



I hereby give notice that an ordinary meeting of the Budget Committee will be held on:

Date: Thursday, 14 August 2014
Time: 2.30 pm
Meeting Room: Reception Lounge
Venue: Auckland Town Hall
301-305 Queen Street
Auckland

Budget Committee OPEN AGENDA

MEMBERSHIP

Chairperson	Mayor Len Brown, JP	
Deputy Chairperson	Cr Penny Webster	
Members	Cr Anae Arthur Anae	Cr Calum Penrose
	Cr Cameron Brewer	Cr Dick Quax
	Cr Dr Cathy Casey	Cr Sharon Stewart, QSM
	Cr Bill Cashmore	Member David Tai pari
	Cr Ross Clow	Member John Tamihere
	Cr Linda Cooper, JP	Cr Sir John Walker, KNZM, CBE
	Cr Chris Darby	Cr Wayne Walker
	Cr Alf Filipaina	Cr John Watson
	Cr Hon Christine Fletcher, QSO	Cr George Wood, CNZM
	Cr Penny Hulse	
	Cr Denise Krum	
	Cr Mike Lee	

(Quorum 11 members)

Mike Giddey
Democracy Advisor

8 August 2014

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TERMS OF REFERENCE

Responsibilities

Development of the Long Term Plan and Annual Plans under the chairmanship of the Mayor who leads these processes including:

- Local Board agreements
- Local Board Funding Policy
- Financial Policy related to LTP and AP (recommendation to the Governing Body)
- Setting of rates (recommendation to the Governing Body)
- Draft LTP and Annual Plan prior to community consultation
- Development contributions policy

Powers

(i) All powers necessary to perform the committee's responsibilities.

Except:

- (a) powers that the Governing Body cannot delegate or has retained to itself (see Governing Body responsibilities)
 - (b) where the committee's responsibility is explicitly limited to making a recommendation only
- (ii) Approval of a submission to an external body
- (iii) Powers belonging to another committee, where it is necessary to make a decision prior to the next meeting of that other committee.
- (iv) Power to establish subcommittees.
- (v) Power to establish panels for the purpose of hearing submissions.

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1 Apologies

Apologies from Cr AM Filipaina and Cr LA Cooper have been received.

2 Declaration of Interest

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

3 Confirmation of Minutes

That the Budget Committee:

- a) confirm the ordinary minutes of its meeting, held on Monday, 26 May 2014, as a true and correct record.

4 Petitions

At the close of the agenda no requests to present petitions had been received.

5 Public Input

Standing Order 3.21 provides for Public Input. Applications to speak must be made to the Committee Secretary, in writing, no later than **two (2)** working days prior to the meeting and must include the subject matter. The meeting Chairperson has the discretion to decline any application that does not meet the requirements of Standing Orders. A maximum of **thirty (30) minutes** is allocated to the period for public input with **five (5)** minutes speaking time for each speaker.

At the close of the agenda no requests for public input had been received.

6 Local Board Input

Standing Order 3.22 provides for Local Board Input. The Chairperson (or nominee of that Chairperson) is entitled to speak for up to **five (5)** minutes during this time. The Chairperson of the Local Board (or nominee of that Chairperson) shall wherever practical, give **two (2)** days notice of their wish to speak. The meeting Chairperson has the discretion to decline any application that does not meet the requirements of Standing Orders.

This right is in addition to the right under Standing Order 3.9.14 to speak to matters on the agenda.

At the close of the agenda no requests for local board input had been received.

7 Extraordinary Business

Section 46A(7) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

“An item that is not on the agenda for a meeting may be dealt with at that meeting if-

- (a) The local authority by resolution so decides; and
- (b) The presiding member explains at the meeting, at a time when it is open to the

public,-

- (i) The reason why the item is not on the agenda; and
- (ii) The reason why the discussion of the item cannot be delayed until a subsequent meeting.”

