WORKSHOP MATERIAL

Date of Release: 20 July 2023

Workshop: Long Term Plan Strategy Session - All Councillors

Date: Tuesday, 18 April 2023

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LTP 2024-2034

18 April 2023

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Purpose of today

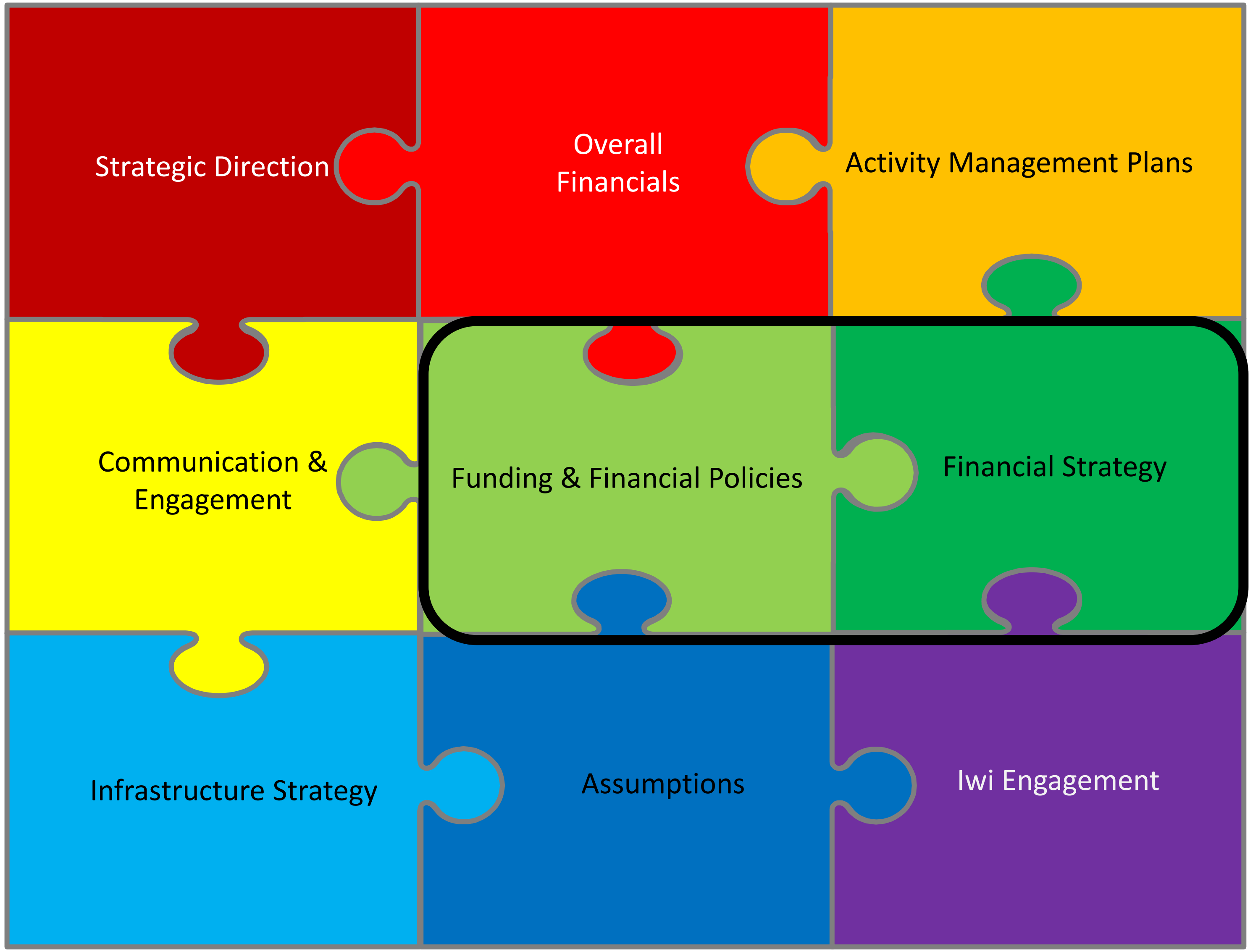
Seek direction on:

- Financial principles to guide LTP
- Methodology for debt and rates increase limits in Financial Strategy
- Key changes to Revenue and Financing Policy to investigate

Next Steps

- Staff to prepare advice and options
- Confirm with Council in June workshop

The LTP Jigsaw



Today's agenda

Part 1 – Briefing (1.25 hours):

- Core concepts in Local Government finances
- Financial Principles
- TDC's Financial Strategy
- TDC's Revenue and Financing Policy
- Our current environment

Part 2 – Workshop (2.5 hours):

- Financial Principles
- Financial Strategy
- Revenue and Financing Policy and emergency events

Core concepts in LG finances

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Core Concepts in Local Government

- Obligation to act prudently (good judgement, foresight, cautious , judicious, lower risk appetite). Section 103
- Balanced Budget requirement - Operational Income = Operational expenditure
- Intergenerational Equity – ensuring current or future ratepayers are not over or under burdened in terms of rates and fees & charges
- Focus on wellbeings that frames our activities

Financial Strategy vs Revenue and Financing Policy

Predictability and certainty about sources and levels of funding

- High level strategic view
- limits on debt and rates
- i.e. size of the pie

- More detail
- How activities are funded
- i.e. how the pie is paid for

Revenue and financing policy

Helps guide funding of council activities:

- Capex and opex
- Debt vs operating income
- Rates
- Fees and charges

Guided by S.101(3) LGA:

- Causation/exacerbators vs beneficiaries
- Public goods vs private goods
- Time period of benefits/intergenerational equity
- Costs and benefits (including transparency/accountability) of funding activities separately
- Community outcomes, and overall impact on the community

Debt

- Debt is not necessarily bad
- Debt used to help spread cost and provide intergenerational equity
- Council set 'prudential' level of debt
- Max capacity is higher with LGFA/S&P setting
- Lower debt limit provides debt headroom for large shocks
- Debt is funded from rates, fees and charges, other income
- Debt servicing ability is the main constraint

Rates

- Are a property tax
- Are an appropriate way to fund an activity and not necessarily seen as fair or equitable
- Alignment to who or what causes or benefits from activity can be weak or strong
- Can only be levied on limited range of bases – land or capital values, rating units
- Differentials can apply

