

Governance framework review: Funding and finance workstream

Purpose

1. The purpose of this paper is to report back to the political working party on the further work that has been done on financial decision making options in light of the last political working party (PWP) workshop, the governing body workshop and formal feedback from local boards.

Background

2. The Funding and Finance workstream has been working through a series of options for delivering increased financial decision making for local boards. Over the last few months discussions with the PWP have narrowed the focus of those options. In addition workshops with local boards and the governing body, and more recently the resolutions of the local board business meetings have given greater clarity to the political direction.
3. The majority of local boards support moving to the “enhanced status quo” model immediately. They also support providing additional decision making to allow local boards to increase or decrease service levels on Asset Based Services (ABS) budgets - as long as this is cost neutral. This option has been recommended by several local boards to be named “Local decision making within a funding envelope”.
4. These local boards also, by majority, support continuing the investigation of local rates as a funding mechanism for the future. A few local boards support moving to the “Local decision making within parameters” (local rate funded) option and have flagged that should this not proceed, that a pilot of local rates/local decision making be considered.
5. The options that are effectively under consideration now are:
 - No change
 - Option 1 - Enhanced status quo (original model)
 - Option 2 - Local decision making within parameters (original model but suggest renaming this to “Local decision making with local rates” to distinguish from option 3 below)
 - Option 3 - Local decision making within a funding envelope (general rate funded) – this option has emerged from the recommendations of the local boards. It is Option 2 with the addition of full flexibility of decision making within a funding envelope for ABS (asset based services) budgets.
6. Each of these options has some elements of change in common and others that are quite different. In order to make recommendations to the governing body, the PWP needs to determine their support for the potential changes in approach in each area of decision making. Overall this will give a package of changes that align with one of the potential options.

7. This report sets out the key issues for each of the potential change areas so that the PWP can determine its recommendations to the governing body.

Analysis

Disposal and reinvestment of local assets (optimisation of service assets policy)

8. The “optimisation of service assets” policy was adopted in 2015. There has been no disagreement during the discussions to date that this policy should continue. It has also been proposed in previous discussion papers that, providing all policy parameters are met, the final decision on disposal and reinvestment could lie with local boards rather than being recommended back to the governing body for their approval. No issues have been raised with this proposal to date.
9. The key issue with enabling this policy to become more effective than it has been for the past two years is a commitment to provide adequate, proactive and specialist advice to local boards on how this policy could be implemented within their area.
10. The recommendations at the end of this report capture both of these issues.

Flexibility of renewals funding

11. All options include the proposal to give local boards the flexibility to reprioritise the allocated funding for renewals of local assets within the total amount that is allocated to each local board i.e. a bulk funding approach.
12. The governing body would still be responsible for allocating the total amount of funding available to renewals of local assets through the LTP and Annual Plan budget process. The amount available would then be allocated to each local board, as it is now, based on asset condition – with assets most in need, receiving the available funding. An indicative three year programme would be presented to each local board for decision, but only year 1 would be fully committed. (Committing for only one year provides for the situation where ongoing improvement of asset data may result in some re-prioritisation during the annual allocation process).
13. The local board would then have the ability to work with staff advisors to re-allocate, within the annual funding envelope.

Implications of the change

14. The existing approach for renewals treats assets on a network basis. The advantages of this approach are:
 - a. If a local board advises that an asset is low priority for renewal then the funding is moved to the next asset most needing renewal, regardless of where that asset is located. It could be argued that this is a more efficient use of scarce funding.
 - b. Where the budgeted costs of renewal are either under or over the actual cost, then the network approach enables these “unders and overs” to be offset against each other across the network. This also enables an efficient use of the available funding.