Section 46A(7A) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

“Where an item is not on the agenda for a meeting,-

- (a) That item may be discussed at that meeting if-
 - (i) That item is a minor matter relating to the general business of the local authority; and
 - (ii) the presiding member explains at the beginning of the meeting, at a time when it is open to the public, that the item will be discussed at the meeting; but
- (b) no resolution, decision or recommendation may be made in respect of that item except to refer that item to a subsequent meeting of the local authority for further discussion.”

8 Notices of Motion

At the close of the agenda no requests for notices of motion had been received.

Adoption of amendment to the Local Boards Funding Policy

File No.: CP2014/17246

Purpose

1. To recommend to the Governing Body that it adopt the amendment to the Local boards funding policy.

Executive summary

2. The Local boards funding policy (LBFP) sets out how local activities are to be funded (the split between rates and fees and charges) and who should pay where rates are used. Local boards and the Governing Body each have different roles in decision making for local activities. The review of the LBFP has sought better alignment between funding decisions and decisions on levels of service.
3. On 26 May, the Budget Committee adopted a statement of proposal to amend the LBFP. Key elements of the proposal were:
 - separating local activities into two parts:
 - local asset based services (eg: swimming pools and parks) where the Governing Body sets the base service level
 - locally driven initiatives (eg: events and community programmes) where local boards have full decision making control
 - continuing to fund the local asset based services from general rates for assets located in each local board area
 - continuing to fund locally driven initiatives from general rates and allocating budget to each local board using a formula (90 percent population, 5 percent deprivation and 5 percent geography)
 - funding agreements negotiated annually for Great Barrier Island and Waiheke local boards
 - transition:
 - for boards below their share under the formula the budget for locally driven initiatives will be increased in equal steps over three years to meet the formula
 - for boards above their share the budget for locally driven initiatives will be held at the current absolute level until formula allocation catches up.
4. Only 14 submissions were received during the consultation period which ran from 9 June to 9 July. Of these, two submitters spoke in support of their submission at the public hearing on 30 July. On the whole, submitters were supportive of the proposed amendments and no new issues were raised. The hearings panel did not recommend any changes to the proposal.
5. Of the 14 submitters, 10 agreed with the proposal to fund asset based services from general rates.
6. There was more mixed support for the proposal to fund locally driven initiatives from general rate. A majority of seven submitters agreed with the proposal while five disagreed.
7. Similarly, a majority of seven submitters agreed population should have the highest weighting in an allocation formula. While there was more mixed support for the weighting of deprivation and geography (land area), most agreed that they should not be given a high weighting. Only two submitters indicated deprivation should have a high weighting, and three indicated geography should have a high weighting.
8. The majority of eight submitters support the proposal for Great Barrier Island Local Board and Waiheke Local Board to have separate funding that is agreed with the Governing Body each year. Four submitters disagreed.

9. Staff recommend the adoption of the proposed amendment to the LBFP (appendix A).

Recommendation/s

That the Budget Committee:

- a) recommend to the Governing Body that it adopt the amendment to the Local Boards Funding Policy.

Comments

Background

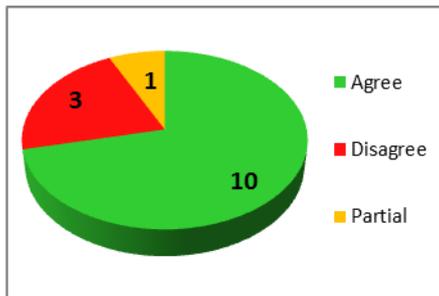
10. The Local boards funding policy (LBFP) sets out how local activities are to be funded (the split between rates and fees and charges) and who should pay where rates are used. Decisions on service levels and how much funding is available are made when budgets are prepared each year.
11. The review of the LBFP has sought better alignment between funding decisions and decisions on levels of service and equity in funding for local boards. This has resulted in a proposal with separate funding mechanisms for:
- local asset based services such as those associated with parks, swimming pools and community facilities where the Governing Body makes decisions on the location, nature and number of local assets and matches this with funding (general rates)
 - locally driven initiatives, where local boards undertake activities for the benefit of their local communities, and control decisions on who gets funding and the services and service levels to be delivered (general rates allocated by formula).
12. This report summarises feedback received from consultation on the mechanisms proposed to fund these two groups of local activities.
13. Under the proposed policy, local boards can continue to advocate to the Governing Body for local targeted rates as a source of revenue to fund local activities. The Governing Body makes the final decision as legislation requires that only the Governing Body can set a rate.
14. Local boards have been allocated decision making to set local fees and charges. Under the proposal, local boards retain the benefit/bear the cost of any change in fees as a result of their decision making.
15. Local boards have also been allocated decision making for some capital expenditure. Under the proposal, local boards will be allocated budget for capital expenditure if local boards can meet the consequential operating costs from their locally driven initiatives budget.

