

9.7 Annual Plan 2020/21

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Recommendation

That Council:

1. Notes that COVID-19 has had and will have a material adverse impact on Council's budget for the 2019/20 and 2020/21 years.
2. Confirms its approval of the draft Annual Plan details and budget for the 2020/21 financial year (FY21), as contained in the agenda for 23 March 2020, but with the changes described in this report, to bring the average rates increase down to 3.89% (subject to Council feedback).
3. Determines and approves the draft principles for the \$2,000,000 contingency fund for stimulating economic and social recovery within Timaru District, in terms of COVID-19.
4. Confirms its approval or otherwise of the inclusion of the seal extension of Orari Back Road and allocates additional funding of \$1.2 million excluding GST in the 2020-21 Annual Plan.
5. Approves the consultation approach discussed in this report in relation to the Annual Plan 2020/21.
6. Adopts the consultation document (to be tabled), and delegates to and authorises the Mayor and Chief Executive to make any changes required to the document to reflect the decisions coming out of this meeting, and to approve the final design.
7. Confirms its approval of the proposed Fees and Charges contained in the agenda for 23 March 2020, subject to the changes agreed at that meeting and contained in this report.
8. Approves expenditure of up to \$100,000 in the current financial year in order to bring forward capital work that was not otherwise planned to commence until FY21, to be funded from depreciation funds associated with the respective activity. This is to enable acceleration of those capital projects.
9. Notes the forecast information for the current financial year, 2019/20.

Purpose of Report

- 1 To obtain Council's approval to proposed revisions to the previously considered draft Annual Plan and budget for FY21, amongst other things, to enable consultation to commence with a view to achieving Annual Plan adoption by 30 June 2020.

Assessment of Significance

- 2 The draft Annual Plan 2020/21 is considered to be of medium to high significance in terms of the Council's Significance and Engagement Policy and Local Government Act. The Plan has been prepared in the COVID-19 environment which has caused significant impact on the

Council generally. The draft Annual Plan for FY21 contains differences to what was indicated in Year 3 of the Long Term Plan 2018-28.

- 3 Section 95(2) of the Local Government Act 2002 provides that a local authority must consult in a manner that gives effect to the requirements of section 82 of the Act before adopting its annual plan.
- 4 For the above reasons, Council plans to consult on its draft Annual Plan 2020/21. However it does not consider that a special consultative procedure or LTP amendment is required.
- 5 The proposed consultation timetable is as follows:
 - 5.1 Consultation Opens Friday 22 May 2020
 - 5.2 Submissions Close Friday 12 June 2020
 - 5.3 Council considers submissions at Annual Plan Hearing Tuesday 23 June 2020 (*if required*)
 - 5.4 Annual Plan Final Decisions and Annual Plan adopted Tuesday 30 June 2020
- 6 Community engagement:
 - 6.1 Advance notice of the upcoming consultation has been advertised in the Courier for the past two weeks.
 - 6.2 The Consultation Document will be made publically available on the Council website by 5pm Friday 22 May, and will be circulated to every household with the 28 May edition of the Courier. Additional copies will be made available at the Council office, and the Service Centre/Libraries in Temuka and Geraldine.
 - 6.3 In addition we intend to use the Council Facebook page, radio advertising, website advertising, as well as reminders in the Council Noticeboard in the Courier to encourage community engagement.
 - 6.4 Submissions will be collated for Council consideration. If there are a substantial number of submissions a Council hearing will be arranged (23 June), and submitters who wish to speak to Council will be invited to present their views at the hearing. Given the current COVID-19 Level Two status, the nature and format of the hearing is yet to be determined. All submitters will be reminded that the hearing is public and they are welcome to attend even if they do not wish to address Council (depending on the meeting format used).

