

Long Term Plan Financial Briefing

Meeting: Council Briefing
Date of meeting: 11 November 2020
Reporting officer: Paul Cresswell, Financial Planner

Purpose/Ngā whāinga

To report on changes made to activity budgets following the 2021/31 Draft Long Term Plan (the “DLTP”) briefing held on 14 October 2020 and to seek further feedback and direction from Council where applicable.

Context/Horopaki

The LTP is the blueprint for our community’s future. It is the strategic document for future projects that are going to occur, sets service levels and outlines the financial budgets for the 10 years. The LTP needs to balance the ‘needs’ of the community alongside what it can ‘afford’. Based on feedback from previous briefings, budgets have been refined and the rates for the first years of the DLTP are based on the desire to have some plans being developed to go forward with, coupled with the need to support investment in our aging infrastructure. In future years investment occurs for growth. This will impact on our debt and the development contributions we will charge per subdivision.

Discussion/Ngā kōrerorero

The principles adopted in updating the Draft Long Term Plan (DLTP) agreed with Elected Members are as follows:

- The LTP consultation document should clearly set out our approach – Council will focus on delivery and maintenance of our core infrastructure and statutory services.
- We want to provide for new projects and enhancements to services, but they should be user pays. Therefore, we will engage with our community in the consultation document on these projects.
- We should make the consultation document clear on what the potential cost per week of the new projects / additional investment areas, to help our community give informed feedback.
- There is some willingness to increase debt but not to exceed \$60m to ensure we retain some capacity.
- We support growth (enabler), not lead growth (facilitator) – staff will review the current assumptions and if necessary, scale back projects to reflect this.
- We will remove premier park funding for the first 3 years and look to reduce expenditure on parks and reserves by \$200k p.a. Funding for parks and reserves will firstly be from financial contributions, then loan and general rates for BAU expenditure.
- We will investigate opportunities / risk in scaling back the transport capital budget by \$300k – staff will respond on the options available and the impact of these.
- We will investigate the options and costs associated with the Water Trust – staff will explore options e.g. incorporate the cost of the infrastructure to access the water for Dargaville and have a commercial agreement for the water take (min commitment).
- We will include the minimum investment required to meet legislative requirements for climate change in the budgets and consult on the cost of enhanced options in the LTP.
- We will exclude waste/recycling from the draft budget but consult on these in the LTP as a user pays option.

Since the previous briefing, further explanation is provided below together with noted budget impacts on the financial forecasts.

Climate change

The budgets have been adjusted to include the funding required for legislative compliance around climate change. Two additional options will be provided for the community to provide feedback on during the consultation period. This will then allow elected members to understand the community views on whether to include any additional budget based on those options. For information, Attachment C provides the detail on the options which have been previously reported to council.

Table 1 sets out indicative impact on rates for the baseline (included in the rates) and the 2 additional options should they be included in the LTP following consultation.

Regional development CCO

The indicative cost to ratepayers that have been included in the DLTP supporting Council's decision for a regional CCO are set out in Table 1.

Solid waste recycling

For Council to establish a bin recycling collection scheme, a targeted rate is proposed per property to supply and service the bins. The new model discontinues the recycling bags and introduces two recycling crates for each property, one for glass and one for other recyclables. In addition, all recycling taken to the transfer stations will be accepted with no charge.

The proposal will impact rates by reducing costs charged to the general rate and adding an additional targeted rate. Households' current spend on recycling bags will reduce and offset the additional rate. The proposal is not included in the current DLTP financial forecasts. Table 1 sets out the indicative rates impact which would apply to the forecasts should the proposal be included following consultation. The Revenue and Financing Policy will require updating to reflect this new rate if adopted after consultation.

Table 1

[illegible]

Dargaville Community Development Board (DCDB) targeted rate proposal

Council has now received the final proposal from the DCDB on a proposed targeted rate to deliver enduring closed-circuit television (CCTV) in Dargaville and Ruawai. The proposal is provided at Attachment D. The DCDB have proposed a targeted rate of \$10 per rating unit per annum for the Dargaville, West Coast/Central wards and for 529 units of the Otamatea ward around Ruawai/Tokatoka. The Local Business Association has asked that Ruawai be included in this project. The social benefits around safety and crime are outlined in Attachment D and the proposal is supported by the New Zealand Police. It builds upon the investment and work done to date with the current network in Dargaville. If this proposal is supported by council and then the community, the funding collected will be provided to the DCDB to manage the work and delivery of the service. The Revenue and Financing Policy will require updating to reflect this new rate if adopted after consultation.

Dargaville water storage

Previous budgeted costs of \$4m have been reduced to \$2m and ongoing operating charges of \$100k p.a. commencing in year 3 of the DLTP have been included.

Growth projects

Dargaville and Maungaturoto growth projects have been significantly reduced from the last briefing.

