

2. DRAFT SUB-BUDGETS FOR 2000/01

| | |
|---|------------------------------|
| Officer responsible Financial Services Manager | Author Paul Melton |
| Corporate Plan Output: Financial Planning Advice Volume I Page 5.1.11 | |

This report brings together the draft budgets for 2000/01. 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 budget. This report also provides information on the budget format, budget timetable and the recommended approach for reviewing the draft sub budgets.

The sub-budgets which the Joint Environment & Resource Management Committees are responsible for are:

- Environmental Policy and Planning
- Environmental Services

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 collated and printed in a separate 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. However the projected rate increase in the Long Term Financial Plan for 2000/01, taking account of items already in the Plan, is 2.74%. The updated 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 everyone’s aspirations.

The inflation provision for operating expenditure which was approved last year as part of the long term projections was 2%. The current inflation projection for 2000/01 is 2.3%. In order to accommodate the inflation short fall it will be necessary to absorb the unspecified operating sum of \$550,000. All new initiatives which would previously have been funded from this source will now need to be funded by way of substitution if rates are to remain within the forecast.

There is an unspecified provision for capital expenditure of \$1.5M in 2000/01 and \$2.0M in 2001/02. I would strongly urge the council to limit any additional capital projects to these amounts or make substitutions. The Council already has an aggressive capital expenditure program and the level of internal funding from surpluses and depreciation is relatively low. It is therefore most important that there be no escalation in the level of capital expenditure without compensating increases in revenue funding.

Although the overall capital expenditure is down on the long term forecast for 2000/01 this is largely accounted for by the removal of the Plant budget with the corporatisation of Works Operations. The majority of this was funded by depreciation which will no longer be an available funding source and therefore the overall capital total should be reduced accordingly.”

As already stated, the Long Term Financial Plan (LTFP) which was approved as part of the 1999 Annual Plan projected a rate increase of 2.74% for 2000/01 (see page 13 of the 1999 Plan). This included an inflation factor plus an unspecified operating provision of \$550,000. Also included within the LTFP are the costs of new initiatives like the operating costs for the Bus Interchange, the new swimming pools, the Fendalton Service Centre/Library and FAMIS.

The draft sub budgets which will be reviewed by Standing Committees include committed operating increases of \$5.91M and costs attributable to growth of \$1.29M.

NEW COMMITTED COSTS AND SIGNIFICANT INCREASES

The \$7.20M 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 from the relevant pink page.

- **City Streets** **\$100,000**

Road marking on the arterial and collector roads have been upgraded to comply with the Transit NZ Manual in respect to Raised Reflectorised Pavement Markers and edge lines, and the remarking cycle has been changed to the Transfund recommended 6 months instead of the previous 9 months. The ongoing cost of this is approximately \$100,000. This has been funded from savings of \$100,000 from tendering the work, which means the upgrading and change in the cycle time is catered from within the existing City Streets budget.

- **Library and Information Services** **\$669,070**

This item is made up of information technology costs (\$196,330), Central Library redevelopment costs (\$100,000) and depreciation of the Shirley Library book stock (\$372,740). In 1999/00 the Council changed to leasing computers rather than purchasing and depreciating them. The leasing contract is based on a three year lease period whereas depreciation was for a four year period. (From a corporate perspective leasing rather than purchasing has resulted in considerable savings to Council interest costs). Unfortunately for the Library many of their machines were old and had been fully depreciated. This has also contributed to the \$196,000 increase.

Changes are required to the ground floor of the Central Library. This will enable better use of the space which has not been satisfactory since the extension and alteration in the mid 1990s. Alterations are required in other parts of the building to accommodate additional and different technology from the IT replacement programme. These changes are part of a three year development plan for the Central Library which includes reorganisation of the team structure to improve service delivery.

There has been a significant increase in the depreciation on stock. This can be attributable to the purchase of nearly \$900,000 of replacement stock for the Shirley Library. Although the replacement stock was funded from insurance monies the depreciation on that stock (all at new cost) is now causing a bulge in the total library depreciation figure and will continue to do so for sometime.

- **Car Parking** **(Net) \$353,500**

This net figure includes the projected increase to the operating deficit for the Farmers Car Park. Based on current utilisation the deficit is projected to increase by \$255,500 unless the base hourly charge for casual parking is increased.

The construction of the new Art Gallery and associated underground car park which is due to start in September 2000 will require the decommissioning of the Sheraton Coupon car park. The impact of this change will be to reduce revenue for the 2000/01 financial year by approximately \$98,000.(9/12ths of the financial year)

- **Property** **\$170,000**

Recent work on the projections for the Bus Interchange has highlighted the need to increase the LTFP operating projections. The new figures now include increases to general maintenance, cleaning, H/V contracts, security, and insurance costs.

- **Leisure** **\$336,479**

The above addition includes an increased depreciation/debt servicing provision of \$148,579(net), increased electricity charges of \$95,000 and revenue projections which have been revised downwards by \$92,900.

The increased depreciation/debt servicing is a net figure which reflects new values resulting from the recent revaluation of assets and the new pools which have been built. The revaluation is a statutory requirement which must take place every three years. The revised revenue projections reflect the impact that the redevelopment work at QEII will have on patronage and turnover during 2000/01.

Higher than projected electricity costs for the two new swimming pools has meant that the electricity provisions have been revised upwards by \$95,000.

