

# SOUTH WAIRARAPA DISTRICT COUNCIL

17 NOVEMBER 2021

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## AGENDA ITEM B1

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### OPTIONS FOR REDUCING BUDGET AND RATES FOR 2021/22

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#### **Purpose of Report**

To inform Council of options for reducing the budget and rates for the 2021/22 financial year.

#### **Recommendations**

Officers recommend that the Council:

1. *Receives the Options for Reducing Budget and Rates for 2021/22 Report.*
2. *Note the options available to reduce the 2021/22 financial year budget and rates.*

## **1. Background**

### **1.1 2020/21 Annual Plan Rates**

On the 27<sup>th</sup> October 2021 a report was presented to council discussing options for reducing budget and rates for the current financial year (2021/22).

Three options were presented:

1. Significantly reducing the levels of service and redoing the LTP then resetting rates for this year
2. Reducing costs while maintaining levels of service and resetting rates for this year
3. Reducing costs this year and carrying over savings into the next year, thus reducing next year's rates

Council resolved in the meeting of 27<sup>th</sup> October 2021:

To consider the options for reducing the budget and rates for the 2021/22 financial year and agreed that the preferred position to discuss with the community in November 2021 was to work towards making reductions in costs that do not significantly reduce levels of service and carry over savings to the next financial year. (Moved Cr Fox/Seconded Cr Plimmer)

## **2. Public Meetings**

The three public meetings on the 2021/22 rates were held as follows:

- 2 November Greytown
- 8 November Featherston
- 11 November Martinborough

The meetings were facilitated by independent facilitators, and were fronted by the Mayor and the CEO. Almost all councillors attended each one, and respective community board members attended their town's meeting.

### **2.1 Key Themes**

Most of the questions asked were about developing a deeper understanding of how the budget was arrived at, the role of the LTP, how the rates increase became higher than communicated, where the money goes, key projects and their status, current budget status, and how Council will rebuild trust and confidence.

Around half the audience at the first two meetings were keen on significant rates cuts this year, however, had a better understanding of how difficult this would be by the end of the meetings. They understand the constraints and challenges Council faced – 'between a rock and a hard place'.

There was little easing of understanding by the Martinborough attendees. Despite having no decision-making authority, expectations for detailed information were a lot higher. As a result, limited information was able to be shared in a logical order, and very few ideas were offered up for cost-savings.

### **2.2 Cost-saving ideas provided**

Several cost-saving ideas were put forward. Common themes were:

- Long term lease of Council land
- More shared services with other councils
- Sustained productivity drive within Council
- Reviewing existing leases and strengthening commercial terms
- Cancelling the contract with Wellington Water
- Reviewing charges from Wellington Water
- Tourist tax
- Reviewing all commercial contracts
- Reducing number of cars used by Council
- Selling Hodder's Farm and Featherston Golf Course
- Repay the \$1.5M loan

- Extending the borrowing over a longer term to spread the load over decades and fairly spreads debt servicing and repayment between current and future residents benefitting from the improved infrastructure
- Government has huge funds so needs to fund councils, not projects that the country can't afford, i.e. almost a billion dollars on a bridge for cyclists across Auckland Harbour.

These meetings have provided us with numerous insights and a clear idea of the amount of effort needed to inform and educate, and to engage with our community on key topics. Significant uplift in communications effort will be required to regain trust and confidence necessary to allow Council to continue to do its work successfully. Additional budget will need to be considered to resource appropriately and to improve access to the right channels that are fit for purpose (txt marketing, website upgrade, direct mail, community engagement sessions, community focus groups, etc.

### 3. Options for reducing the budget and rates for 2021/22

When making a decision, Council is required under the Local Government Act 2002 to identify all reasonably practicable options to achieve its objective and to assess the advantages and disadvantages of those options. The options for reducing the budget and rates for the 2021/22 are:

- Making significant reductions in costs and levels of service via an amendment to the LTP and resetting rates based on the amended LTP
- Making reductions in costs that do not significantly reduce levels of service and resetting rates
- Making reductions in costs that do not significantly reduce levels of service and carrying over savings to the next financial year

### 4. Impact of Rates Holiday

The impact of the rates holiday in 2020/21 was an average saving last year of approximately 8% per ratepayer. The table below shows the average dollar value impact this had on ratepayers.

