

<b>Report to:</b>	<b>Council</b>	<b>Extraordinary Meeting</b>
<b>Date:</b>	7 July 2021	
<b>Subject:</b>	Approval of the Updated Draft Long-Term Plan 2021-2031 for Audit NZ	
<b>Prepared by:</b>	M Dickson, Senior Manager Corporate Services	
<b>Input sought from:</b>	S Poulsen, Finance Manager & C Kaa, Management Accountant	
<b>Authorised by:</b>	Will Doughty, Chief Executive Officer	

## 1. SUMMARY

This report reflects the changes that have been made to the draft long term plan since the version released for public consultation on 26 May 2021. It includes changes made following submissions on the draft, hearings and Council deliberations. The paper is an update of the internal submission paper provided to elected members on the 1<sup>st</sup> July.

The report summarises four categories of changes:

1. **Category 1: Financial information changes - Immaterial/technical matters.**  
Immaterial (minor) issues identified during the audit of the consultation document, and technical issues identified by staff since the audit,
2. **Category 2: Financial information changes - New information now confirmed** Updates to the budgets due to new information since the consultation document was prepared.
3. **Category 3: Outcomes from hearings and deliberations**  
Provides an overview of the outcomes of deliberations held on the 2<sup>nd</sup> July 2021.
4. **Category 4: Narrative updates to Draft LTP**  
Provides an overview of the narrative updates made to parts one to five of the draft LTP as a result of the above.

This report also seeks Council approval of the updated draft LTP to provide to Audit NZ. It is anticipated that the final LTP document will be brought to Council for adoption on the 28<sup>th</sup> July 2021.

## 2. RECOMMENDATION

**THAT the Council:**

1. *Receives this report with regard to the updates made to the draft Long-Term Plan 2021-2031 since public consultation.*
2. *Approves the updated draft LTP documents Parts one to four to provide to Audit NZ.*
3. *Notes that adoption of the final Long Term Plan 2021-31 is scheduled for 28<sup>th</sup> July 2021 following feedback from Audit NZ.*

## 3. BACKGROUND

The following are the proposed changes to the draft Long-Term Plan 2021-2031 in greater detail.

### **Category One: Financial Information Changes - Immaterial/Technical Matters**

During the audit of the LTP Consultation Document and supporting documents, the following corrections were identified. These either have no impact on rates or an immaterial effect. In the case of Audit NZ, items raised by them were agreed as not material to the Consultation, and it was agreed to make the changes for the final LTP. These relate to asset value and depreciation items – not direct operational or capital expense items.

1. Provide for depreciation of landfill asset - \$150k in the first three years only.
2. Increase depreciation levels from \$85k in year one to \$19k in year ten (this is total impact of several items, including incorrect depreciation rates and opening balances errors).

3. Reduced value of infrastructure assets due to revised valuation applied to opening balances of roading and three water assets – from \$7,992k in year one to \$10,165k in year ten.
  4. Overstatement of Inland Road value – \$488k in each year
  5. Removed a revaluation factor that had been applied to classes of assets that are not revalued (vehicles & plant, office equipment, and library books) – from \$385k in year three to \$686k in year ten.
  6. Purchases of assets overstated – from \$47k in year three to \$183k in year ten.
- The following technical updates have also been discovered and corrected by finance staff.**
7. Updated the timing of the Wakatu Quay PGF project and applied inflation to year two,
  8. Provided for revaluation of harbour assets every three years (previously not revalued),
  9. Borrowing repayment schedule corrected where some loans showed irregular repayment.

### **Category Two: New Information now confirmed**

#### **1. Waka Kotahi (NZTA) Indicative Funding Allocation 2022 – 2024**

Following the commencement of the LTP Consultation, Waka Kotahi advised all councils of their Indicative Funding Allocations for the next three years. Across New Zealand the allocations resulted in funding shortfalls for LTPs.

For Kaikōura, the Council had been assuming Waka Kotahi would fund the entire roading programme as submitted to Waka Kotahi earlier in the year (based on the positive feedback). That would have involved \$3,625k in operating subsidies and \$3,369k in capital subsidies over the first three years of the LTP. Waka Kotahi have now confirmed only \$2,717k in operating subsidies and \$1,984k in capital subsidies, a total shortfall of \$2,293k in the three-year period.

