

2. DRAFT SUB-BUDGETS FOR 2001/02

| | |
|---|--|
| Officer responsible Financial Services Manager | Author Paul Melton, DDI 371-1413 |
| Corporate Plan Output: Financial Planning Advice Volume I Page 5.1.11 | |

This report brings together the 2001/02 draft budgets which the City Services Committee is responsible for. 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.

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.

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

- Car Parking
- City Water and Waste
- City Streets

As in previous years the 'pink pages' summarise all the significant changes. The pink pages also include a section which identifies efficiency gains and any budget restructuring. The Council's recent organisational change, which has been reflected in the draft budget, has resulted in some significant budget restructuring. To ensure that the comparative figures from 2000/01 are valid, these have been amended to reflect the organisational change. In addition, this year all committed costs have been separated into those commitments made by the Council since the 2000 Annual Plan was adopted and other costs which the Council is committed to.

The pink pages have been collated and printed in a separate booklet.

KEY FACTORS INFLUENCING THE OPERATING BUDGET

Overview

The Standing Committee review 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.

As in previous years, Managers were requested as part of the budget preparation process to identify efficiencies. The resulting efficiency gains for the whole organisation total \$4.05M (Cr) and these have all been factored into the draft budgets. Included in the efficiency gains total are the 'Organisational Change' net savings of \$2.45M. The Organisational Change savings will ensure that the Council retains the best elements of a vertical service delivery based structure as well as putting in place some horizontal structures to foster new policy initiatives and better co-ordination between Units.

Last year the Valuer General advised local authorities that all infrastructural utilities should be valued and included on the Rating Valuation Roll for 2001/02. The Council's Valuation Service Provider, Quotable New Zealand, is currently working on this project, the results of which should be available by 31 March 2001. At this stage, however, it is not possible to advise what impact this will have on rating income.

In parallel with the Committee reviews, staff are currently working on a range of corporate cost and revenue calculations. These figures will not be available until the Annual Plan Working Party meet later in February and therefore it is not possible at this stage to calculate the projected rate increase. The general impression is that this could be a difficult budget year because of the factors noted below.

The long term financial model, which was approved as part of the 2000 Annual Plan, projected a rate increase of 2.47% for 2001/02 (see page 11 of the 2000 Annual Plan). The model projections for 2001/02 include an overall inflation provision of 2% plus an unspecified operating provision of \$850,000 and an unspecified capital provision of \$1.31M in 2001/02 and \$2.0M in 2002/03.

There are some significant cost pressures on the 2001/02 Annual Plan which also need to be considered. These cost pressures include the projected Consumer Price Index (CPI), increased costs for oil, increases due to increased demand and commitments which have been made since the 2000 Annual Plan projections were adopted.

As noted previously, the inflation provision incorporated into the Financial Model was 2%. The current CPI for 2001/02 is 3.0% - 1% more than has currently been provided for. While some items have not increased by as much as 3%, there are items that have increased by a larger amount. The increase in inflation puts real pressure on the gains referred to earlier.

The City Streets Unit has highlighted the impact the oil price increases have had on the Unit's operating budgets. Bitumen was \$473 per tonne in August 1999 and by November 2000 it was \$840 per tonne. There is uncertainty about the future but continuing price rises have a marked impact on the sealing budget. The price of diesel is another input price for contractors and this has also increased significantly. For 2000/01 the sealing budget was set at \$1.95M and this was based on bitumen prices of \$640 per tonne. City Streets advise that the 2001/02 sealing budget needs to increase by \$240,000 to cover the cost increases for bitumen and diesel for the same amount of work.

Each year the City's population grows. In addition to this natural increase, there is also an increase in people's expectations. All contribute to increased pressure on the Council's activities and services. This manifests itself in the number of rateable properties (up 3,238 on 1999), number of motor vehicles on the roads, number of library books issued, number of web site hits, number of electronic transactions and number of telephone calls. The pink pages have highlighted these impacts under the heading 'Increased costs due to increased demand'.