Revised rate increases from 2020-2021 Annual Plan

The rates change for the first years of the DLTP is estimated as follows:

Table 2

	Current Year 2020-2021	LTP Year 1 2021-2022	% change
Rates (General)	\$25,479,897	\$26,999,573	5.96%
Rates (Targeted)	\$9,154,835	\$9,841,535	7.50%
Total	\$34,634,732	\$36,841,108	6.37%
Water by Meter	\$3,145,071	\$4,154,150	32.08%

	Year 2 % change	Year 3 % change
Rates (General)	4.81%	2.32%
Rates (Targeted)	2.88%	3.50%
Total	4.29%	2.63%
Water by Meter	6.80%	10.34%

The primary drivers for the greater rate increase for the Targeted Rates relate to:

- Mangawhai wastewater R&M, renewals and the impact of a new contract
- Maungaturoto wastewater R&M and future project design
- Te Kopuru wastewater desludging provision
- Raupo drainage scheme additional costs

and for Water by Meter:

- Dargaville R&M and Rotu slip repairs
- Maungaturoto R&M and renewals

Summary Draft Statement of Revenue and Expense (Year 1)

Draft Statement of Revenue and Expense	2021 Annual Plan	2022 Draft LTP	Change
	\$'000	\$'000	\$'000
Income			
Rates	38,780	41,995	3,215
Activity Revenue	6,114	6,176	63
Subsidies and Grants	19,890	27,118	7,228
Contributions	3,046	2,485	-561
Investment and Other Income	340	372	32
	68,169	78,146	9,977
Expenditure			
Activity Costs	24,021	25,886	1,865
Employee Benefits	13,152	14,462	1,310
Finance costs	2,860	2,734	-126
Depreciation	10,825	10,939	114
	50,858	54,020	3,162
Surplus	17,311	24,126	6,814

With the finalisation of the capital projects list, staff will now be assessing the growth projects for development contribution funding. This will enable the Contributions revenue to be updated and the forecasting of prospective loan funding and consequential completion of the balance sheet and cashflow statements. While the final impact of these changes will be determined following the DC assessment, it is expected Contributions revenue will increase to cover the growth portion. It is expected that debt limits will remain well within Council's prescribed treasury limits and staff will work to maintain the balance and timing of growth expenditure costs to ensure debt falls with the range directed by elected members, that is around or below \$60m.

Water supply and wastewater targeted rate equalisation

Staff have previously undertaken to get to Council a proposal to equalise the costs to connected users. Previous briefings have outlined Council have the option to equalise Water Supply and Wastewater charges across all schemes. With the asset management plans and infrastructure strategy nearing completion, staff are now working to assess the impact of equalising the connected charges across the district for each of the Water Supply and Wastewater activities. The preliminary assessments are outlined below for Council's consideration. Staff are seeking Council's guidance as to whether it wishes to proceed with including options for inclusion in the consultation document.

The 2 options identified by staff and being proposed are:

- 1) Maintaining separate scheme rates for each of the water supply and wastewater schemes or
- 2) Rating users across the district equally for each of water supply and wastewater activities

Scheme costs across the district vary as a result of relative age, size and technology used in each scheme. In the long run, all schemes will require large expenditure to renew aging componentry. Further, increasing environmental standards are continuing to place significant costs on individual schemes. The additional standards do not take cognisance of the ability of the respective community's affordability. The consequences are typically onerous and more so on the smaller schemes that do not have the ability to share the costs amongst a large number of users.

From the ratepayer perspective, each connection across the district receives the same (or very similar) service levels. That is, each connected user is able to flush their toilet, dispose of wastewater and/or turn on a tap for a potable water supply irrespective of the scheme they are connected to. Unifying the cost of this service provision across the district therefore recognises the benefit received and enables expensive cyclical renewals or upgrades to be scheduled as required with costs being able to be distributed across a larger user base.

A further issue experienced by Council is in addressing how it will attend to further areas which are becoming increasingly in need of a reticulated service (e.g. Pahi, Paparoa, Tinopai, Whakapirau). Maintaining a separate rating system is restrictive in enabling Council to address the needs of those communities. The DLTP currently includes a \$250k provision in year 2 to look into options for other schemes. The provision is funded from general rate.

Moving to an equalised charging basis does not impact on Council's cost forecasts. The impact is on the distribution of cost and would mean changes being made to Council's rating models.

These infrastructures also provide a benefit to the public at large. Adequate water supply means the non-connected consumers can utilise the resource for safe bulk water supplies. For wastewater, communal systems reduce negative impacts on our harbours and waterways which are utilised by not only the connected users but the wider district. The equalisation model can be readily modified to incorporate a public good element. This would mean a portion of each of the activity's costs are funded from the general rate based on an assessment of the benefit to the wider district. Staff anticipate this to be in the range of 10-15% of the scheme costs which, at 10%, would shift approximately \$1m from targeted rates/water volumetric charges to the general rate. To provide the impact to individual ratepayers would require further analysis. Direction is sought from Council as to whether staff should proceed with assessment in this regard.