	SWDC Av. Rates Holiday	SWDC Av. YoY Increase	SWDC Av. Total Rates Increase
Urban	\$ 268.14	\$ 427.50	\$ 695.64
Commercial	\$ 322.53	\$ 569.50	\$ 892.03
Rural	\$ 185.86	\$ 350.20	\$ 536.07

## 5. Preferred Option

### 5.1 Reducing costs this year and carrying over savings into the next year, thus reducing next year's rates

Council resolved on 27<sup>th</sup> October 2021 that their preferred option is to consider savings able to be made in the current financial year without impacting on the current LOS and to carry these savings over to next year (2022/23).

Section 96 of the Local Government Act 2002 clarifies that the LTP it is a document that states Council's intentions for the next 10 years. It does not constitute a decision to act; Council does not need to do everything proposed in the LTP.

#### 96 Effect of resolution adopting long-term plan or annual plan

- (1) The effect of a long-term plan and an annual plan adopted by a local authority is to provide a formal and public statement of the local authority's intentions in relation to the matters covered by the plan.
- (2) A resolution to adopt a long-term plan or an annual plan does not constitute a decision to act on any specific matter included within the plan.
- (3) Subject to [section 80](#), and except as provided in [section 97](#), a local authority may make decisions that are inconsistent with the contents of any long-term plan or annual plan.

As part of the development of the LTP, Councillors asked officers to propose a programme of work designed to meet the LOS. This needs-based approach resulted in a budget that continued to address underinvestment across all aspects of Council activities. Council was aware of the pressures to deliver in all areas at the same time as needing to keep rates affordable. The programme did not, therefore, include much in the way of non-essential or necessary activities.

Officers have reviewed the operational and capital budgets for each cost centre, along with the funding mechanism, with the intention of identifying savings that are able to be made in this financial year whilst at the same time maintaining LOS.

In some areas, like water supply, wastewater, stormwater, and roading, increasing costs and a lack of investment in previous years means cost savings are not possible in this current year if LOS are to be maintained.

Costs associated with the Finance and Corporate Support activity support the delivery of the whole Council work programme and include the communications, human resources, information technology, customer service, and finance functions. These costs indirectly support the delivery of the LOS and are allocated across all activities as internal charges and overheads.

Officers have given consideration to staffing within council and believe there is no additional capacity, with staffing levels only sufficient to deliver the LOS required at best. Any reduction to staffing levels would take several months to implement and come at a cost to council in terms of severance payments, and a likely increase in staff turnover. Due to the lag in implementation of staff reductions, coupled with labour shortages in key local government areas, this strategy would be unlikely to have any material cost saving impact on the current financial year.

Council facilities encompassing parks and reserves, swimming pools, cemeteries, playgrounds, maintenance and cleaning of public toilets, and solid waste (refuse and recycling) are all outsourced and bound by contractual obligations. Costs are unable to be reduced for this financial year in these areas. There could be long term implications if council shoes to break contracts and was not acting in good faith in term of contractual obligations.

### 5.1.1. *Potential cost savings for this financial year 2021/22*

#### Operational Costs

Officers have reviewed all operational costs and identified some savings that could be made this financial year.

Possible Savings	\$
Adjust timing of additional resourcing	45,000
Delay commencement of the Representation Review until Y2	30,000
Delay commencement of the Rates Review until Y2	60,000
Adjust budget for Māori Liaison commencement	50,000
Delay the project to digitisation of historical files	40,000
Revise the Economic Development budget	45,000
Reduce budget for facilities repairs and maintenance	58,000
<b>Total potential operational savings</b>	<b>\$328,000</b>

This level of savings would result in the following annual reductions to ratepayers:

	Annual \$ Saving	Decrease in Rates	Revised Average Rates	Unadjusted Rates increase
Urban	-\$54.12	-1.52%	22.52%	18.06%
Commercial	-\$61.41	-1.47%	25.42%	24.37%
Rural	-\$57.04	-2.46%	30.33%	23.53%

#### Capital Costs

Officers have reviewed the capital programme of works in relation to project timing and remain confident of full delivery in this financial year.

