Meeting of the

LONG TERM PLAN WORKING GROUP to be held in Council Chambers and via Zoom, 15 Seymour Street, Blenheim on Monday, 23 May 2022

1.00 pm to 3.00 pm

A G E N D A

Record No: 2294166

File Ref: D050-001-L24

1. Rates Remission for Heritage Buildings in Private Ownership

(Report prepared by Chris Lake) **F230-L24-09-05**

Purpose of report

1. To identify the LTP Working Group's future work programme in relation to the preparation of the 2024-34 Long Term Plan.

RECOMMENDATION

That the LTP Working Group recommend the adoption of the draft remission Policy for Heritage buildings in private ownership.

Background/Context

2. At the December 2020 LTPWG meeting a paper was presented regarding the remission of rates for heritage buildings in private ownership. This was instigated following Mr David Dew's meeting with the Mayor and CEO on 9 November to express his concern at the level of rates paid by the Blenheim Club and the costs of maintaining a heritage building.

3. It was agreed that Council Finance staff would develop a draft rates remission policy regarding heritage buildings in private ownership.

4. This policy has been evolving over time as Councillors have worked their way through issues such as:
    - a) Defining what a Heritage building, structure or site includes
    - b) Should private ownership vs community ownership make a difference?
    - c) The importance of having a policy to provide consistent results following the consideration of requests.
    - d) Community access to the building
    - e) The amount of the remission before deciding it should be no more than 50%

5. At the 4 March 2021 meeting a draft policy was developed and presented. It was agreed that the LTP working group recommend the adoption of the draft Remission policy and <u>that the Public Access condition be reviewed and report back to the LTP working group</u>.

6. The draft policy presented at that meeting was:

"Heritage Buildings in Private Ownership Rates Remission Policy

Objective of the Policy

To assist in the retention and protection of heritage resources that contribute to the character of Marlborough.

Conditions and Criteria

1. *The building must be listed in appendix 13 Marlborough Environment Plan (Register of Significant Heritage Resources).*
2. <u>*The property must be available for public access.*</u>
3. *The property must not be owned by the Crown, Council or their agencies.*
4. *A declaration must be provided by the building owner that they will continue to maintain the building so that its heritage value is protected and, where possible, restored. If the property is sold, the remission does not continue with the new owner.*
5. *A renewed declaration will be required every three years.*

6. *Remissions for applications received during a rating year will apply from the commencement of the following rating year.*

7. *All applications must be on the prescribed form and will not be backdated.*

Application

The Policy shall apply to such properties as approved by the Council (or Council Officers with delegated authority) as meeting the relevant criteria.

Remissions to any qualifying ratepayer shall be on the basis of a 50% reduction of their Geographic Area General Works and Services rates and charges for owners of buildings listed in Schedule 1 and 25% for owners of buildings listed in Schedule 2 of Appendix 13 of the Marlborough Environment Plan."

Public Access background

7. As at 17 March 2022 Heritage New Zealand's Register of Historic Places identified that Marlborough had the following historic sites:

Site Type	Number of sites	Public Access
Category 1	12	5
Category 2	83	8
Wahi Tapu	3	-
Wahi Tapu Area	1	-
Wahi Tupuna/Tipuna	1	-
Total	**100**	**13**

The register also shows if the site can be visited or has no public access. Nearly all the sites able to be visited appear to be on Council or DOC land. However, there appears to be some inconsistencies in the register. Please see the extract below for the Farmers Building (2021-22 Rates $31,741.94 (refer **Attachment 1.1**)) where it identifies that it is private with no public access. It does however, raise the issue of whether the remission should apply to commercial/industrial property as well residential/rural? This will be discussed in paragraph 13.

Farmers Building

No. 1533

List type
Historic Place Category 2

Address
30-40 High Street And 21-41 Market Street, Blenheim

Public Access
Private/No Public Access

8. There are also approximately 60 additional sites listed in *appendix* 13 of the Marlborough Environment Plan over and above those listed by Heritage New Zealand.

9. Appendix 13 Categorises all sites as follows:

Site Type		**Number of sites**	**Public Access**
Building Envelope and Interior		25	5
Building envelope		86	8
Building Other – Foundations/Façade/Chimney		8	-
Plaque/Memorials/other		22	-
Wahi Tupuna/Tipuna			-
Total		**141**	**13**

10. Using the above categories potentially provides a means of categorising a level of rates remission.

11. As a result, there are six issues to be worked through:

    11.1. **General Rates and Charges or Total Rates and Charges:** Using the Farmers Building as an example (refer to **Attachment 1.1**), there are:

Rates Type	**2021/22**
Geographic Area Rates and Charges	23,415.92
Wairau River Rates	5,558.78
Blenheim Sewerage Rates and Charges	1,579.49
Blenheim Water Capital Works Rate	1,112.75
Blenheim Commercial/Industrial Refuse Charge	75.00

    As Council's other contributions are funding by General Rates and Charges, it is proposed that only a portion of those rates and charges be remitted. The other rates and charges are specific targeted rates and charges that are not related to preserving historic buildings.

    11.2. **Rural Properties:** Should the remission be applied to the property's total rates or a portion?

    11.3. **Commercial Buildings:** Should remissions be applied to commercial buildings and if so what %?

    11.4. **Exterior:** Should remissions be applied where it is only the exterior that is regarded as historic and if so what percentage?

    11.5. **Interior:** Should a higher level of remission be applied where the interior is also regarded as historic and whether that higher level should apply when there is no public access?

    11.6. **Public Access:** What should the criteria be for public access?