Funding local asset based services

16. The amendment proposed continuing to fund, from the general rate, the local asset based services, such as swimming pools and parks, that are located in each local board area. Local boards have an advocacy role in decisions on local asset based services and make decisions within parameters set by the Governing Body.

Submissions

17. The majority of submitters (10) agreed with the proposal to fund from general rates the local asset based services that are located in each local board area.



Conclusion

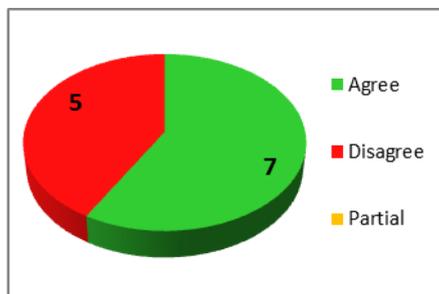
18. The key issue for funding local asset based services is that alternative funding options would result in budget or equity issues for some local boards. No new issues were raised from the consultation.
19. The majority of local boards agree that they should continue to be funded from general rates for the local asset based services that are located in their local board area.

Funding locally driven initiatives from general rates

20. The amendment proposed continuing to fund locally driven initiatives, such as events and community programmes, from general rates. These are services where local boards have full decision making control. The proposal also contained alternate options that were considered and rejected. These were using local targeted rates or a combination of general rates and local targeted rates.

Submissions

21. Of the 12 submitters who responded to this part of the proposal, seven submitters agreed that locally driven initiatives should be funded from general rates while five disagreed. While this is mixed support, the majority support the proposal.
22. No other funding mechanisms were suggested by submitters.



Conclusion

23. The focus of the proposal was how to fund locally driven initiatives. The key issue when determining the funding method is whether the Governing Body or local boards should make decisions on the level expenditure and rates. The status quo is not fair in any dimension (except in so far as no change to budgets is required) in terms of how funding is distributed to local boards as there is no connection to any measure of equity, e.g. population, and the funding provided.
24. Under the general rates allocation option the Governing Body makes decisions on the level of expenditure and how the expenditure is funded. Local boards can only advocate for increases in the budget and changes to the formula used to allocate budget to the local boards. Under the local rate option each local board effectively makes decisions on the level of expenditure it needs.
25. The local rate provides the best alignment between expenditure and funding decisions. The general rates allocation option is best for affordability as it doesn't change the incidence of rates.