For several years there has been a capital revenue provision of \$20M from the sale of assets. While this was deferred a few years ago to 2001/02 it has now rolled forward to year one. It is clear there is no current proposal for a sale of this magnitude and therefore it has been necessary to remove this item from the draft Annual Plan. The impact of this change has been to decrease the interest earned by the Debt Repayment Reserve which in turn impacts on the operating costs of the Council.

In the period since the 2000 Annual Plan was adopted, there have been a number of commitments which the Council has made and which have been included in the 2001/02 figures. Examples of this type of commitment include the inner city undergrounding (\$322,000 operational and \$78,000 capital), the loss of metered parks resulting from an extension of the strip and changes associated with public transport (\$50,000 to \$60,000), the Blenheim Road Deviation (\$5.04M)* and the purchase of the Styx River Esplanade Reserve (\$335,000 from the 2001/02 unspecified capital sum).

* Subject to consultation.

PROCEEDS FROM THE SALE OF THE ORION GAS NETWORK

The Director of Finance comments:

"A report is currently being finalised on the Orion Gas Network proceeds and this will be considered initially at the Strategy and Resources Committee meeting in February. The impact of this issue on the 2001/02 Annual Plan is not likely to be significant and will be subject to consultation. It is considered that Council should initially review its budget in accordance with the normal process. Once the Council agrees on the way in which the Orion funds should be allocated the impact will be merged together by the Annual Plan Working Party to create a complete picture of the draft Annual Plan."

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 \$4.05M (Cr). These include the Organisational Change savings together with other efficiencies and savings identified during 2000.

Some of the more significant efficiency gains are:

- **Council Organisational Change Savings** **(\$2.45M – Net)**

As a result of the Organisational Change, there are 54.5 less positions in the Council (including City Care) than before the change process. This has been achieved without the need for any involuntary redundancies. The ongoing net savings which have been taken account of in the draft sub budgets for 2001/02 total \$2.45M. This represents a saving of 1.87% on the rates.

The savings and impacts on FTE positions can be summarised as follows:

| Unit/Team | FTS Saving | \$ Saving |
|--|------------|--------------------|
| <i>City Water and Waste</i> | | |
| Maintenance Teams | 14 | 525,000 |
| Contracts | 1 | 45,000 |
| Trade Waste | 2 | 90,000 |
| Customer Services | 4 | 180,000 |
| Support | 2 | 90,000 |
| Other Teams | 3.5 | 170,000 |
| <i>Parks and Waterways</i> | | |
| Parks Rangers | 3 | 120,000 |
| Botanic Gardens | 6.5 | 163,000 |
| Other Teams | 3.5 | 167,000 |
| Consultant fees | | 100,000 |
| <i>GeoData Services</i> | | |
| Product Delivery Team | 10 | 390,000 |
| <i>Corporate Office and Internal Services</i> | | |
| Corporate Assurance | 1 | 50,000 |
| MIS | 2 | 120,000 |
| HR and Corporate Office | 2 | 80,000 |
| Property Maintenance | | 220,000 |
| Publishing and Design | | 250,000 |
| Cars | | 210,000 |
| | ---- | ----- |
| | 54.5 | \$2,970,000 |
| Funding for Proposed New Positions | === | (520,000) |
| | | ----- |
| Total Savings | | \$2,450,000 |
| | | ===== |

- **Other Efficiencies and Savings**

These are not part of the Organisational Change and the more significant items in this category are noted below:

| | |
|---|-----------|
| Financial Services Audit Fees | 10,000 |
| Financial Services Draft Community/Corporate Plans | 8,000 |
| Financial Services – Bureau Costs | 20,000 |
| Community Relations – Council Agenda Changes | 55,000 |
| Community Relations – Staff Saving | 38,000 |
| Convention and Entertainment Centre Grant Savings | 200,000 |
| Library – Bindery Saving | 75,000 |
| Property – Asset Management Savings | 36,179 |
| Car Parking – Partnership with the Department of Courts | 150,000 |
| Corporate Services – Right-Fax Project | 15,900 |
| Corporate Services – PC Installations | 40,000 |
| Corporate Services – Pipe Yard Relocation | 14,400 |
| | ----- |
| | \$662,479 |
| | ===== |

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

There are many ongoing efficiencies which enable the servicing of more customers (eg in the Libraries) or the maintenance of major facilities (eg Parks) that are not included in the above list or on Schedule 1G.