12. Rural Properties: Historic homes on rural properties can be situated on very large farms, e.g. Murray Downs Homestead is situated on a 268.3 ha block, LV $7,150,000, rates $21,202.08. It could be argued that any remission should apply to the residence only using a default area of 0.45ha, as this is used in other remissions. A separate valuation would be required as residential sites have a higher value than general farmland, so would necessitate an additional cost for the Council. The alternative and recommended option is a maximum value to be used for the remission - see paragraph 19.

13. **Commercial buildings:** The owners of commercial buildings receive benefits outside the rating system, including for example, repairs and maintenance, depreciation, insurance, rates (commercial/industrial) are all tax deductible. If the building is owned by a company, then the saving is 28%. As a result, one could take the view that zero or no remission applies because they are already getting a taxation benefit. However, several historic buildings are also located on farms and the same expenses are claimable, with the only difference being that the rates are Residential/Rural. As a result, to preserve equity between the two rating classifications, it is recommended that taxation benefits are removed from Council's consideration.

    The commercial rate is between 1.9 & 3 times as much as the rural/residential rate for the same land value. If a maximum rate value is used as suggested for rural properties, then this would also affect the commercial buildings.

14. **Exterior Only:** Under this category it is only the exterior that needs to be maintained and the public can benefit from it by just walking/driving by. If the property is nor able to be seen by the public, then the remission is not available.

15. **Interior also:** Under this criterion, the public can only benefit when they can see the interior of the building as well. If they can't see it, then they only have the same potential to benefit as they have from an exterior only building. As a result, it is proposed that an additional remission only be made available where there is an appropriate level of public access.

16. **Public Access to the building interior:** The following criteria are suggested:

a. The property must not be owned by the Crown, Council, or their agencies.

b. The property must be available to the public for access at least 50 hours per annum, spread over at least 6 days. The access of the building must be advertised at least 2 weeks before the event.

c. A guide, either paper, electronic or person must be available to the public, detailing the historic features of the property.

d. If a charge to the public for access is required, where the income goes to the property owner, then the property is not eligible to receive this remission. Being part of a charity event is able to be included in the hours required.

e. If a commercial property, access in the course of business is not classed as public access in relation to this policy.

Proposed Remission Values –

17. It is proposed that the following remissions to apply from 1 July of the year following the application. The proposed remissions have been arrived on a potential for the community to benefit.

Category	% Remission	Comment
Exterior Only	25	Being able to see a well-maintained historic building benefits the community.
Interior with no public access	25	The community has the same potential to benefit as above.
Exterior and Interior with public access	50	As per the criteria listed in paragraph 16.
Commercial with public access as part of normal business	25	No special effort is required by the owner to make the interior of the building available to the community

18. Categories are those contained in Appendix 13 of Marlborough's Environment Plan. For an additional building/site to be eligible for a rates remission, they must first be included in an updated Appendix 13.

Maximum value for remission

19. As suggested in paragraphs 12 (rural properties) and 13 (commercial properties) a maximum value or "cap" could be used. The policy assumes the remission on the Geographic Area General Works and Services rates and charges for owners of buildings. Below is the average value for a 25% or 50% remission using the 2021/22 rates values.

Geographic Area	Differential Rating Categories	25%	50%
Blenheim	Residential/rural	407	814
	Commercial/industrial	1,470	2,940
	Homestay/farmstay	591	1,181
Blenheim Vicinity	Residential/rural	723	1,447
	Commercial/industrial	750	1,501
	Homestay/farmstay	540	1,080
Picton	Residential/rural	456	912
	Commercial/industrial	1,175	2,350
	Homestay/farmstay	491	982
Picton Vicinity	Residential/rural	434	868
	Commercial/industrial	1,507	3,013
	Homestay/farmstay	564	1,128
General Rural	Residential/rural	571	1,141
	Commercial/industrial	377	755
	Homestay/farmstay	310	619
Sounds Admin Rural	Residential/rural	203	405
	Commercial/industrial	309	618
	Homestay/farmstay	221	441

On a Marlborough wide basis, the following average values arise for 25% and 50% respectively

		25%	50%
All of Marlborough	Residential/rural	482	964
All of Marlborough	Commercial/industrial	1,170	2,340

20. While administratively it would be simpler to establish district wide caps based on 25% and 50% of Residential/rural and Commercial/industrial, from an equity perspective it would be better if they we based on the average rates paid for each type of property per Geographic Rating area.

21. The alternative is to not have a cap. To use the Farmers building again as an example, this would result in a remission of $5,853.98 and $11,707.96 for 25% and 50% respectively as compared to the $1,470 and $2,940 that would apply if a cap.

Draft Policy

22. Taking all the information above into account, below is a draft remission policy.

"Heritage Buildings in Private Ownership Rates Remission Policy

Objective of the Policy

To assist in the retention and protection of heritage resources that contribute to the character of Marlborough.

Conditions and Criteria

1. *The building must be listed in appendix 13 Marlborough Environment Plan (Register of Significant Heritage Resources).*
2. *The property must not be owned by the Crown, Council or their agencies.*
3. *The building must be visible by the public.*

4. *A declaration must be provided by the building owner that they will continue to maintain the building so that its heritage value is protected and, where possible, restored. If the property is sold, the remission does not continue with the new owner, unless the new owner signs a new declaration.*
5. *A renewed declaration will be required every three years.*
6. *Remissions for applications received during a rating year will apply from the commencement of the following rating year.*
7. *All applications must be on the prescribed form and will not be backdated.*
8. *The maximum remission available is the average value of the General Rates and Charges for the property type in each Geographic Rating Area as calculated by the Council or its delegated officer(s).*
9. *To meet the requirement for the additional remission available under public access:*
    a. *The property must be available to the public for access at least 50 hours per annum, spread over at least 6 days. The access of the building must be advertised at least 2 weeks before the event.*
    b. *A guide, either paper or electronic must be available to the public, detailing the historic features of the property.*
    c. *If a charge to the public for access is required, where the income goes to the property owner, then the property is not eligible to receive this remission. Being part of a charity event is able to be included in the hours required.*
    d. *If a commercial property, access in the course of business is not classed as public access in relation to this policy.*

Application

The Policy shall apply to such properties as approved by the Council (or Council Officers with delegated authority) as meeting the relevant criteria.

