PALMERSTON NORTH CITY COUNCIL

# MINUTES ATTACHMENTS
# COMMITTEE OF COUNCIL

9AM, MONDAY 4 MARCH 2019

COUNCIL CHAMBER, FIRST FLOOR, CIVIC ADMINISTRATION BUILDING
32 THE SQUARE, PALMERSTON NORTH

# COMMITTEE OF COUNCIL MEETING

4 March 2019

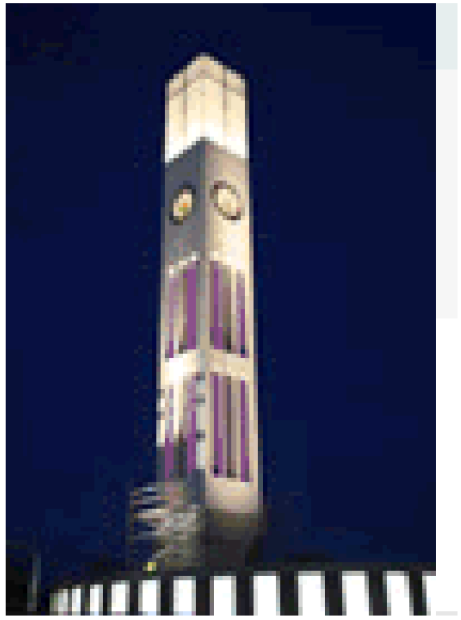
**6 Annual Budget (Plan) 2019/20 (Year 2 of the 10 Year Plan 2018-28) - Adopting Supporting Information and the Consultation Document**

1. Presentation - Annual Budger (Plan) 2019/20 4

# Annual Budget 2019/20

Committee of Council

4 March 2019



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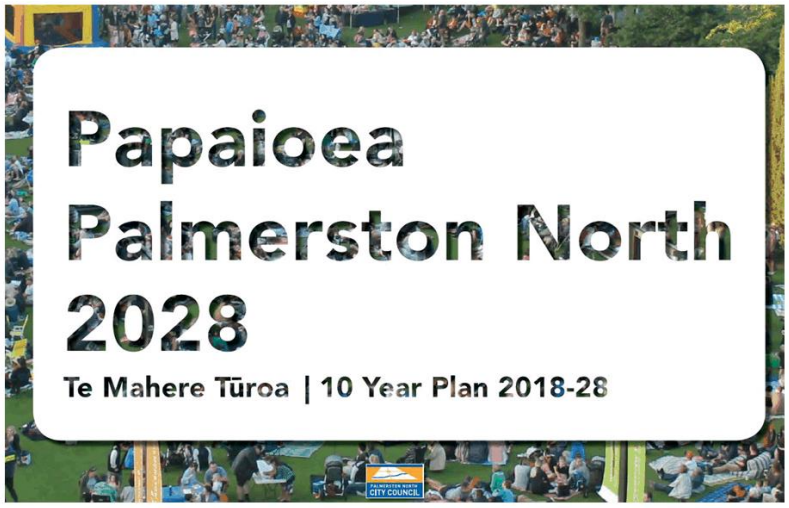
# Today

- Provide a public overview of the proposed 2019/20 Annual Budget (Plan)
- Approve Consultation Document & Supporting Information for adoption by Council on 18 March

# The big picture




Year 2

2019/20

The focus of the Consultation Document is required to be variations from the 10YP

The basis for the Annual Budget 2019/20

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# The big picture

- Year 2 of the 10YP is the base
- Some changes need to be made to reflect changes to assumptions
- A few other changes are proposed to reflect refinement of Council priorities
- Need to understand the impact of the changes & decide how to cope with them, remain consistent with Financial Strategy & keep rates increases to an acceptable level

# Overview
# What is the position?

- 10YP assumes increases in total rates of 5.5% for 2019/20 and 5.2% the following year
- It also assumes new capex of $54.65m in 2019/20 and $52.17m in 2020/21
- The 10YP includes important assumptions about the timing and sum involved in the wastewater upgrade programme – there is a high level of uncertainty in relation to the investment of $100+ million required
- The recent assessment of the library building as earthquake prone introduces unplanned future commitments & delays some previously planned capex

# What are the components of 5.5% increase provided for in 10YP?

| | Rates impact % |
|---|---|
| | |
| Loan interest (for increased debt) | 2.3% |
| Loan principal repayment (increase) | 0.5% |
| Increased income provision (various) | -1.0% |
| Increased operating expenses (incl. inflation provision) | 3.7% |
| %age increase in total rates requirement | 5.5% |

# Key assumptions in year 2 of 10YP & what's changed

| Issue | Was | Now | Impact |
|---|---|---|---|
| Total level of debt at start of year | $144.9m | $130.9m # | Reduces interest by $0.8m (@ 5.7%) |
| Interest rate on debt | 5.7% | 5.2% | Reduces interest by $0.72m |
| Increase in debt repayment (consequence of lower interest rate) | $4.52m | $4.62m | Increases rates requirement by $0.1m |
| Size of capital programme<br>- New<br>- Renewal | <br>$54.65m<br>$21.48m | <br>$55.16m<br>$22.41m | |

# opening debt adjusted to reflect assessment of 2018/19 capex projections, proposed carry forwards & in particular not undertaking library work, budget adjustments approved by Council incl. reduced undergrounding & increased expenditure on bridge & pathways

# Proposed changes to base operating budgets

| Activity | | Rates impact $000 |
|---|---|---|
| Active community – city-wide reserves | CET Wildbase recovery centre – add provision for net operating costs | +208 |
| Rubbish & recycling – waste minimisation | Lower revenue expectations from sales of recyclables | +230 |
| Various infrastructure | Lower consultancy budgets to help pay for library building options investigations | -70 |
| Safe communities – public health | Additional costs of maintaining accreditation under Food Act | +90 |
| Commercial – external contracts | Increased revenue expectations from building services to other councils | -102 |
| Economic development | Recalculation of population based split of CEDA funding between PNCC & MDC | -70 |
| Leadership - elections | Provision for increased postal costs | +15 |



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# Proposed changes to base operating budgets

| Activity | | Rates impact $000 |
|---|---|---|
| Leadership – direction setting | At request of Rangitane to enhance partnership & engagement arrangements with Council - Provision for an annual marae grant to Rangitane to recognise the role they play in hosting visitors | +50 |
| Leadership – direction setting | Anticipated implementation costs of outcomes of governance review | +80 |
| Safe communities – animal control | Increased after hours service | +10 |
| Safe communities – public health | Better understanding of 3 year licencing cycle revenue expectations for Alcohol licencing | +20 |
| Economic development – conference centre | Increased resources to service venues operations | +40 |
| Connected communities - library | Additional cleaning ($12k) & offsite archive storage ($44k) | +56 |