Background

- 7 On 23 March 2020 Council met to consider the draft Annual Plan including budget for FY21
- 8 The draft Annual Plan initially proposed an 8.02% average rates increase.
- 9 With it becoming apparent that the economic impact of COVID-19 was going to be significant and prolonged, Council agreed on 23 March 2020 to reduce the proposed average rates increase to 4%. The following measures were identified to achieve this:
 - 9.1 A change to the way we account for internal staff costs directly associated with capital projects – these will now be charged to the capital projects and not treated as operating costs - \$740,000 of personnel costs will be moved to our capital expenditure;
 - 9.2 A reduction in the Safer Community budget to reflect the changes within that Activity - \$40,000;

- 9.3 Efficiency savings \$800,000 to be found from across the organisation;
- 9.4 Using \$2,000,000 of reserve funds/retained earnings (an increase of \$660,000);
- 10 Other adjustments and decisions included:
- 10.1 Approval of a business case for \$110,000 of additional grant funding for Aoraki Development;
- 10.2 Approval of a business case for a loan for the airport runway resurfacing - \$660,000;
- 10.3 A \$2m fund to be set aside in a contingency fund from general reserves for a Council response to COVID-19, the terms of which are to be developed, but with a focus on supporting activities to stimulate the local economy;
- 10.4 Orari Back Road Sealing (\$900,000) – referred back to the Land Transport Unit for a report to be prepared for the Infrastructure Committee. Note the Infrastructure Committee has considered the business case for this and recommends that Council considers the inclusion of the seal extension of Orari Back Road and allocates additional funding of \$1.2 million excluding GST in the 2020-21 Annual Plan (this has not yet been built into the attached budget).
- 10.5 That the Airport Carpark extension (\$63,000) be deferred to the following year.
- 10.6 Fees and charges: That stillborn burial fees be reduced to nil;
- 10.7 Fees and charges: That the increase in the waste disposal at Pleasant Point be phased in 3 steps over 2 years.
- 11 COVID-19:
- 11.1 The COVID-19 response in New Zealand escalated rapidly, and following the Council budget discussion, an Alert Level 4 lockdown was implemented across New Zealand from 11.59pm on Wednesday 25 March.
- 11.2 This continued until 11.59pm on 27 April when New Zealand entered Alert Level 3, and at 11.59pm 13 May 2020 then entered Alert Level 2.
- 11.3 Effect on Council:
- As a provider of essential services, Council has continued to operate providing key public services as per the government's guidelines such as water, wastewater, solid waste, essential maintenance of stormwater, cemeteries, animal services, essential road repairs, social housing and urgent consenting work. The crisis also generated an emergency response via the Civil Defence Emergency Operations Centre (EOC) and this remains ongoing.
 - Support services for Council business have continued to operate as needed, with impacts across units varying considerably.
 - The lockdown has had a significant impact on the Council's business, including an emergency response, closing key facilities, suspension of contractors work for non-essential services and remote working by most Council employees. Where roles are not able to be undertaken from home, redeployment and secondment opportunities have been explored and where possible initiated.
- 11.4 At the time we were in Alert Level 4 officers embarked on a process to revise the draft Annual Plan further to take into account the impact of COVID-19 on Council's operations

and predicted net financial impact for Council in FY21, with a view to bringing that back to Council for consideration. This also involved carrying out a reforecast in relation to the current year's budget to understand the impact of COVID-19 on our fourth quarter and end of year result (summary **attached**).

11.5 We carried out this work in Alert Level 4 without knowing how long we might be in different Alert Levels, or whether restrictions at different Alert Levels would change, and therefore in a situation where it was difficult to predict impact with any certainty. We applied assumptions based on information coming out of central government and within the sector, but also found that information to be changeable.

11.6 It is also possible that a second wave of COVID-19 cases could result in an escalation of Alert Levels. However, we have not built that into of our modelling so this remains a risk.

11.7 Effect on community and future impact:

- The ongoing impact of the COVID19 crisis will be felt across NZ, all sectors and Council operations for some time (potentially years). Council has a role to play in supporting recovery.
- Work is underway on a Recovery Strategy grounded on the 4 well-beings with focus on economic and social impacts on the district and it is structured as a multi-agency effort. Council has recently resolved to form a Re-Ignition Panel, led by the Mayor, with representation from Council, other agencies, sectors and Iwi, to provide leadership and a co-ordinated approach to our District's recovery.
- We also further reviewed our own capital work programme to determine if any projects can be re-phased.