Remissions to any qualifying ratepayer shall be a reduction of their Geographic Area General Works and Services rates and charges for owners of buildings in accordance with the table below:

Category	***% Remission***	***Comment***
Exterior Only	*25*	
Interior with no public access	*25*	*The community has the same potential to benefit as above.*
Interior with public access	*50*	*As per the criteria listed in paragraph 9*
Commercial with public access as part of normal business	*25*	*No special effort is required by the owner to make the interior of the building available to the community*

Attachment

Attachment 1.1 – Farmers Building - rates Page 7

Attachment 1.1

Property No: 537565 - **42 High Street Blenheim**
Rating Area:/Diff Group: Blenheim / Commercial Industrial
Assessment No: 20510 53400 A- **LOT 1 DP 4877 UNIT P...**

	2021-22	2022-23
Area (Ha):	0	
Land Value	$2,380,000	$2,380,000
Capital Value	$12,850,000	$12,850,000

Description of Rate	Actual 2021-22 Factor	Actual 2021-22 Levy ⇑⇓	Proposed 2022-23 Factor	Proposed 2022-23 Levy ⇑⇓	Actual vs Proposed $Mvmt⇑⇓	Actual vs Proposed %Mvmt⇑⇓	
Geo. Area General Rate	2,380,000	22,567.92	2,380,000	23,972.19	1,404.27	6.22	⇗
Geo. Area General Charge	1	848.00	1	899.00	51.00	6.01	⇗
Wairau River Rate	12,850,000	5,558.78	12,850,000	5,893.91	335.13	6.03	⇗
Blenheim Group Sewer Cap Works Rate	2,380,000	1,149.49	2,380,000	1,027.30	-122.19	-10.63	⇘
Blenheim Group Sewer User Charge	1	430.00	1	452.00	22.00	5.12	⇗
Blenheim Water Cap Works Rate	2,380,000	1,112.75	2,380,000	1,130.29	17.54	1.58	⇗
Blenheim Com/Ind Refuse Charge	1	75.00	1	75.00	0.00	0.00	⇒
		$31,741.94		**$33,449.69**	**$1,707.75**	**5.38 %**	⇗

2. Review of Depreciation Policies

(Report prepared by Alison Vile) **F230-L24-06**

Purpose of report

1. To consider the appropriateness of Council's current policy of not funding depreciation on many Community Facility assets and the impact of that policy on the ability to pay for the eventual replacement of those assets.

Executive Summary

2. For most assets Council adopts the financially prudent approach of funding depreciation (meaning that depreciation is included in the costs to be recovered by income from rates and charges). This increases the short-term income Council requires from ratepayers and customers but provides a flow of cash which is "held" in a specific depreciation reserve and is available to fund renewal of those assets. This paper considers the small grouping of community assets for which Council does not currently fund depreciation and the impact on funding replacement of those assets.

RECOMMENDATIONS

That the LTP Working Group recommend that Council agree to:

1. fund the depreciation on all Community Facilities as part of the 2024-34 Long Term Plan; and

2. transition the application of this policy change over a four-year period.

Background

3. Council's Revenue and Financing Policy in the 2021-31 Long Term Plan includes Council's depreciation funding policy. The relevant portion states:

> 11. "*In this Plan Council has funded Depreciation and Debt Servicing Costs on the following basis:*
>
> *(i) "Depreciation has been fully funded for all assets with the following exceptions: …Halls, Convention Centre, reserves, drains, river channels, retards and Taylor Dam as it is planned that these assets are either maintained in perpetuity, or their replacement is not certain because of changing community needs...*

In this paper we are concerned with Halls, the Event Centre and reserves - replacement of these assets is not certain because of changing community needs.

4. Application of this policy means that:

4.1 Council funds depreciation on assets in the Community Facility activities: Public Toilets, Memorials, Pools.

4.2 Council does not fund depreciation on the Event Centre or assets in the Community Facilities activities: Halls, Cemeteries, Reserves, Street Plots or Street Trees. This treatment is further analysed in this paper – the amount of depreciation involved is shown below:

$000s	***21.22***	***22.23***	***23.24***	***24.25***	***25.26***	***26.27***	***27.28***	***28.29***	***29.3***	***30.31***	***31.32***
Halls	219	226	233	208	214	221	226	234	242	251	260
Cemeteries	33	36	40	44	45	46	47	49	50	51	53
Reserves	1,297	1,342	1,418	1,460	1,509	1,542	1,580	1,598	1,640	1,669	1,675
Street Plots	0	1	1	2	2	2	3	3	4	4	5
Street Trees	1	2	2	3	4	4	5	6	7	8	9
Event Centre	73	68	69	71	73	76	77	79	82	83	85
	1,623	1,673	1,764	1,787	1,847	1,892	1,938	1,970	2,025	2,067	2,087

5. In general asset replacement can be funded from one or a combination of:

   5.1 Activity specific reserves i.e. accumulated surpluses in targeted rate funded activities or depreciation reserves.

   5.2 Council wide reserves e.g. forestry and land sales; infrastructure upgrade. Currently these reserves are significantly committed.