Funding of capital

There are three types of capital expenditure being;

1. Renewals of existing assets
   - Depreciation (charging for the wearing out of the asset as it occurs)
   - Ultimately funded from operational income
2. Levels of Service
   - Loan
   - Ultimately funded from operational income
3. Growth
   - Reserves balances or loan
   - Ultimately funded from Development Contributions or Reserve Financial Contributions

Funding of Depreciation

- Depreciation is an accounting approach used to allocate the wearing out of a tangible or physical asset over its useful life
- Funding depreciation impacts the revenue requirement for Council but provides funding for loan repayments and renewals
- Increases in the value of assets impact the level of depreciation that is required to be funded as well as vested assets and the Capital program

Funding of operating costs

- General rates including targeted rates
- Fees and charges
- Other revenue including government funding
- NZTA subsidies
- Commercial income

Our current financial principles

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Current Principles

1. to continue to meet its fiscal prudence, sustainability and environmental sustainability obligations
2. to keep the medium to long term in focus i.e. rather than being overly diverted by the shorter-term recovery from the Covid-19 pandemic
3. to understand the trade-offs or benefits across all of the well-being domains (social, environmental, economic and cultural)
4. to capitalise on the economic environment (i.e. enhanced borrowing terms, and increased labour and skills availability)
5. to make the most of the enhanced opportunities of Government funding, subsidies and other incentives to advance the community outcomes, and
6. to right size Council staffing and operational expenditure.

Our Current Financial Strategy

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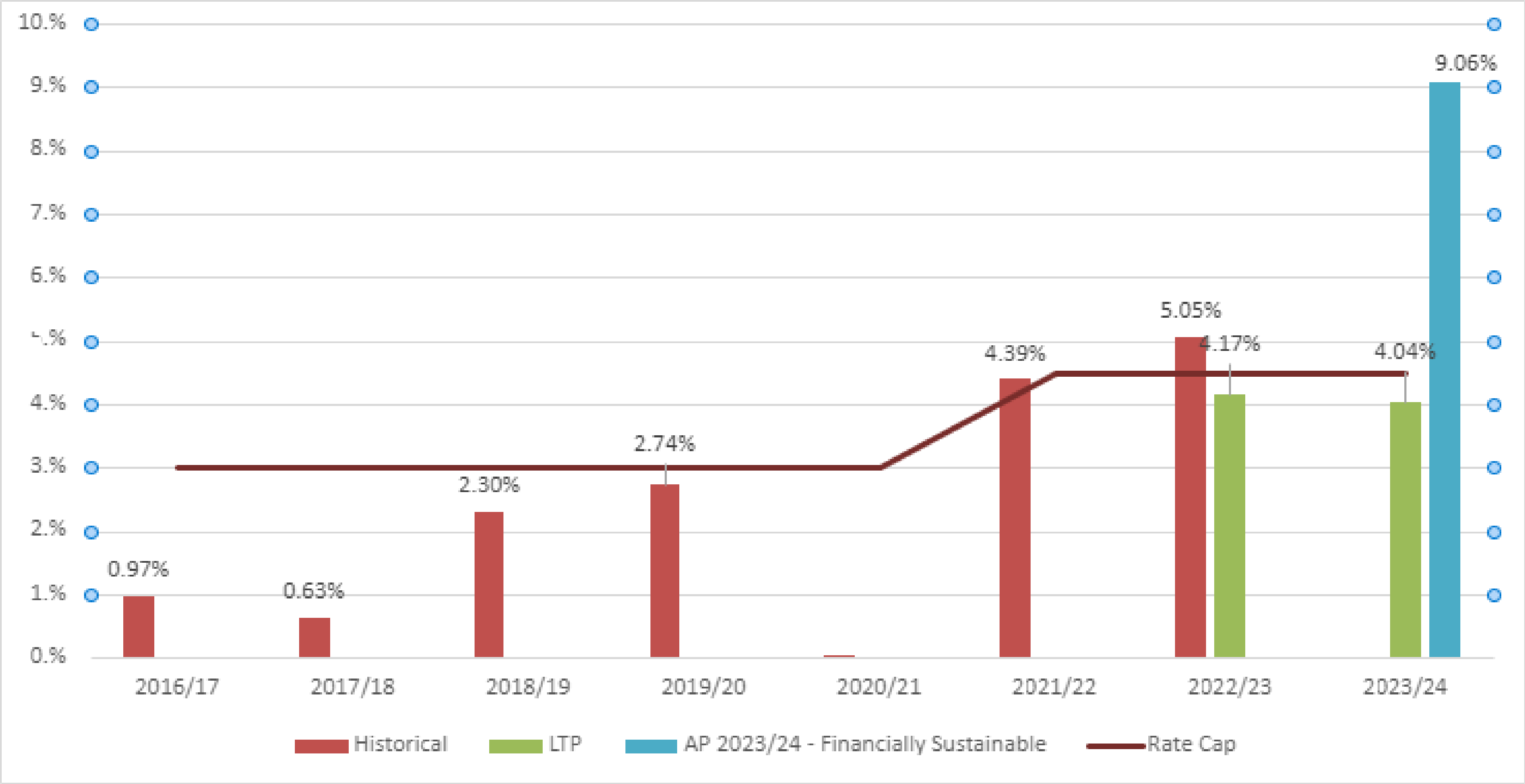
Current Financial Strategy

- [Link to Current Financial Strategy]
  - Fixed limits, not dynamic
  - Net Debt limit is fixed figure - $250m
  - Rates increase are set per year and basically match expected increases when LTP was struck

Historic Net Debt

Historic Rates



Our Current Revenue and Financing Policy

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Current Policy – Broad Principles

<u>Capital expenditure:</u>

- Predominantly funds new capital works
- Determines what capital expenditure is sustainable within the prudential guidelines Council has set itself. These parameters are contained in the Financial Strategy.
- Loan funding is used to achieve inter-generational equity.

Current Policy – Broad Principles

Operating expenditure:
Expenditure that is generally funded on an annual basis and is funded by activity, with some exceptions that meet the intergeneration equity principle, for example, TEP & TRMP.

