

The Chairman of Council

10 June 2024
9.00 am

Supplementary Report

Pursuant to Section 46A(7) of the Local Government Official Information and Meetings Act 1987, it is recommended that the following items be dealt with under Notification of Urgent Business

⇒ **Item 1 – 2024-2034 Long-term Plan Deliberations – Part 2**

The reason that this item was not included on the agenda papers is because the information contained within the report responds to matters raised during the 5 June 2024 meeting.

The reason that this item cannot be delayed is because Council needs to continue its deliberations to meet the timetable provided for the Long-term Plan adoption – as agreed at the last meeting.



W Falconer
Chief Executive

2024-34 Long-term Plan Deliberations – Part 2

Objective ID: A1100289

Report by: Tanea Hawkins, Chief Financial Officer

Approved by: Rachael Millar, General Manager Strategy, Science & Engagement

Purpose

This item is a supplementary paper to inform continued Council deliberations on the draft 2024-34 Long-term Plan and associated documents.

Summary

Council deliberations commenced on Wednesday, 5 June 2024 and focused on two key areas:

- proposed budget changes to response to submitter concerns regarding affordability; and
- proposed changes to the way the Council rates and how to respond to submitter concerns and suggestions such as transitional arrangements to mitigate rates increases.

The initial deliberations paper proposed a two-step process, with the Council first indicating its preference on key matters and options resulting from submissions and then a subsequent paper using these preferences to inform draft decisions on individual submissions.

Given there are still a number of matters under consideration, including significant changes to the proposals put out for consultation, it is suggested that a further meeting be held on 19 June 2024 to review the documentation for audit and confirm draft decisions on submissions.

Separate papers on the Fees and Charges Schedule and other matters consulted on but not specifically relating to the finalisation of the Long-term Plan will be put forward to that meeting as well.

Recommendation

It is recommended that Council resolve to:

1. receive the report '2024-34 Long-term Plan Deliberations – Part 2';
2. confirm the changes to the forecasting assumptions contained in Table 1 of Appendix 1 of the report "2024-34 Long-term Plan Deliberations – Part 1";
3. confirm the budget adjustments to be included in the draft 2024-34 Long-term Plan;
4. direct staff to consult with the Catchment Liaison Committees regarding the proposed use of reserves;
5. confirm the changes to the Revenue and Financing Policy and related documents as set out below:
 - a. modify the Funding Needs Analysis to reflect the separate activities of Catchment Planning, River Management, Flood Infrastructure and Land Drainage
 - b. modify the Revenue and Financing Policy to allow differentials on the General Rate
 - c. the Rates Review proposal be amended to a two-year transition as follows:
 - i. Catchment Planning (excluding Waiau)
 1. Year one - 100% General Rate
 2. Year two - no change
 - ii. Catchment Planning Waiau
 1. Year one – no change
 2. Year two – no change
 - iii. River Management (excluding Waiau)
 1. Year one – 50% General Rate
 2. Year two – 100% New Targeted Rate
 - iv. River Management Waiau
 1. Year one - no change
 2. Year two - no change
 - v. Flood Infrastructure Investment
 1. Year one - 100% New Targeted Rate
 2. Year two - no change
 - d. that further options for year two will be considered including consideration of funding Fresh Water Management Units, Stead Street Pump funding and consideration of differentials.
 - e. the Revenue and Financing Policy be modified to support a flexible transition.

6. direct the Chief Executive to use the resolutions relating to Recommendations 3 and 5 to prepare the final 2024-34 Long-term Plan and supporting documents for review by Council at an Extraordinary meeting of Council to be held on 19 June 2024;
7. undertake a full review of the use of reserves during the 2024/25 year and update the relevant policies accordingly to inform future Annual Plans and Long-term Plans.

Background

Council decisions on submissions to the 2024-34 Long-term Plan Consultation Document and associated documents are needed to enable staff to prepare final versions of the 2024-34 Long-term Plan and supporting documents for consideration for adoption.

Council deliberations commenced on Wednesday, 5 June and focused on two key areas:

- proposed budget changes to response to submitter concerns regarding affordability; and
- proposed changes to the way the Council rates and how to respond to submitter concerns and suggestions such as transitional arrangements to mitigate rates increases.

This report responds to Council directives during the 5 June 2024 meeting and is intended to support the Council deliberations occurring on 10 June 2024.

The initial deliberations paper proposed a two-step process, with the Council first indicating its preference on key matters and options resulting from submissions and then a subsequent paper using these preferences to inform draft decisions on individual submissions.

