



Te Kaunihera-ā-Rohe o Taratahi

CARTERTON
DISTRICT COUNCIL

AGENDA

Late Reports

Hearings Committee meeting

Date: Wednesday, 15 May 2024

Time: 9:00 am

**Location: Carterton Events Centre
50 Holloway St
Carterton**

Cr R Cherry-Campbell

Cr B Deller

Cr S Laurence

Mayor R Mark

Cr D Williams

Cr S Cretney

Cr S Gallon

Cr L Newman

Cr G Ayling

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5 REPORTS



5.2 LONG-TERM PLAN 2024-34 CHANGES POST-CONSULTATION

1. PURPOSE

For the Hearings Committee to be informed on changes to the Long-Term Plan since the plan was published in early March for public consultation and up to 14 May 2024 prior to the hearings.

2. SIGNIFICANCE

Management has sought legal advice on the changes outlined in this report, and the potential impact of these on Council and the Draft LTP Consultation and adoption process.

3. CONSULTATION DOCUMENT – VERSION 10 OF THE PLAN

Since the LTP Consultation document was adopted in late March, we have been regularly updating the information and data we are using for the draft LTP. This includes new information from external sources (e.g. updates from NZTA Waka Kotahi) and feedback from our Auditors. The changes include:

- Addition of the Waingawa Process Water Project
- Audit's review of the significant assumptions for insurance and interest rates
- Adjustment to the interest expense
- Refreshing the opening balances for capital projects and loans in year zero to transfer to year 1
- Updating the overhead allocation model using a first principles approach.

The value of these changes, and the approximate impact on rates is shown below:

Operating Costs	Year 1	Year 2	Year 3	Years 4-10	Total
Waingawa Process Water	\$54,228	\$116,562	\$115,606	\$833,491	\$1,119,887
Insurance Assumptions remain	no impact	no impact	no impact	no impact	no impact
Interest Rates Assumptions remain	3.8%	3.8%	3.8%	3.8%	3.8%
Interest Expense	\$329,112	\$302,132	\$302,132	\$2,114,924	\$3,048,300
Openings Balances	\$7,655,858 (no impact)				
Overhead Allocation	impacts targeted rates	impacts targeted rates	impacts targeted rates	impacts targeted rates	impacts targeted rates
Total \$	\$383,340	\$418,694	\$417,738	\$2,948,415	\$4,168,187

Operating Costs	Year 1	Year 2	Year 3	Years 4-10	Total
Rates Impact (est)	1.9%	2.1%	2.1%	14.7%	20.9%

Capital Project Impacting rates

Capital Costs	Year 1	Year 2	Year 3	Years 4-10	Total
Waingawa Process Water (total Capex \$2.7m)	\$788,789				
Total \$	\$788,789	\$	\$	\$	\$
Rates Impact included in Opex Table above					

Potential Savings

Good practice requires Management to maintain the currency of the draft budgets during the development of the LTP and up to the time of adoption. Management has continued to review operational and capital budgets over the past two months since Version 10 was published for Consultation, seeking savings opportunities.

Options identified include:

- Removing the capital project to replace the Oxidation Pond Aerator of \$130k in Year 1 of the LTP. We managed to replace the aerator in the 23/24 financial year though capital savings.
- Capital expenditure reductions for IT hardware, total of \$1m over 10-year plan.
- Reducing the planned operating expenditure on Roothing Emergency Works. The team has made significant progress in reinstatements continuously seeking opportunities for efficiencies and savings. The very dry summer and autumn has also resulted in reinstatement being significantly cheaper than initially estimated. We can therefore reduce the budget in year 1 and 2 of the LTP.
- Reducing the emergency minor events operating budget in Roothing from \$211,000 to \$100,000 (including FAR) in year one and for rest of LTP. This is a calculated risk. Unlike other rooding budgets this budget line can be topped up by NZTA if spend exceeds \$100k.
- Updating anticipated savings in Waters from Capital Investments in Solar project and PH Correction projects.
- Reducing the overall Depot Works budget from \$303k to \$150k. Removing the capital expenditure budget for Depot Works in Year 2 of \$153k while retaining \$150k in year 1.
- Altering the loan profiles to better reflect asset lives – up to a maximum of 25 years.
- Reducing the Carterton Cycle Trails project to reflect the Deliberations decision is not currently included.

The value of these changes, and the approximate impact on rates is shown below:

<u>Operating Costs</u>	Year 1	Year 2	Year 3	Years 4-10	Total
Roading Emergency Works	(\$323,156)	(\$209,439)			(\$532,595)
Emergency Reinstatement-minor events	(\$54,468)	(\$56,537)	(\$58,813)	(\$475,845)	(\$645,664)
Savings from Waters Projects	(\$15,000)	(\$25,000)	(\$25,000)	(\$175,000)	(\$240,000)
Adjusting loan profiles to match asset lives (max 25 years)	(\$72,284) estimated savings	(\$72,284) estimated savings	(\$72,284) estimated savings	\$(505,988) estimated savings p.a.	(\$722,840)
Total \$	(\$464,908)	(\$363,260)	(\$156,097)	(\$1,156,833)	(\$2,141,099)
Rates Impact (estimated)	(2.3%)	(1.8%)	(0.8%)	(5.8%)	(10.7%)