Funding comes from:

- General & Target Rates
- Fees & Charges
- Subsidies & Grants
- Other income sources

Current Rating Structure

We currently use a mix of the following:

- Capital Value
- Land Value
- Fixed charge per property
- Targeted Rates

The general rate is currently set by Capital Value, and the Uniform Annual General Charge is a per property fixed charge

The UAGC and other fixed charges per property excluding water and wastewater must be under 30%.

Current approach

Council has previously looked at the level of funding by activity and at the overall impact of our revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.

This included looking at:

- Representative properties
- Considering moving the UAGC
- Investigating other funding sources
- Subsidies, grants, fees and charges etc

Current approach

- Council currently has 12 groups of activities
- Our policy indicates how much our different income sources fund an activity

Low:	0-20%
Low-Medium:	15-45%
Medium:	40-60%
Medium-High:	55-85%
High:	80-100%

Current activity funding sources levels

Funding Source	Environment Management	Public Health & Safety	Transportation, Roads and Footpaths	Coastal Assets	Water Supply	Wastewater
General rates, uniform annual general charges, rates penalties	• Medium-High	• Low-Medium	• Medium-High	• Low-Medium to High	• Low	
Targeted rates	• Low			• Low-Medium to High	• High	• Medium-High
Fees and charges	• Low	• Medium-High	• Low		• Low	• Low
Internal charges and overheads recovered						
Subsidies and grants for operating purposes	• Low	• Low	• Low-Medium			
Local authorities fuel tax, fines, infringement fees, and other receipts	• Low	• Low	• Low	• Low	• Low	Low-Medium

Current activity funding sources levels

Funding Source	Stormwater	Waste Management & Minimisation	Rivers	Community Development	Governance	Council Enterprises
General rates, uniform annual general charges, rates penalties		• Low		• Medium-High	• High	• Should reduce general rates with forestry income
Targeted rates	• High	• Low-Medium	• Medium-High to High	• Low-Medium	• Low	
Fees and charges		• Low-Medium to Medium	• Low	• Low	• Low	• Low
Internal charges and overheads recovered				• Low		
Subsidies and grants for operating purposes				• Low	• Low	• Low
Local authorities fuel tax, fines, infringement fees, and other receipts	• Low	• Low-Medium to Medium	• Low-Medium	• Low	• Low	• High

Example activity - Rivers

Funding Source	River Works – General (Full Year Actuals 2021/22)	Lower Motueka River (Full Year Actuals 2021/22)	Rivers Z (Full Year Actuals 2021/22)	River-Berm Land (Full Year Actuals 2021/211	Total Income	Percentage of Total Income	R & F Policy Income Source Range
Targeted rates	$2,199,707	$0	$0	$0	$2,199,707	63%	MEDIUM HIGH to HIGH
Fees and charges	$575,000	$0	$0	$0	$575,000	16%	LOW
Local authorities fuel tax, fines, infringement fees, and other receipts	$95,983	$2,546	$418,858	$203,682	$721,069	21%	LOW-MEDIUM

Current approach – compliance

- Complying at an activity level on the whole
- At a sub-activity – opportunities to improve

Current environment

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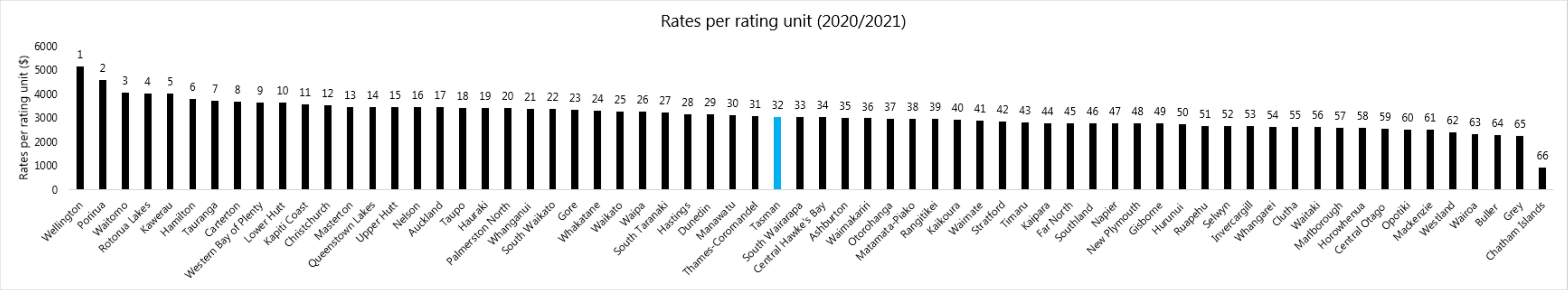
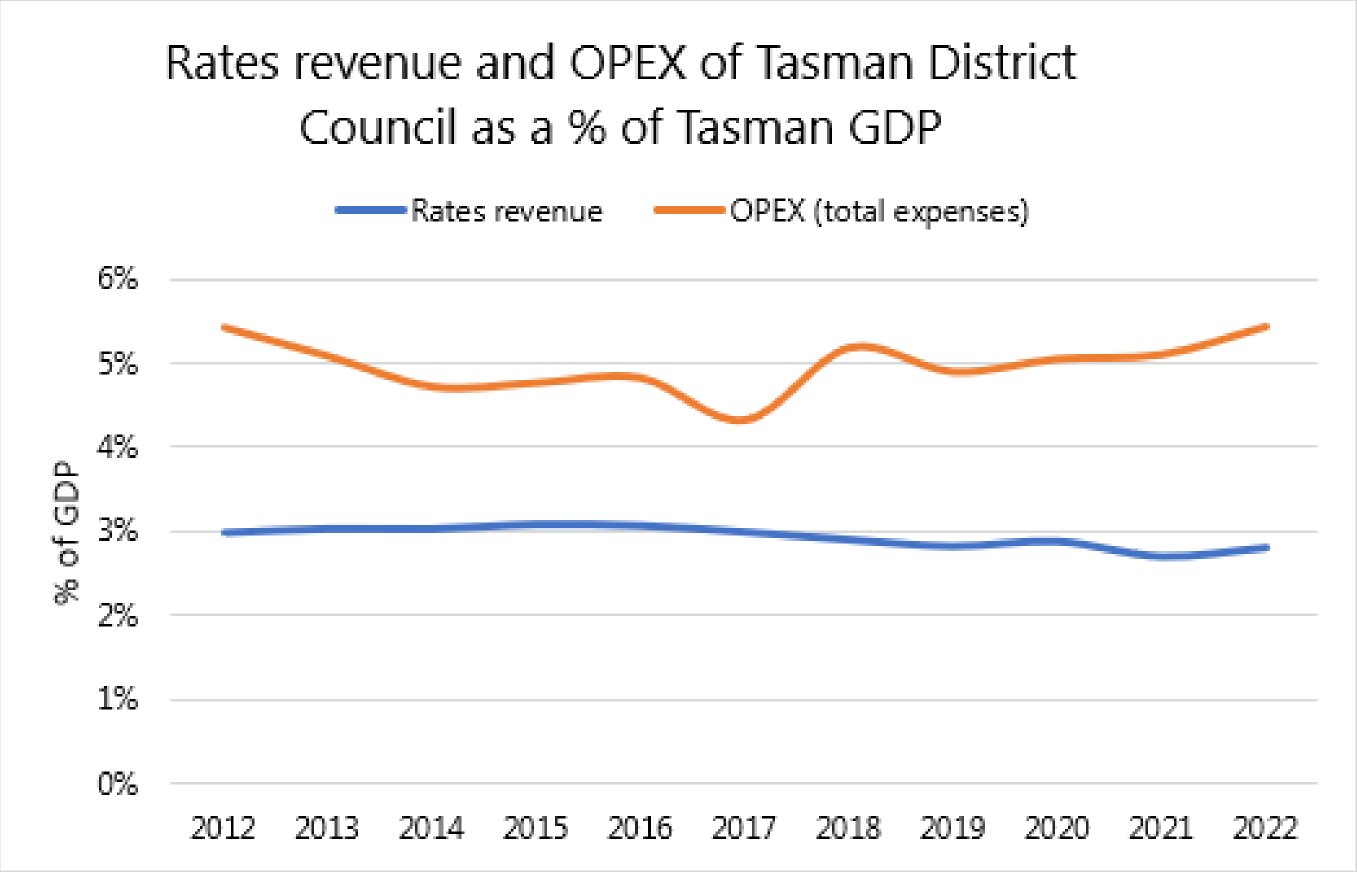
Rates cost - where does TDC sit?