Given there are still a number of matters under consideration, including significant changes to the proposals put out for consultation, it is suggested that a further meeting be held on 19 June 2024 to review the documentation for audit and confirm draft decisions on submissions.

Separate papers on the Fees and Charges Schedule and other matters consulted on but not specifically relating to the finalisation of the Long-term Plan will be put forward to that meeting as well.

Budget adjustments and reserve use

The proposed budget adjustments set out in Table 2 of Appendix 1 of the report “2024-34 Long-term Plan Deliberations – Part 1” included changes to income (marine fee and portfolio income), expenditure adjustments (reduction in proposed new flood protection operating expenditure for Year 1, other minor changes in expenditure and decreases in interest costs) and proposed reserve use.

During the 5 June 2024 deliberations, Councillors requested that further use of reserves be explored in order to offset rate increases.

The approach taken by Council when developing the Long-term Plan Consultation Document was that of building financial resilience and moving away from the use of reserves to fund annual activities. However, many submitters commented on the tough financial times and suggested that Council use reserves to fund some of the planned new work. Some submitted specifically that the deferred maintenance of flood banks be funded by the catchment reserves (i.e. lease area reserves), while others submitted more generally that Council holds significant reserves and should not be increasing rates but using reserves.

During deliberations Councillors observed that given the current economic situation (which has continued to deteriorate since work on the Long-term Plan commenced), it appeared prudent to use 'savings' to reduce the impact of Council's proposals on ratepayers. This includes the impact of the proposed shift in the way we rate. Staff have advanced work in this space. Options include the following:

1. Increased use of Lease Area Reserves

The appended financial forecasts and reserve balances show proposed reserve adjustments including the use of \$2.34 million of Lease Area Reserves to offset rates for the first three years of the Long-term Plan. Table 2 of Appendix 1 originally suggested the use of \$750 thousand of reserves over this period.

Legal advice has confirmed that Council needs to consult with the Catchment Liaison Committees prior to making a final decision on the use of these reserves. If Council wishes to pursue the use of reserves in this manner, it is suggested that this is done by way of an email to each of the Catchment Liaison Committee chairs in the 24 hours following deliberations to then forward onto their committees. It is suggested that preliminary feedback is sought before an Extraordinary meeting of Council is held on 19 June 2024 to review the documentation for audit, and confirm draft decisions on submissions. This feedback can then be discussed further at the Catchment Liaison Committee Chairs meeting scheduled for 20 June 2024.

Implications

The use of Lease Area Reserves to fund deferred flood protection maintenance will reduce the opportunity to use these reserves in future for catchment initiatives such as 'Slow the Flow' and wetland restoration opportunities.

2. Increased use of Biosecurity and Land Sustainability Accumulated Surpluses

The appended financial forecasts and reserve balances show the use of \$680,000 of the Biosecurity Accumulated Surplus and \$700,000 of the Land Sustainability Accumulated Surplus to offset rates. Table 2 of Appendix 1 originally suggested the use of \$300,000 out of each of these accumulated surpluses.

Implications

The use of these accumulated surpluses to fund business as usual programmes will reduce the opportunity to use these surpluses in future to fund requests for additional projects and programmes relating to these activities to enhance the level of service provided.

3. Asset Reserve Adjustments

The appended financial forecasts and reserve balances show adjustments resulting from the use of the transformation and infrastructure reserves.

Council will recall it is proposed to fund all capital expenditure from debt with no repayment of debt until Year 3 of the Long-term Plan. However, there is depreciation budgeted for during Years 1 and 2 of the Long-term Plan.

An option would be to not pay depreciation on the following items of capital expenditure:

- the \$1.2 million per annum of catchment science and modelling included in the proposed investment in flood protection given uncertainty around the exact timing and cost of this work;
- long-term assets such as the long-life components of the Stead Street pump station.

Modelling would need to be done to assess the full impact of these changes if the Council wished to proceed with this option however in ballpark terms, it would result in a 1% reduction in rates for Year 1 and 1.5% reduction in Year 2.

Given the significant long-term financial implications of such an approach it is suggested that this be considered as part of an overall review of the Council's approach to reserves.

Legal considerations

The non-repayment of debt and/or depreciation is an available course of action under the Revenue and Financing Policy. The policy states that new assets can be funded "from external sources (e.g. government), borrowing, reserve funds or rates (general or targeted). The costs of finance and debt repayments would be funded in this same way as the operating costs of the activity". It goes on to state that the plan is to fund replacement and renewed assets with rates (depreciation), asset sales and reserve funds. It does not specify the year this must occur in.

The policy acknowledges that accounting provisions and reserve funds can be used to spread the costs of activities over multiple years to smooth the cost to uses and ratepayers. It enables the Council enough leeway to smooth the impact of increased rates by deferring payments on its debt, or for funding depreciation of an asset (for its future renewal).

