



**FINANCIAL SUSTAINABILITY WORKING PARTY REPORT
BACK**

1. Purpose of report

The report updates the committee on the work undertaken by the Financial Sustainability Working Party since its first oral report back on 12 June 2012.

It seeks the Committee's agreement for a set of financial sustainability principles, which officers will use to build work programmes and budgets for the draft 2013/14 Annual Plan.

It also outlines a programme of work that officers will undertake over the coming months as a result of the discussions that have taken place at the working party.

2. Executive summary

The Council faces a significant challenge to deliver its current work programme within the parameters of its Financial Strategy. The working party was established to address this challenge and has attempted this significant exercise by looking at possible change on a number of fronts.

Since the last report back to this committee, the working party has met four times and discussed topics including the management of our property portfolio, income generation and service delivery.

Each of these sessions has begun with a discussion on principles that could be applied to achieve greater financial sustainability for Council. These were followed by a discussion on the implications of applying these principles, and potential actions Council could take.

On the basis of these discussion, a set of principles are proposed for use by officers as they develop work programmes and budgets as part of the 2013/14 annual planning process. A programme of initiatives is also proposed for officers to progress as a result of the working party discussions. This includes trialling some initiatives and creating the foundations for other future initiatives to be progressed.

Furthermore, mindful of the potential for change in governance arrangements across the Wellington region, it is proposed that Council undertakes a programme of work to ensure that it is well-prepared for any change.

3. Recommendations

The Financial Sustainability Working Party recommends that the Strategy and Policy Committee:

1. *Receive the information.*
2. *Agree to the principles outlined for the purposes of the work streams identified in the report.*
3. *Agree that;*
 - (a) *Officers will use principles as the basis for preparing work programmes and budgets as part of the 2013/14 annual planning process with the results presented to the Councillor Workshops on the draft 2013/14 Annual Plan.*
 - (b) *Officers will undertake the programme of work outlined in this paper, which has been developed from discussions with the Working Party.*
 - (c) *Officers will undertake a programme of work to ensure Council is well-prepared for any change in regional governance arrangements.*

4. Background

Financial sustainability is defined as the degree to which an organisation collects sufficient revenues to cover the full costs of its activities, evaluated on an opportunity-cost basis.

The 2012-22 Long-Term Plan sets out a ten-year capital and operational work programme for Council, which must be delivered within the parameters of its Financial Strategy. A key component of the Financial Strategy is the rates target. For the 2012/13 financial year, the target equates to the increase of the Local Government Cost Index. The 2013/14 target is the average of the Local Government Cost Index and the Consumer Price Index. From 2014/15 to 2021/22 the target is based on the Consumer Price Index (CPI). It will be set annually with the updated forecast of the relevant indexation for the subsequent year, and will be net of growth in the ratepayer base. To deliver the work programme within the parameters, Council must achieve a mix of increased income and reduced expenditure totalling approximately \$240 million over the ten years of the plan.

Recognising this challenge, the Financial Sustainability Working Party was established in February 2012 to examine the cost pressures facing Council and consider mitigating strategies. Since its first report back to the Strategy and Policy Committee in June this year, it has met four times and focussed on topics such as the management of our property portfolio, income generation and

service delivery. Appendix 1 provides a précis of the discussions that took place at each meeting.

The working party has provided an opportunity for a free and frank discussion about the financial challenges Council is facing. It has also been a forum where new and innovative ideas and responses to these challenges could be discussed.

5. Discussion

As a result of the working party discussions, a set of principles have been developed for officers to use in developing their draft work programmes and budgets as part of the 2013/14 Annual Plan process. The purpose of the principles is to both stimulate innovative thinking, and provide clear guidance around changes that Councillors are open to in terms of the delivery of activities and management of assets.

In addition to this, the working party is proposing a set of principles which will be used by officers and Councillors in reaching final decisions on actions to take as part of the 2013/14 Annual Plan process. It is the view of the working party that Council must be open to changing what it does and how it operates if it is to achieve financial sustainability.