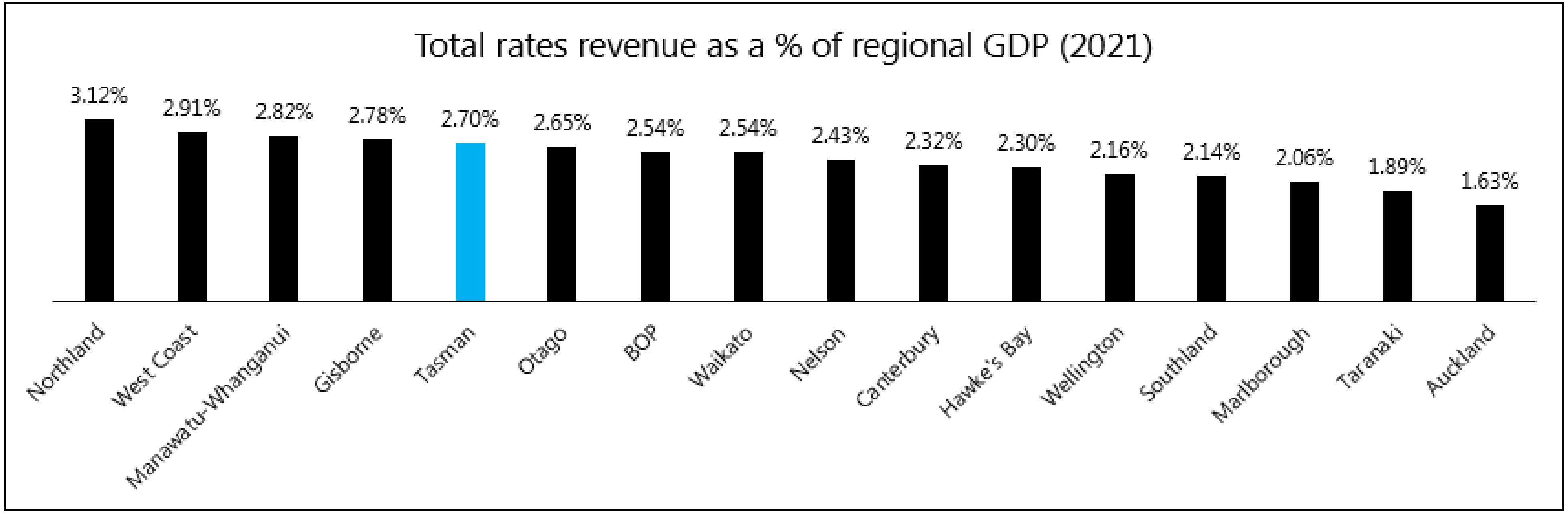


Cost impact on the community



- Regional GDP and OPEX have increased by 55% since 2012.
- Rates revenue has increased by 45% since 2012.

Cost impact on the community



Three water impacts

Uncertainty

- Waiting on further direction from DIA
- Taituarā is providing additional information
- Government indicated 3 waters reset

Current Understanding

- Need to bill and collect money on behalf of the WSE for water and wastewater
- Stormwater is being treated differently (bulk charge to council from WSE)
- Some 3 Waters infrastructure currently rated will become non-rateable.