12 In this report we outline for Council's consideration pre-consultation changes that have been made to the draft Annual Plan and budget for FY21, taking into account the projected indicative impact of COVID-19 on Council. We also set out some changes to the proposed Fees and Charges for FY21 that were discussed on 23 March 2020.

Financial statements to accompany the annual plan

13 Attached are the financial statements for FY21. The financials are a forecast and actual results will vary from the budgeted figures. Council is budgeting to make a surplus of \$10.4 million for 2020/21 (note figures are rounded). A surplus is budgeted to cover the additional costs of depreciation funding, principal loan repayments and includes specific capital funding for the Roothing Programme. Variances and adjustments are noted below.

14 Total Revenue is forecast to be \$91.8 million with \$54.7 million being rates income, \$16.7 million from fees and charges, \$13.5 million from grants and subsidies with the remaining \$6.9 million spread over other revenue, finance and dividend revenue. Rates are \$1.9 million lower than the LTP forecast (after an adjustment for Downlands which is noted below). Fees and Charges have been adjusted to include \$1.2 million drop on revenue as a result of COVID-19. There is a drop in dividend income attributable to income received from TDHL of \$850,000, this is attributable to the approximately \$3.6 million reduction Alpine Energy dividend.

15 In respect of Downlands, the LTP 2020/21 figures include Council's share of the Downlands Water Scheme. The 2019/20 and 2020/21 budget figures are adjusted to reflect a proposed change of accounting policy and has the effect of eliminating the Mackenzie and Waimate

District Councils share. Making this adjustment removes \$1.9 million of revenue, \$1.56 million of expenditure, and surplus of \$373,428.

- 16 Total Expenditure is budgeted to be \$81.2 million with \$21 million attributable to personnel costs, \$16.4 million depreciation, \$3.5 million finance costs and \$40.4 million being other operational expenses.
- 17 Remuneration has increased over the LTP by \$2.6 million (and \$1.3 million on the current year). In respect of the LTP \$600,000 relates to reclassifying elected members' remuneration, \$1.3 million relates to the variance on the current year budget with the remaining \$700,000 relating to minimum wage increases, step changes and additional or rescaled positions. Elected Member's remuneration varies \$122,000 from the LTP. This figure is set by the Remuneration Authority.
- 18 Contractor costs have increased \$2.0 million from the LTP. \$1.6 million can be attributed to the Council's Infrastructure activities reflecting changes in their work programmes and increased costs for services. The majority of the remainder can be attributed to increases in Parks maintenance \$375,000.
- 19 Other expenditure variances include:
 - carbon credit costs are proposed to increase up to \$650,000 on the LTP figure. This is a result of an increase in the cost of Units and increased use of Council's landfill facilities
 - the cost of insurance has increased \$340,000 on the LTP figure. This can be attributed to the increasing cost of premiums and a move from indemnity to replacement costs on certain assets, and will be reviewed as part of the upcoming insurance renewal process.
 - planning Consultant Costs associated with the District Plan Review have been carried forward from the 2019/20 year. This has created an \$820,000 variance to the LTP.
 - other consultant costs have increased \$794,000 on the LTP. \$400,000 of this can be attributed to increased support across the infrastructure units, with the remainder spread across other Council Units.
 - IT costs of \$500,000 have been carried forward from 2019/20 meaning a variance of that amount to the LTP, and additionally software operating costs are proposed to increase \$370,000 on the LTP. This relates to increased costs of existing software licenses, and additional software required by the organisation to operate.
 - finance costs are projected to decrease \$2.2 million due to lower borrowing costs than forecast in the LTP.