# Proposed re-classification & timing of programmes

| Prog # | Programme | Rating impact $000 |
|---|---|---|
| 1458 | MPI code of welfare compliance – additional resources – begin a year earlier than originally planned | +57 |
| 1572 | Financial system replacement – identified as a priority to replace. Likely to be cloud based subscription that means it is an operating cost. Current estimate is that an additional $1.5m opex will be required in 2020/21 & $300k pa thereafter.<br>This programme replaces renewal programme 77 scheduled for 2020/21 – 2022/23 | +650<br><br>-195 |
| 1501 | Public sculptures/art funding – previously recorded as capex programme 367 | +50 |

# Proposed replacement of operating programme with a capital programme

| Prog # | Operating Programme | Rating impact 2019/20 $000 | Rating impact 2020/21 $000 |
|---|---|---|---|
| 1430 | Sport Manawatu Sports House Contribution (deletion of provision for grant as original proposal is no longer proceeding in the same form) | -766 | -782 |

| Prog # | Capital New Programme | 2019/20 $000 |
|---|---|---|
| 1514 | Provisional sum for construction of a new building on Cuba St frontage of CET Arena | +1,500 |

# Proposed new operating programmes

New

| Prog # | Programme | Rating impact $000 |
|---|---|---|
| 1571 | Investigation into central library options | +200 |
| Linkages to Creative & Liveable Strategy (Arts Plan) & Connected & Safe Community Strategy (Community Services & Facilities Plan) | | |
| 1515 | Culture change initiatives | +270 |
| Linkages to Driven & Enabling Council Strategy | | |

# Proposed changes to renewal programmes

| Prog # | Programmes | Rating impact $000 |
|---|---|---|
| 188 | Library replacement of books & materials – reduce budget from $856k to $800k | -58 |
| 612 | Wheelie bin & crate renewals – reduce budget from $99k to $50k (revised assessment of requirements) | -81 |
| 1374 | Public recycling facilities renewals – increase budget from $2k to $8k (revised assessment of requirements) | +6 |
| 744 | Kairanga Bunnythorpe Rd (Mangaone Stream) bridge renewal – defer to align with timing of Jacks Creek | -252 |
| 63 | Plant & vehicle replacements – increase to cover purchase of trucks to replace leased ones | +650 |
| | Offset by reduction in budget for leased vehicles | -300 |
| 1490 | I-Site LED screen – delete as brought forward to 2018/19 | -53 |
| | | |

# Proposed reclassification of CAB refurbishment programme 1521

| Current $000 | 19/20 | 20/21 | 21/22 | 22/23 | Total |
|---|---|---|---|---|---|
| Prog 1521 CAB workplace transformation (Opex) | 204 | 208 | 426 | 435 | 1,273 |

| Proposed $000 | 19/20 | 20/21 | 21/22 | 22/23 | Total |
|---|---|---|---|---|---|
| Prog 1521 CAB workplace transformation (Opex) | 50 | 100 | 250 | 0 | 400 |
| Prog 86 Council furniture replacements (Renewal) | 150 | 100 | 150 | 400 | 800 |

# Proposed changes to capital new programmes

| Prog # | Programme | Was $000 | Proposed $000 |
|---|---|---|---|
| 506 | Public space rubbish & recycling bins – revised assessment of need | 71 | 40 |
| 1043 | Totara Rd wastewater treatment plant – inlet main duplication – addn'l costs of possible sheet piling | 461 | 500 |
| 1513 | New emergency operations centre fitout – delete as brought forward to 2018/19 | 200 | 0 |
| 1518 | Library building upgrade – delete $3.57m in 2019/20 & $3.38m in 2020/21 | 3,570 | 0 |
| | | | |

# Proposed capital new programmes to be moved from 2019/20 to a later year

| Prog # | Programme | To | $000 |
|---|---|---|---|
| 1468 | Heritage archive shelving | 2020/21 | 41 |
| 1503 | Highbury community hub fitout | 2020/21 | 255 |
| | | | |
| | | | |



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# Proposal to bring forward 2nd stage of Papaioea housing development (prog 1219)

- Likely to be able to bring more certainty to future programme costs & be more cost effective by continuing on with stage 2 after completion of stage 1B scheduled for December 2019

| | 19/20 | 20/21 | 21/22 | 22/23 |
|---|---|---|---|---|
| 10YP | | | 2,661 | 2,405 |
| Proposed | 2,553 | 2,307 | | |

Note – these figures at present assume the same total capex (without inflation)

# Proposal to increase Footpaths renewal budget (prog 64)

- Since adoption of the 10YP an updated assessment of city footpaths has been completed
- Results were reported to Council in Nov 18
- Revised approach to management of footpath repairs and maintenance being implemented
- 10YP provides for progressively increasing level of footpath renewal
- The sum provided is significantly less than may be required & in the short term less than would be required to fully utilise the available NZTA co-funding

# Proposal to increase Footpaths renewal budget (prog 64)

- Even if budgets were increased there are insufficient internal & external resources to realistically complete the work

| | 2019/20 $000 | 2020/21 $000 |
|---|---|---|
| Prog 1567 – maintenance | 214 | 219 |
| Prog 64 – renewals | 715 | 752 |
| Current budget – total expenditure | 929 | 971 |
| | | |
| NZTA – approved funding allocation | 1,644 | 1,723 |
| Suggested maximum deliverable [2019/20 ($214 + $1,000)] | 1,214 | 1,244 |
| Additional rates allocation required to fund Council share if budget increased to suggested maximum deliverable – this increase has been included in the draft budgets | 126 | 105 |

# Items referred from Council for consideration (included in draft budgets)

| Council referral | Issue | Comment | Strategy/Plan linkage |
|---|---|---|---|
| Nov 18 | Arts Fund | Consider creation of a separate arts fund of $50k to be available for more significant activities aligning with Council strategy | Creative & Liveable City/Arts Plan |
| Dec 18 | Hancock Community House | Proposed additional contract with CSC to administer HCH (Est $60k) | Connected & Safe Community/ Community Support Plan |

# Items referred from Council for consideration (not included in draft budgets)

| Council referral | Issue | Comment | Strategy/Plan linkage |
|---|---|---|---|
| | | | |
| Nov 18 | Caccia Birch Lagoon embankment | Previous decision by Council not to fund but now request to consider again during budget process. Involves new pathway & landscape improvements (Est $90k) | Creative & Liveable City/Arts Plan, Culture & Heritage Plan |
| | | | |

# Other Issues – progress with the 2018/19 capital programme

- A preliminary assessment has been made of progress with the 2018/19 capital works programme
- An assessment will be made in May so assumptions can be reviewed for the final annual budget
- Any carry forwards will impact on the interest expenses assumption & influence whether any programmes scheduled for 2019/20 be deferred