Given this thinking, the presentation of this paper is being accompanied by a presentation from Air New Zealand. The presentation will highlight how that New Zealand organisation addressed financial issues in a way that; had a positive impact on the customer experiences, employed technology, reduced costs and revisited asset management practices.

In addition to this, the working party has been mindful of the potential for change in the governance arrangements for councils across the Wellington region. The potential impact of structural change would be significant with the councils managing their assets differently, operating different service delivery models and providing their activities to differing levels of service.

It is therefore proposed that efforts to ensure financial sustainability focus on the first three years of the current long-term plan i.e. through until 30 June 2015. At the same time, it is proposed that Council undertakes a programme of work to identify the potential impact of change on the delivery of services and identify measures that can be put in place to ensure a smooth transition to a new structure.

5.1 The Principles

The following sections identify proposed principles to guide the development of work programmes and subsequent decision making as part of the 2013/14 Annual Plan process.

5.1.1 Principles for officers to use in planning and budgeting:

These principles will be applied to Council's budgeting for the draft 2013/14 Annual Plan. Business units have been provided with a budget envelope which has been set on the basis of Council's Financial Strategy. Units will build their work programme within the envelope by prioritising their activities in line with

Council's priorities. Any significant changes proposed to levels of services will be presented back to Councillors at the annual plan workshops.

Service Delivery:

1. Council will only undertake activities that it is required to perform by law, or to advance its strategic priorities and;
 - employ the best use of technology in the delivery of services,
 - identify the most efficient and effective model for delivery,
 - identify and work with partners,
 - make changes that increase the customer's experience of the service and public's perception of the value being delivered by the service.

Asset ownership:

2. Assets should only be acquired or retained if it is desirable for Council to own them (including for investment purposes) and / or to deliver on its strategic priorities and;
 - where they are fit for purpose and economically viable,
 - they are maximised through the co-location of other services within them,
 - with divestment decisions and the application of any sale proceeds are determined by Council's financial and community priorities.

Revenue generation:

3. Council will maximise the income generating potential of activities delivered for strategic priorities and associated assets by;
 - proactively marketing services and investigating opportunities for new concession, naming rights, advertising and sponsorship opportunities,
 - providing officers with appropriate flexibility to price and develop services / products in response to opportunities,
 - reviewing existing contracts, leases, concessions and other funding arrangements to ensure Council is optimising these opportunities,
 - investigating alternative vehicles to attract and manage charitable donations and funding for strategic projects.

5.1.2 Principles to guide Council decision making processes:

The working party members have embraced the need for Council to change how it manages its assets and delivers its services if it is to achieve financial sustainability. The following principle relates to how both officers and Councillors should approach the development of proposals and decision making in relation to the draft 2013/14 Annual Plan.

4. Council will demonstrate audacity and leadership in making decisions on future service provision and asset management and
 - engage closely with the public and service users when identifying opportunities and implementing changes,
 - provide communities with a say in the mix of services provided in their local area, the level to which those services are delivered and the funding of those services.

5.2 Financial sustainability through until 30 June 2015:

At each meeting, following the discussion on principles, working party members and officers would then discuss the implications of the principles and opportunities to put them into action. At times, the potential actions discussed challenged Council's current approach to the topics under discussion. However, through the discussions, agreement was reached on those opportunities that officers should progress. The following sections of this report outline the proposed work programme as a result of these meetings and discussions.

5.2.1 Planning and budgeting ahead of the 2013/14 Annual Plan:

Officers have already been issued with a budget envelope to develop their work programmes within. This envelope incorporates the efficiencies that Council is required to make in the first three years of its current long-term plan.

The budget envelope is generally in line with the budget for the current 2012/13 financial year but approximately \$9.5 million less than the budgeted levels of expenditure in 2013/14 and 2014/15. Officers have been instructed to build their programmes for the next two financial years within this envelope, which should mean that no further efficiencies or changes to services will be required to develop the 2014/15 Annual Plan. Officers are also implementing the \$4 million reduction in asset renewal expenditure in the current and subsequent financial years.