Following a Council workshop earlier this month, whereby the Council discussed options, the Council has agreed the following Option:

- For Operating expenses, to reduce the programme to 90% for years 1-6 and to fund the shortfall of NZTA subsidy through rates (the Roothing Rate), and
- For Capital expenses, continue with the capital programme as proposed so as to address the roading backlog, and to loan fund the subsidy shortfall (over 15 years).
- Leave Footpaths maintenance unchanged (\$60k opex each year plus \$100k capex commencing year two unsubsidised); the \$52k subsidy shortfall over three years to be funded directly from the Footpath & Streetlight Rate.

#### **2. Waste/Recycling Tender Outcomes**

The Council went to tender with the solid waste and recycling contract, and the successful tenderer has been confirmed at the Council meeting on 30 June. The tender produced a substantial reduction in the pricing in the draft LTP, and so those cost savings are now reflected in the budgets. The resulting solid waste and recycling services to be provided are:

- To remove the provision of wheelie bins for the fortnightly household rubbish collection service (the contractor solution being bags), and to make this service 100% user pays,
- Bring forward the reconfiguration of the landfill site to year one, to maximise cost savings the tender has identified in transporting waste out of the district,
- Remove carbon credit expenses, and matching revenue from the contractor, from years two and three to reflect that waste will be transported out of the district rather than landfilled from year two (so surrender of carbon credits are no longer required as a direct cost),
- Provide for \$90,000 in annual revenue (plus inflation) for the price per tonne in user pays refuse charges to be returned to the Council from the contractor, (to be applied

to the repayment of the loans to develop the transfer station site and close the landfill rather than rate funding).

**3. Former Council Offices – 34 Esplanade**

With Council having now (following community consultation) confirmed its decisions the LTP needs to provide for the demolition of the building and the disposal of the land (the result being cost neutral) in year one. As a result this also eliminates all operating costs (rates, depreciation, etc) for all subsequent years.

**4. Properties - capital projects reprioritised or timing revisited**

The Draft LTP provided \$20k to upgrade the Gooches Beach playground in year one, however the Dog Pound has been found to require urgent improvements to make it safe, secure, and of an acceptable standard. Following discussions \$15k has been repurposed from Gooches Beach to the Dog Pound. The project to upgrade the pound in the 2025 year has also been reduced from \$55k to \$10k.

The Scout Hall refurbishment in year one has been reduced from \$435k to \$344k to reflect that a greater portion of the project will be completed by 30 June 2021 (the total project cost doesn't change, but there will be less budget to carry over to next year).

**5. Public Liability insurance renewal**

The Council's public liability, professional indemnity, environmental liability and airport owner's liability insurance policies have been renewed at 30 June. Prices were higher than the increases forecast in the Draft LTP. Collectively another \$6k was added to the budget for insurance.

**6. Election expenses and recoveries**

An estimate of costs for the 2021 Council election has been provided by our election services provider, increasing the cost by \$6k and reducing the costs able to be recovered by \$13k (with the Canterbury District Health Board not holding an election in 2022, the share of costs of running the election can only be shared with Environment Canterbury – the net cost to Councils will be much higher).

**7. Business Analyst services – potentially shared service with Hurunui District Council or external**

Hurunui are in the process of advertising for a Business Analyst and have offered the Council a share of this resource as part of the IT shared service. We have added a provisional \$25k to support this, for each of the first two years in the LTP. A Business Analyst will enable Kaikoura DC to identify gaps in our processes, streamline clunky processes, and identify potential revenue opportunities. It is also beneficial to utilise a BA alongside the current records management project, as these projects will dovetail together.

**8. Use of Parks & Reserves development contribution to extend the Road to the Aquatic Centre**

The Draft LTP had provided for the seal extension to the new Pool site (\$30k) to be funded from the Parks & Reserves development contributions fund. At this stage, that funding has been eliminated and the seal extension funded by the Roading Rate.

**9. Fringe Benefit Tax (FBT)**

We have identified the provision for FBT was short by \$25,000, so need to allow for this increase.

**10. Honorarium**

Provision has been made for Finance Audit & Risk independent member \$6k (including travel).

