

Council Decision – Budgets and 2024-2034 Long-term Plan

Context

The Long-term Plan Consultation Document and supporting information was adopted by Council on 27 March 2024 and consulted on from 28 March to 13 May 2024. The relevant documents can be accessed from the links below:

Consultation Document: [Investing in Southland Whakangao Ki Murihiku](#)

Supporting information: [Supporting documents](#)

The key matter outlined in the Consultation Document was a proposal for ongoing and increased investment in flood protection.

It was proposed to increase operating expenditure by \$2.3 million per year via a proposed new flood protection infrastructure rate and invest in a new capital works programme. Other key matters included:

- the payment of interest on debt for the climate resilience projects undertaken during the period covered by the 2021-2031 Long-term Plan;
- the building of inflation into budgets.

Aside from the planned investment in flood protection, it was proposed to maintain all other work programmes with no growth for the 2024/25 year, then 2% growth for 2025/26.

Affordability was a key concern for Councillors during the development of the proposals, with pages 18 to 21 of the Consultation Document analysing the potential impacts on ratepayers. The analysis shows the proposals would result in rate increases of less than \$3 more per week for 80% of ratepayers. This was considered to be in line with feedback from early community engagement.

Prior to the official consultation period there was early engagement with the community around the need for increased flood protection investment. Environment Southland attended a variety of events across Southland including A&P shows, the Southern Field Days, On the Fly Matura River Festival, Rotary Water Day and we also joined the Invercargill City Council LTP talk with businesses at the Chamber of Commerce.

The summary of feedback from the community events included in the Council agenda from 27 March 2024 (see [LTP 2024-34 Pre-consultation Feedback - Summary](#)) showed support for an increased investment in flood protection infrastructure, with the majority of respondents indicating they would be willing to pay \$1-5 per week for an improved level of protection.

The Consultation Document attracted 329 submissions in total. A hearing for those submitters who wished to speak to their submission was held on 20, 21 and 24 May 2024.

Submission themes

Many submitters expressed strong opposition to proposed rates increases, highlighting concerns about affordability and the economic burden on ratepayers, especially during tough financial times.

There were requests for Environment Southland to review its budgets and undertake an efficiency exercise.

There were also suggestions to use reserves to offset rate increases.

At the same time, there was support for the proposed investment in flood protection along with requests for funding to support various community initiatives and services.

Council decision - budget adjustments

Council considered information on the current economic situation in light of submitter concerns regarding this. It was determined there was a need to reduce the impact of rate increases on the community.

In order to achieve this, Council reviewed its approach to the use of reserves to offset rate increases and also made some expenditure adjustments. In addition, there were some income changes (marine fee and portfolio income) and changes to forecasting assumptions that needed to be taken into consideration.

Use of reserves

A number of submitters suggested Council use reserves to offset rate increases.

The [Proposed Financial Reserves Policy](#) contained in the supporting material for the Consultation Document contains information on Environment Southland's financial reserves including their purpose and guidelines for their use and management. This is an umbrella policy with other policies also being relevant for some reserves. For example, the Leasehold Land Management Policy.

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 had 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, including rating changes.

The following table below shows the Council’s intended use of reserves¹:

Table 1: Reserve use in Years 1 to 4 of the Long-term Plan					
Reserve type	Proposed use in \$000k (variance from Consultation Document)				
	Year 1	Year 2	Year 3	Year 4	Total
<i>Lease Area Reserves</i>					
Ferry Road	300	275	200	75	850
Ōreti		100	100	75	275
Mataura	220	300	250	100	870
Waihōpai			100	50	150
Otepuni			100	100	200
<i>Accumulated Surpluses</i>					
Biosecurity	200	200	200	100	700
Land sustainability	200	200	200	100	700
<i>Asset Reserve</i>	6	237	186	374	803
TOTAL	926	1,312	1,336	1,074	4,548

The use of each of these reserve types is discussed further below.

Use of Lease Area Reserves

The Lease Area Reserves are funds that have accumulated through rental income from the flood-prone land Environment Southland owns in the lower areas of some of the region’s main river catchments.

The draft budget, as prepared and consulted on as part of the 2024-2034 Long-term Plan Consultation Document, and supporting information, included the use of \$450,000 of Lease Area Land Surpluses per annum to fund works, but not the use of the actual reserves themselves.