- c. Having a large centralised fund enables emergency health and safety issues that may not have been identified before budgets were set, to be addressed promptly.
 - d. There is more flexibility in work programming when using the network approach with a high degree of delegation to staff. If there is hold up with one renewal then the resources can be applied to another without seeking governance decisions.
15. Moving to a local board bulk funded approach will diminish the efficiencies outlined above but will enable local boards to utilise their local knowledge to prioritise the available funding. When considering the asset condition alongside the effectiveness of the services delivered by that asset, local boards will be in a position to make decisions (in accordance with their governance role) on whether the continued investment of renewal funding in an asset is worthwhile and this could potentially lead to disposal and reinvestment decisions.
16. However, the move to a bulk funded approach does introduce some practical implications and the following points should be noted:
- Any over or under expenditure on renewals would need to be managed within the local board funding envelope. This would mean that where there is an underspend a local board would be able to apply that funding to another asset renewal, but on the other hand where there is insufficient budget the difference would need to be made up from within the local board's funding envelope by reducing renewals on other assets.
 - A small proportion of the renewal budget (yet to be determined) would be held centrally to address emergency health and safety issues.
 - Where a local board opts to reallocate funding from a scheduled renewal which then results in additional operational costs (e.g. additional maintenance or utility costs), these operational costs would need to be funded from the local board's LDI budget.
 - Where a local board opts to reallocate funding from a scheduled category 5 renewal which then results in a health and safety concern, the asset will be closed until funding is available.
 - The process of review and reallocation will be annual, and timed to ensure that the delivery programme is as efficient and effective as possible.
17. In order to support the local boards in the additional decision making, there will be some impacts on the organisation in terms of staffing, and therefore costs. The estimated impacts of this are still being worked on.
18. The recommendations at the end of this report reflect the two options of either
- a) Staying with the existing network approach to asset renewal; or
 - b) Moving to a local board bulk funded approach noting some of the implications of this.

Flexibility of service levels and allocation of operational funding

19. Options 2 and 3 propose giving local boards far more flexibility in the use of the funding provided for the operational costs of local activities. There are several issues for consideration before deciding the best way forward in this area:
- Existing inequity of funding
 - Whether there should be minimum levels of service

- Impact on organisational support

Existing inequity of funding

20. The funding of local boards for operational activities is very uneven and primarily based on the funding provided under the legacy councils. The main contributing factors to the uneven funding are:
- The number of assets that each local board has within its boundaries (e.g. some have multiple swimming pools others none)
 - The mode of delivery of services (e.g. some local boards have an owned and operated art gallery others provide grants to community run facilities)
 - The level of service provided (e.g. some local boards have fully staffed community houses offering programmes, other are run just as venues for hire).
21. There is wide acceptance that the issue of number of assets is related to previous decisions and can't be changed. The mode of delivery is also largely accepted as not a major issue, although over time the local board may have the ability to change the approach. The key point of contention is the different levels of service that are provided. However, establishing comparators of levels of service is not easy. The costs of service are not necessarily a good proxy for the level of that service. Different modes of delivery will have different cost structures but could still be providing similar levels of service.
22. In the local rate funded option (Option 2), this issue will be reflected and addressed through the setting of the local rate. The local rate will reflect the costs of providing services locally and the local board will have the ability to adjust as necessary.
23. In the funding envelope option (Option 3), the ability of all local boards to work from a level playing field becomes more important. It is also an ongoing issue for the enhanced status quo option, where there is dissatisfaction from local boards who feel they are underfunded in relation to levels of service issues. In order to address this issue for either Option 1 or Option 3:
- Further work would be required at a much greater level of detail on service levels; and
 - Consideration would need to be given to funding local boards for more equitable levels of service over time.

Minimum levels of service

24. An approach that gave full flexibility, with no minimum service level, would allow the local boards to potentially exit from some services and fund others to a higher level. Some consideration needs to be given as to whether this is generally acceptable and therefore to the proposition that the governing body may wish to set a minimum level of service for all (or some) local activities.
25. There is a strong rationale for setting minimum service levels where local services are fully or partially funded from the general rate. Option 3 is fully funded from general rates and it is highly likely that Option 2 would have a significant element of general rates to mitigate the impact of rates increases on some communities. The governing body may determine that minimum

service levels are not required across all local activities but perhaps those with more of a network impact e.g. libraries, swimming pools, sportsfields etc.

26. As identified above, in order to set minimum service levels, further work on understanding existing service levels would be required.

Impacts on organisational support

27. Throughout the discussion of this workstream it has been highlighted that there is a trade-off to be made between local decision making and organisational efficiency. The organisation has over recent years, shifted more to delivering local activities on a network basis. This has been driven partially by a desire to bring all assets across the region up to a similar standard, to provide access to similar programmes to all communities and also to achieve the ongoing organisational efficiency targets.
28. Some of the efficiency gains of the network approach are outlined in the renewals section above i.e. managing renewals funding across Auckland allows better management of over and under budgeting, changes to programming of renewals are carried out under management delegation and can be achieved with minimum delay, urgent renewals can be accommodated within an overall budget.
29. In addition to the renewal efficiencies there are other impacts of moving from the network approach to more local decision making e.g. leisure facilities are aiming to reduce operating costs to breakeven through harmonising pricing and introducing portable memberships across the network thus increasing membership and maximising revenue (and reducing the rates component of funding). Local variations will have an opex impact and therefore a funding implication.
30. Providing support to 21 local boards so that they can individually determine the levels of service and modes of delivery of their local activities with the benefit of robust professional advice will have an impact on the level of support required. Organisational support will be required to both help local boards determine what changes they may wish to make to the mix of services in their area (proactive analysis of usage of services, community needs and policy implications) and the implications of change (impacts on parts of the community of shifts of resources, impacts on organisation – contracts, staffing etc.)
31. While there are clearly additional costs associated with moving towards more local decision making, a key question that needs to be addressed is, does the existing network approach to managing local assets and activities give effect to the policy intent of the Auckland Council legislation?
32. Local place making, reflecting local priorities and preferences are clear responsibilities of local boards under the legislation, which does anticipate¹ that boards will adjust default levels of service, either upwards or downwards. Managing assets and service on a network basis