# Other Issues – progress with the 2018/19 capital programme

- For budgetary purposes it has been assumed the following sums will be carried forward

| Prog # | Programme | Proposed carry forward $000 |
|---|---|---|
| 1082 | CET Arena – Relocation of pits | $3.3m Exp<br>$471k Rev |
| 1082 | CET Arena – Artificial pitch | $1.4m Exp<br>$700k Rev |
| | | |
| | | |
| | | |

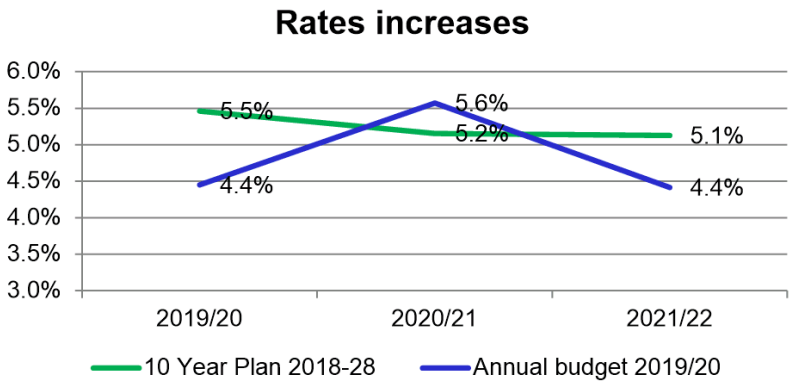
# Overall position including the changes?

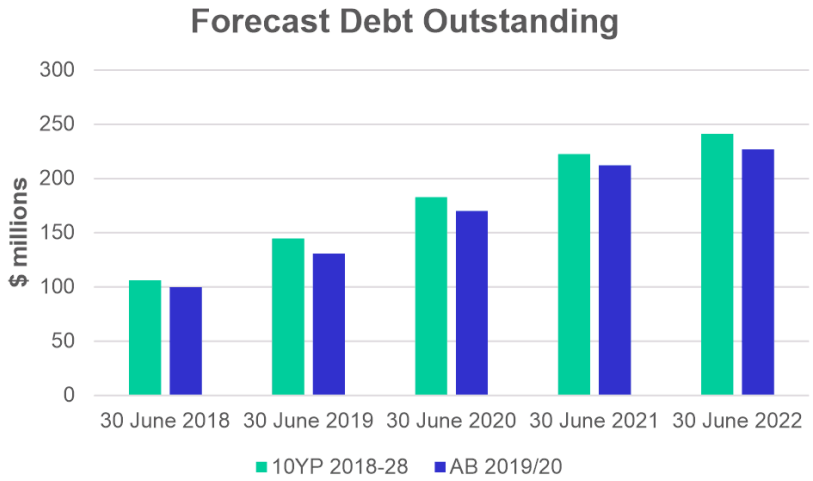
## Rates increase

**4.4%** for 2019/20
&
**5.6%** for 2020/21

(10YP 5.5% & 5.2%)

$945k = 1% rates increase for 2019/20



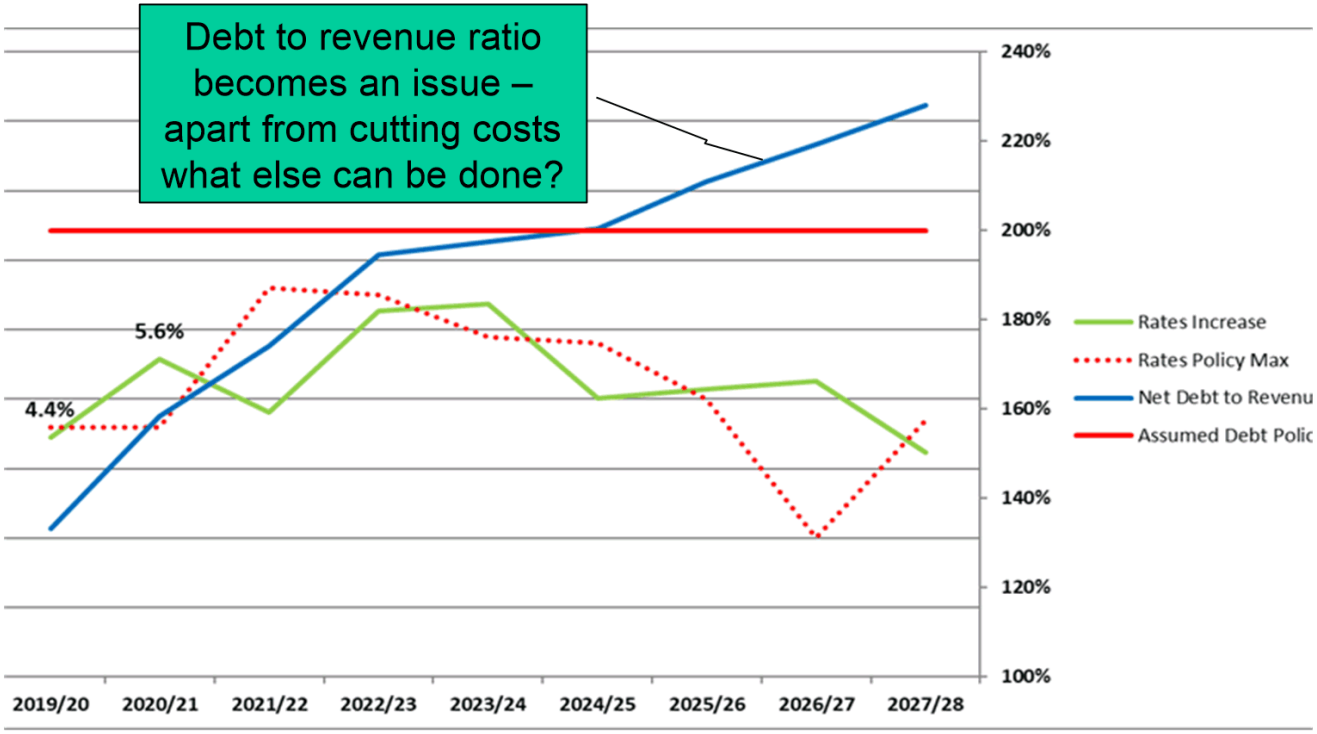
# Emerging issues

- There are a no. of issues emerging that have not been taken into consideration in the material presented to date – it is a dynamic environment
- Examples of issues are:
  - Unknowns around a no. of the Council's buildings
  - Attracting & retaining talent in the current marketplace
- If necessary more updated advice will be provided during the process of finalising the budget