By agreeing to the principles above, Councillors will be providing guidance to officers as they;

- a) build their work programme within the envelope by prioritising their activities in line with Council's priorities.
- b) implement the \$4 million reduction in renewals expenditure with appropriate mitigation measures in place including a targeted reactive maintenance. This has already been factored into the 2012-22 Long-Term Plan budget.

Importantly, officers will;

- a) accommodate any new initiatives within the budget envelope, and
- b) review operational and capital programmes in the 2012-22 Long-Term Plan, and recommend areas of expenditure that Council should not pursue in the lead up to any possible change in regional governance arrangements. Recommendations will include expenditure that is not considered to be strategic or in response to an urgent need.

The parameters for, and subsequent impacts of, the above processes will be presented to the working party for discussion. The working party's recommendations will then be presented to the 2013/14 Annual Plan workshops with Councillors.

5.2.2 Initiatives and trials:

Discussion on the principles led to discussions on many initiatives with the potential to reduce expenditure and/ or increase revenue. It was agreed that the working party would support trials for some of the initiatives, namely:

- a) A pilot process to divest a series of road reserve encroachments in a single street is being implemented currently. Officers have wanted to be sure that all internal issues have been resolved before proactively approaching residents. In discussions with business unit across Council, issues have been identified and these need to be worked through before an approach to property owners can be made.
- b) As part of the 'under-performing land project', parcels of unformed legal road across the city have been identified for possible divestment. These are about to be tested with members of the working party for their feedback.
- c) A focussed piece of work in relation to encroachments on Council's reserve land. Ensuring that Council receives appropriate fees for private use of this land should increase the revenue stream from this source. This work is proposed to be completed by 30 June 2013.
- d) A new joint service delivery model for branch libraries and community centres, e.g. joint staffing, will be investigated to contribute to the overall requisite annual plan savings. Brooklyn Library will receive special attention due to the earthquake prone status of the existing library and the need to work with the local community to investigate if services can be provided from a different location. The aim of this approach will be to modify the existing arrangements to provide an enhanced and 'fit for purpose' facility within a community.
- e) The investigation of parking charges for the Botanical Garden and the trialling of the concept of using the income to reinvest into a project (and by doing so reduce the requirement for rates funding) and stimulate more innovative income generation activities there (the jam jar approach). This story and the benefits of that reinvestment will be clearly communicated to users and the wider public. A business case to support this trial will be prepared and presented as part of the draft 2013/14 Annual Plan process.

Each of these trials will be carefully consulted on and evaluated for possible process improvements and to measure the cost-effectiveness of this approach. Future work streams in these areas will be considered based on the learnings from these trials

5.2.3 *Creating the foundations for future initiatives:*

The working party has agreed that officers need to undertake further work to advance some of the initiatives explored in discussions. This work includes:

- a) The Chief Asset Officer leading a programme to improve Council's level of information on the condition of our assets. This will inform our renewals programme in the future.
- b) The development of a marketing and sponsorship strategy which will include guidelines on appropriate advertising practices. This is to be completed by April 2013 and will be informed by discussions around the Engagement Framework which is currently being developed with Councillors.
- c) An investigation into the establishment of a charitable entity that can attract funds for projects related to Council parks and / or recreation activities. This would consider models in place elsewhere, how such a trust would

operate and for what purposes. This work would be completed by 30 June 2013.

5.2.4 Preparing for change in regional governance:

As noted above, it is possible that there will be change in governance arrangements across local authorities in the Wellington region. If this occurred, it will potentially have a significant impact on how the councils involved will operate.

In discussions with Auckland counterparts, officers have been advised to take the opportunity in the lead up to change to begin work on future service delivery models and structures. It was their experience that the transition period was 'all consuming' and did not provide the right environment for proper reflection and planning. It is therefore proposed that, in the lead up to any change in the Wellington region, Council undertakes a programme of activities to ensure it is well-prepared for change. This work will have two streams:

- a) It is proposed that a taskforce is established to undertake the necessary research and thinking to develop a new service delivery model for the new regional entity that Wellington City becomes a part of. This group would draw on the views and expertise of people within and external to this Council. It will gather information about how other councils have made the transition to new arrangements, including how variations in service delivery, revenue streams and assets management have been managed. It will also consider the service delivery models, levels of service and assets management practices currently in place across the region. Drawing on this information it will then develop a proposed structure for the new regional entity and process to ensure a smooth transition. This model will take into account the above principles and financial sustainability imperative underpinning them. It is noted that the taskforce will only be looking at the operational management aspects of a new entity, not the governance arrangements which will be investigated and decided through other processes.
- b) A programme of work will also be undertaken to consider the people requirements of a new regional entity. One of the key advantages of a local authority servicing a larger catchment and population is that it can attract and develop appropriately skilled officers, particularly to deliver its specialised functions such as planning and consent processing. In parallel with the work of the taskforce above, a programme will be put in place to ensure the new entity has access to appropriate skilled staff to perform such specialised functions.

5.3 Consultation and Engagement

In keeping with the principles outlined above, Council will engage closely with the public and service users when identifying opportunities and implementing changes.

Examples of planned activities in this area include:

- a) The principles will be tested with Council's reference groups as part of the annual planning process. Their thoughts on our proposed initiatives / trials could be sought as well as eliciting their own.
- b) Each trial should have a robust engagement and evaluation plan attached to it.
- c) Appropriate external people will be invited to provide input into the work of the taskforce developing the service delivery model for the new regional entity.

5.4 Financial considerations

The purpose of this paper is to increase the financial sustainability of the Council's work programme over the period of the current long-term plan.

5.5 Climate change impacts and considerations

There are no immediate climate change impacts or considerations associated with this paper.

5.6 Long-term plan considerations

The work programme for this paper will impact on the current long-term plan. Variations to the long-term plan that result from the work undertaken from this paper will be communicated back to Councillors.

6. Conclusion

The working party has met to examine the cost pressures facing Council and consider mitigating strategies. It has discussed issues at a 'principles level' and then recommended potential actions that can be pursued by Council to reduce costs or increase income.

The working party has provided a forum for Councillors to discuss issues and reach a consensus on actions to be pursued in the short and medium term. In the longer term however, a strategy needs to be put in place to ensure any change in regional governance structures reflects the principles discussed by the working party and ensures that entity's financial sustainability for the benefit of communities across the region.

Working Party members:

Mayor Wade-Brown, Chair
Deputy Mayor McKinnon
Councillor Coughlan
Councillor Eagle
Councillor Foster
Councillor Lester

Contact Officer: Martin Rodgers, Manager - Research & Development

SUPPORTING INFORMATION

1) Strategic fit / Strategic outcome

This paper seeks to align Council's operational and capital programmes with its Financial Strategy.

2) LTP/Annual Plan reference and long term financial impact

Decisions made in relation to this paper will support the development of the draft 2013/14 Annual Plan.

3) Treaty of Waitangi considerations

This paper has no Treaty of Waitangi considerations.

4) Decision-making

Decisions made in relation to this paper will inform future decision making in relation to Council's draft 2013/14 Annual Plan.

5) Consultation

a) General consultation

The public will be consulted on projects that are agreed as a result of this paper.

b) Consultation with Maori

Mana whenua will be consulted on relevant projects that result from this paper.

6) Legal implications

There are no legal implications from this paper.

7) Consistency with existing policy

This paper is consistent with exiting policies.

Précis of working party meetings since oral report back in June 2012:

Meeting 5: Thursday 9 August 2012 Duration: 2 hours

Attendees:

Mayor Wade-Brown	Garry Poole
Councillor Coughlan	Danny McComb (Acting Chief Financial Officer)
Councillor Eagle	Martin Read
Councillor Foster	Martin Rodgers
Councillor Lester	

Apologies:

Councillor McKinnon

Topic: Our Financial Position and the Working Party's Forward Programme

Danny McComb made a presentation noting that efficiencies of \$240 million are factored into the 10 year budget of the long-term plan. Of these, \$120 million have been accounted for through the actions previously presented to the working party including the reorganisation, growth in investment returns and savings made in the long-term plan. However \$120 million are yet to be found. Growth will be part of the solution but even projecting optimistic levels of growth (2.5%), the target is high (\$96 million). This will require Council to work on multiple fronts.

