

11. Reports of the Chief Executive and Staff for DECISION



22-137

Title: 22-137 2022/23 Annual Plan
Section: Finance & Affordability
Prepared by: Melanie Hartung - Finance Manager
Meeting Date: Thursday 23 June 2022

Legal: No

Financial: Yes

Significance: **Medium**

Report to COUNCIL for decision

PURPOSE

The purpose of this report is to present the 2022/23 Annual Plan (AP) for adoption (**Attachment 1**).

SUMMARY

The AP is an opportunity to present the proposed annual budget and capital works programme for the year and to identify any changes to Council's plans for the year, against those established in the 2021-2031 Long Term Plan (LTP). It also provides for integrated decision-making and contributes to Council accountability.

This AP is the second year of our LTP. Whilst covering a ten-year timeframe, an LTP has a key focus on the delivery of projects over the first three years before we reset and complete a new Long-Term Plan in 2024.

In delivering the 2022/23 Annual Plan we will continue to navigate the significant challenges we have faced over the last year, including several extreme weather events, the COVID-19 pandemic, rising inflation and supply shortages and a changing legislative environment.

Along with managing these challenges, we will focus on continuing to effectively deliver our major capital investment projects, build our treaty relationships and partnerships and support the kaitiaki of our rohe to ensure our natural resources are managed sustainably, through effective planning and place shaping.

We expect to deliver a number of key outcomes over the 2022/23 financial year, including:

- completing the Wastewater Treatment Plant upgrade and Kiwa Pools.
- advancing our other major projects e.g., the Waipaoa River Flood Control Scheme and Uawa cycle and walkway.
- delivering more township upgrades in a number of our rural communities.
- supporting the kaitiaki of our rohe through new and ongoing initiatives e.g., the Tairāwhiti Resource Management Plan review, the Waingake Transformation Programme, the Turanganui Estuary Restoration Project, and our journey towards reaching net-zero emissions by 2030.

A summary of key financial measures within the estimates are:

- Overall rates increase 6.5% (LTP 6.5%).
- Forecast external debt of \$142m (LTP \$133m).
- Capital Expenditure Programme of \$99.2m (LTP \$79.5m).

Council's external debt is more than what was forecast within the LTP. The increase in debt is due to new projects that have arisen since the adoption of the 2021-2031 Long Term Plan. These projects are mostly due to new legislative requirements and resilience responses arising from adverse weather events.

Overall debt is within Financial Strategy threshold of 130% of total revenue.

The Capital Investment Programme for the 2022/23 AP is \$99.2m. The full details including all capital projects were approved for inclusion in the AP at the Finance & Performance Committee meeting on 1 June 2022 **[22-130]**.

The AP document has been prepared in accordance with the Local Governmental Act 2002 requirements. Consultation on the AP is only required if the Plan includes significant or material changes to the LTP. Based on the nature of changes identified, Council determined that consultation on the AP was not required and that our community be informed of changes and activities planned for the AP upon Council adoption.

Councillors will be asked to 'set the rates' for the 2022/23 year in report 22-117 "Rate Setting Report for 2022/23".

The decisions or matters in this report are considered to be of **Medium** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Council:

- 1. Adopts the Gisborne District Council 2022/23 Annual Plan (Attachment 1) - subject to any minor changes, including formatting or external legal changes.**
- 2. Approves the Capital Investment Programme of \$99.2m for 2022/23.**
- 3. Agrees that it is financially prudent to budget for an accounting surplus in the Annual Plan 2022/23.**

Authorised by:

Pauline Foreman - Chief Financial Officer

Keywords: annual plan 2022/23, rates setting, capital investment programme, wastewater treatment plant, kiwa pools, waipaoa flood control scheme, Tairāwhiti resource management plan

BACKGROUND

Legislative background

1. Under Section 95 of the Local Government Act (LGA) 2002, Council is required to adopt an AP in the second and third year of the LTP.
2. Under Section 82 of the LGA, consultation on the AP is only required if the plan includes significant or material changes to the LTP. Based on the nature of changes identified, Council determined that consultation on the AP is not required and that our community be informed of changes and activities planned for the AP upon Council adoption.
3. Report **[22-18]** on the Draft Annual Plan at Finance & Performance Committee on 16 February 2022 provided the draft estimates at that time and outlined the proposed approach for the delivery of the Annual Plan.
4. Subsequently report **[22-130]** on the Annual Plan Capital Programme at Finance & Performance Committee on 1 June 2022 provided details and gained approval for the full capital programme and its inclusion into the 2022/23 Annual Plan.