In response to submitter feedback, Table 1 shows the use of \$2.345 million of Lease Area Reserves to reduce the rating impact of flood bank repairs and channel maintenance activities in these catchments for the first four years of the Long-term Plan.

In line with the Leasehold Land Management Policy, consultation is currently being undertaken with the Catchment Liaison Committees prior to Council making a final decision on the use of these reserves.

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.

Use of Accumulated Surpluses

As a general principle, Council’s income and expenditure relating to its activities should be gathered and spent in the financial year that it is budgeted in. Accumulated surpluses have arisen in the biosecurity and land sustainability areas due to circumstances where work has been unable to be completed in the year it was budgeted in (for example, during the Covid years). Some funds are always retained in the biosecurity area in case of a biosecurity incursion.

¹ The proposed use of Lease Area Reserve is currently being consulted on with the Catchment Liaison Committees with feedback due on 18 June 2024 and a final Council decision to be made on 19 June 2024.

In response to submitter feedback, Table 1 shows the use of \$700 thousand of the Biosecurity Accumulated Surplus and \$700 thousand of the Land Sustainability Accumulated Surplus to offset rates.

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.

Asset Reserve Adjustments

The Asset Reserves relate to the holding of depreciation funds on specific assets or groups of assets for future use and funds set aside for a particular purpose such as plant, building and computers.

Table 1 shows net adjustments resulting from use of the transformation and infrastructure reserves and changes to the timing and amount of capital expenditure. The capital expenditure changes are discussed further under expenditure adjustments.

The Council is funding all flood protection 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. During deliberations, Council discussed offsetting the impact on rates of the depreciation of the Stead Street pump station, noting that a review of reserve use (including the approach to funding of long-term assets) will be undertaken during the 2024/25 financial year as discussed below. The revised budget attached is based on the Council not funding this depreciation for the next three years.

Future Reserve Use

Given submitter feedback and the need for further consideration of reserve use over the long-term, Council has decided 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.

The review will 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 long-term assets).

In relation to (c), Council indicated that catchment reserves (i.e. River Area Reserves and Drainage Reserves) are to stay within the rating district they are generated in and are not to be used in the general pool. The Financial Reserves Policy is to be amended to clarify this. This is in line with the Leasehold Land Management Policy which already provides that leasehold reserves will generally be used within the catchment they are rated in.

Expenditure adjustments

As a result of submitter feedback, a further review of budgets was undertaken and some areas were identified where adjustments could be made to reduce the impact on rates.

The key change was to the phasing of the investment in flood protection (the new \$2.3 million of operating expenditure per year outlined in the Consultation Document).

This funding will be used to improve Environment Southland’s data and knowledge, build expertise and capability in our catchment team and deal with pressing maintenance issues. This expenditure was reduced by \$350,000 in Year 1 of the Long-term Plan by spreading the work over a longer period. In addition, some of the overhead costs were absorbed back into the rest of the business.

Other minor adjustments were made, including a reduction in the budget for the Bluff Haul-out scoping study from \$150,000 to \$80,000 and reductions in some of the capital expenditure items associated with running the organisation (for example, a reduction in the amount budgeted for roofing repairs) and in the timing of some capital expenditure (for example, certain science monitoring equipment purchases have been moved from Year 1 to later years).

Changes in forecasting assumptions

The final budgets informing the Long-term Plan consultation document and supporting materials were prepared towards the end of last year for audit and adoption by Council in the first quarter of 2024. Since that time, there have been shifts in a number of underpinning forecasting assumptions.

Council resolved to update these assumptions as follows:

Table 2: Revised forecasting assumptions

Forecasting assumption in Consultation Document supporting information	Assumption underpinning Consultation Document supporting information	Revised Assumption	Commentary
Marine Fee	A total of \$3.2m per annum in the first three years of the Long-term Plan.	2024/25 \$2.17m 2025/26 \$2.68m 2026/27 \$2.76m	Cruise ship bookings have been less than anticipated for a variety of reasons including the Red Sea situation and challenges around the management of biofouling. The marine reserve will be used to offset any reduction in fees for Year 1 of the Long-term Plan.
Forecast return on investments (excluding South Port New Zealand Limited)	Investments are planned to return an average realisable income of 3.0% pa from Managed Funds (with a total return of 5.5%).	3.5%	Upon further review of the Council’s invested reserves, the long-term total return on Council’s portfolio can be expected to be 5.5%, an increase of 0.5% from the original assumption. Of the total return, 3% will be used to offset rates, 0.5% for expenses and 2% will be added to the