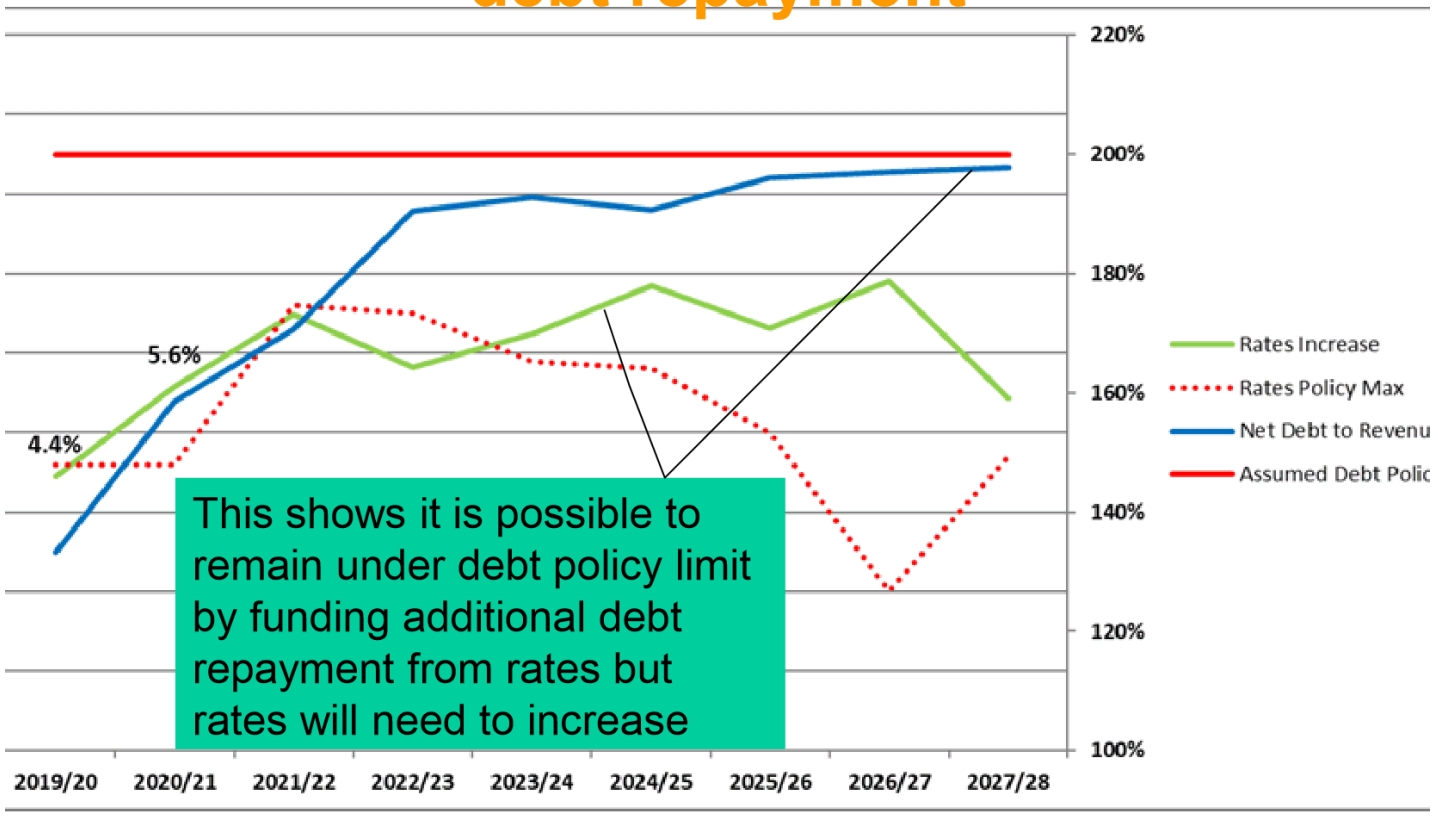
# The longer term perspective

- Key to the financial sustainability of the Council over the period of the 10YP are assumptions about:
  - City growth & the related infrastructure requirements
  - The projected costs of capex (especially the wastewater project)
  - External funding for programmes such as Te Manawa & CET arena
  - A commitment to significant annual rate increases & funding debt repayment to enable debt covenants to be achieved
- Question is how would we cope with say $60m capex for library development

# The longer term perspective
# - 10YP updated based on draft AB
# - includes $60m library upgrade



# The longer term perspective
# $60m for library & additional $35.5m in debt repayment




This shows it is possible to remain under debt policy limit by funding additional debt repayment from rates but rates will need to increase

# Rates – including redistribution effect of City revaluation

- The new valuations do not create additional rates revenue for the Council
- Instead it leads to a redistribution of the rates based on the new values
- The effect of the valuation changes is moderated to some extent because some of the rates are assessed as a fixed charge for each rating unit (or in some cases each inhabited part)

# Rates incidence by differential group

| Differential rating group | % of LV | % of LV | % of rates incl UAGC | % of rates incl $690 UAGC |
|---|---|---|---|---|
| | 2018/19 | 2019/20 | 2018/19 | 2019/20 |
| Single unit residential | 63.1 | 68.2 | 62.3 | 65.8 |
| Multi unit residential | 3.1 | 3.3 | 5.2 | 5.2 |
| Miscellaneous | 2.7 | 2.5 | 3.0 | 2.8 |
| Non-residential | 16.0 | 13.4 | 25.7 | 22.7 |
| Rural etc | 15.1 | 12.6 | 3.8 | 3.5 |
| | 100.0 | 100.0 | 100.0 | 100.0 |

Single unit residential share of total LV increased so without changes to system will incur a larger share of rates incidence (2019/20 scenario assumes 4.4% increase in total rates)

# Rates – including redistribution effect of City revaluation

- In Dec 18 Council resolved that we develop a scenario for consultation that further moderates effects of revaluation by lowering the UAGC & adjusting the differential surcharges
- The key rationale for this is that LVs for lower valued residential properties have increased by a much bigger %age than more highly valued properties & so the justification for the present level of UAGC is not sustainable.
- The lower UAGC & lower increase in LVs for non-residential & rural properties would mean rates for these two categories would be lower than considered reasonable so this justifies adjustments to the differentials for the general rates

# Draft rating assumptions for 2019/20

- Total rates increase by 4.4%
- Fixed charges & UAGC:

| | Proposed | 2018/19 |
|---|---|---|
| Water | 262 | 256 |
| Wastewater (and pan charges) | 256 | 256 |
| Kerbside Recycling | 127 | 126 |
| Rubbish & Public Recycling | 74 | 69 |
| UAGC | 500 | 690 |

Equates a 12.7% decrease in fixed component of rates

# Proposed changes to differentials

- Decrease the differential surcharge for multi-unit residential by 5% for each sub-category (eg 2 unit from 20% to 15%)
- Reduce the extent of the discount for rural/semi-serviced property vis:

| | From | To |
|---|---|---|
| 5ha or more | -85% | -80% |
| Between 0.2 & 5ha | -64% | -55% |
| Up to 0.2ha | -49% | -40% |