DISCUSSION and OPTIONS

Our Approach

5. In delivering the 2022/23 Annual Plan we will continue to navigate the significant challenges we have faced over the last year, including several extreme weather events, the COVID-19 pandemic, rising inflation and supply shortages and a changing legislative environment.
6. Along with managing these challenges, we will focus on continuing to effectively deliver our major capital investment projects, build our treaty relationships and partnerships and support the kaitiaki of our rohe to ensure our natural resources are managed sustainably, through effective planning and place shaping.
7. We expect to deliver a number of key outcomes over the 2022/23 financial year, including:
 - Completing the Wastewater Treatment Plant upgrade improving the water quality in Turanganui-a-Kiwi (Poverty Bay).
 - Completing the Kiwa Pools - a modern multi-purpose pool facility the whole community can enjoy.
 - Continuing the acceleration of the delivery of the Waipaoa River Flood Control Scheme giving greater protection to our community and more resilience against floods.
 - Commencing the first stage of the Uawa cycle and walkway - involving a 5.6km path from Uawa Bridge on SH35 around Tolaga Bay township.
 - Delivering more township upgrades in Te Araroa, Wharekahika, Tikitiki, Rangitukia, Ruatoria and Tiroto to support our smaller communities.
 - Continuing investment in critical infrastructure, e.g., roading resilience works and route security for safer passage on our roads.

- Supporting the kaitiaki of our rohe to ensure the sustainable management of our region's natural resources, e.g., through our work to:
 - review the Tairāwhiti Resource Management Plan (TRMP) and our freshwater planning programme.
 - advance the ongoing Waingake Transformation Programme.
 - commence the newly formed Turanganui Estuary Restoration Project.
 - and begin our journey towards reaching net-zero emissions by 2030.

Financial Nuts and Bolts of the AP 2022/23

8. The proposed 2022/23 AP estimates are consistent with Council's Strategy as set for Year 2 of the 2021-2031 LTP.
9. The 2022/23 AP within this report, includes changes made up to December 2021 presented in the draft report **[22-18]** and further changes made up until 1 May 2022.
10. The AP sets out detailed prospective financial information for the 2022/23 financial year. The financial information is included within the financial overview and the detailed financial information within the "Our Finances" section of the Plan. Key discussion points are set out below:

Operational Changes

11. Operational Expenditure is currently budgeted at \$121m, \$5.3m over the LTP for year 2.
12. The proposed draft 2022/23 AP estimates were calculated and presented in February 2022 refer to report **[22-18]** and were based on what was known at that time. Most of the changes related to an accounting standards reclassification of Information services Enterprise Solutions project from capital to operational expenditure. The Enterprise Solution is the project that will deliver the replacement of Council's core systems.
13. A summary of the other changes as outlined in **[22-18]** are:
 - Higher insurance costs.
 - Depreciation costs based on actual revised valuations (as of 30 June 2021).
 - Lower costs for training and travel, as more training is occurring online.
 - Revenue changes based on revised actual trends.

Employee Benefit Expense

14. The AP has Employee Benefit costs of \$30.7m, up \$3.3m from Year 2 of the LTP. At the time of the adoption of the 2021-2031 LTP, significant planning costs for the Tairāwhiti Regional Management Plan, Freshwater Plan, Waingake Restoration and services for resource consents were planned to be delivered by consultants or under professional services fees. Their costs were provided under "Expenditure on Operating Activities".
15. The plans and services will now be provided internally, and as such the Employee Benefit Expense has been adjusted.