Forecasting assumption in Consultation Document supporting information	Assumption underpinning Consultation Document supporting information	Revised Assumption	Commentary
			reserves for inflation proofing. Noting the 2% is variable year-to-year and not guaranteed.
Cost Factors	2024/25 4.8% 2025/26 3.5% 2026/27 3.1% 2027/28 2.5% 2028/29 2.5% 2029/30 2.5% 2030/31 2.4% 2031/32 2.4% 2032/33 2.4% 2033/34 2.3%	2024/25 3.7% 2025/26 2.8% 2026/27 2.7% 2027/28 2.6% 2028/29 2.5% 2029/30 2.5% 2030/31 2.4% 2031/32 2.4% 2032/33 2.4% 2033/34 2.3%	Predicted inflation has dropped since the original forecasting assumptions were put together.

The changes in forecasting assumptions affect both income and expenditure in the revised budgets.

Funding requests

A number of submitters made requests for funding. Those requests where the Council has granted funding are set out in the following table.

Submission Number	Submitter	Funding Related Requests	Council decision
175	Mid Dome Trust (Ali Ballantine)	Increase the direct financial contribution of the Council from \$50,000 to at least \$80,000 per annum for wilding conifer control at Mid Dome.	It was agreed to fund an additional \$30,000 for the 2024/25 year with a review to be undertaken into the longer-term funding for this work as part of the 2024/25 Annual Plan development.
195	Thriving Southland (Richard Kyte)	\$235,000 sought for seed funding of key projects including wetland development, and targeted landscape and farm system mitigations.	It was agreed to provide up to \$235,000 from the land sustainability accumulated surpluses for this seed funding, subject to the development of appropriate funding criteria.
31	Joyce Kolk	Request for annual funding allocation for Beach clean-up (\$10k plus an inflation adjustment).	It was agreed to fund up to \$15,000 for the beach clean-up from the community activity allocation within the marine fee allocation schedule.

Overall impact

A revised budget, along with a schedule of forecast reserve balances, are appended based on the budget adjustments outlined above. These adjustments result in the following changes to average total rates increase across the first three years of the Long-term Plan:

Average total rates increase	Year		
	2024/25	2025/26	2026/27
As proposed in the Consultation Document	23%	11%	13%
As amended by budget adjustments	12.6%	12.9%	12.6%

The total of 12.6% for year 1 of the Long-term Plan can be broken down into a 4% increase for our general services, 5% for the funding costs associated with the climate resilience projects that have occurred during the last three years and 3.6% for the 2024 flood protection operating expenditure.

As outlined above, the reductions above have been achieved through a variety of mechanisms including the substantial use of reserves.

Other matters

Organisational work programme

Some submitters suggested that Environment Southland needed to review its budgets and look for efficiencies.

Most of what Environment Southland does is set by legislation. However, there is some discretion over services and service levels. An organisational baseline review was undertaken last year to inform the 2024-2034 Long-term Plan.

This work entailed an effectiveness and efficiency review of all of the organisation's current activity from the ground up. A revised organisational work programme was prepared to deliver organisational priorities and mandatory obligations while ensuring no growth in budget or resources (beyond inflation).

The latest version of the organisational work programme was considered by Council during deliberations on 5 June 2024. It was noted that this programme would need to continue to adapt in response to changing central government direction and regional priorities, and that there was an ongoing need to look for efficiencies and improved effectiveness.

Assistance available for people unable to pay rates

Several submitters indicated they would be unable to pay their rates in future.

The Council noted that the [Proposed Rates Remission and Postponement Policy](#) contained in the supporting material for the Consultation Document contains information on rates postponement or remission for ratepayers experiencing financial circumstances that affects their ability to pay rates. The postponement or remission is at the discretion of Council and is up to 100% of rates.

The policy above is in addition to the nationally available rates rebate, which is a discount (up to a maximum of \$750) on an individual's rates bill available for people who own their own homes and are on a low income.

Further information on eligibility criteria and an online rates rebate calculator can be sourced from: <https://www.govt.nz/browse/housing-and-property/getting-help-with-housing/getting-a-rates-rebate/>

Council directed there was to be increased communication of the options above when rates invoices are sent out.