- Increase the differential surcharge for non-residential property from 150% to 165%

# Rates incidence by differential group

| Differential rating group | % of rates incl UAGC | % of rates incl $690 UAGC (Test A) | % of rates incl $500 UAGC | % of rates incl $500 UAGC & diff changes (Test B) |
|---|---|---|---|---|
| | 2018/19 | 2019/20 | 2019/20 | 2019/20 |
| Single unit residential | 62.3 | 65.8 | 64.3 | 62.6 |
| Multi unit residential | 5.2 | 5.2 | 5.3 | 5.2 |
| Miscellaneous | 3.0 | 2.8 | 2.8 | 2.8 |
| Non-residential | 25.7 | 22.7 | 24.3 | 25.6 |
| Rural etc | 3.8 | 3.5 | 3.3 | 3.8 |
| | 100.0 | 100.0 | 100.0 | 100.0 |

Single unit residential share of total LV increased so without changes to system will incur a larger share of rates incidence. All of the 2019/20 scenarios assume total rates increase of 4.4%

# Residential rates examples

| | Old land value | New land value | Actual rates 2018/19 | Test A rates 2019/20 | Test B rates 2019/20 |
|---|---|---|---|---|---|
| Average | 143,000 | 243,000 | 2,510 | 2,749 9.5% | 2,614 4.2% |
| Median | 125,000 | 230,000 | 2,370 | 2,677 13.0% | 2,539 7.2% |
| Quartile 1 | 96,000 | 185,000 | 2,144 | 2,429 | 2,281 |
| Quartile 3 | 170,000 | 280,000 | 2,720 | 2,953 | 2,826 |

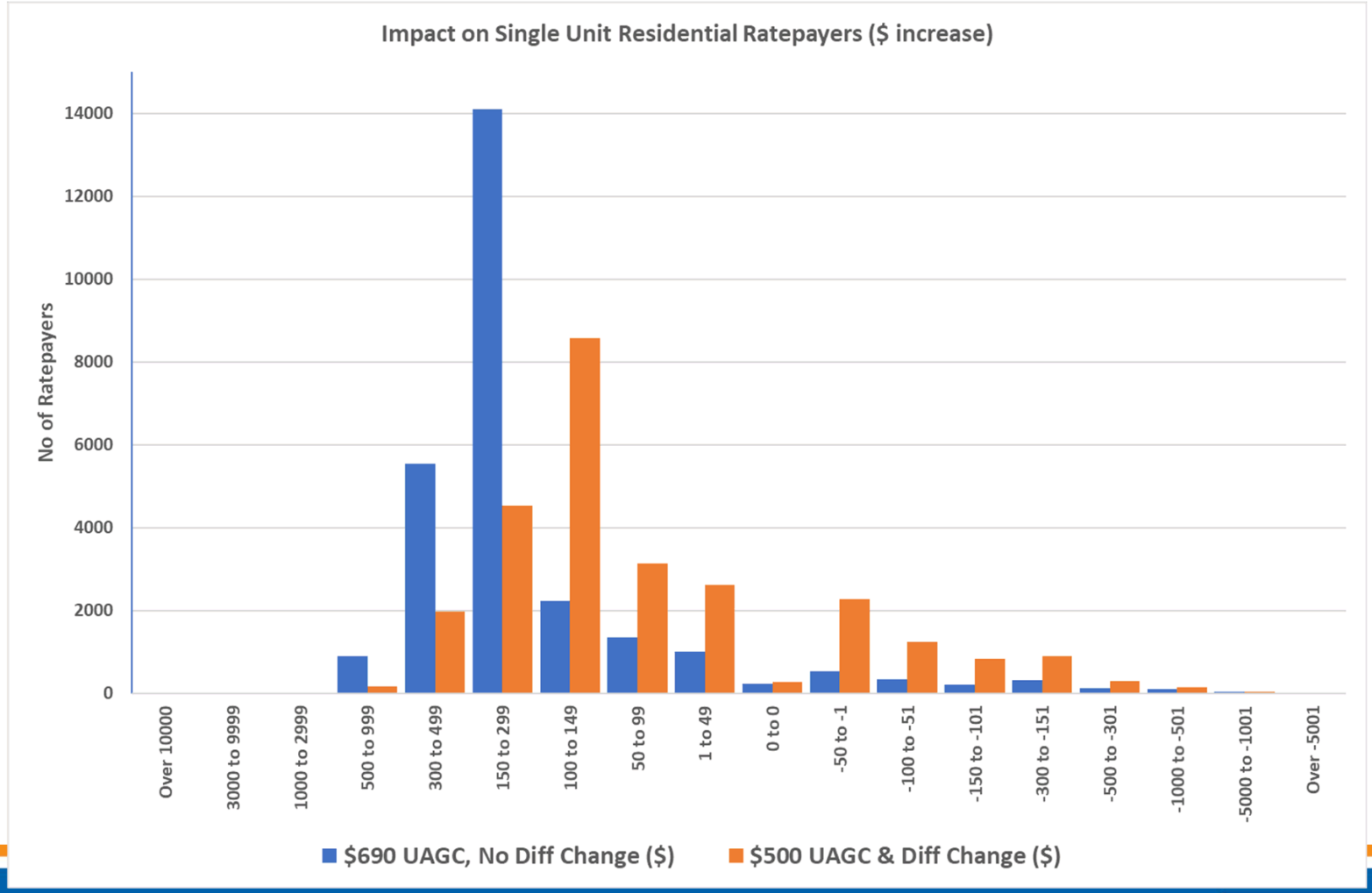
Test A is $690 UAGC & no change to diffs, Test B is $500 UAGC & changes to diffs as outlined. All assume total rates increase by 4.4%

# Non-residential rates examples

| | Old land value | New land value | Actual rates 2018/19 | Test A rates 2019/20 | Test B rates 2019/20 |
|---|---|---|---|---|---|
| Average | 533,000 | 708,000 | 14,232 | 12,890 -9.4% | 14,605 2.6% |
| Median | 295,000 | 400,000 | 8,330 | 7,726 -7.3% | 8,612 3.4% |
| Quartile 1 | 160,000 | 230,000 | 4,983 | 4,876 | 5,305 |
| Quartile 3 | 615,000 | 790,000 | 16,266 | 14,264 | 16,200 |

Test A is $690 UAGC & no change to diffs, Test B is $500 UAGC & changes to diffs as outlined. All assume total rates increase by 4.4%