Summary

In making decisions regarding reserves use, Council needs to consider:

- whether the decision is prudent;
- whether the decision promotes the current and future interest of the community;
- the "guiding financial principles" set out in the Revenue and Financing Policy.

Given a number of submitter comments and the need for further consideration of reserve use over the long-term, it is recommended that Council resolve to undertake a full review of the use of reserves during the 2024/25 year and update the relevant policies accordingly to inform future Annual Plans and Long-term Plans. It is suggested the review include:

- (a) the setting of reserve minimum balances;
- (b) clarification of the relationship between the various reserve policies;
- (c) clarification that reserves should only be used in the area they were generated;
- (d) determination of the approach to Asset Reserves (including the funding of depreciation of long-term assets and how assets that are not depreciated such as stopbanks are funded over the longer-term).

Infrastructure Strategy

A significant driver of the rates increase is the [Draft Infrastructure Strategy 2024 - 2054](#).

Appendix 1 of the report "2024-34 Long-term Plan Deliberations – Part 1" contained a summary of the planned capital works investment and debt.

Council has indicated it would like to deliberate further on the submissions received on this Strategy during its next meeting.

Implications/risks

Compliance with requirements of the Local Government Act 2002 has been followed and audited by Deloitte, on behalf of the Auditor-General. Deloitte's opinion on the Consultation Document was

included within the Consultation Document. The final draft 2024-34 Long-term Plan will be audited prior to the Council considering it for adoption on 10 July 2024.

It should be noted that significant changes to the current 2024-34 Long-term Plan that were not consulted on as part the draft 2024-34 Long-term Plan, may trigger a special consultative procedure.

Next steps

The Council resolutions from this meeting will inform the changes required to the draft 2024-34 Long-term Plan and associated documents. These changes will be incorporated in the final draft 2024-34 Long-term Plan.

By 17 June 2024, the final draft 2024-34 Long-term Plan and supporting documents will be sent to Deloitte Audit NZ, for audit for compliance with the Local Government Act 2002, on behalf of the Auditor General.

Subject to audit, the final draft 2024-34 Long-term Plan will be presented to Council on 10 July 2024 for adoption and setting of rates.

Views of affected parties

The Long-term Plan process is a significant activity, and consultation is required under the Local Government Act 2002. The purpose of consultation is to inform the Council’s decision-making process on the Long-term Plan, so that the Council can consider the views and preferences of persons likely to be affected by, or who have an interest in, decisions.

The consultation document “Investing in Southland Whakangao ki Murihiku” was developed as specified in the Local Government Act 2002 and was the key document to support consultation with the community. It was adopted by the Council for consultation on 27 March 2024. Consultation ran from 28 March to 13 May 2024.

Fit with strategic framework

OUTCOME	CONTRIBUTES	DETRACTS	NOT APPLICABLE
Managed access to quality natural resources	X		
Diverse opportunities to make a living	X		
Communities empowered and resilient	X		
Communities expressing their diversity	X		

Compliance with Significance and Engagement Policy

The Long-term Plan is significant and has been consulted on in line with legislative requirements and the Significance and Engagement Policy. The identified further adjustments outlined in this report are assessed as not significant in line with the Significance and Engagement Strategy. Any further items identified by Council will need to be assessed through the process of deliberations.

The Long-term Plan process is a significant activity, and the Local Government Act 2002 requires that the Council uses the special consultative procedure in relation to its adoption. That procedure imposes mandatory steps that the Council is required to take.

Considerations

Financial implications

The financial implications of changes to the draft Long-term Plan 2024 have been described within the relevant sections of this report. The Council should confirm resolutions during deliberations to understand the cumulative financial implications.

When the 2024-34 Long-term Plan and associated rating resolutions are adopted on 10 July 2024, the 2024-34 Long-term Plan will come into effect.

Legal implications

The Long-term Plan has been developed in line with the requirements of the Local Government Act 2002.

Compliance with requirements of the Local Government Act 2002 is audited by Deloitte, on behalf of the Auditor-General. Deloitte's opinion on the Consultation Document was included within the Consultation Document. The final draft 2024-34 Long-term Plan will be audited prior to the Council considering it for adoption on 10 July 2024.

It should be noted that significant changes to the current 2024-34 Long-term Plan that were not consulted on as part the draft 2024-34 Long-term Plan, may trigger a special consultative procedure.

Attachments

1. Financial forecasts 7/6/24
2. Forecast reserve balances 7/6/24
3. Rates samples 7/6/24