- **Parks** **\$112,600**

This figure is made up of a number of small increases which were not anticipated at the time the LTFP was approved. The figure includes \$47,600 for the write off of assets (toilet blocks and one house) which will be demolished or disposed of as a result of the capital renewal programme, the loss of revenue as a result of the new lease agreement for the Botanic Gardens Restaurant (\$45,000) and measures to ensure that the water supply in our parks is safe (\$20,000).

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 \$1.63M (Cr).

Some of the more significant efficiency gains are:

- **Parks** **(\$152,000)**

By measuring and specifying contract areas and renegotiating prices with the new LATE it is anticipated that savings on maintenance costs totaling \$152,000 will be achieved.

- **Library and Information Services** **(\$555,000)**

This figure is made up of two items - savings to Counter Services at the Service Centres, and savings to Collection Services.

The Counter Services savings have been achieved by reducing staffing levels through vacancies and redeployments. There have also been associated savings in the administrative area. The total saved in this area amounts to \$110,000.

The Collection Services savings total \$450,000 and relate to the way in which the Library select, acquire, catalog, process, and maintain stock. New processes have been developed which have resulted in significant benefits in terms of finance and service.

- **Convention and Entertainment Facilities grant** **(\$200,000)**

The operational grant given by the Council has been reduced from \$450,000 to \$250,000 which represents a saving of \$200,000 for 2000/01.

- **City Streets** **(\$100,000)**

As stated above, savings of \$100,000 in the tendering of Road Marking has been achieved. This saving has been used to bring the level of service for Road Marking up to the recommended TransFund standards.

- **Environmental Services** **(\$150,000)**

The field inspection team has been down sized by two, and the dog control administration and Fendalton area development teams reduced by one each. These changes reflect the Environmental Services Unit's concerns to maximise operational efficiencies.

- **Car Parking** **(\$375,000)**

A review of the operation of the Lichfield Street, Tuam Street, Manchester Street, Kilmore Street (Park Royal), and Oxford Terrace car parks has resulted in ongoing annual savings of \$150,000.

The ongoing partnership development between the Parking Unit and the Collections Unit of the Department for Courts has resulted in an increase in the total dollar amount of fines collected. This will result in an additional \$225,000 being collected in the 2000/01 financial year.

The efficiency gains cover a wide variety of Council activities and are detailed on schedule 1E.

Many ongoing efficiencies which enable the servicing of more customers (eg in the Libraries) or maintenance of major facilities (eg Parks) are not included on this list.

There are a number of reviews and projects under way which will lead to further ongoing efficiencies in the future. These are not far enough advanced to be included here at this stage.

CAPITAL EXPENDITURE

The capital expenditure programme can be summarised as follows:

| | Draft Budget 2000/01 | LTFP 2000/01 |
|-------------------------|---------------------------------|-------------------------|
| Net Capital Expenditure | \$112.87M | \$116.96M |

The draft 1999/00 budget figure reflects a reduction of \$1.04M in the Waste Management capital budget and \$3.16M in the Plant and Building Services capital budget. The Plant and Building Services reduction relates to heavy and specialist type plant which would have been used by Works Operations. Note the comments above by the Director of Finance that the overall capital program needs to be reduced by this amount. The draft 2000/01 figure includes \$1.55M for unspecified capital expenditure plus an allowance of \$412,425 for Community Board capital projects. All inflation adjustments to the draft 2000/01 figures have been funded from the unspecified inflation provision of \$2.29M which was included in the LTFP projections.

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 would like to see in the capital budget but at this stage have not been included.

The 2000/01 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* |
|--|----------------|
| - Committed Costs (operating) [included in the draft operating budget] | \$5.91M |
| - Increased costs due to increased demand [included in draft operating budget] | \$1.29M |
| - New operating initiatives [not included in draft operating budget] | \$4.88M |
| - New capital initiatives [not included in draft operating budget] | \$5.40M |
| - Efficiency gains [included in draft operating budget] | \$1.63M Cr |

*The totals for the Council as a whole.

The categories as they relate to this Committee 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**

Schedule 1B. 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 possible inclusion. Funding would be by way of substitution with existing operating items.

- **Bids for the Unspecified Capital Sums**

See Schedule 1D (attached). This represents the bids for the unspecified capital sums.

- **Efficiency Gains**

See Schedule 1E (attached). This schedule highlights specific efficiency gains.

REVIEW APPROACH

The suggested approach for the 2000/01 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 next year. 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 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 initiatives (Schedule 1C) and rank these in order of priority. While there is at this stage no unspecified operating funding available the Annual Plan Working Party do need to know Standing Committee priorities for substitution purposes. In addition to ranking the projects Standing Committees should also identify a potential substitution with which to fund the new initiative. The substitution also needs to be of equal value. If Standing 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 1999 Plan is attached (see Schedule 1H). Committee members may need to refer to these when ranking items.

- (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 look favourably on this. 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. The total amounts available for funding of new capital initiatives are \$1.55M for 2000/01 and \$2.0M for 2001/02.

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
- 2000/01 Capital Section
- Ten Year Capital Programme
- Fees Schedule

For each output there is a brief description, the objectives for 2000/01 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 2000/01 remain essentially the same as those for 1999/00. 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 late February (21,22,23,28 & 29 February 2000) and will:

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

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

| | |
|-------------------------------|---|
| 24 March 2000 | Council meeting to adopt a Draft Annual Plan |
| 27 April to 29 May 2000 | Public Submission period on Draft Annual Plan |
| 19,20,21,23,26 & 27 June 2000 | Draft Annual Plan Hearings |
| 6 July 2000 | Council meeting to adopt the Annual Plan |

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.