# Tests showing impacts on residential ratepayers $



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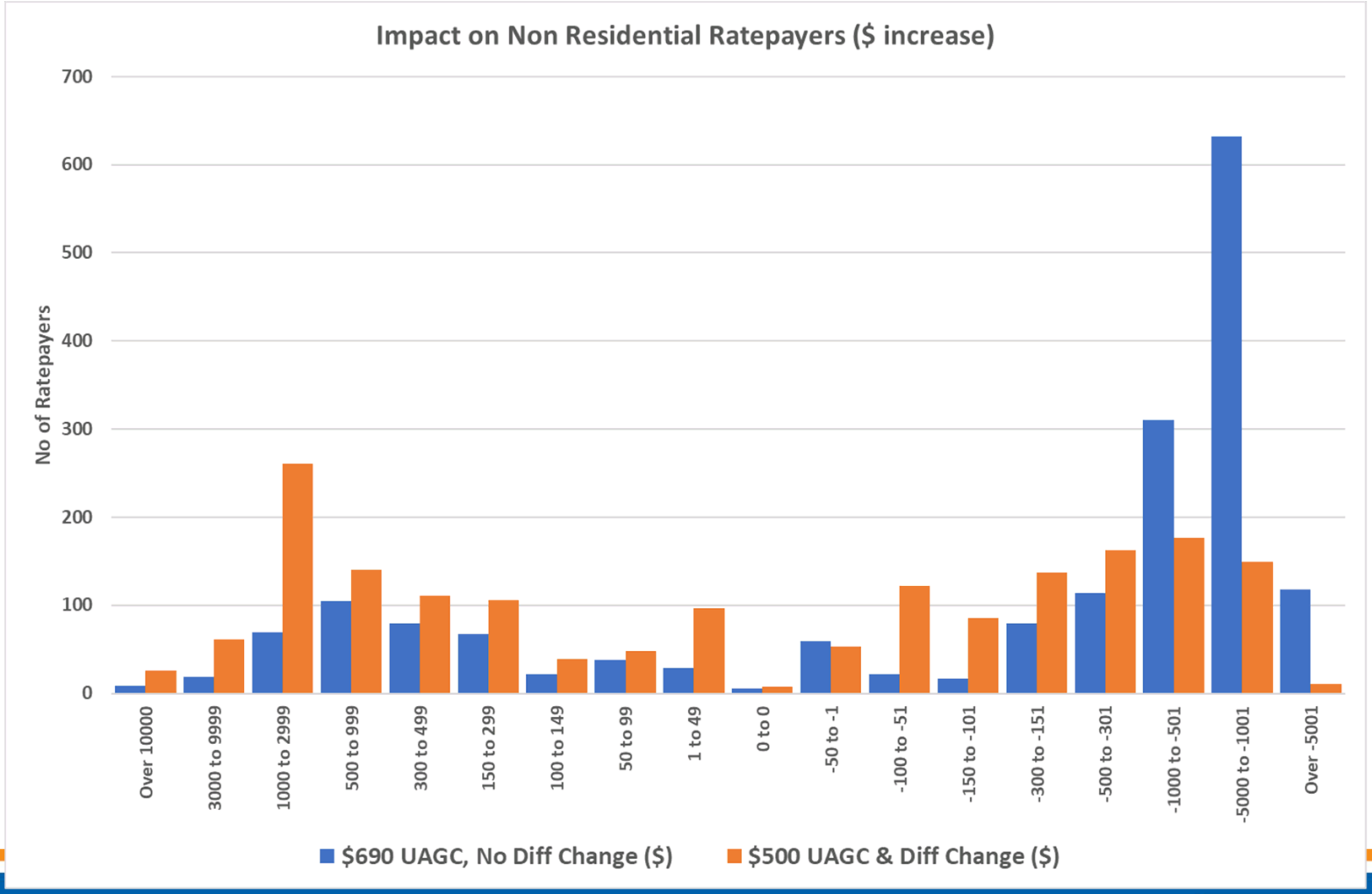
# Tests showing impacts on non-residential ratepayers $