Discussion

- 20 Due to timing and the rapid escalation of COVID-19, the net financial impact of COVID-19 was not known at the time of discussing the 23 March draft Annual Plan and budget for FY21.
- 21 As a result of work carried out since that time, we predict that net financial impact of COVID-19 on FY21 could be \$1.05m-\$1.5m (including a reduction in non-rates revenue of \$1.2m).
- 22 Specific details of the financial impact of Covid-19 on the draft FY21 budget are as follows:

- 22.1 The general assumption is Council will be operating at COVID Alert Level 2 for much of the remainder of 2020 – however some areas have anticipated returning to Level 1 sooner.
 - 22.2 Fees and Charges income will reduce by \$1.2 million. Areas such as Building, Parking, Swimming Pools and Airport are forecasting material drops in fees and charges.
 - 22.3 Some Units such as Land Transport expect to utilise their full pre COVID budget and expect to complete the programme of work they have planned for FY21.
 - 22.4 Trade Waste and Water Billing fees have not reduced materially as it is expected these services will not experience a significant drop in demand.
 - 22.5 Rates penalties are budgeted to be \$470,000 but may drop dependent on application of remissions policies.
 - 22.6 The drop of income experienced by activities has not matched by drops in expenditure. A drop in expenditure or saving of \$160,000 have been identified.
 - 23 Without any compensatory measures, assuming a net financial impact from COVID-19 of \$1.05m, this would result in an average rates increase of 2% to circa 6% (note that every \$500,000 of net movement in revenue equates to a rates movement of approximately 1%).
 - 24 The net financial impact of Covid-19 on Council for FY21, means that further measures are required (additional to those identified on 23 March) in order to deliver a budget that results in an average rates increase of no more than 4%.
 - 25 We have now developed a draft budget that proposes a **3.89%** rates increase.
 - 26 This has been achieved by making the following changes, additional to those identified at the Council meeting on 23 March 2020:
 - 26.1 The prior requirement for efficiencies and savings of \$800,000 has been increased to \$1,550,000 to come from a combination of operating and personnel costs.
 - 26.2 Budgeting lower average interest rates on borrowings (a reduction of the interest rates on borrowing 0.5% to 3.5%). This reduces finance costs by \$560,000 – a 1% rates effect.
 - 27 There are also some other changes or other items that have been incorporated or need to be considered:
 - 27.1 An increase in costs of approximately \$400,000 attributable to making provision for CDEM activities (contingency), climate change and other expenditure.
 - 27.2 The Orari Back Road (refer to 10.4 and attached report and minutes).
 - 27.3 Funding for Aoraki Development (AD) recognising the transfer of the tourism function to AD.
- Some further adjustments have also been incorporated as a result of our further review.
- 28 A copy of the revised draft budget for FY21 is **to be tabled**, with changes from the earlier draft budget presented in the agenda for 23 March 2020 highlighted yellow.
 - 29 *Fees and charges:*
 - 29.1 In terms of the proposed fees and charges that were considered by Council on 23 March, these have been revised to incorporate the changes from Council (in relation to cemetery and waste fees – refer above). Please also note there is a moratorium on rent increases for residential tenancies as a result of COVID-19, for 6 months from 26 March,

therefore the new rates for our social housing tenancies would not commence until October 2020.

29.2 No other changes have been made to the proposed fees and charges considered on 23 March.

30 *Construction work programme:* An assessment of the proposed construction work programme for FY21 shows that \$11m of work is already contracted and that there are opportunities to accelerate some approved projects to assist with the economic stimulation of the local economy post COVID-19. The highest priority to create some acceleration for new projects is to arrange for the project design phase to commence immediately. This will allow the construction phase to commence sooner than normally expected. This design work is a project cost and doing this phase sooner will have no impact on the overall budget requirement of each project.

31 *Stimulus fund:*

31.1 Council has resolved that the draft Annual Plan and budget for FY21 include a \$2m fund to be set aside in a contingency fund from general reserves for a Council response to COVID-19, the terms of which are to be developed, but with a focus on supporting activities to stimulate the local economy and wellbeing.