   5.3 External grants e.g. central government.

   5.4 Debt (if depreciation is funded the income funding depreciation can be applied to repayment of the debt).

   5.5 In the case of damaged assets insurance proceeds and Council's emergency reserves may also be available.

   Previously Development Contributions, via the Land Sub Reserve, funded the renewal and enhancement of Community Facility assets. However, an improved understanding of the legislation has narrowed the use of that Reserve to funding only:

   - new assets required to meet the demands of growth and
   - any growth component of replacement or enhancements of existing assets.

6. This leaves the problem of how to fund non-growth driven replacement or enhancement of community facilities, whether as a project or an identified percentage of a mixed purpose project. The available options are:

   6.1 Initially debt fund the cost and then fund interest and repayment from rates. This approach was used to partially fund several mixed purpose projects in the February 2022 Budget Papers.

   6.2 Fund depreciation from rates and accumulate to fund projects, avoiding interest costs.

   The overarching principal of inter-generational equity should be considered i.e. the goal of making those who benefit from using the asset pay for the asset - across its life.

Assessment/Analysis

7. Halls – many halls were originally constructed as community war memorials and attracted central government funding. Determining the likelihood of community desire for replacement at the end of their life appears both challenging and diverse, although it is noted that some of these halls have had significant recent work.

Hall	**remaining life**	**annual depreciation**
French Pass	34	3,501
Okaramio	44	3,659
Riverlands	54	6,001
Link Water	61	6,246
Spring Creek	24	6,253
Moutere	59	6,458
Canvastown	34	6,472
Waitaria Bay	43	6,862
Fairhall	58	8,345
Havelock	14	8,506
Rapaura	46	9,109
Tua Marina	3	26,667
Flaxbourne	23	38,261
Awatere	50	72,905
		209,244

8. Cemeteries – the relatively small amount of depreciation relates mostly to cemetery development. With Council's decision to fund cemetery costs 50% from rates and 50% from fees funding the depreciation would better align the fees with actual costs with a small impact on rates.

9. Reserves – this depreciation relates to a variety of developments (e.g. playgrounds, sheds, carparks) across the huge range of Council reserves - including major sporting facilities and community assets e.g. Lansdowne, Athletic, A+P, Endeavour, Pollard, College and Riverside Parks and Picton Foreshore. There is no reason to believe that these assets will not be replaced in some form when they become unsafe, unusable or otherwise obsolete.

10. Event Centre – almost all of this depreciation relates to the (portion of the) building. In an ideal and COVID free world this activity would be principally funded by the users of the centre and so not funding depreciation would understate the cost which needs to be recovered from those users (effectively being rent free).

Option One (Recommended Option) – *fund depreciation*

11. Fund depreciation expense on all community assets from rates and other income, either immediately or as a phased transition, possibly dependent on recovery of the tourist economy.

Advantages

12. Funds available for asset replacement with minimal or lower impact on rates at the time.

13. Align users of facilities with funders of those same facilities, improving decisions around use.

Disadvantages

14. Initial rates increase, can be mitigated by implementing over a number of years.

Option Two – *status quo*

15. Confirm the current approach of using rates funded debt to fund the non-growth-related components of Community Facility capital expenditure projects.

Advantages

16. Rates impact reduced in the short term, until debt increases.

Disadvantages

17. Difficult future community decisions about non-replacement of assets.

18. Higher cost of asset replacement due to the need to borrow and pay interest on that debt.

Next steps

19. Following consideration by the Working Group Council's Finance Team can provide further data and or analysis if required to support a decision.

Author	Alison Vile, Senior Management Accountant
Authoriser	Martin Fletcher, CEO

Summary of decision-making considerations

Fit with purpose of local government

The proposal supports meeting the current and future needs of communities for good-quality local infrastructure and public services in a way that is most cost-effective for households.

Fit with Council policies and strategies

X	*Contributes*	*Detracts*	*Not applicable*
LTP / Annual Plan	☑	☐	☐
Financial Strategy	☑	☐	☐
Infrastructure Strategy	☑	☐	☐
Social well-being	☑	☐	☐
Economic development	☑	☐	☐
Environment & RMA Plans	☐	☐	☑
Arts & Culture	☑	☐	☐
3 Waters	☐	☐	☑
Land transport	☐	☐	☑
Parks and reserves	☑	☐	☐

This proposal contributes to the LTP relating to Community Facilities.

Nature of the decision to be made

The options do not involve a significant decision in relation to land or a body of water.

Financial considerations

The financial implications of this decision would impact the next LTP.

Significance

The decision is considered of low significance under Council's Significance and Engagement Policy.

Engagement

Engagement will occur via LTP consultation.

Risks: Legal / Health & Safety etc

There are no known significant risks or legal implications.

Climate Change Implications

In assessing the preferred option, staff have considered that any effects of climate change will be dealt with as part of the projects to be funded rather than here as part of the funding policy.

3. Roading Rates and Charges – French Pass and Kenepuru

(Report prepared by Chris Lake) **F230-L24-09-05**

Purpose of report

1. To review the basis for levying the French Pass Road Charge and Kenepuru Road Rate especially in regard to properties with no direct road access.

Executive Summary

2. The French Pass Road Charge and Kenepuru Road Rate have not been reviewed for a number of years.

3. 135 properties are identified as having no road access to their properties. These properties could be removed from requiring having a French Pass Road Charge and Kenepuru Road Rate from 1 July 2023.

4. This change would decrease the French Pass Road Charge to the identified properties by $99p.a. There would be no change for the Kenepuru Road Rate, as it is expected to be completed repaid by then.

5. These properties, as they have no road access, could also be moved from the geographic area General Rural to Sounds Admin for the General Type Targeted Rates and Charges. This would provide an average benefit of $362 per property. This change may need consultation with affected ratepayers across the whole of General Rural Geographic Rating area.