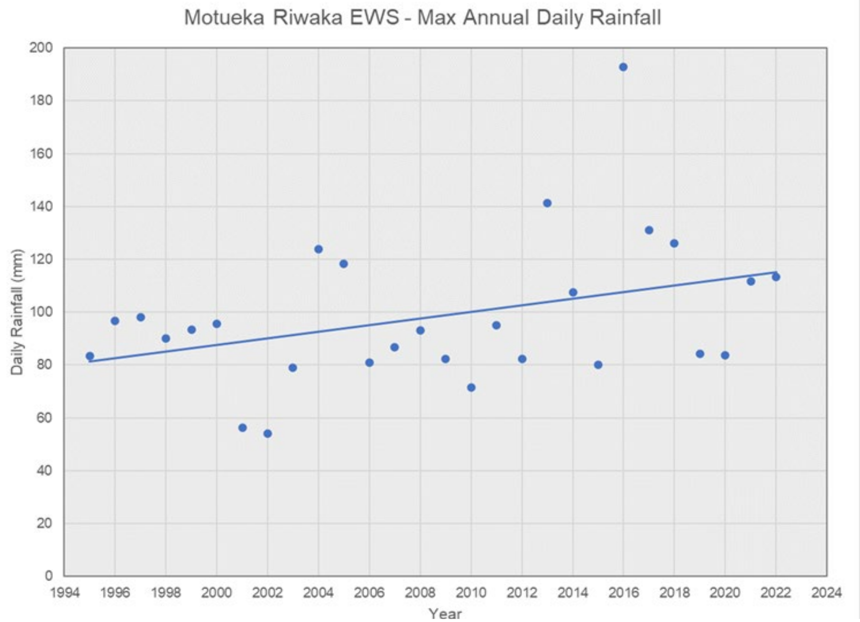
Assumptions

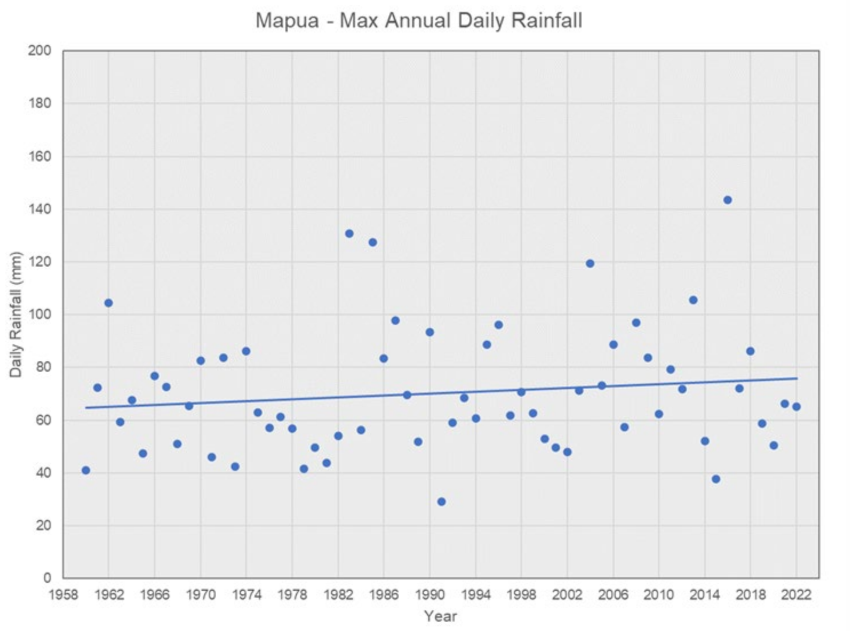
- Remove remissions for excess metered water rates, school wastewater charges and water and wastewater from the Revenue and Financing Policy.

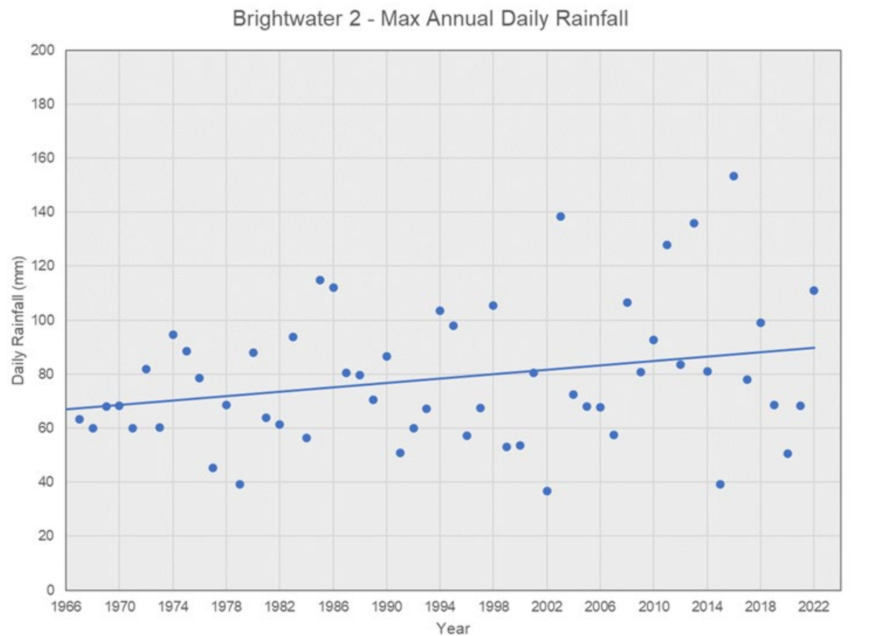
Key Financials - 3 Water Impacts

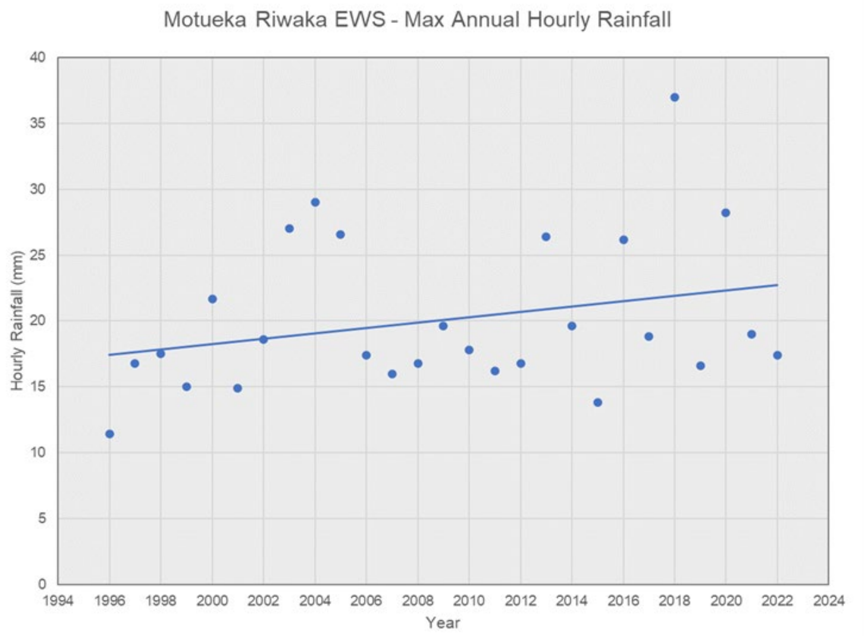
	$m With 3 Waters	$m Without 3 Waters	$m Variance
Total Debt	266,856	121,958	144,898
Total Assets	2,069,663	1,312,212	757,451
Total Rates	100,831	66,488	34,344
Total Other Revenue	56,960	50,496	6,464
Total Expenditure	127,285	98,388	28,897