¹ Section 20(3)(b) Local Government (Auckland Council) Act 2009

provides improved efficiencies and arguably more cost effective services across Auckland but does not enable the local boards to full carry out their role under statute.

33. At the governing body workshop on 17 August 2017, further advice on the likely cost of organisational support for local decision making was requested. Discussions have been held with the operational departments to try to estimate the impact, but it is extremely difficult in the context of so many unknowns. For example, if the governing body determines there should be minimum levels of service for all local activities then this would reduce the local boards' flexibility considerably. If local boards are making changes at the margins of their activities rather than fundamental changes, then the level of staff support required is significantly less and may be able to be accommodated with little increase in staff numbers and costs.
34. The question also arises that even if local boards have full flexibility of decision making, what is the extent of the change that is likely to be made? Examples that have been raised to date include:
 - a) The ability to move funding between community houses where a local board feels that one is underfunded and another overfunded
 - b) Applying the community empowerment model differently in different places. Some local boards would prefer to apply the available funding to grants for community groups rather than have staff advisors.
35. These are not major changes but would require advice on the consequences and approach to implementation. Other more significant changes could be contemplated with better advice on specific local community needs and priorities.
36. Given the difficulties in predicting the impact on the required organisational support, it is suggested that decisions in principle on which approach is supported and whether minimum service levels are desirable would enable the organisational workstream to explore further the impacts on organisational resourcing.
37. The recommendations at the end of this report reflect the two options of either:
 - a) Staying with the existing limited decision making over operational activities but working to equalise service levels over time; or
 - b) Moving towards greater decision making for local boards but after having considered the issues of equalising services, setting minimum service levels and considering the impacts on organisational support requirements.

Procurement

38. Currently local boards have the ability to procure lower value, local contracts and projects. All major contracts such as the maintenance and renewal of facilities are procured centrally. Project 17 introduced the concept of much greater input from local boards in specifying service standards before tendering for contracts. The contracts have also been constructed so that there is some ability for local boards to vary service standards within the contract.
39. Option 2 introduced the idea of local boards having full decision making over procurement but within parameters of clustering those major contracts, such as the facilities maintenance

contract, and also ensuring appropriate contract periods, alignment of timing across the region etc. A number of practical concerns about how these parameters could be applied have been raised. Some concerns have also been raised about the potential loss of efficiency gains if there is a general move back to more local procurement.

40. The Project 17 approach has the potential to deliver many of the outcomes local boards are looking for while maintaining the efficiencies of procurement at scale. While it is early days for the implementation of Project 17, the recommendation of this report is to continue with the approach, where there is the opportunity to apply it to other parts of local activities.

Funding

41. The key choice for funding is whether local activities are fully funded from general rates or funded (at least in part) from a local targeted rate. The reason for considering local rates as a funding mechanism was that it was considered that this delivered both the flexibility of funding that local boards sought, and gave effect to the policy intent of the legislation for democratic accountability.
42. However, the majority of local boards have resolved to remain with general rate funding, although there is majority support for continuing to explore local rates as an option. Looking at future impacts of local rates in light of the 2017 revaluations, and more explanation of how local rates would work, were the key reasons raised in discussions for continuing the work.
43. A small number of local boards supported the local rate option and requested that if this was not fully implemented that they be given the option of a pilot.
44. There are significant problems with piloting the 'local decision making with local rates option'. In order to achieve this within the rating legislation there are two choices –
- a) The first option is to separate out the costs of local activities for only those local boards participating in the pilot and recover these via a local rate in the local board area. This is the simplest option but the impact is that those local boards in the pilot are paying for local activities for other local boards in their general rate as well as their own local activities in their local targeted rate. This clearly is inequitable.
 - b) The second option is to separate out all local activity costs and charge the local boards in the pilot their own costs – they would no longer pay twice as all local activities are now excluded from the general rate. However, the non-participating local boards will now have a local targeted rate to be applied to their rating bill. This would be allocated across those local boards on the same basis as the general rates and the financial impact would likely be minimal. However, that there would be potential confusion at the sudden appearance of this line item on all rate accounts.
45. Both options would require consultation with the community through the LTP or Annual Plan – depending on timing of the pilot. The challenge of communicating this as a pilot would be significant and is likely to result in confusion and suspicion in the community.
46. As the majority of local boards do not support the local rate option at the moment, and there are significant problems with piloting this approach, the recommendation at the end of this

report is to continue to fund local activities through general rates. It is also recommended that further work on local rates be undertaken in response to the interest in this work from the majority of local boards.