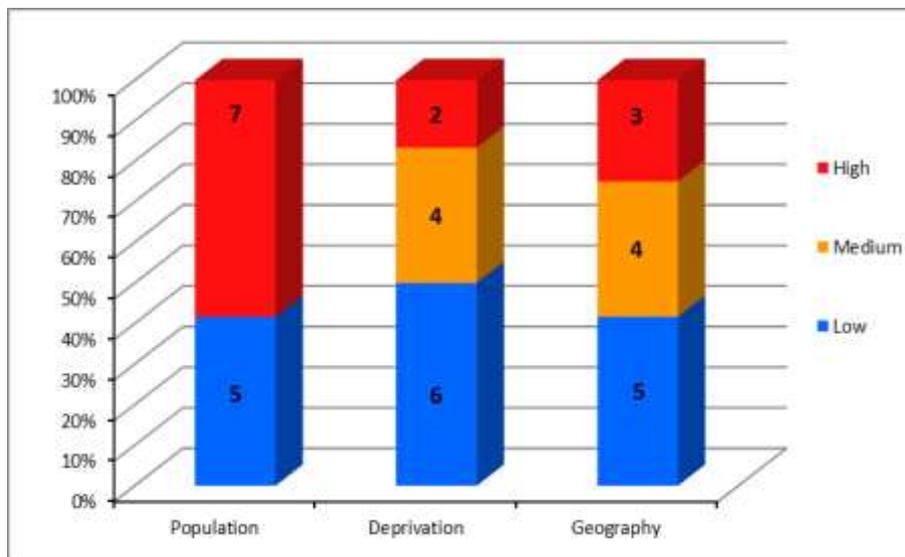
26. The majority of local boards agreed that locally driven initiatives should be funded from general rates.

Locally driven initiative budget allocation options

27. The amendment proposed allocating locally driven initiatives budget to each local board using a formula that uses each local board's share of population (90 percent), deprivation (5 percent) and land area (5 percent).

Submissions

28. Of the 12 submitters who responded to this part of the proposal, population was relatively polarising with seven submitters indicating it should have a high weighting, while the other five indicated it should have a low weighting. As such, the majority of submitters agreed population should have the highest weighting.
29. While there was mixed support for the weightings used for deprivation and geography (land area), most agreed that they should not be given a high weighting. Only two submitters indicated deprivation should have a high weighting, and three submitters indicated geography should have a high weighting.
30. No additional factors for use in an allocation formula were suggested by submitters.



Conclusion

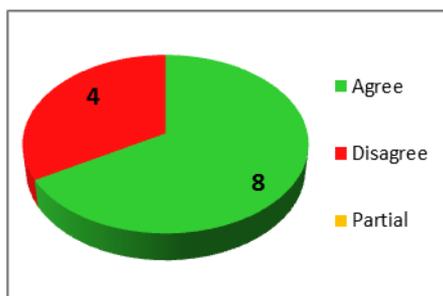
31. Population size has a strong relationship to cost of services and should be a key consideration in an allocation formula. However, there is no objective evidence to inform the relationship between budget requirements and attributes like deprivation and geography. Defining the factors to be used in a funding formula is therefore subjective. Using geography in the allocation formula as this has a high distortion impact on the end allocation.
32. Local boards agreed that population should be the primary factor in any allocation formula. However there were mixed views on what and how any others factors should be included.

Separate funding agreements for Great Barrier Island and Waiheke local boards

33. The amendment proposed funding agreements to be negotiated annually for Great Barrier Island and Waiheke local boards.

Submissions

34. Of the 12 submitters who responded to this part of the proposal, eight submitters agreed that there should be separate funding agreements for Great Barrier Island and Waiheke local boards, while four disagreed.



Conclusion

35. Great Barrier Island local activities should be funded from general rates based on the level agreed with the Governing Body. Funding locally driven initiatives for Great Barrier Island from local rates would not be affordable. Waiheke Island is also an outlier in terms of impact under the policy options, although not to the same degree.
36. The majority of local boards recognised that population based formulas are unlikely to work for Great Barrier Island and Waiheke local boards.

Transition

37. The amendment proposed to transition budget allocation for locally driven initiatives over time. The proposed transition process is split into two stages, the first stage covers the three years up to 2017/2018 and is outlined in the table below.