Our environment – rainfall

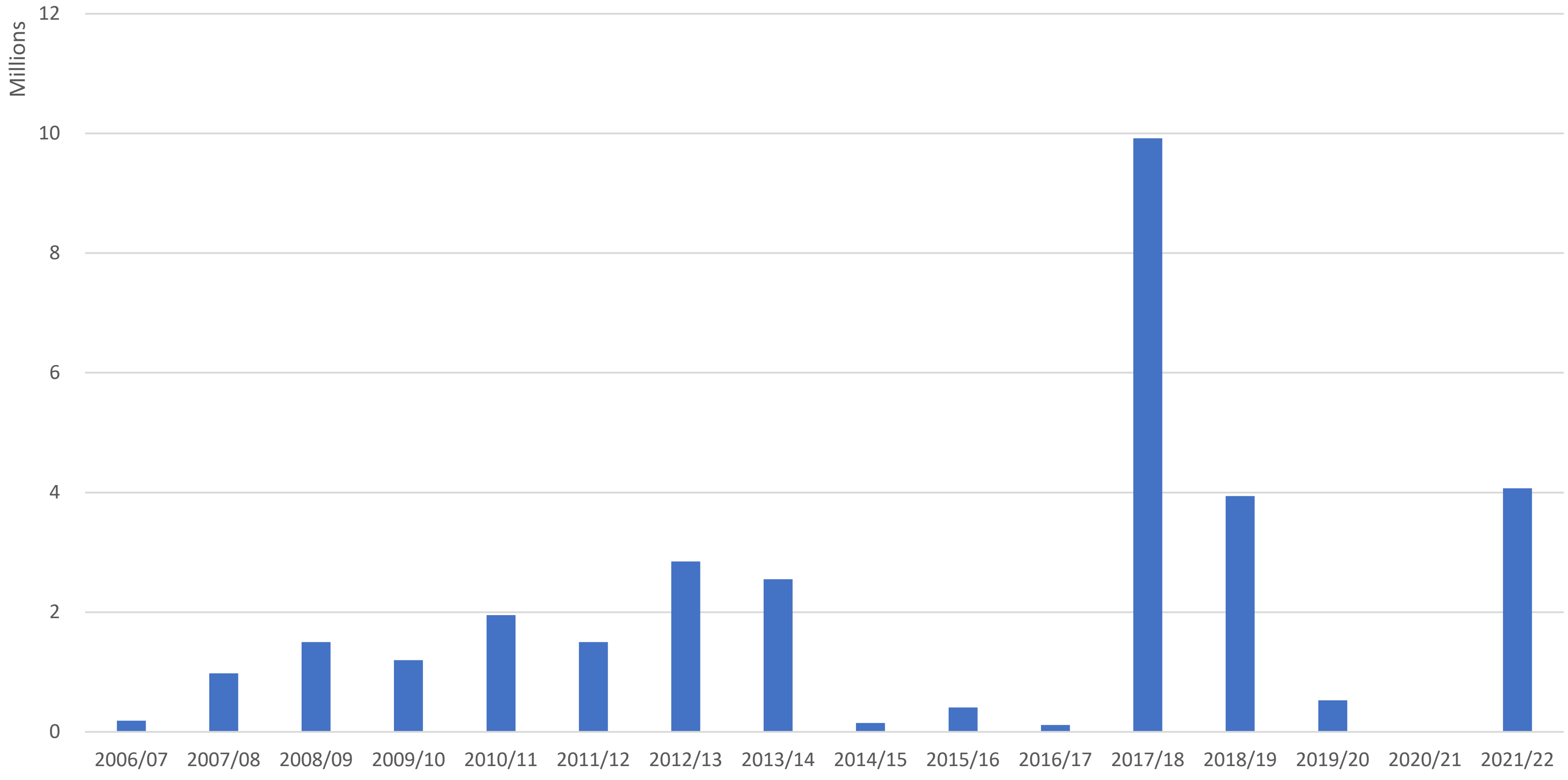








Our environment – roading emergency spend



Our environment

We have had more and more damage caused by weather events including;

- Cyclone Gita/Fehi - $13.0m
- July 2021 events - $4.2m
- August 2022 events - $5.4m

These have impacted roading and rivers predominantly but also 3 Waters, Parks etc. While we received funding Council also had to contribute.

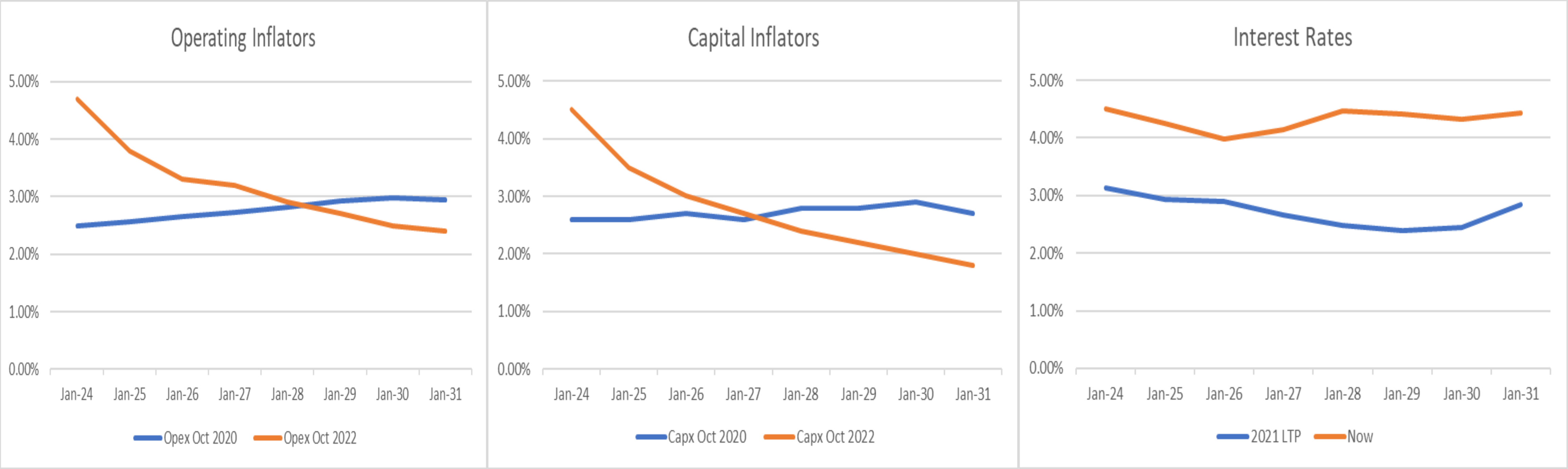
Council made a decision in the 2021 LTP to not fund the Emergency Funds on an annual basis at the end of the current financial year we would have exhausted the majority of Emergency funds