Danny McComb discussed the circle diagram below noting that:

- Property would be the next topic to be discussed at the working party
- Increasing revenue would be the following topic
- He noted other elements of the forward programme that were linked to this diagram

The Chief Executive summarised the presentation saying that this was the story of why we need to act now. We can get a certain amount of savings from efficiencies but other decisions (changes in levels of service, divestment etc.) are political decisions that need to be made.



Diagram 1: Areas of focus to achieve financial sustainability

Working party comments and discussion included:

- In terms of achieving on-going efficiencies, we need to include CCOs. They need to hear the same message and receive the same treatment.
- Some other key drivers could also be benchmarked as points of comparison.
- Council's future ability to do things is dependent on making changes now.
- The importance of what and how we communicate the importance of change externally.
- The impact of potential changes in regional governance needs to be considered.
- The relationship between this programme and the forward policy programme was important and that the focus should stay on the key issues and areas of significant impact.

The forward programme was agreed and its purpose would be to:

- Test ideas with the group to get a steer on areas for officers to do more work.
- Present a mix of small and larger options for change.

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Meeting 6: Friday 14 September 2012 Duration: 2 hours

Attendees:

Mayor Wade-Brown	Garry Poole
Councillor McKinnon	Danny McComb (Acting Chief Financial Officer)
Councillor Eagle	Derek Fry
Councillor Foster	Greg Orchard
Councillor Lester	Peter Brennan
Martin Read	Martin Rodgers

Apologies:

Councillor Coughlan

Topic: Council's Property Portfolio

Greg Orchard presented information on Council's current property portfolio and proposed principles in relation to it. These were:

- Assets should only be acquired or retained if they align with Council's strategic purpose.
- Assets should be fit for purpose and economically viable.
- Asset divestment decisions and the application of any sale proceeds are determined by Council's financial and community priorities.

In response to the principles, working party suggested some others could be added including:

- Engaging communities in decision making on property issues.
- Identifying alternative non-Council assets in the vicinity that could provide for the service.
- Maximising utilisation of community assets whether they are owned by Council or others.

Greg Orchard then talked through a number of options that Council could consider given the principles in the paper.

Working party comments and discussion included:

- Whether a proactive approach could be taken to identify strips of land that would not be needed and proactively try to sell these.
- Council could trial a proactive approach to sell a strip of encroachment land across a number of properties.
- Council should develop a grand plan around groups of assets (e.g. recreation spaces, theatres etc.) then engage with the community on this
- Not all Council staff needed to be based at the Civic Campus and cheaper accommodation options existed outside the campus.
- Whether there are options to do something over roads; i.e. build shops over roads, on the sides of bridges etc.

It was agreed that officers would:

- Look at opportunities to proactively divest strips of encroachment land.
- Identify other parcels of land for divestment and discuss these with individual members of the working party.

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- Do more work on some of the ideas discussed and come back to the working party with options in advance of decision making on the draft annual plan.

Meeting 7: Friday 28 September 2012 Duration: 2 hours

Attendees:

Mayor Wade-Brown	Garry Poole
Councillor McKinnon	Peter Garty
Councillor Eagle	Derek Fry
Councillor Foster	Julian Todd
Councillor Lester	Martin Read
Martin Rodgers	

Apologies:

Councillor Coughlan

Topic: Income Generation

Mayor Wade-Brown noted that the purpose of this session was not to re-litigate the work of FAR. However, it may inform thinking in the lead up to the next Annual Plan.

Derek Fry made a presentation covering the proposed principles in the area of income generation including:

- Council will only undertake activities that it is required to perform by law, or to advance its strategic priorities.
- Council will maximise the income generating potential of activities delivered for strategic priorities.
- Council will maximise the income generating potential of the assets it owns.
- Council will maintain clear guidelines to inform officers' decision making around income generation activities.
- Council will engage closely with the public and service users when identifying opportunities and implementing changes.

Then Julian Todd made a presentation based on his experiences of attending the Revenue Development and Management School run by the North Carolina State University and the National Recreation and Parks Association of America.