Suggested way forward

47. If there is a will to proceed with greater local decision making across both renewals and operational activities, then this could be done as a phased implementation. While local board resolutions have sought an immediate implementation of full flexibility of local board decision making for ABS budgets, this is not recommended as:
- The desirability of minimum service levels, and the impact of removing these, needs to be more carefully considered before a decision is made. Appropriate staff advice on these issues needs to be provided to avoid any unforeseen consequences.
 - The demand for staff support for local decision making is not easily quantifiable with current information and it would be preferable to take a more measured approach.
48. An appropriate approach to a phased implementation may be:
- Step 1 (now)*
- Approve the implementation of the bulk funding of renewals approach from 1 July 2018
 - Complete further work on understanding levels of service for local activities – this could be phased across different local activities based on staff advice on time and cost to achieve this. Further to this work seek options for equalising funding for levels of service across local boards.
- Step 2 (commence early 2018)*
- Determine whether the additional decision making for local boards is fully flexible or includes some minimum service levels. These may be for all activities or just those where there is more network consideration – such as libraries, swimming pools and sportsfields. Staff advice on the merits of applying minimum service levels to different local activities should be provided as part of this decision making.
 - Evaluate the impact on organisational resources of implementing more flexibility in service levels and operational funding, in light of the decisions on minimum service levels. Taking this evaluation into consideration the final decisions could then be made on to what extent the flexibility of decision making would be implemented.
 - Complete further work on modelling the rates impacts of the local rates option in light of the new property valuations and report back.
49. Timeframes for Step 2 will require some further detailed work but implementation of any change would not happen before 1 July 2019. It is suggested that the relevant staff bring back a more detailed timeframe should this be decided as the way forward. This approach is reflected in the recommendations below.

Recommendations

1. That the PWP recommend to the governing body that:
 - a. The current “Optimisation of Service Assets” policy be strengthened by delegating the final decisions on local asset disposal and reinvestment to local boards, providing all policy criteria have been met
 - b. That appropriate support be provided to local boards to enable them to utilise the policy.

2. That the PWP recommend to the governing body that either:
 - a. Renewals funding continues to be managed in the current network based approach and local boards be consulted on the three year programme, on an annual basis, before the programme is implemented (noting that local board decisions are largely limited to timing changes within an asset category): **OR**
 - b. Renewals are allocated to local boards and can be utilised as bulk funding by the boards noting:
 - o Any over or under expenditure on renewals would need to be managed within the local board funding envelope.
 - o A small proportion of the renewal budget would be held centrally to address emergency health and safety issues.
 - o Where a local board opts to reallocate funding from a scheduled renewal which then results in additional operational costs (e.g. additional maintenance or utility costs), these operational costs would need to be funded from the local board’s LDI budget.
 - o Where a local board opts to reallocate funding from a scheduled renewal which then results in a health and safety concern, the asset will be closed until funding is available.
 - o The process of review and reallocation will be annual, and timed to ensure that the delivery programme is as efficient and effective as possible.

3. That the PWP recommend to the governing body that either:
 - a. No change be made to the existing approach to managing service levels and operational funding of local activities but that work is commenced on determining existing service levels and recommending options for equalising service levels between local boards; **OR**
 - b. A decision in principle is made to give local boards more flexibility of decision making over operational funding and service levels and, that before final decisions on the degree of that flexibility are made, further work (including a more detailed timeframe) be brought back on:
 - Existing service levels
 - Options for equalising service levels between local boards
 - Options for minimum service levels and to which activities these may apply
 - The impacts on organisational support.

4. That the PWP recommend to the governing body that further opportunities for the Project 17 approach to procurement be explored for major contracts that apply to local activities.

5. That the PWP recommend to the governing body that local activities continue to be funded through a general rate but that further work on local rates be completed to:
 - a. Review mitigation options in light of the 2017 revaluations
 - b. Initiate further discussions with local boards explaining the opportunities and impacts of the local rate model.