and does not need to be prepared again until 2000/01. Councils can however review the funding of individual outputs. The funding policy legislation details the three step process which must be worked through when this occurs. They 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 Step 2 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 initiatives (Schedule 1C) and rank these in order of priority. While the amount of unspecified funding available is small it is important that Standing Committee priorities are known. If Committees fail to rank items, the Annual Plan Working Party may end up making more arbitrary decisions.

The suggested ranking is a 1 to 5 grading:

- 1 - Top priority
- 2 - High priority
- 3 - Priority
- 4 - Low priority
- 5 - Lowest priority

Projects should be spread equally by dollar value between the five categories.

A copy of the Strategic Objectives from the 1998 Plan is attached (see Schedule 1G). Committee members may need to refer to these when ranking items.

The Committee should also consider whether any new initiatives can be funded by way of substitution.

- (d) Confirm the draft capital programme and consider the priority capital projects (Schedule 1D). If priority projects can be funded by way of substitution then generally the Annual Plan Working Party will take this on board. Those priority projects which do not fall within the substitution category should be ranked using the 1 to 5 categories referred to above. The Strategic Objectives may need to be referred to here as well.

It should be noted that the bids will also be prioritised by the Annual Plan Working Party against bids from all other Committees.

## **BUDGET FORMAT**

Following the pattern established in previous years, 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
- Holding Account Section
- 1999/00 Capital Section
- Ten Year Capital Programme
- Fees Schedule

For each output there is a brief description, the objectives for 1999/00 are stated and the measures which will be used to assess whether the objectives have been met are also listed. The budgetary provisions are generally divided into direct costs, allocated costs and revenue. They are always shown on the opposite page to the budget text. Also included this year 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 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.

The budget structures for 1999/00 remain essentially the same as those for 1998/99. Where there are significant changes these have been highlighted on the pink pages under the heading "Restructuring of Budgets".

## **TIMETABLE**

The next step in the process is for the draft budgets to be referred to the Annual Plan Working Party. The Working Party meets in the last week of February and will:

- consider the overall strategy;
- consider the projects and programmes at the margin;
- consider funding issues; and
- recommend a Draft 1999 Plan to the full Council.

Details of the other steps in the process are set out in Schedule 1F (attached).

**Recommendation:** That the draft operating and capital outputs be recommended to the Annual Plan Working Party with any of the new initiatives (operating or capital) being clearly flagged.

### **Chairman's**

**Recommendation:** For discussion.