<u>Capital Costs</u>	Year 1	Year 2	Year 3	Years 4-10	Total
Removing Oxidation Ponds aerator	(\$130,000)				(\$130,000)
Reprofile Depot works	No impact	Reduced by (\$153,000)			(\$153,000)
Reduction in IT hardware capital	(\$86,453)	(\$120,035)	(\$178,251)	(\$622,835)	(\$1,007,574)
Carterton Cycle Trails adjustment-subsidy-Better off Funding	(\$520,000)		reduced (\$682,500)		(\$682,500)
Total \$	all impacts calculated in opex	all impacts calculated in opex	all impacts calculated in opex	all impacts calculated in opex	all impacts calculated in opex

Net Rates Impact All Changes (estimated)	(0.4%)	0.3%	1.3%	9.0%	10.2%
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Consultation

Council adopted the draft Long-Term Plan for Consultation on 27 March 2024. The Draft LTP included two consultation items being our investment in roading, and secondly our investment in wastewater plant upgrades. The financial impacts of these two items are correctly shown in the LTP Consultation document.

Immediately after the Draft LTP Consultation document was adopted, Council approved the Waingawa Process Water Project which added a further estimated 0.48% on rates. This project does not affect residential or commercial water users, and all but one

industrial water users in the Waingawa Industrial Estate are similarly unaffected. This project was not considered as an LTP Consultation item.

The impact of interest expense being under budgeted in the LTP Consultation Document is not an item that would have been consulted on, as it is not linked to a specific project or level of service change.

Additional savings identified since the Draft LTP Consultation Document was adopted, in particular roading emergency works, have also not been considered as consultation items as they do not impact on levels of service.

Materiality

Materiality is the term used to determine if an item or list of items is worthy of note or further attention. The term materiality is well understood, however the implementation of it when it comes to auditing financial statements and LTP documents is more of an art than a science.

The Office of the Auditor General provides guidance around this matter in their publication AG ISA (NZ) 320, the Auditor Generals on Materiality in Planning and Performing and Annual Audit. It states the definition of Materiality is:

Material means, for the purposes of forming an opinion on a public entity's financial and performance information, a statement, omission, fact, or item of such a nature or amount that its disclosure, or the method of treating it, given full consideration of the circumstances applying at the time the financial and performance information is completed, could reasonably be expected to influence readers' overall understanding of the financial statements and performance information in making decisions or assessments about the stewardship and allocation of resources and the performance of the public entity

Standard audit practice works on the assumption that anything with less than a 5% impact is considered immaterial. The impact of these changes is not considered material.

Summary

Overall, the net effect of all known movements to the LTP budgets since the Draft Plan was adopted in March is to reduce the impact of rates on Year 1 of the LTP by 0.4% (up 1.9%, and down by 2.3%). The impact of these changes over the first three years of the LTP period is an increase of 1.2% (up 6.1%, down 4.9%).

There are risks contained with both consultation items, roading and wastewater, as our preferred funding options are below best practice asset management (roading) and below the forecast project budget (wastewater). In the case of emergency roading reinstatements, funding for any future severe weather events will require Council approval of unbudgeted expenditure.

4. CONSIDERATIONS

4.1 Climate change

There are no specific climate change considerations to this report.

4.2 Tāngata whenua

There do not appear to be any specific considerations for tāngata whenua as part of this report.

4.3 Financial impact

The consolidated impact of changes to the proposed LTP budgets is estimated as a reduction of 0.4% in Year 1 of the plan, an increase of 1.2% over the first three years, and an increase of 10.2% across the ten-year period.

The impact of changes to corporate overhead allocations will be included in the calculations for targeted and general rates, when the Long-Term Plan is adopted at the end of June.

Otherwise, considerations have been noted in the report, as appropriate.

4.4 Community Engagement requirements

Consultation on the Draft LTP has closed. If further consultation and engagement is required, the timeline for LTP adoption will be reviewed, as the planned adoption date of 26 June will be at risk. The legislated deadline for adoption of the 2024-34 LTP is 30 September 2024.

4.5 Risks

There are risks in not receiving an unqualified audit opinion, or not adopting a Long-Term Plan within the legislated timeline.

Further risks exist with not adopting an LTP before the end of June 2024. In this event instalment 1 of the rates will be based on 2023/24 rates, while instalments 2, 3 and 4 will be based on 2024/25 rates, plus a wash-up for instalment 1. This has the potential to create significant potential for ratepayer confusion.

Other risks exist if our LTP is not adopted before the end of June. Our finance system, Magiq, is only able to process Greater Wellington Regional Council rates for 2024/25 when we process CDC rates for 2024/25. If CDC delays the adoption of our Rates, we must advise GWRC of the impact on their first rates instalment – which would also then be based on 2023/24 rates, and require subsequent wash-up calculations.

Management has been directed to seek external legal advice to determine if the above changes affect the consultation validity, if further consultation is required, and if the draft LTP meets the purpose statement in Section 93B of the Local Government Act 2002.

5. RECOMMENDATION

That the Committee:

1. **Receives** the report.

File Number: 400978

Author: Geoff Hamilton, Chief Executive

Attachments: Nil