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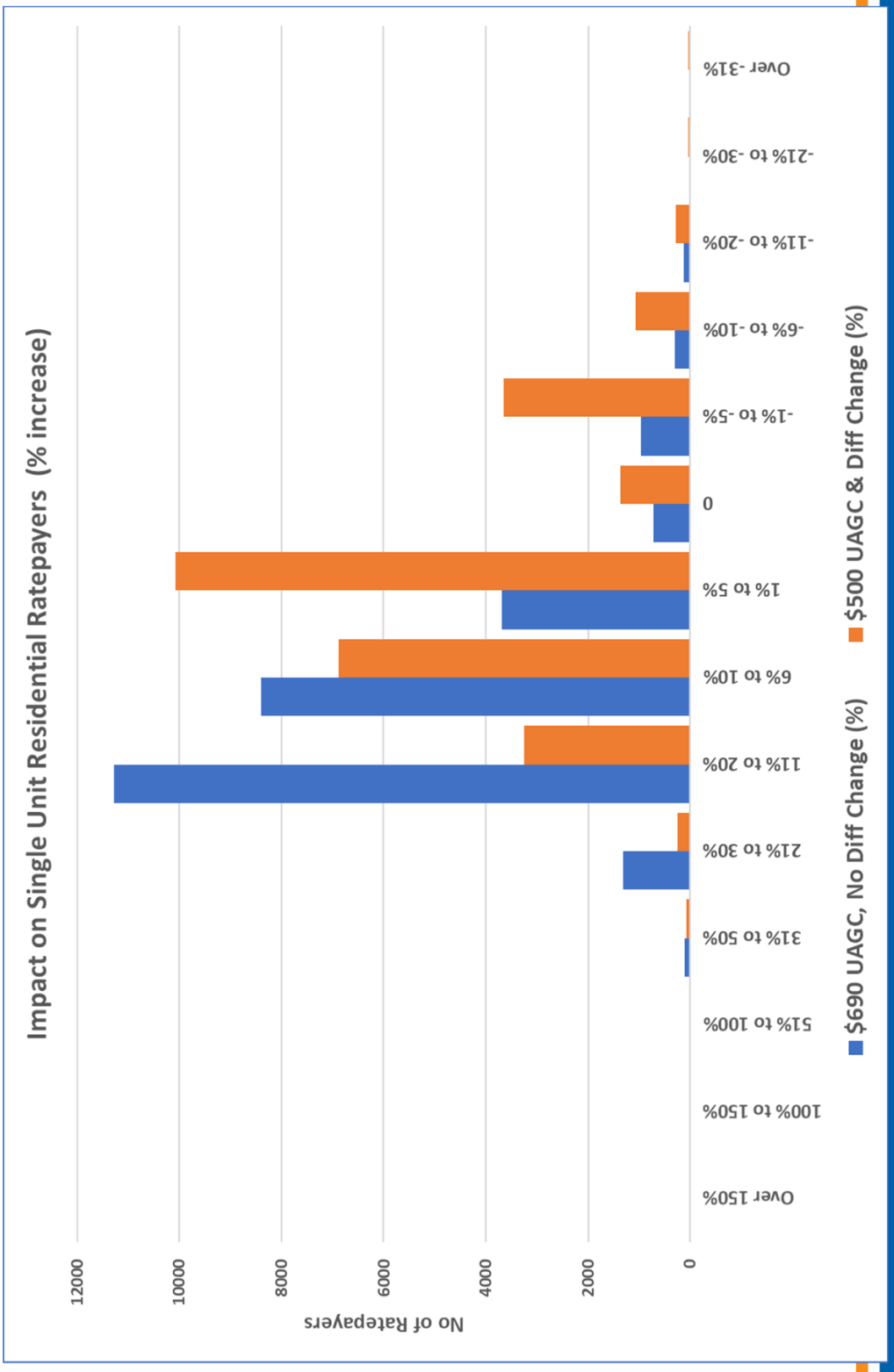
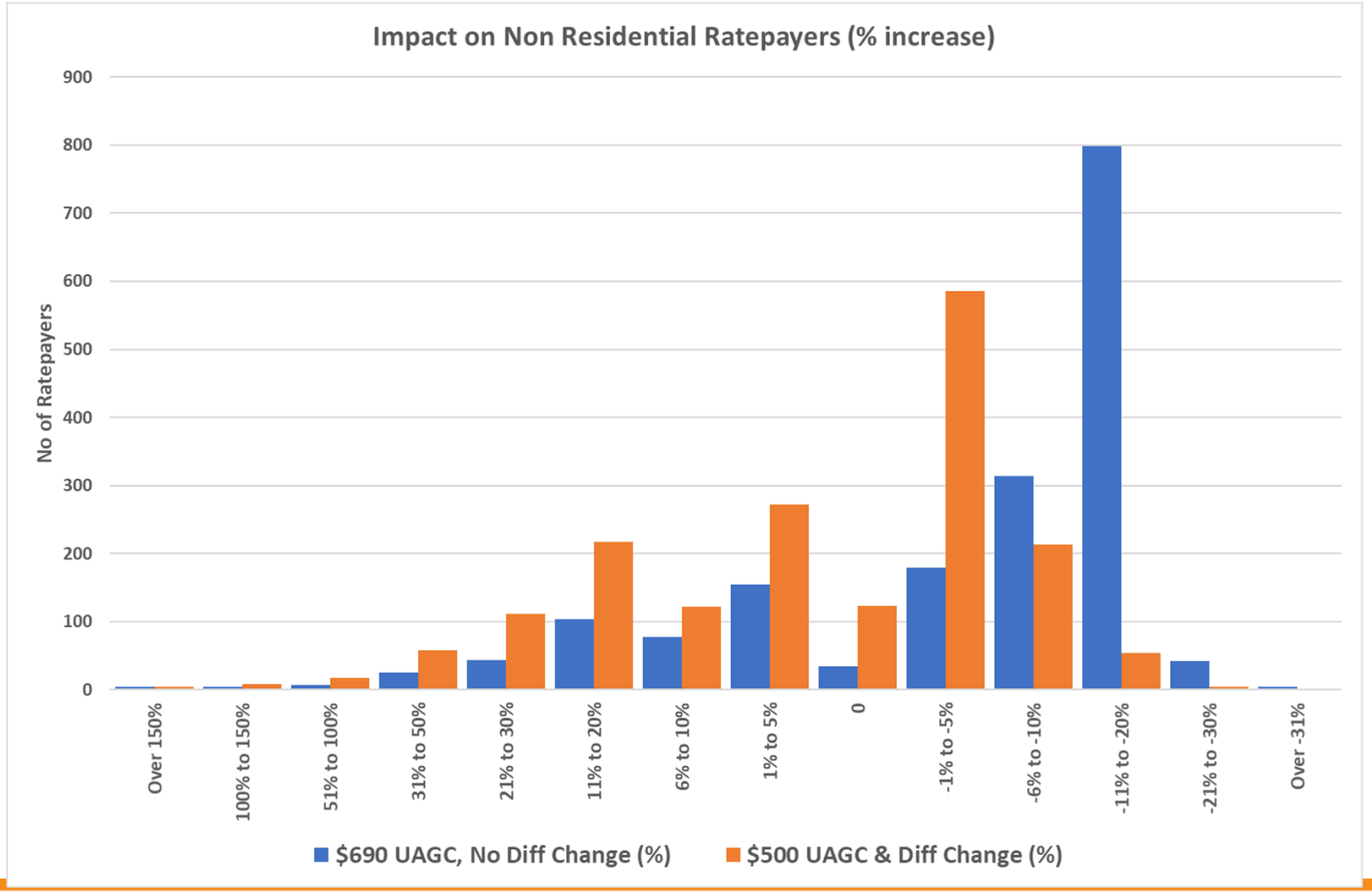
# Tests showing impacts on residential ratepayers %