Commercial income

- Investment policy now sets level of income to distributed vs reinvested
- Loss of 3 waters means some port and airport distributions will get redistributed circa $300k
- Forestry currently offsets general rates annual by $825k

Global Cost pressures - inflation and interest

Shows comparison of inflation & interest costs from 2021 LTP vs now



- While inflation is high in the first 3 years it is forecast to drop. Interest rates are forecast to remain high

Specific cost pressures

- Road maintenance
- Costs for specific projects:
  - Motueka Pool
  - Port Tarakohe developments
  - Suter Gallery
  - Digital Innovation Programme
  - WCD Operating costs
- Carrying out condition assessments of all buildings in property (Halls/Libraries/offices/etc) – expectation is a correct but higher maintenance programme and therefore budget
- We used $2m of reserves to offset rates in 2023/2024. This is one off and automatically creates circa 2% rates increase pressure in 2024/2025
- Our Enterprise Committee potential investment decisions
- Govt Legislation – Water/Elections/RMA etc/Climate change

Specific cost pressures

Depreciation Funding

- Council is completing its transitioning to funding depreciation by 2025/26
- Funding depreciation impacts revenue requirement but more fairly allocates costs.

Property Revaluation 2023

- All properties are revalued every 3 years
- All properties in the Tasman District are going to be revalued by our valuer QV in 2023, with an effective date of 1 September 2023.
- The revaluation does not increase Council rates but does impact the incidence of rates.
- Rating valuations use a different approach than market valuations.
- Nothing needs to happen now – we will come back to you in December

Property Revaluation 2023 – prior impacts

Larger increases on:

- Lower valued residential properties
- Forestry
- Horticultural properties

Lower than average or decreases on:

- High end part of residential market (e.g. $1M plus)
- Pastoral/ livestock/dairy
- Commercial/industrial/utilities/other

Affordability perspectives

- Many retirees are on a fixed income but that can be higher than NZ superannuation.
- The government provides income support and income redistribution
- Different customers have different ability to pay so hard to nail down any general approaches.
- An affordability check involves determining whether you can meet your essential outgoings.
- To be affordable Council rates and charges should be within **most** people's budget
- Rates affordability benchmarks are not useful.

Part 2: Workshop

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Financial Principles

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Purpose

Identify the most important overarching financial principles you want to guide the 2024 LTP

Exercise

- 3 groups of 4-5 councillors
- Discuss and list principles that are important (40 min)
- Prioritise with stickers - you have 6 each (5 min)
- Report back (10 min)

Next Steps

Staff will review/combine/wordsmith and bring back for confirmation in June

Financial Strategy

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Direction sought

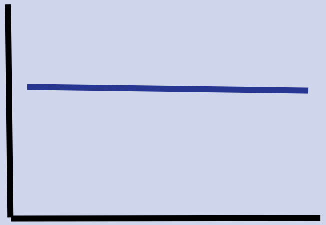
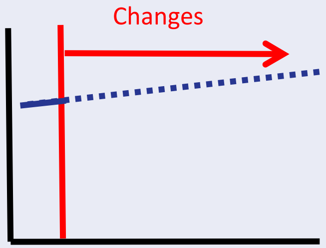
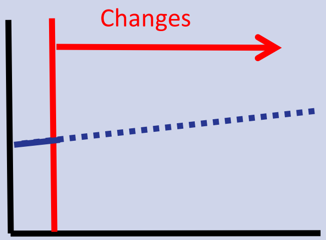
Preferred methodology for setting:

- Debt limit
- Rates increase limit

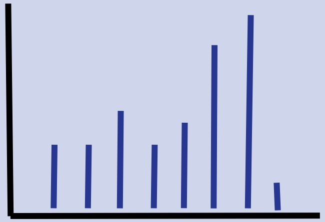
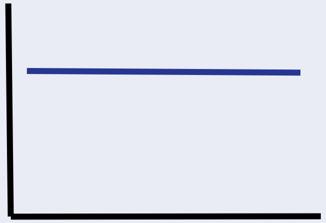
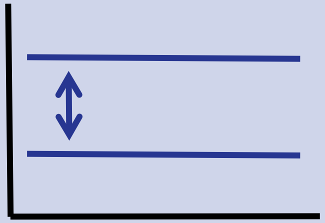
Next steps

Staff will provide advice on preferred option(s) in June

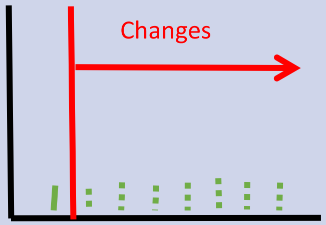
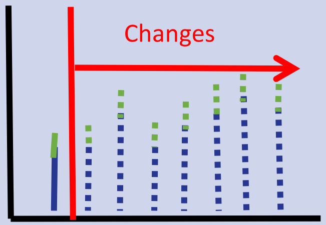
Debt limit options