Capital Programme

16. The capital programme is now \$99.2m, an increase of \$19m over the LTP. In effect the first three years of an LTP represents a rolling programme of delivery before we reset and compete a new Long-Term Plan in 2024.
17. The main changes from the draft Year 2 programme are in relation to:
 - New projects \$3.9m
 - **IT upgrades and equipment \$355k**
 - **Bridge at Te Arai \$465k**
 - **Waingake Treatment Plant UV Installation \$1.15m**
 - **Tokomaru Transfer Station Relocation \$800k**
 - **Freshwater Improvement Fund \$100k**
 - **Taruheru Block New Pump Station \$1.05m**
 - Carryovers as assessed \$16.5m - significant carryovers below:
 - **Wastewater Treatment Plant \$2.8m**
 - **PGF Route Security \$5m**
 - **Kiwa Pools \$1.8m**
 - **1000 Year Bridge \$1m**
18. For full details of the changes refer to report **[22-130]**.

Debt

19. Debt is forecast to be \$142m for 2022/23 this is an increase of \$9m on the LTP. This is mostly driven by new projects that are both responses to legislative requirements and resilience. This includes the land purchase for 25/27 Banks Street for the Wastewater Treatment Plant (WWTP) and the use of the FAR emergency reserve for 2021/22 roading reinstatement.
20. There are also several new projects; the UV Water Treatment, Te Arai Bridge and the relocation of the Tokomaru Bay transfer station.
21. This debt forecast remains within the debt threshold of 130% of revenue as set out in the Financial Strategy.
22. Overall interest for the AP is slightly lower than what was in Year 2 of the LTP, due to opening debt being lower than expected and the timing of projects. The LTP assumed an interest rate of 3.4%, but the AP provides for a slightly higher rate of 3.6%.

Balance Budget

23. Council's operating income should be set at a level to meet each year's operational expenditure. This is to ensure that there is access to enough funding to enable long term provision of services.
24. There are activities where this approach may not be practical or prudent, due to the activity's long-term nature, or they are being managed on behalf of the crown, i.e. forestry assets and soil conservation nurseries.

25. Council is forecasting an accounting surplus for 2022/23 of \$27.5m, down \$1.3m on LTP Year 2. The accounting decrease is mostly due to the recognition of Enterprise Solutions Project, where it is now recorded as an operational expense.
26. We record capital grants as income even though it is not used for funding operational activities and, as such, creates an accounting surplus. The surplus will go towards our capital projects and reduces the need to borrow funds.
27. The plan follows other provisions that have been made within the LTP that affect the balanced budget, such as:
- Phasing the funding of new depreciation costs that arise from the Wastewater Treatment Disinfection Project and the Pool Redevelopment Project.
 - Not funding all of the depreciation costs that arise from the subsidised roading network, as a significant portion of the roading network is funded by Waka Kotahi.
 - Not funding depreciation on certain assets where:
 - The assets may not be replaced at the end of their useful life.
 - Where the asset has been funded in advance by capital rates.
 - Where the asset has been fully grant-funded.
 - Loan funding the steep operational costs that include:
 - Freshwater Plan (FW), Tairāwhiti Resource Management Plans (TRMP) and a provision to enable employment costs to move from below local government to meeting local government rates.
 - The use of loan funding allows impact of rates to be smoothed over time.
 - Using operational reserves to fund some operational expenditure where appropriate.
 - Running activity surpluses/deficits in some areas (e.g., Conservation nurseries such as Waerenga-o-Kuri Reserve and Wharekiri Reserve).
28. When preparing and reviewing the budgets, Council has had regard to the following specific matters in relation to all activities of Council as per the Local Government Act (LGA) section 100:
- Maintaining levels of service.
 - Maintaining the services capacity and integrity of assets.
 - Intergenerational equity.
 - Compliance with Council's funding and financial policies established under LGA section 102.