Officers have also reviewed the project funding mechanism as this can have an impact on rates.

Capital costs can be funded in four ways:

1. Directly through rates
2. Raising new debt
3. Through the use of reserves (usually depreciation reserves, restricted or infrastructure reserves built up from developer contributions)
4. A combination of the above

In deciding on the type of funding, officers took treasury implications into account, and after the review considered the current funding mechanisms to be the best option for each project.

### Other

Council has an existing rural roading reserve which was created to help offset the costs of any emergency works as a result of an unforeseen weather event or natural disaster. Ratepayers contribute \$300k each year to build this reserve. The LTP indicated the balance in this reserve at 1<sup>st</sup> July 2021 to be \$1.19M.

If Council considers this amount to be sufficient to mitigate risk it could decide to remove or reduce the contribution for 2021/22.

Officers have considered suggestions that council owned assets could be sold to reduce rates. Net proceeds from the sale of assets, once any costs and debt repayment and selling fees were deducted, would usually go to the District Property Reserve for the purpose of town centre development. Using proceeds from the sale of assets to offset operational costs and reduce rates would have the same effect as the borrowing in 2020/21. Unless the cost is a one-off, it would create an uplift to rates revenue in the following year.

#### **5.1.2. Potential savings suggested in public meetings**

##### Long term lease of Council land

Council reviews each lease as it becomes due. Each lease is tailored to each situation. The review considers optimal lease period.

##### More shared services with other councils

Council is committed to working with other councils in the district to share our services and knowledge. As opportunities arise, they are assessed to ensure they provide value for our ratepayers.

##### Sustained productivity drive within Council

Council is committed to continuous improvement and investment in technologies that will increase productivity. Our website has been recently updated to incorporate on-line payments and a booking system. We have budgeted in this financial year to move the customer relationship management system, which includes the regulatory database and financial system to the cloud. Officers are also actively working to improve connectivity and customer experience.

### **Reviewing existing leases and strengthening commercial terms**

Council reviews each lease as it becomes due in order to ensure terms of the lease are in line with market trends. Council may choose, under the Access to Council Parks, Reserves and Open Spaces Policy, at their discretion, to enter into Licences to Occupy with community groups. Council will charge a rental, usually a relatively nominal amount that recognises the use of part of a public amenity.

### **Cancelling contract with Wellington Water**

Wellington Water Limited are a Council Controlled Organisation of which South Wairarapa District Council is a shareholder. Uncoupling from this ownership structure would take a minimum of two years and be costly to ratepayers. Council could consider this option however, as the Three Waters Reform has been mandated by government and comes into force on 1<sup>st</sup> July 2024, it is unlikely this would be a financially prudent option.

### **Reviewing charges from Wellington Water**

Officers actively work to manage WWL budgets and keep costs to a minimum. Water is a highly regulated environment with higher standards coming at higher cost. WWL are working with council to improve water quality and resilience in our network to mitigate risk of failure and ensure safe drinking water.

### **Tourist tax**

A rating review is planned for this financial year. One of the discussion topics identified for review is looking at the tools available to better capture the cost of visitors to our district.

### **Reviewing all commercial contracts**

Contracts are reviewed as they become due.

### **Reducing number of cars used by Council**

We have an aging vehicle fleet with only four hybrid vehicles. Funds have been budgeted this year to replace up to 5 vehicles with more efficient vehicles.

### **Selling Hodder's Farm and Featherston Golf Course**

Council currently owns Hodder farm and Featherston Golf Course for the use as land for disposal of treated wastewater. If a decision is made by council that this land is no longer required and is surplus to requirements it would likely be sold. Net proceeds from the sale would be transferred to reserves. Council would then decide the best use for these funds.

The most likely use would be to make it available for the capital programme of work. This would have an effect of decreasing rates, however this would only be the opportunity cost created from not having to debt fund the new asset.