Working party comments and discussion included:

- Support for officers to pursue the opportunities identified.
- Some concern around pursuing donation gathering foundations given New Zealand does not have the same giving culture as in the United States.
- A question around how willing Council would be to empower communities to take up the potential opportunities.
- The need for stronger internal capacity in the marketing area.
- Support for challenging the attitude that Council should not compete with its ratepayers.
- Support for initiatives that give the users a better experience in our facilities.
- A view that volunteering is a contribution or sponsorship in-kind.
- Support for the idea of pilots as a way to trial ideas.

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- Support for the idea of getting principles and policies right.
- Agreement that Council could make a better example of the Plimmer Bequest as a role model for private giving to the city.

Actions to be progressed by Officers:

1. The working party supported officers doing more work on the potential initiatives canvassed.

Subsequently, officers have undertaken to:

- Research the issue of ethical advertising guidelines and develop a draft approach for Council.
- Research the potential for increasing revenue from advertising on Council sites.
- Revisit the proposal to charge for parking at the Botanic Garden with a view to implementing the principles outlined in the paper.
- Further investigate how other councils have worked with private sector entities to undertake fund-raising activities including securing naming rights for buildings.

Please note the meeting scheduled for 19 October was rescheduled due to participants not being available.

Meeting 8: Friday 2 November 2012 Duration: 2 hours

Attendees:

Mayor Wade-Brown	Garry Poole
Councillor McKinnon	Peter Garty
Councillor Coughlan	Derek Fry
Martin Rodgers	Jane Hill
Haydn Read	Martin Read

Apologies:

Councillor Eagle
Councillor Foster
Councillor Lester

Topic: Service Delivery

The Mayor introduced the session noting that the work of the group should have shorter and longer term horizons. She is keen to hear what the public had to say about saving money during the long-term plan process and since.

Derek Fry noted that Air New Zealand is very keen to present and sent their apologies for not being able to make this session.

The Chief Executive highlighted that Council is facing a once in a lifetime opportunity with the likely regional governance changes ahead. We have the opportunity to think about and design a model for how the delivery of services could be different across the region in the lead up to any change.

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Derek ran through the paper focussing on the drivers for change and the principles which included:

- Council will choose the most appropriate option for the delivery of a service.
- Where appropriate and possible, services will be clustered together and / or delivered from a single site.
- For some services, Council will strive to provide a consistent level of service across its territorial boundaries.
- For some services, communities will have a say in the mix of services provided in their local area and the level to which those services are delivered.

In response to the principles working party members:

- Said we should add a sense of audacity and leadership.
- Wanted to see a principle connected with technology for example, 'service delivery changes should be driven by technology, effective, efficient, appeal to consumers and save us money'.
- Thought there should be a principle about adding to or enhancing a service.
- Said there should be a principle around not duplicating facilities.

Derek introduced Jane Hill who said that:

- There were opportunities to do things differently, for example on-line payments.
- Libraries are increasingly becoming centres for community activity and that we are getting a good response to the innovative things we are doing.
- There is also scope to involve the community more in how some things are run, potentially through providing a grant.
- There is the potential to run things across different community spaces (libraries, community centres and halls).

Working party comments and discussion included:

- A suggestion that we do not necessarily need to own every asset. Some could be placed in community ownership and that this could reduce Council's costs.
- We should also look to locate our services in other people's spaces.
- We need to look at how we change and modify those centres rather than talk about closing them.
- A suggestion that access to libraries at schools and other non-Council institutions could be facilitated.
- We need to stand firm on decisions and move into areas of uncomfortable decisions.
- The City needs to be genuine in its desire to meet the needs of communities.
- We need to look for bigger wins in areas like footpaths and roading where we could stop upgrades as a way to make savings.

The Chief Executive said that the big issue here is around regional change. He noted that the level of our assets is higher. We need to make decisions in relation to potential change. To a degree we should adopt a holding pattern while still undertaking priority work and not allowing our assets to run down.

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We should focus our efforts on planning and budgeting smartly (to meet the targets in our Financial Strategy) through to the point of change. At the same time, we should prepare for change by building a picture of the best model for delivering service across the region when change comes.