Wastewater

Reverting to a separate rating for each of the wastewater schemes highlights the significant differences in connection costs between the schemes shown in Table 3.

Table 3

	Connections (2021)	2021 Connected rate	2022 Separate rate
Dargaville	2124	\$920	\$621
Glinks Gully	25	\$1299	\$2859
Kaiwaka	175	\$1151	\$1560
Mangawhai	2084	\$1357	\$1475
Maungaturoto	388	\$1259	\$1390
Te Kopuru	199	\$668	\$787
District	4995		

Table 4 sets out staff's assessment of the rate increase impacts of maintaining separate schemes and compares these with an equalised connected charge of around \$1,094. Council's Ibis rating model will be used to undertake final calculations but pending Council agreement to propose the change to the charging method, staff have undertaken separate calculations to provide the initial assessment.

Table 4

2020-2021		Connect ed	Separate scheme incr. from 2020-2021	Equalised change
Total connected users		4995		(to \$1093.67)
Dargaville		2124	-\$299.47	\$173.60
Glinks Gully		25	\$1,560.50	-\$205.32
Kaiwaka		175	\$409.11	-\$56.85
Mangawhai		2084	\$118.48	-\$263.32
Maungaturoto		388	\$131.41	-\$164.99
Te Kopuru		199	\$119.20	\$425.81

The relative impacts for the connectable charge (75% of the connected rate) and the separate pan charge (50%) remain in proportion to the connected charge.

While most of the schemes show a favourable change in an equalised model, Dargaville and Te Kopuru are negatively impacted. It should be noted that Te Kopuru residents are very aware of their relative scheme costs. As outlined above the upgrading of the Te Kopuru scheme would have a significant impact due to the low number individual connections. To overcome negative impacts to Dargaville and Te Kopuru, Council could look to transition both the schemes into an equalised regime over time, say 3 years. This transition would be managed by spreading their increases across the district either by way of general rate or over the remaining wastewater schemes. It is estimated that the impact would require around \$212k subsidy to Dargaville and \$20k to Te Kopuru in the first year.

Water supply

With water supply being charged on a volumetric basis, the impact to individual water consumers is more difficult to determine. As a guideline, current volumes have been used as a basis.

Water supply's first cubic meter rate ('line charge') was established to spread a fixed cost component across all connected users to recognise the costs of providing the infrastructure (renewals, depreciation, loan interest) separately from the costs of treating and distributing the actual water volume (maintenance, chemicals, electricity, staff and overheads etc). The latter costs are applied to the production volume to determine the rate per cubic metre and the former applied to each connection for the first cubic metre only.

Table 5 sets out staff's indicative assessment of the expected impact of moving to an equalised charging base. As set out earlier in Table 2, cost increases for Maungaturoto and Dargaville water supplies will be significantly impacted in 2021-2022 and subsequent year's water charges which is highlighted in the table.

Table 5

	Conn- ections	Total m ³	2020-2021 Annual Plan		2021-2022 Separate		2021-2022 Equalised	
			First m ³	Subsequent m ³	First m ³	Subsequent m ³	First m ³	Subsequent m ³
Dargaville	2283	778,801	\$124.23	\$2.96	\$560.68	\$1.85	\$380.00	\$3.20
Glinks Gully	79	4,488	\$364.97	\$1.55	\$251.90	\$17.42	\$380.00	\$3.20
Mangawhai	20	8,031	\$124.23	\$3.67	\$964.05	\$11.99	\$380.00	\$3.20
Maungaturoto	455	119,870	\$285.28	\$4.24	\$915.75	\$4.24	\$380.00	\$3.20
Ruawai	242	28,039	\$227.85	\$5.45	\$461.62	\$7.11	\$380.00	\$3.20
All networks		939,229						

Current charging

Council's current model of equalising only defined operating costs and separately charging defined capital costs has not been applied uniformly across the schemes, has proven to be somewhat unwieldy to implement and is not believed to be well understood. Staff do not consider that the current system achieves either purpose being considered above, that is either a 'sub' district is entirely responsible for its own infrastructure or the alternative that all 'sub' districts' connected users receive the same benefits and are equally charged for the district's cost of those services.

Consequently, continuing with the current 'hybrid' system has not been recommended as an option.

Next steps/E whaiake nei

Staff need direction on the financials to be provided after discussion has occurred. Once this is completed the budgets for consultation can be finalised and supporting figures can be input for the DLTP.

Attachments/Ngā tapiritanga

	Title
A	10 Year Rate Information
B	10 Year Capital Projects Summary
C	Climate Change Work Programme
D	DCDB Targeted Rate Proposal