Using proceeds from the sale of assets to offset operational costs and reduce rates would have the same effect as the borrowing in 2020/21. Council cannot continue to partly fund operational costs from cash reserves.

### **Repay the \$1.5M loan**

This option will be considered as part of the Annual Plan. The Revenue and Financing Policy allowed council to borrow funds for the use of short-term borrowing to spread some operating costs or smooth funding over a limited period to avoid rates spikes. Council agreed to take a \$1.M loan over a five year period. This is a fixed term loan and would require break fees in order to repay early. Council would also need to consider the impact on cash reserves.

### **Extending the borrowing over a longer term to spread the load over decades and fairly spreads debt servicing and repayment between current and future residents benefitting from the improved infrastructure**

Council uses the inter-generational equity concept to fund all assets. The cost of the asset is depreciated over its useful life and any associated debt is matched to this. Infrastructure assets are revalued every three years and the useful life adjusted if necessary.

### **Government has huge funds so needs to fund councils, not projects that the country can't afford, i.e. almost a billion dollars on a bridge for cyclists across Auckland Harbour.**

A review of local government is currently underway and included the mechanism for funding local authorities.

## **5.2 Other Available Options**

### **5.2.1. *Reduction in costs in this financial year while maintaining LOS and resetting rates***

Council can consider savings able to be made in the current financial year without impacting on the current LOS.

The LTP could be amended to take effect this financial year and rates could be reset in accordance with section 119 of the Local Government (Rating) Act 2002.

119 Local authority may set rates again

- (1) A local authority may set a rate again in the financial year in which the rate was set.



- (2) Subsection (1) applies if—
  - (a) the local authority determines that it is desirable to set the rate again because of—
    - (i) an irregularity in setting the rate; or
    - (ii) a mistake in calculating the rate; or
    - (iii) a relevant change in circumstances; and
  - (b) setting the rate again will not increase the amount of rates assessed to any rating unit.

The above provisions give Council the ability to revise the programme of works, and the funding mechanisms applied, provided rates will not increase for any rating unit.

To take effect this year, the rates would be reset for the last quarter by May 2021 and for those who have already paid their rates, the amounts would be credited to future payments and ratepayers issued with new rates statements. Note that an amended LTP would need to be audited and this would depend on the availability of auditors.

Other than the implications on the work programme necessary to achieve the cost savings, there are minimal resourcing impacts on the work programme associated with this option. There are costs and resource implications for resetting the rates, including system changes and communications, estimated at \$15,000.

#### **5.2.2. Significant reduction in costs and levels of services (LOS)**

Amending the LTP and resetting the rates this year would require Council to commence work immediately in order to develop a draft amendment and budgets for consultation with the community. The consultation document would need to be audited in mid-January 2022 prior to consultation commencing at the beginning of February. The draft LTP amendment would need to be audited in late March/April for adoption and setting of rates by May. This work would run alongside the development of the Annual Plan which would be Year 2 of the LTP.

This timeframe may be achievable but would impact significantly on Council's workplan, particularly for the Finance, Communications and Policy and Governance teams. A number of projects would need to be postponed, including the rating review, IT system upgrade, engagement with Māori and the wider community on Māori wards, policy review programme and review of Council's Standing Orders.

It is likely that external resource would be required to assist in the development of the amended LTP and there are additional costs for consultation and production of the document. There are costs and resource implications for resetting the rates, including system changes and communications, estimated at \$15,000. Other costs including external resourcing, legal, and auditing costs are estimated at a further \$65,000.

## **6. Conclusion**

Council undertook to consider options to ease the rates burden by considering ways to reduce the budget and rates this financial year. Officers have identified three options:

- Making significant reductions in costs and levels of service via an amendment to the LTP and resetting rates based on the amended LTP
- Making reductions in costs that do not significantly reduce levels of service and resetting rates
- Making reductions in costs that do not significantly reduce levels of service and carrying over savings to the next financial year

In addition, there is an option to make reductions in costs and levels of service via an amendment to the LTP to take effect next financial year.

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