Local boards funded less than their allocation under the formula	Local boards funded above their allocation under the formula
Locally driven initiatives budget will be increased in equal steps so that the local board is funded to the level of the allocation formula after 3 years	Locally driven initiatives budget will be held at its current absolute level (no increases for inflation)

38. The second stage is outlined in the table below and covers from 2018/2019 onwards.

Local boards funded to the level of the allocation formula	Local boards funded above their allocation under the formula
Increases in the total budget for locally driven initiatives budget will be applied as per the formula	Locally driven initiatives budget will be held at its current absolute level (no increases for inflation) until it is exceeded by the allocation under the formula

39. Only one submitter commented on the transition process, suggesting that the first stage happen over two years instead of three.

Consideration

Local board views and implications

40. A strategic issue for local boards is the share of budget allocated for local activities. Local boards note that the locally driven initiatives budget accounts for one per cent of total operating costs, and asset based services account for ten per cent of council's total operating costs. Local boards have recommended that further work be undertaken to:
 - determine whether 11 per cent of Auckland Council's budget is an appropriate share for local activities
 - determine the appropriate amount of budget for local boards to successfully deliver upon their role noting that the current allocation is based on a cut of legacy council budgets and was determined at a time when little was understood about the local board role

- determine whether more activities and the corresponding funding should sit in the locally driven initiatives category
 - identify programme budgets to move to local board budgets as current local budgets are dominated by overhead costs with little funding for programmes
 - investigate programme budgets held by the Community Development, Arts and Culture department, in particular, given the key role for local boards in community development
 - investigate and improve the methodology of allocating overheads across the local boards as different approaches are used across activities.
41. The Governing Body will consider these issues in development of the long-term plan. The long-term plan will include setting expenditure and service levels for local activities and it will also include a review of the:
- allocation of activities between regional and local
 - allocation of decision making for local activities
 - method for allocating overheads, including those for local activities.

Maori impact statement

42. Maori could be impacted by the proposed amendment to the Local Boards Funding Policy as the level of locally driven initiative budget available to each local board changes. Maori may benefit from a funding formula that has greater emphasis on deprivation, based on 2013 census data, as this will provide more funding to local boards with higher Maori populations. How Maori are impacted would depend on how the local boards choose to use their locally driven initiatives budget.

Implementation

43. There are no implementation issues associated with the recommendations in this report.

Attachments

No.	Title	Page
A	Amendment to the Local Boards Funding Policy	13

Signatories

Authors	Aaron Matich - Principal Advisor Andrew Duncan - Manager Financial Policy
Authorisers	Matthew Walker - Manager Financial Plan Policy and Budgeting Andrew McKenzie - Chief Finance Officer



Amendment to the Local Boards Funding Policy

The following sections will replace sections 1 to 4¹ of Chapter 10 of the Long-term Plan 2012-2022, Local boards funding policy.

1. Purpose/Introduction

The Local boards funding policy sets out how local boards are funded to meet the costs of:

- providing local activities
- administration support.

The amendments to the policy will come into effect from 1 July 2015 and do not change how administration support is funded.

2. Background

Auckland Council's 21 local boards have decision making responsibility for local activities. The full list of local activities is set out in the Allocation of decision making in the long-term plan.

They include amongst others:

- local recreation services eg: swimming pools
- local libraries
- local parks
- local events
- local community development.

This amendment splits funding for local activities into two parts based on the nature of the service provided and the allocation of decision making between the Governing Body and local boards. The two classifications of activities are set out in the table below.

Nature of service	Local board decision making role	Examples of activities
Asset based services	Make decisions on service details within parameters set by the Governing Body	Swimming pools Libraries Local parks
Locally driven initiatives	Make decisions on how locally driven initiative funding allocated from Governing Body is spent	Local events Local community grants

Local boards have decision making responsibility for fees and charges for both asset based services and locally driven initiatives within any parameters set by the Governing Body. For

¹ Except for Section 4 with respect to Funding allocation for administrative support, Funding allocation for non-dedicated purposes and Funding sources for funds allocated for local activities.

example, local boards can set the fees for adult entry to swimming pools but may not charge for the entry of children, under 16.

How local asset based services, locally driven initiatives and administration support, will be funded is set out below.