# Tests showing impacts on non-residential ratepayers %



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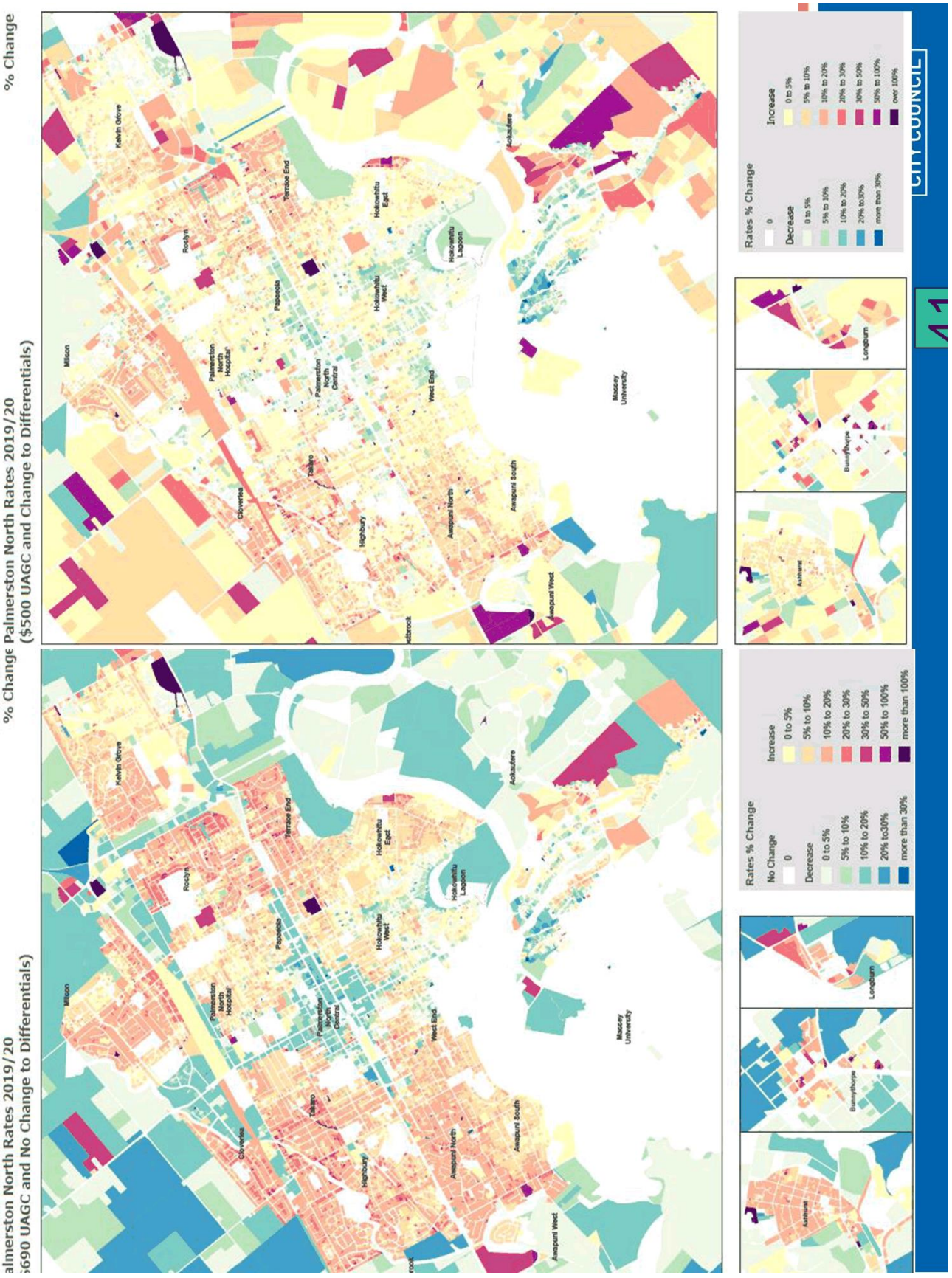

% Change Palmerston North Rates 2019/20
($500 UAGC and Change to Differentials)
% Change
Rates % Change
0
Decrease
0 to 5%
5% to 10%
10% to 20%
20% to30%
more than 30%
Increase
0 to 5%
5% to 10%
10% to 20%
20% to 30%
30% to 50%
50% to 100%
over 100%
Rates % Change
No Change
0
Decrease
0 to 5%
5% to 10%
10% to 20%
20% to30%
more than 30%
Increase
0 to 5%
5% to 10%
10% to 20%
20% to 30%
30% to 50%
50% to 100%
more than 100%
Kelvin Grove
Terrace End
Rosyln
Papaeola
Hokowhitu East
Hokowhitu Lagoon
Hokowhitu West
Milson
Palmerston North Hospital
Palmerston North Central
West End
Massey University
Aokautere
Cloverlea
Takaro
Highbury
Awapuni North
Awapuni South
Awapuni West
Longburn
Bunnythorpe
Ashhurst

# The CD

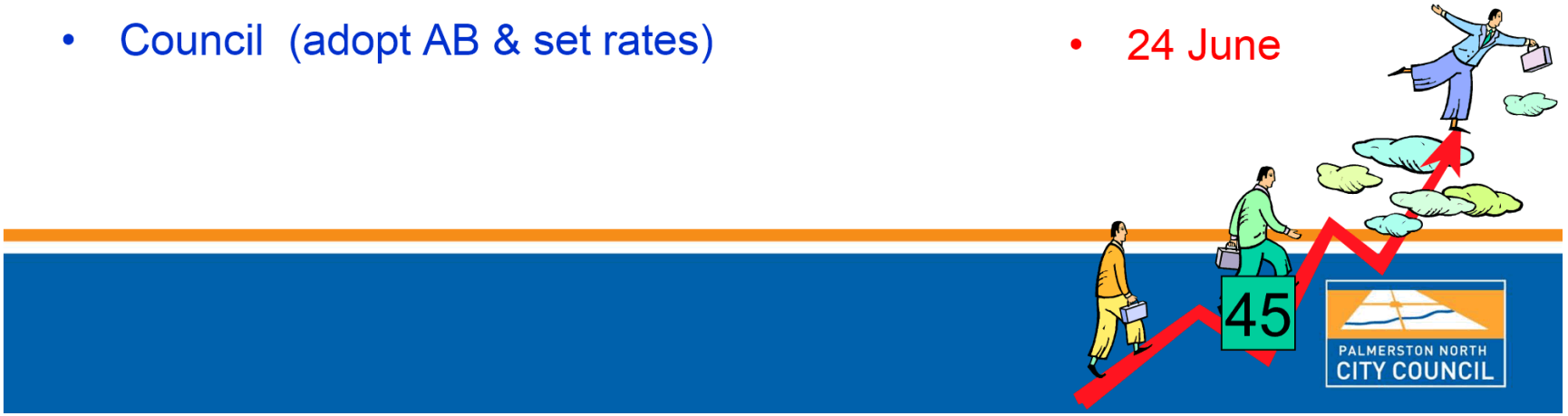
- The CD is required to highlight the key differences from year 2 of the 10YP
- There is no material difference between what is now proposed in terms of outcomes & deliverables and the 10YP (apart from Sports House)
- The key difference is to incorporate changes to the rating system to help moderate the impact of the city revaluation on rates incidence, especially for the previously lower valued residential properties (as requested by the Council in December 2018)

# Public engagement

- The key messages are:
  - that there is no planned material change from the proposed outcomes of the 10YP – the direction and approach is not up for debate
  - some changes are proposed to the rating system to help moderate the changes in rates incidence that would otherwise have occurred as a result of the city revaluation
- Ratepayers will be able to search the website to see what their rates are proposed to be & what they would have been without a change to the rating system

# Public engagement

- Because of the nature of the changes proposed it is unnecessary to hold a wide range of community meetings – two information sharing meetings are proposed
- As with the 10YP it is proposed the CD & supporting material will be available on the website & Council's office & libraries but the CD will not be delivered to all households
- Ratepayers will be able to search the website to see what their rates are proposed to be & what they would have been without a change to the rating system

# AB Timetable

| | |
|---|---|
| • Workshop 1 | • 4 Feb |
| • Com of Council (approve AB supporting information & CD) | • 4 Mar |
| • Council (adopt supporting information & CD) | • 18 March |
| • Consultation period | • 19 Mar – 24 Apr |
| • Hearings | • 8 - 10 May |
| • Com of Council (consider submissions & give direction) | • 20 May |
| • Com of Council (approve AB) | • 10 June |
| • Council (adopt AB & set rates) | • 24 June |