**11. Development Contributions**

Contribution revenue from known developers has been input to year one as revenue at the agreed amount, with payment expected in August.

**12. District Plan**

Environment Canterbury have completed/commenced some work on landscape technical analysis which KDC has agreed to contribute to as ECan is paying part of the cost (it reflects a saving in the overall District Plan review targeted for year 4). Spending this now, means there is \$45k less in the District Plan reserve than expected, and loans are required to commence earlier (in year two).

**13. East Coast Water loan**

The draft LTP had shown the ability to have the Scheme’s loans repaid – and this was reflected in the draft. Two invoices have recently been received from East Coast committee members for several years’ worth of scheme works and management. While these invoices are normal for the scheme, they are relatively significant for the scheme and were unbudgeted (as we were unaware of them in advance). In addition some earthquake insurance settlement funds, previously “allocated” to East Coast, have been reallocated to the earthquake rebuild projects, as the Scheme did not subsequently require the associated repairs. The result of these two changes is that there is insufficient funds in the East Coast Water fund to repay their loan, and the loan has been reinstated (\$19k).

**14. Timing of Three-Water Stimulus upgrades**

These projects are fully funded by the government’s stimulus package, and the timing has been revised to reflect an additional \$200 thousand in capital work to be provided in 2022 financial year (which had been assumed to have been completed in the 2021 year), the timing for opex has also been revised between the two years. These are not technically a carry forward because they were unbudgeted.

**15. Capital Project and Operating Costs Carry Forwards**

As part of our year-end adjustments, we have incorporated all capital carry forwards as below. These projects are consistent with the capital projects report that has been presented as part of our finance report to Council (including late adjustments).

<b>Project carried forward</b>	<b>Amount</b>	<b>Funding source</b>
Roading – minor improvements	136,781	Roading reserve
Urban Water – renewals	88,478	Water Cohort reserve
Oaro Water – facility upgrade	23,365	Water Cohort reserve
Peketa Water – facility upgrade	10,000	Water Cohort reserve
Stormwater renewals	9,000	Stormwater reserve
Amphitheatre major repair	20,000	Community facility fund
Pensioner flats refurbishment	13,104	Pensioner flats fund

Airport s157 works	10,000	Loan
South Bay Harbour improvements	14,000	Loan
Scout Hall refurbishment	344,356	Grants held in Community facility fund
	<b>669,084</b>	

There are two minor operating carry forwards (which have no impact on rates). These are the balance of funds remaining to be spent from 2020/21 from two small but important budgets where it is felt important in the current circumstances to maximise the benefit of having rated for these specific items.

They are \$40k from the Economic Development activity and \$29 from the Environmental Planning activity. Note the Council has subsequently tagged expenditure from these funds as set out below.

#### **16. Link Pathway project**

The Council has applied to the Tourism Infrastructure Fund (TIF) for a new \$2.1 million link pathway from West End to Point Kean. We have received positive initial feedback but asking if the Council would commit a minimum of 20% of its own funds towards the project. The Draft LTP did not have any provision at all for the project (taking the view that the project would be reliant upon TIF approval).

The proposed budgets now show the (worst case) effect of including \$421k in borrowing, being 20% of the total cost of the project, plus the total cost \$2.1 million with \$1.7 million in TIF funding revenue.

### **Category Three: Outcomes from hearings and deliberations**

- 17.** Following Draft LTP hearings on the 1<sup>st</sup> July and Council deliberations on the 2<sup>nd</sup> July a summary of the major outcomes from the deliberations is included below. Further detail is provided between pages 23-29 of Part One of the updated LTP document – section entitled “The Big Issues we Consulted On”.

#### **Roading backlog log**

Of the 37 roading submissions received, 25 agreed with the Council’s preferred option to address the backlog of work and get our roads up to an acceptable standard. 7 disagreed, some preferring the Council slow down the programme of work rather than incur increases on rates and debt. Overall, the Council considers this to be strong support in favour of getting the job done and avoiding greater costs later. The Council is therefore supportive of Option A proceeding including the changes in financial information outlined in point 1 of Category Two above.