COMMITTED COSTS

These are costs which are directly attributable to Council decisions made after the 2000 Annual Plan was adopted on 6 July 2000 or capital projects that have incurred operating costs or other commitments that have operating implications.

The more significant committed costs are as follows:

- **Inner City Undergrounding** **\$322,000**

This reflects a Council decision made in September 2000 to underground the Southern Eastern CBD in conjunction with Orion and Telstra Saturn. The additional operating costs for the Council are \$322,000.

- **Waiwetu Street Undergrounding** **\$81,000**

The City Services Committee at its November 2000 meeting agreed to a proposal from the residents of Waiwetu Street to fund 50% of the undergrounding in Waiwetu Street in conjunction with the kerb and channel project. The Committee agreed to delay the project until 2001/02 to enable the Council's share of the undergrounding to be budgeted for in the 2001/02 budget.

- **Hornby Multi Cultural Centre** **\$58,000**

In September 2000 the Council resolved to approve the purchase of 'Friendship House' for a multi-cultural centre. The purchase was funded from the Community Facilities Unspecified Funds.

This purchase commits the following operational expenditure:

| | |
|-------------------------|----------|
| Internal Rental | 25,200 |
| Operational Expenditure | 33,000 |
| | ----- |
| Total | \$58,000 |
| | ===== |

- **Car Parking** **\$60,000**

The loss of further metered spaces as a result of a variety of initiatives approved by the Council (eg extension of the 'strip', changes associated with public transport, etc) has impacted upon meter revenue, in the order of \$50,000 to \$60,000 net.

- **Rates on Infrastructural Assets** **\$3,328,802**

The Valuer General has advised local authorities that all utilities within the city boundaries must be valued and included on the rating roll for 2001/02.

The estimated rating implications on Council owned infrastructural assets are as follows:

| | |
|---|-------------|
| City Streets (Bus Shelters, Street Lights and Traffic Lights) | 144,427 |
| Water Supply | 992,000 |
| Liquid Waste | 2,192,375 |
| | ----- |
| | \$3,328,802 |
| | ===== |

While on the credit side of the ledger this will increase the Council's rating revenues approximately 14% (or \$466,032) of this figure will be Environment Canterbury rates.

- **QEII Pools – Energy Costs** **\$32,600**

The conversion of QEII water heating to LPG has been estimated by the design engineers to add a further \$32,600 to the projected annual operating costs. This Council approved initiative reflects the cost of the LPG and the increased water space.

- **QEII Maintenance Contracts** **\$25,000**

The installation of a new lift at QEII and significant increases in mechanical plant as part of the redevelopment project will result in ongoing maintenance contracts for the servicing and certification amounting to \$25,000 pa.
- **Asset Maintenance for Pioneer and Centennial Leisure Centres – Pools Plant** **\$38,000**

While these two facilities will only be two years old at June 2001, it has been clearly identified that items of programmed asset maintenance will be necessary at these two facilities. This should extend the life of the plant and equipment overall, but will mean increased annual operating costs to undertake this work.
- **Liquid Waste** **\$440,000**

Increase in biosolids to forests costs due to unforeseen technical difficulties related to

| | |
|---|-----------|
| Biosolid moisture content | \$300,000 |
| Christchurch Wastewater Treatment Plant cost increases due to upgrade work | \$50,000 |
| Templeton WTP decommissioning costs | \$40,000 |
| Increase in Christchurch Wastewater Treatment Plant resource consent monitoring costs due to new consents | \$50,000 |

CAPITAL EXPENDITURE

The capital expenditure programme can be summarised as follows:

| | Draft Budget 2001/02 | Financial Model 2001/02 |
|-------------------------|---------------------------------|------------------------------------|
| Net Capital Expenditure | \$107.55M | \$101.19M |

The capital programme is \$6.36M above the Financial Model projection for 2001/02. While there are a number of adjustments (increases and decreases) to various Unit programmes, the main reasons for the increase are as follows:

- **City Streets** **\$6,480,000**

The total increase above the projections for City Streets is \$6.48M. The Blenheim Road Deviation which was approved in December 2000 (subject to consultation) has added \$5.04M to the original projections. Other significant items contributing to this increase include footpath resurfacing (\$369,402) and carriageway sealing (\$382,500). Both the footpath resurfacing and carriageway sealing reflect higher contract rates which in turn reflects inflation, and diesel and bitumen price increases.
- **New Art Gallery** **\$1,059,000**

\$1.059M was added to the Art Gallery to provide for additional inflation. This was approved by the Council in November 2000 based on the tendered contract prices.
- **Property Management** **\$826,000**

The surplus from property sales has been reduced by \$826,000. This reduction can be attributed to current property market conditions, a reduced number of surplus properties available for sale and increased development costs required to prepare the remaining properties for sale.
- **MIS** **\$569,000**

The capital budgeted for 2001/02 has been increased from \$705,000 to \$1,274,800 for the substantial upgrade which now needs to be made to the network capacities after eight years. The capital in the following year has been reduced from \$990,000 to \$700,000, resulting in a net increase of \$280,000 over two years.

The draft 2001/02 figure includes \$1.31M for unspecified capital expenditure plus an allowance of \$284,950 for Community Board capital projects. All inflation adjustments to the draft 2001/02 programme have been funded from the unspecified inflation provision of \$1.973M which was included in the Financial Model capital projections for 2001/02.

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 (see previous section headed 'Committed Items'). 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 2001/02 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 | \$5.05M |
| - Bids for the Unspecified Capital Sums | \$16.14M |
| - Committed Costs – Operating Budgets | \$9.25M |
| - Committed Costs Approved by Council during the year | \$1.24M |
| - Increased Costs Due to Growth | \$1.61M |
| - Capital Costs Approved by Council during the year | \$8.94M |
| - Efficiency Gains | \$4.05M |

*The totals for the Council as a whole.

The categories as they relate to this Committee are:

- **New Operating Initiatives**

See Schedule 1A (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 or from the unspecified operating sum.

- **Bids for the Unspecified Capital Sums**

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

- **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 2000 Annual Plan was adopted on 6 July 2000.

- **Increased Costs due to Growth**

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

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

Schedule 1F (attached). This represents those capital items which have been approved by the Council since the 2000 Annual Plan was adopted on 6 July 2000.

- **Efficiency Gains**

See Schedule 1G (attached). This schedule highlights all the efficiency gains and cost savings for the City Services Committee Sub Budgets.

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 Sub-committee which met between September and December 2000. At these meetings output funding 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) and rank these in order of priority. While the amount of unspecified funding available is not large (\$850,000 for the Council as a whole) it is important that Standing Committee priorities are known. In addition to ranking new initiatives, Standing Committees should also identify any potential substitutions with which to fund new initiatives. The substitution 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 3 grading:

- 1 - Very important
- 2 - Important
- 3 - Highly desirable

A copy of the Strategic Objectives from the 2000 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 1B). 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 3 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 \$1.315M in 2001/02 and \$2.0M in 2002/03.

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
- 2001/02 Capital Section
- Ten Year Capital Programme
- Fees Schedule

For each output there is a brief description, the objectives for 2001/02 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 1999/00 (where they are available). 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 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.

Where the budget structures have been altered to accommodate the Council's Change Proposal, the comparative figures from 2000/01 have also been altered.

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 (26, 27 and 28 February 2001) and early March (1, 2, 7 and 8 March 2001).

The Working Party 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
- recommend a Draft Strategic Plan to the full Council.

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

| | |
|---------------------------|--|
| 23 March 2001 | Council meeting to adopt a Draft Annual Plan and Draft Strategic Plan |
| 19 April to 21 May 2001 | Public submission period on the Draft Annual Plan and Draft Strategic Plan |
| 19, 20, 21 & 22 June 2001 | Draft Annual Plan and Draft Strategic Plan Hearings |
| 12 July 2001 | Council meeting to adopt the Annual Plan and Strategic Plan |

CENTRAL CITY MAYORAL FORUM

A separate report on a budget for the central city revitalisation will be provided separately for consideration by the Committee on one of the meeting dates.

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.