3. Funding for local asset based services

Local asset based services will be funded by:

1. fees and charges collected from local asset based services for base fee levels set by the Governing Body
2. plus any other revenue including grants, donations, and sponsorships
3. plus any revenue from a targeted rate set to fund local asset based services
4. plus general rate funding to meet the balance of costs for providing the services levels set by the Governing Body in the long-term plan for local asset based services being provided to each local board area.

4. Funding for locally driven initiatives

4.1. Funding sources

The amount of budget available to each local board for locally driven initiatives is determined by:

1. fees and charges collected from locally driven initiatives
2. plus revenue from fees and charges for local asset based services in excess of that projected by the Governing Body where the local boards sets higher fees, (see section 3 above)
3. minus revenue from fees and charges for local asset based services below that projected by the Governing Body where the local boards sets lower fees, (see section 3 above)
4. plus any revenue from grants, donations, and sponsorships
5. plus any revenue from a targeted rate set to fund local activities in the local board area
6. plus an allocation from a budget pool for locally driven initiatives funded from the general rate.

4.2. Level of total budget available for locally driven initiatives

The total general rates funded budget available for locally driven initiatives will be set by the Governing Body and will be identified in the long-term plan or annual plan.

4.3. Allocation of total budget pool

Each local board will be allocated a share of the total budget available after deducting the funding for the Great Barrier Island Local Board and the Waiheke Island Local Board, see section 5 below. Each local board's share of the budget will be equivalent to its share of the regional population adjusted for deprivation² and land area, excluding Great Barrier Island and Waiheke Island. This is set out in the table on the next page.

² Population will be adjusted annually based on revised estimates from Statistics New Zealand.

Factor	Proportion of total general rate funded locally driven initiative budget	Local board share
Population*	90%	Local board population divided by the total population of all local boards***
Deprivation**	5%	Average local board deprivation divided by the total of the average deprivation of each local board***
Land area	5%	Local board land area divided by the total land area of all local boards***

* adjusted each year to reflect changes in population estimates provided by Statistics New Zealand

** based on the most recently available update of the Index of Deprivation provided by the Ministry of Health

*** excluding Great Barrier Island Local Board and Waiheke Local Board

5. Funding for Great Barrier Island Local Board and Waiheke Island Local Board

The amount of budget available for locally driven initiatives on Great Barrier Island and Waiheke Island is determined by:

1. fees and charges collected from locally driven initiatives
2. plus revenue from fees and charges for local asset based services in excess of that projected by the Governing Body where the local boards sets higher fees, (see section 3 above)
3. minus revenue from fees and charges for local asset based services below that projected by the Governing Body where the local boards sets lower fees, (see section 3 above)
4. plus any revenue from grants, donations, and sponsorships
5. plus any revenue collected from targeted rates set to fund local activities
6. plus a general rates allocation

General rates funding will be provided to meet the balance of the costs of providing locally driven initiatives on Great Barrier Island and the Waiheke Island. This will be based on the expenditure on these activities agreed with the Governing Body in their local board agreements each year net of revenue generated from the items in 1 to 5 above.

6. Transition

The table below sets out the transition mechanism that will be applied each of the three years from 2015/2016.

Local boards funded less than their allocation under the formula	Local boards funded above their allocation under the formula
Locally driven initiatives budget will be increased in equal steps so that the local board is funded to the level of the allocation formula after 3 years	Locally driven initiatives budget will be held at its current absolute level (no increases for inflation)

The table below sets out the transition mechanism that will be applied from 2018/2019 onwards.

Local boards funded to the level of the allocation formula	Local boards funded above their allocation under the formula
Increases in the total budget for locally driven initiatives budget will be applied as per the formula	Locally driven initiatives budget will be held at its current absolute level (no increases for inflation) until it is exceeded by the allocation under the formula

7. Definition of local asset based services and locally driven initiatives

The Governing Body, after considering local board feedback, will determine which services are local asset based services and locally driven initiatives when the total budget for local activities is set.