	Looks like	Pros	Cons	Comments
Fixed debt limit		• Certainty, easy for Community to understand	• Due to inflation effectively a sinking lid that needs to be resized from time to time. • No other Council uses.	• Traditional approach at this Council
Dynamic - Ratio of debt to revenue (Recommended)		• Auto adjusts • Allows movement as Council revenue (ability to service) grows • Link to high growth demands and revenue • Common Council & commercial measure	• After initial reduction – will always track upwards • Lack of certainty/ changes annually – actual limit in any year less transparent • Does no account for the cost of servicing debt	• Most common method – 30/33 Councils sampled use this approach • **Recommended by staff**
Dynamic - Ratio of debt to equity		• Auto adjusts • Based off a well used financial ratio	• Does not provide tension due to size of Council equity driven by asset base • Equity is increased by non cash transactions e.g. asset revaluations • No link between equity and ability to service debt • Not used by other Councils	• Not recommended

Rates increase limit options - Fixed

	Looks like	Pros	Cons	Other comments.
A. Fixed per year		• Certainty, easy for Community to understand	• May not provide scope to manage volatility in economy or changes in programme • Likely to breach if matched to LTP forecasts	Staff do not recommend due to lack of flexibility to meet changing financial environment
B. Fixed upper limit		• Certainty, easy for Community to understand • If set high enough, provides scope to manage volatility /programme changes	• Likely to be set at or above highest forecast increase (too high for most years) • If set too low, does not provide scope to manage volatility /programme changes	
C. Fixed band		• Certainty, easy for Community to understand • If set high enough, provides scope to manage volatility /programme changes • Signals at least some minimum increases required (i.e. to accommodate cost increases and growth)	• Likely to be set near highest forecast increase (too high for most years) • If upper limit set too low, does not provide scope to manage volatility /pro gramme changes	

Rates increase limit - Dynamic

	Looks like	Pros	Cons	Other comments
D. Pegged to growth		• Acknowledges growth increase cost base	• Lack of certainty / changes annually – actual limit in any year less transparent • Does not acknowledge cost increase for services for existing residents • Changes annually – actual limit in any year less transparent	
E. Pegged to LGCI		• Acknowledge cost increases for services for existing residents • Helps constrain growth in scope of services undertaken by Council	• Lack of certainty / changes annually – actual limit in any year less transparent • Does not acknowledge growth increase cost base • Constrains growth in scope of services undertaken by Council	
F. Combined approach: • F1. Fixed + growth (current approach) • **F.2 LGCI + growth (recommended)**		• Acknowledge cost increases for services • Acknowledges growth increases cost base •	• Lack of certainty / changes annually – actual limit in any year less transparent	**Recommended by staff:** • **LGCI adjustor (different) +** • **Growth (same)**

Exercise

- 3 groups of 4-5 councillors
- Discuss options for setting (30 min):
  - Debt limits
  - Rates increase limits
- Prioritise with stickers – you have 4 each – 2 for debt, and 2 for rates (5 min)
- Report back (10 min)

Revenue and Finance Policy

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Direction sought

1. Confirm areas for investigation:
   a) Opportunities for change identified by staff
   b) Are there other areas of our current rating/funding that you want staff to review?

2. Do you agree to build up emergency event funding?

Next Steps

Staff will provide advice from June on opportunities prioritised

Opportunities for change - rates

Opportunity	Description	Pros	Cons	Staff recommendation
Differentials	• Introduce differential for urban non-residential rates, to fund transport for example	• Provides relief to residential rate payers who may not create the need for spend	• Pushes rates towards the forestry and/or commercial sector	• Staff recommend further investigation
SUIPS	• Rating policy allows fixed charge rates to be set per rating unit, or per SUIP. • This is a policy choice for each rate type. • Moving to SUIP is about modifying incidence of rates, not changing rates income requirements	• For a retirement village SUIP is a better proxy for user/exacerbator pays than rating units	• Costly to administer and set up • Could be seen as unfair to, for example -farmers with multiple dwellings or shopping malls	• This issued was raised with staff providing significant information at the last LTP • Staff do not recommend
Consolidation of whole of district per property targeted rates	• Rates such as the District Facilities and Museum rate could be consolidated in the UAGC or as a singular combined rate for example	• Reduces the complexity of the rating invoice	• Reduces visibility of what services rates are funding at a granular level	• Staff recommend further investigation
UAGC	• Is a whole of district, per property charge and is part of the general rate income source • Last increase was in 2013/14	• Could be seen to be more equitable to increase the UAGC to spread the rates burden over all ratepayers	• Higher valued properties subsidise lower valued properties as more general rates funded based CV	• Staff recommend further investigation

Opportunities for change – other revenue

Opportunity	Description	Pros	Cons	Staff recommendation
Lift % recovery for resource consents	• Increase resource consents fees to lift recovery above 50%, potentially transitioned over several years • Unlikely to be 100% - costs would be prohibitive and some public benefit reflected in consented outcomes • 50% increase is $2.4m per annum in extra revenue • Split rate	• More closely aligns who pays with benefit provided by service (user pays) • Reduced rate burden to fund activity	• Resourcing in this area is already causing delays and increase time spend on consents • May need to match with resourcing plan to improve LOS	• Staff recommend further investigation
Parking fees	• Introduce paid parking in Richmond town centre for all day parking (e.g. more than 2 hours) • Does not apply to time restricted parking • Options for how widely the net is cast • $50k – $150k per annum in revenue • Opportunity to tithe to specific purpose – such as	• Town centre parking strategy proposes this • Budgets provided to implement for 24/25. • Compliments sustainable transport initiatives • Frees up parking for commercial and retail activities	• Cost involved in establishing parking circa $50-150k	• Staff recommend furthe r investigation

Funding of emergency events

- In the 2021 LTP, Council made a decision to stop funding the emergency funds on an annual basis for three years.
- They are budgeted to start again in 2024/2025.
- While we have a debt headroom for major disasters, staff recommend that we begin to rebuild reserves for more regular events (circa $2m p.a).
- This will place further pressure on the level of rates increases.

Other changes - FYI

- Staff to undertake a review of the rating map boundaries and to come back with suggestions.
- Moving arbitrary boundaries eg WCD rates areas is a fraught exercise.
- Te Ture Whenua Māori Act - staff to come back with recommendations

Exercise

- 3 groups of 4-5 councillors
- Discuss (30 min):
  - Options for investigation, **add** new ones if needed
  - Funding for emergency events
- Prioritise options for investigation with stickers (you have 4 each) and confirm (or not) whether you wish to continue emergency funding (5 min)
- Report back (10 min)

Thank you