RECOMMENDATIONS

That the LTP Working Group recommends:

1. That the weighting for the French Pass Road Charge and the Kenepuru Road Rate be reduced to 25 for those properties which have no road access.

2. That the change take affect from the 1 July 2023.

Background/Context

6. At present there are 2 road rates and charges in the Long Term Plan. The French Pass Road Charge and the Kenepuru Road Rate. The details from the 2021-22 LTP are in appendix 1.

7. In August 2021 a ratepayer queried why they were being charged the French Pass Road Charge but did not have access to the French Pass Road from her property. The ratepayer has also made a submission to the Annual Plan. It was noted at that time that the French Pass Road Charge and the Kenepuru Road Rate calculation have not been looked at for several years.

8. Both targeted rates were established to progress seal extension/roading improvements along those respective routes (and including some side roads under agreement with the Community roading advisory groups). Typically, in the past, physical works were programmed every 2-3 years and the costs repaid from the targeted rate, sometimes with a matching contribution from general rates. The last round of sealing works was considerably increased in scale on both roads following submissions from those communities.

Background French Pass Road Charge:

9. There is still a good length of unsealed road on the French Pass Road, no further seal extension is provided for in the LTP and further consultation will also be required with that Community in due course.

10. The following was extracted from the 2004-14 Long term Council Community Plan "This charge is calculated on each rating unit in the French Pass Rating Area, to be applied towards the cost of sealing between Matapehe Hill and French Pass." We are unable to identify the reasoning for the original decision to rate all properties in the area as compared to just those properties with direct road

access. Possibly it was considered than an indirect benefit accrued to those property owners simply by having a sealed road closer to their property.

11. In the 2012-2022 Long Term Plan this was changed to “This charge is calculated on every rating unit in the French Pass Rating Area, to be applied towards the cost of sealing between Matapehe Hill and French Pass and the charge will continue until 30 June 2015.

12. In the 2015-2025 Long Term Plan this was changed to “This charge is calculated on every rating unit in the French Pass Rating Area, to be applied towards the cost of seal extension in the targeted area. The charge will continue until the sealing costs are fully paid.

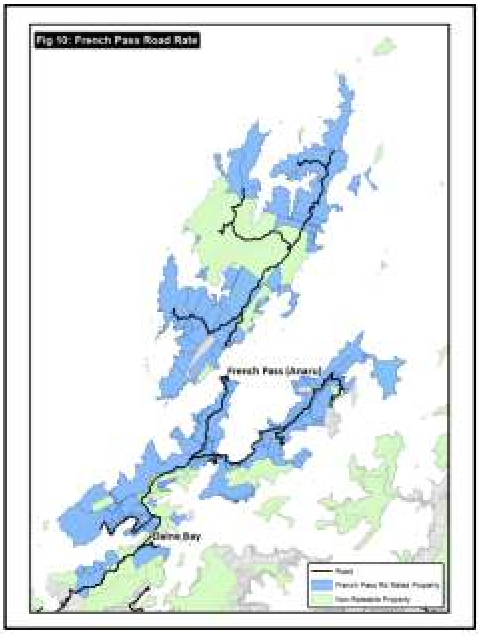
13. In the 2021-31 Long Term Plan this has slightly different wording, with the same intent, as the 2020/21 annual plan had a change in format for the rates FIS. The cost is $99 per property.

French Pass Road Charge $32,045

This targeted charge pays for the cost of seal extension in the French Pass rating area. It is charged on every rating unit in the area (see figure 10).

Overall this charge will remain the same as last year.

Per calculation	Rate in the $
Per rating unit	99.00



The green coloured area in the middle of D’Urville Island is owned by Department of Conservation and therefore non-rateable.

14. The funding from this rate is transferred into a reserve. In June 2017 $645,191 of capex sealing works was transferred to the French Pass reserve. This has been paid off from this rate each year, with there being a balance of $255,212 at the end of this year (2021/22). This is expected to be paid off in the 2026-27 year.

15. A portion of this comes from the French Pass Road Charge and a portion from General rates with a total amount from rates. Being $55,730 (excl GST).

Background Kenepuru Road rate:

16. The Kenepuru Road is now sealed all the way to Waitaria Bay, which was the original end target point. No further seal extension is provided for in the LTP. However, before discontinuing the targeted rate, we should consult with that community.

17. The following was extracted from the 2004-14 Long Term Council Community Plan "*Kenepuru Road Rate ($56,250 GST inclusive) This rate is calculated on the capital value of every rating unit in the former Kenepuru Riding. An increase to this rate has occurred as a result of the Revenue and Financing Policy Review. The increase of $18,000 (GST exclusive) will be applied towards "general roading works" in the targeted area. The balance of $32,000 (GST exclusive) will continue to be applied towards "roading improvements" in the targeted area.*

18. In the 2006-2016 Long Term Plan this was changed to "*This rate is calculated on the capital value of every rating unit in the former Kenepuru Riding and is applied towards "roading improvements" in the targeted area.*

19. In the 2015-2025 Long Term Plan this was changed to "This rate is calculated on the capital value of every rating unit in the former Kenepuru Riding to be applied towards "roading improvements" in the targeted area. The charge will continue until the roading improvements costs are fully paid.