#### **Footpath improvements**

Of the 43 footpath submissions, 29 agreed with the preferred option to increase spend and improve our footpaths 7 disagreed and a further 7 indicated no preferred option. The Council appreciated the suggestions received, for instance that footpaths could be enhanced by keeping consistent surface types, such as for pothole repairs, where irregular colours or patches can be an issue for visually impaired people and will work with the community as

the programme evolves. The Council is therefore supportive of Option A proceeding including the changes in financial information outlined in point 1 of Category Two above (relating the footpaths).

### **District Plan rolling review**

Of the 34 submissions, 24 responses agreed with the Council's preferred option to progress the review and loan fund the costs over 15 years. 4 submitters disagreed including some who raised concerns it was a waste of money because the RMA reforms could override any District Plan review decisions. Some submitters suggested some priority areas they would like to see incorporated or reviewed in the District Plan (such as lighting, skyline setbacks, and greater restrictions over industrial activities in the Kaikōura flats).

The Council is therefore supportive of Option A proceeding. With the support for the preferred option, the Council has made no changes to the LTP in response to this feedback – the Council is of the view that the District Plan review is essential to ensure our community's aspirations are represented in any new Regional Plan, and necessary changes are not delayed further. The conversations about lighting, etc, will be had as the District Plan review unfolds.

### **Rubbish collection and recycling services**

The Council received strong support for our proposal to implement a kerbside rubbish collection service, with 25 submitters in favour, and 4 against. The Council is therefore supportive of Option A proceeding including the changes in both financial information and services outlined in point 2 of Category Two above.

### **Tourism and business support**

There was strong support for the grant to DK to continue at the proposed \$225k per annum. The Council received 36 submissions from both commercial and non-commercial ratepayers, 23 were in favour and the Council acknowledged the importance of DK's activities for the COVID affected local economy, recognising it is more difficult to build our reputation back up, if our profile falls behind other destinations.

The Council therefore supports Option A proceeding which has no impact on the draft LTP.

### **Requests for funding**

The Council received strong support from a number of submitters to grant financial assistance to the Mayfair Theatre, plus requests from Sport Tasman, the Kaikōura Cycle Club, and Te Korowai for grants to further the work they do.

The Council has agreed to fund (for one year):

- \$15,000 to the Mayfair Theatre, plus
- \$15,000 to the Kaikōura Cycle Club (both grants to be paid from unspent economic development funds carried forward from 2020/21), and
- \$10,000 to Te Korowai, paid from unspent environmental planning funds carried forward from 2020/21.

The Council will be requesting all grant recipients to produce quarterly reports on what they have achieved with this funding and will be asked to apply for future funds (an ongoing annual grant is not guaranteed).

The Council declined the application for funding from Sport Tasman (which was in addition to the \$20,000 the Council has already committed to Sport Tasman for a part-time coordinator).

The Council also noted that it provides administrative and leadership support to these and other organisations in Kaikōura, from photocopying to meeting participation, and that this support can be significant in terms of staff resource and/or elected member time.

#### **A new link pathway**

The Council is supportive of including the new link pathway project in the LTP as outlined in point 16 of Category Two above.

### **Category Four: Narrative Updates to Draft LTP**

- 18.** Firstly, the range of immaterial wording changes made to the document, plus changes to the final financial numbers resulting from Council's deliberations (including rates increases and borrowings).

The most substantial additional narratives are in Part One commencing on page 23 in the section titled "The Big Issues we consulted on, and the changes we made to the final LTP". This section covered the outcomes of the options in the LTP consultation and other changes made following deliberations.

Overall, changes to narrative were mainly driven by those deliberations and the results of the Waka Kotahi (NZTA) funding and the waste and recycling tender.

#### **19. OVERALL RATES & DEBT UPDATE**

Based on the above – if all these proposed changes are included, the overall rates increase for 2021/2022 would be 5.92% in 2021/2022, and an average of 3.36% across the ten years. Total debt could reach \$11.05 million at its peak in 2026.

It should also note that the changes above have resulted in minor movements both up and down to the rates increases across each benchmark property in year one. Overall the changes have resulted in a small increase to the % increase for 2021/22 for residential, semi-rural (excluding high value) and commercial properties with a slight decrease for rural properties and high value semi rural.