31.2 Input has been sought and received from the Mayor and Councillors as to the guiding investment principles for this fund, with the collection of ideas and comments outlined below. Council now needs to agree on the principles. This will also be subject to obtaining advice in relation to the application of the fund as appropriate.

31.3 Feedback from the public will be sought on this proposed initiative as part of the consultation on the Annual Plan.

Category	Investment principle	Supported Y/N
Purpose/ Outcomes	\$2m discretionary fund set aside from general reserves to support projects or activities that will stimulate the local economy, therefore assist in Timaru District's economic recovery following Covid-19.	
Purpose/ Outcomes	Support major community projects in the District that will have lasting and positive impact	
Purpose/ Outcomes	Stimulus, with wellbeing outcomes	
Purpose/ Outcomes	Stimulate the economy in the near future	
Purpose/ Outcomes	Ideally have ongoing economic benefit	
Purpose/ Outcomes	Projects that contribute to achievement of Council's community outcomes and contribute to and align with the 4 well-beings	
Purpose/ Outcomes	Priority on projects that contribute to economic and social wellbeing	

Category	Investment principle	Supported Y/N
Outcomes		
Purpose/ Outcomes	Is about enabling projects and activities that otherwise might not occur due to COVID-19. How the project or activity has been impacted by COVID-19, and how the funding will assist, will be considered.	
Purpose/ Outcomes	Stimulating tourism	
Purpose/ Outcomes	Enhancing our city and towns within the District	
Purpose/ Outcomes	Strong focus on employment outcomes, local spend and enabling future community projects	
Project type/ other criteria	Bricks & mortar type projects, facilities that benefit the community	
Project type/ other criteria	Funding will ensure either projects go ahead or are completed, is not for projects in the feasibility or planning stage	
Project type/ other criteria	Contribution must allow a project to go ahead and stimulate the economy, not sit in the bank. (i.e. construction or implementation readiness – within 12 months)	
Project type/ other criteria	External projects	
Project type/ other criteria	To deliver an asset to the community, not to fund an applicant's wage or promotion costs.	
Project type/ other criteria	'Shovel ready' within 12 months	
Project type/ other criteria	Applicants need to demonstrate other funding opportunities are being sought or have been exhausted	
Project type/ other criteria	Not about providing financial relief or support to private businesses	
Project type/ other criteria	Planning well advanced, ideally with concept plans and consents in place.	
Project type/ other criteria	\$50,000 to be used to get township based events to happen within the CBDs (could potentially be administered through Loans and Donations/Grants)	
Project type/ other criteria	Projects and/or events – seed or kick start funding	

Category	Investment principle	Supported Y/N
Project type/ other criteria/ other	\$200,000 to come from this fund for event specific funding for the next year [FY22] to re-energise our domestic tourism (could potentially be administered through Loans and Donations/Grants)	
Project size	\$500,000 plus projects to ensure there is real stimulus to the economy	
Project size	3 or 4 sizeable projects [a year], able to be started within a year	
Funding type	To provide up to 25% of funding for a project up to a maximum of \$500,000	
Funding type	Co-funding (rather than full funding)	
Funding type	Grant funding	
Funding type	Grant funding or a mix of grant and loan funding	
Funding type	Does not exclude an organisation seeking a loan from Council	
Other	Flexibility within the funding policy, and discretion for Council to make changes as priorities and circumstances change	
Other	Will consider projects sponsored, endorsed or put forward by the Re-Ignition panel, or Aoraki Development	
Other	Performance, reporting and audit criteria may apply	
Other	\$250,000 to be added to the fund annually to support qualifying projects on an ongoing basis	
Other	\$250-400k to be added to this stimulus fund each year from 2021 onwards	
Other	Structured, contestable funding (or will Council consider applications on an as required basis).	