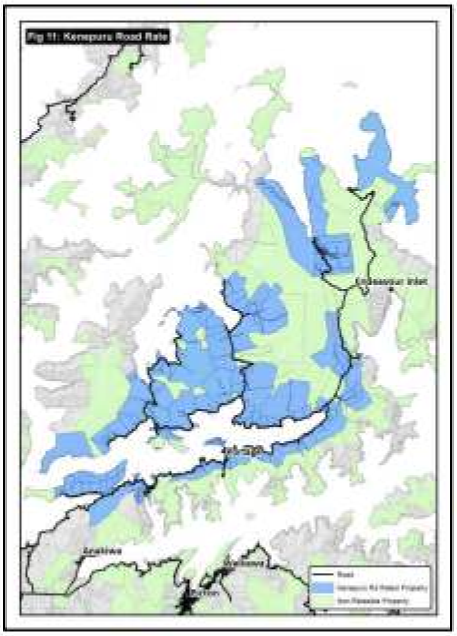
20. In the 2021-31 Long Term Plan this had slightly different wording, with the same intent, as the 2020/21 annual plan had a change in format for the rates FIS. The average cost is $57 per property.

Kenepuru Road Rate **$40,822**

This targeted rate pays for the cost of roading improvements in the rating area. It is calculated on the capital value of every rating unit in the former Kenepuru Riding (see figure 11).

Overall this rate will remain the same as last year.

Per calculation	Rate in the $
Capital value	0.009845



21. The surplus funding was held in an account and used to offset the majority of $900,665(xGST) for capex sealing works in 2019/20. The balance of this cost is expected to be paid off in the year 2023-2024.

22. A portion of the funding comes from the Kenepuru Road Rate and a portion from General rates. Being $70,995 (excl GST).

Common elements of both the Kenepuru and French Pass Road Rates

23. The common elements between the two rates are:

- they apply to the <u>whole area</u> irrespective of whether there is a direct road connection;
- They both existed in a similar form since before 1998, as they were in the 1998-99 Annual Plan;
- and that they are specified for the use of seal extension. This means that these rates can't be used for other purposes such as "flood damage" repairs.

Assessment / Analysis

24. We set our summer student the task to identify if the properties in these areas had road access, access via another property or no road access. This was done by viewing the Councils arial maps of the areas. There were a number of issues identified with the accuracy while doing this:

- Road access was assumed if the property shared a Boundary with a road.
- Several of the roads shown on the map appeared not to be formed.
- Unsure if roads were able to be accessed by standard vehicles.
- Some roads / tracks were hidden by trees etc.

Below are the figures related to this.

French Pass Road Charge	**Properties**
Road Access	156
Access via another property	107
No road access	72
Total	**335**

Kenepuru Road Rate	**Properties**
Road Access	465
Access via another property	194
No road access	63
Total	**722**

Is the current policy of charging all properties appropriate?

25. As stated earlier, it is unfortunate that we cannot locate the reasoning for charging the whole area. This means that Council effectively has a clean slate on the approach it wishes to take moving forward. It could decide to only levy the rates/charges on properties directly adjacent to the road. This approach is black or white and relatively easy to administer.

26. The French Pass Road Charge is $99 per rating unit, so the cost of removing 72 properties from the rating base would be $7,128 (GST incl). This will also decrease the general rate by the same amount. This would mean that the rate would continue up to 2027-28 year until repaid. One additional year.

27. As the Kenepuru Road rate is expected to be paid off by July 2023 this would not have any monetary effect unless additional works were agreed to be funded by this rate.

28. Alternatively, Council could decide that even those properties without a direct connection to the road still derive some benefit. For example, if the owner of a non-connected property planned to build a dwelling on it, then it would be a significant saving if most of the materials could be trucked to a nearby location before a final transfer to site by helicopter. While the benefit would not be high, we already have a weighting of 25 on Sounds Admin Rural properties with no roads, so possibly the same weighting could apply here.

29. This leaves a third category, those properties with access through a neighbour's property. These property owners get all the benefits of a direct connection, so should pay the full amount. The administration of this category may prove challenging.

30. The review of these rates and charges has raised a further issue regarding whether properties without road access should be included in Sounds Admin Rural or continue in General Rural.

Background Sounds Admin Rural v General Rural areas:

31. The General Type Targeted Rates and Charges have geographic areas of General Rural and Sounds Admin. These are described in the 2021-31 LTP as:

General Rural Area (GR) (Fig 1)

All of that area administered by the former Marlborough County and excluding that part of the former County's area which has been included in either the Blenheim, Blenheim Vicinity, Picton, Picton Vicinity or Sounds Admin Rural areas.

Sounds Admin Rural (AR) (Fig 5)

All of that area with basically sea access only, which was subject to the former Marlborough County Council Empowering Act 1965.

32. All properties in the French Pass and Kenepuru areas are rated within the General Rural Geographic area which was confirmed as part of the 2012-22 LTP review. The question is whether or not Council wishes to adopt a very pure approach and move all properties without road access to Sounds Admin Rural. Again, the alternative which was the approach adopted back in 2012 was to recognise that some benefit accrued and that the whole area should be in one area or another. This was the position taken when the Mahau Peninsula was incorporated into General Rural.

33. The status quo is recommended.

Option One– [Remove properties without Road Access]

34. Change the wording for the French Pass Road Charge and the Kenepuru Road Rate to apply to every rating unit with the ability to have road access.

Advantages

35. Consistent for ratepayers that are unable to access the road due to no access to their property.

Disadvantages

36. Additional work required to identify the properties and change the rates and charges

37. Decrease in funding for the Road Rates or an increase in the rates paid by others to offset the decrease in rateable properties

38. Longer term for the rate/charge to complete repayment. Expected in 2027/28.

Option Two – (Recommended Option) –[Decrease cost for properties without Road Access]

39. Agree to apply a weighting of 25 instead of 100, to all properties in the French Pass Road Charge and the Kenepuru Road Rate areas without the ability to access the road. The same outcome could be achieved by applying a remission.

Advantages

40. It recognises that all rate payers in the French Pass Road Charge and the Kenepuru Road Rate areas receive some benefit from the respective roads and the sealing thereof.