Resident satisfaction surveys

29. We commission independent resident satisfaction surveys to find out how satisfied residents are with our resources, facilities and services while always looking for improvement opportunities as part of our approach to continuous improvement. The survey and reporting process has to date included collecting data on a quarterly basis through telephone-based surveys, providing quarterly reports, and producing an annual analysis which feeds into our Annual Report.

30. Resident surveys should be relevant, interactive, and user-friendly so we can ensure genuine community input. As such, we are amending our current model to enhance the way in which we collect survey information, by focussing on targeted online surveys, supplemented by "point of service" user surveys, via QR codes and kiosks. The new process will be 'live' for Q1 reporting for Year 2 of the LTP. This will be followed by a review of our performance measures (to inform the 2024-2034 LTP) to ensure that both the questions we are asking our community and the methodology we are using to capture their feedback is fit for purpose.

ASSESSMENT of SIGNIFICANCE

Impacts on Council's delivery of its Financial Strategy and Long-Term Plan

Overall Process: Low Significance

This Report: Low Significance

Inconsistency with Council's current strategy and policy

Overall Process: Low Significance

This Report: Low Significance

The effects on all or a large part of the Gisborne district

Overall Process: Medium Significance

This Report: Medium Significance

The effects on individuals or specific communities

Overall Process: Medium Significance

This Report: Medium Significance

The level or history of public interest in the matter or issue

Overall Process: Medium Significance

This Report: Medium Significance

31. The decisions or matters in this report are considered to be of **Medium** significance in accordance with Council's Significance and Engagement Policy.

TANGATA WHENUA/MĀORI ENGAGEMENT

32. There are no significant changes to the AP that required additional Māori engagement.

COMMUNITY ENGAGEMENT

33. There are no significant changes within the AP that trigger consultation.
34. We will inform the Tairāwhiti community through special e-News editions of stories highlighting our plans for 2022/23. We will also include additional information on our website, through our social media channels and via a media release upon adoption of the AP.

CLIMATE CHANGE – Impacts / Implications

35. Adverse weather events are increasing in our region. These will continue to impact the delivery of our projects but by taking a rolling three-year approach to our capital projects, we will be able to better absorb, and prioritise around, the impacts of climate change.

CONSIDERATIONS

Financial/Budget

36. Loan funding of operational costs is one of the financial management considerations pursuant to sections 100-101 of the Local Government Act 2002.
37. Loan funding for operational costs (eg Freshwater Plan) means that these costs are not in “balance” as our operating revenue does not match the operating expenditure.
38. Loan funding is not considered an operation cost. Any unbalanced budget decisions such as the use of loan funding for operational expenditure, is provided for within the Revenue & Financing Policy.
39. It should be noted that while most of the loan funded operation costs are not in “balance” under a legislative definition, the costs are spread over a shorter period. This means the principle of intergenerational equity (i.e. the needs of the present ratepayers do not compromise future generations) is being adhered to. Today's ratepayers are paying their share of value of the plan (or services), as it is being used to enable the services to occur in a more affordable way.
40. The use of loan funding operation costs is applied when it is deemed prudent to do so to meet the expenditure needs of the local authority whilst taking into account the spikes in rates that would have otherwise occurred without the use of loan funding.

Legal

41. There are no major legal considerations arising from this report.

POLICY and PLANNING IMPLICATIONS

42. Our Significance and Engagement Policy has been considered when assessing the appropriate level of engagement required for the proposed changes.
43. The programme is within the Financial Strategy limits, Treasury Management Policy and within the Revenue & Financing Policy.

RISKS

44. If the AP is not adopted at this meeting, Council will be unable to ‘strike the rates’ before the 2022/23 financial year.

NEXT STEPS

Date	Action/Milestone	Comments
23 June 2022	2022/23 AP adoption	Council meeting
	Setting of rates	

ATTACHMENTS

- 1. Attachment 1 - Annual Plan 2022-2023 Draft For Council [**22-137.1** - 100 pages]