Options and Preferred Option – Draft Annual Plan

- 32 Council must adopt a prudent Annual Plan as required by the Local Government Act 2002, including when considering the operational and financial impacts of COVID-19. The general requirement under the Local Government Act 2002 is that Council must adopt a balanced budget, that is operating revenue is sufficient to meet operating expenses (including funding depreciation). Council can depart from this if it is clear about why it is prudent not to adopt a balanced budget and how it will fund the difference.
- 33 **Preferred options:** Officers put forward that the preferred option is for Council to agree to the revisions to the draft Annual Plan and budget for FY21 as set out in this report, which results in an average rates increase of 3.89%, so that we may proceed to finalise the Annual Plan on that basis for adoption by Council on 30 June, subject to consultation requirements. While this has been put forward by Officers as the preferred option, we acknowledge that COVID-19 has had a material impact on households and businesses and Council may yet wish to consider a different approach.

- 34 **Alternative options** for reducing (or further reducing) the proposed rates increase include:
- 35 First, reducing levels of service (and therefore the cost of providing those services). A reduction in levels of service would not be conducive to the District's economic and social recovery from COVID-19 both economic and social. Levels of service are agreed with the community and a reduction in service level will mean a reduction in what the community receives. It would undermine our ability to achieve the community outcomes in our Long Term Plan and to discharge our obligations under the Local Government Act in terms of delivering against the 4 well-beings. Depending on the materiality of any change in levels of service, it may also give rise to the need for a Long Term Plan amendment which would result in additional expenses, delay the adoption of the Annual Plan and divert resource from other important work. Further, many of Council's services are mandatory or delivered with a long standing community agreement. To achieve a material reduction in expenditure it would require very significant reductions in levels of service across a relatively few activities.
- 36 Secondly, reduce the amount collected for funding depreciation. Council rates contribute approximately \$20 million in depreciation funding in the FY21 Annual Plan. Depreciation funding works by putting aside a small amount each year over the useful life of an asset so any future renewals of the asset are withdrawn from the accumulation of those small amounts. Council could consider reducing the amount its funds depreciation to mitigate the rates impact. Some care would be required to ensure it was reduced across general rates and uniform annual general charges (UACGs) so that the reduction was equitable to all ratepayers. If the depreciation reduction occurred on targeted rates this would benefit some ratepayer more than others.
- 37 Thirdly, Council could look to fund the reduction in rates by borrowing the funds which reduces the forecast net equity. These borrowings will need to be repaid in the future.
- 38 Council currently holds approximately \$35 million in cash reserves and has total external debt of \$80 million (net debt is \$45 million: \$80 million less \$35 million). We have capacity for further borrowing, in the order of \$85 - 95 million (before reaching our own self-imposed conservative debt affordability and the regulatory debt servicing benchmarks). Finance's advice and preferred approach is to borrow in the first instance (rather than using cash reserves) to preserve Council's liquidity and also while interest rates are low.
- 39 Officers' preference, if Council decides to reduce the rates below the forecast 3.89% increase, is for the third option. This most equitably spreads the benefit of any reduction without reducing levels of service.

Consultation

- 40 Community Boards were consulted as part of the initial draft budget process, but have not been involved in the development of the revised "COVID-19" annual plan or draft budget for FY21.

Relevant Legislation, Council Policy and Plans

- 41 Long Term Plan 2018-28
- 42 Local Government Act
- 43 Significance and Engagement Policy

Financial and Funding Implications

- 44 The financial and funding implications are described above.

Other Considerations

- 45 The situation with regards to COVID-19 remains fluid and uncertain. The numbers presented in the Annual Plan reset are estimates based on our assessment of the developing COVID-19 situation, over which there remains considerable uncertainty. Under these circumstances it is difficult to fully assess the overall effects of COVID-19 on Council. The information presented should be considered with this in mind.
- 46 Further adjustments to the proposed budget for FY21 may be required prior to the Annual Plan and budget being finalised. We are seeking to achieve Annual Plan adoption on 30 June 2020.

Attachments

1. **Orari Back Road Seal Extension - Infrastructure Report 28.04.20**
2. **Unconfirmed Infrastructure Committee Minutes - 28.04.20**
3. **2020/21 Draft Financial's Annual Plan**
4. **Summary - FY20 April Reforecast**