Disadvantages

41. Additional work required to identify the properties and change the rates and charges

42. Decrease in funding for the Road Rates or an increase in the rates paid by others to offset the decrease in rateable properties, but to a lesser extent than Option 1.

43. Longer term for the rate/charge to complete repayment. Expected in 2027/28.

Option Three - Status Quo

44. No change to the wording of the French Pass Road Charge and the Kenepuru Road Rate.

45. Properties do not change from the General Rural to Sounds Admin geographic area.

Advantages

46. Less work

47. French Pass Road Charge completes repayment in 2026/27.

Disadvantages

48. Ratepayers contributing to road sealing by paying the target road rate/charge without any possible benefit.

Next steps

49. If it is agreed to use the above data to identify a group of ratepayers in relation to road access, additional work can be done to ensure the data we have is accurate. A letter then could be sent to all current ratepayers with this rate, will our conclusion for their property. If they wish this to be revised, this can be done by providing additional information to the MDC. It is possible that this will increase the number of properties with no road access.

50. We would be able to implement the change in July 2023.

51. The French Pass Road Charge is $99 per rating unit, so the cost of removing 72 properties from the rating base would be $7,128 (GST incl). If the weighting for properties was decreased to 25, then the cost would be $5,346 (GST incl). This will also decrease the general rate by the same amount. This would mean that the rate would continue up to 2027-28 year until repaid. One additional year.

52. As the Kenepuru rate is expected to be paid off by July 2023 this would not have any monetary effect unless additional works were agreed to be funded by this rate.

Author	Chris Lake, Financial Services Manager
Authoriser	Martin Fletcher, Chief Financial Officer

4. CPI Adjusted Funding

(Report prepared by Martin Fletcher) **F230-L24-09-05**

Purpose of report

1. To seek the Working Group's endorsement of the CPI percentage budget increase for organisations funded with this adjustment factor.

RECOMMENDATIONS

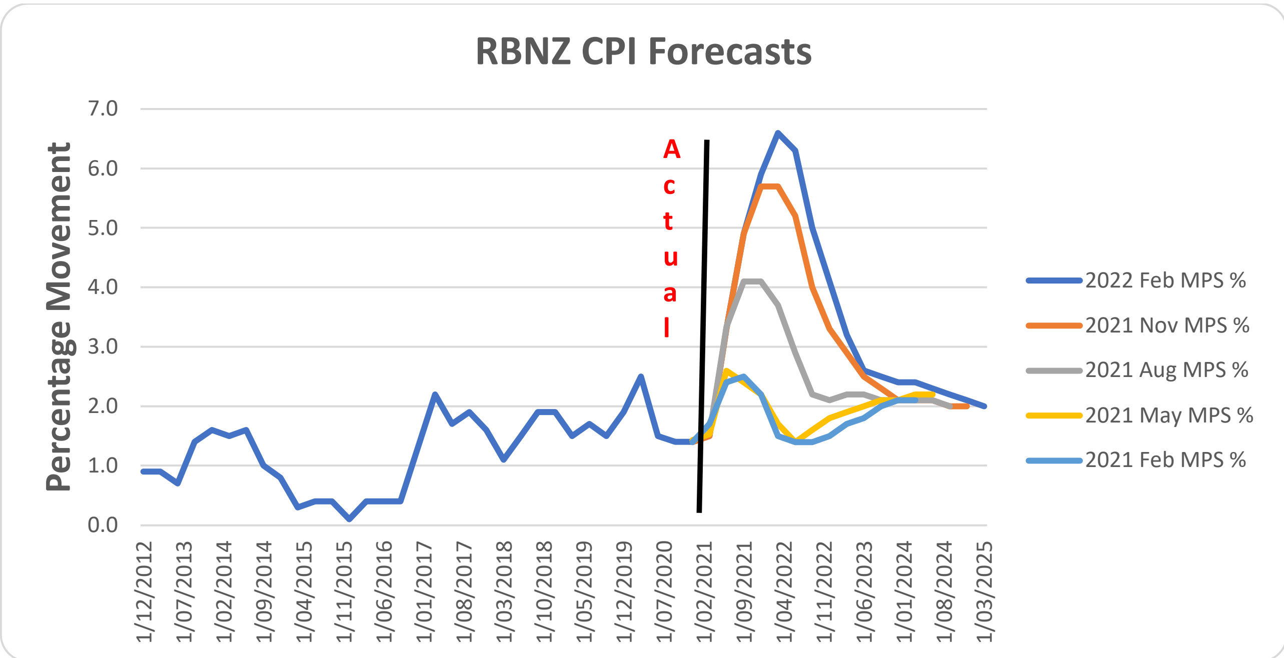
That the LTP Working Group:

1. **agree to use the forecast CPI in the Reserve Bank's November Monetary Policy Statement to adjust the budgets for entities and projects where Council has agreed to increase their annual funding by CPI. The figure used will be for the December of the year prior to the year of the budget.**
2. **agree that the CPI increase to be applied for 2022/23 is 5.7%.**

Background/Context

2. Over the last ten years Council has approved a number of organisations to have their operating grant funding increased annually by CPI. Included in these organisations are Destination Marlborough, Marlborough Research Centre and Marlborough for Fun, to name three.

   Over recent years the CPI adjustments have typically been in the 1% to 2% range. However, the actual CPI adjustment on a year-on-year basis more recently has been significant.



3. These percentages compare to 0.9% budgeted for 2021-22 which was the forecast CPI increase in the August 2020 RBNZ Monetary Policy Statement (MPS). The increase included in the budget so far for 2022-23 is 2.2% based on the August 2021 MPS.

4. The key point with these forecasts is that they change over time and for the December and March CPI movements, quite significantly over a relatively short period of time. For example, the forecast for 1 December 2021 was 2.2% in February 2021, by December 2021 the forecast was 5.7%, with an actual of 5.9%.

5. As we have a once a year opportunity to make a CPI adjustment, two questions arise.

   i) What CPI adjustment figure should we use each year to make CPI adjustments?

   ii) Should the full or part adjustment be applied for 2022-23?

CPI Dates

6. To achieve a consistent approach each year, it is suggested that the CPI forecast for 31 December of any year be as contained in that year's Reserve Bank November Monetary Policy Statement (MPS) be used. Using the 2022-23 budget as an example we would use the forecast CPI for December 2021 as contained in November 2021 MPS.

7. The reason for choosing this source is that the Reserve Bank has responsibility for managing CPI movements, so should be in a good position to make an accurate forecast.

8. The reason for the date is that it represents the midpoint for the year and should be reasonably accurate as it is only 6 weeks out from the publication date. Using the November publication date enables the incorporation of the increase into the budget.

Adjustment Percentage

9. As identified earlier the increase in the CPI has typically been in the 1-2% range over recent years. This year, the "year on year" movement to 31 December 2021 was 5.9% (November MPS forecast was 5.7%) and to 31 March 2022 was 6.9%. As a result, because of the significant change in the level of adjustment, it is considered that Council should be made aware of this increase.

10. Despite the size of increase it is recommended that the 5.7% increase forecast for 1 December 2021 be applied.

11. The reasoning for this recommendation is:

    a) The current Council approval for a CPI adjustment.

       It would be inappropriate to selectively apply the CPI adjustment depending on whether the forecast was high or low. Organisations need to have a level of certainty for effective planning. In saying that, though, there will always be variations between forecasts versus actuals, but over a longer term it is expected that those variations should equalise.

       This proposition was tested when answering a LGOIMA request from a member of the public, the CPI adjustments provided to Destination Marlborough since 2014 when the CPI adjustment was put into place, totalled 11.8% (12.8% when the cumulative effect was taken into account. This compares to the 14.1% movement in the CPI (as at December) over the same time period, including the December 2021 movement. The BERL indices moved by 16.7% over the same period.

    b) Council's budget has been prepared on the basis of maintaining existing Levels of Service, to use only part of the CPI increase would possibly decrease that Level of Service.

Author	Martin Fletcher, Chief Financial Officer
Authoriser	Mark Wheeler, Chief Executive

5. Capital budgets explained

(Report prepared by Alison Vile) **F230-L24-09-05**

Purpose of report

1. To provide an explanation on the various views of Council's capital budget following a Councillor query.

Executive Summary

2. This report identifies, defines and gives examples of the various views of the total dollar value of Council's capital budget.

RECOMMENDATION

That the information be received.

Background/Context

3. Council's capital expenditure budget represents a significant amount of spending each year, largely on long life assets. In common with many Councils, MDC usually spends only c70% of its capital budget, approved but unspent budget is usually carried over to the following year.

   This situation is allowed to continue as:

   a) Council genuinely wants to complete all budgeted work

   b) Based on experience it is known that almost every project will be delayed in some way, for a variety of reasons including shortage of professional and physical resources, delays in landholder agreement and consenting and weather.

   c) When the budget is prepared it is not possible to know which projects will be most impacted and delayed. Approving the full budget gives staff the authority to progress all those projects which they are actually able to.

4. When the Finance team prepare Council's budgeted financial statements and forecast borrowing requirements they work to achieve the financial envelope allocated for capital expenditure. The financial envelope is set as part of the Long Term Plan and aims to estimate the actual expenditure likely to be achieved in each year. If we looked to finance the total value of the capital budget, this would have a significant rates impact, and it doesn't make sense to generate additional funds before they're needed. To fit within the financial envelope, Activity capital budgets are scaled back. While an effort is made to scale evenly across the activities the reduction is done at a high level e.g. not by project.

5. These factors combine to possibly make it challenging for Councillors to assess ongoing performance in the hugely important area of capital spending.

Terms defined

6. To help us have sensible conversations about the different views of the budget we have some standard "names", some more obvious than others.

   a) The D**raft Budget**: any version of the budget produced prior to the Budget Meeting agenda

   b) The **Budget Meeting version** (based on current levels of service)

   c) The **Consultation version** (including any proposed increases to levels of service)

   d) The F**inal version**: as approved by Council, published in the Annual / Long Term Plan and the basis for the rates strike, also known as the **original budget**: as we begin to report against it. Commentary in our Annual Report is always comparing to the original budget.

   e) The **Revised Budget**: the original budget plus carryovers (the unspent portion of previous year's budget) and any other changes – all specifically approved by Council.

Reporting to management and council is always comparing to the revised budget.
Also sometimes referred to as **"Programmed work".**

f) **Amount funded**: in reality each version of the budget (Budget Meeting, Consultation and Final) has an amount funded built into its financial model, but not easy to identify.
The amount funded for the revised budget is the same as for the final version as this considered likely carryovers.

g) **Actual** spent plus invoiced and approved.

h) **Forecast** spending: management's best estimate for the whole year, given how things have gone to date. This is periodically updated (if managers don't update their forecast the system defaults to actual spending plus the budget for the remainder of the year).
A special instance of the forecast is "projection" which is simply the version of the forecast used as a starting point in preparing the next years plan and budget.

Moving goalposts?

7. The obvious question about now is – what should we be measuring ourselves against? Most simply the goal is to spend the amount funded and not to exceed the revised budget. However, this is only one dimension, the other is to monitor whether projects are being completed within budget.

8. Projects like the current roading recovery (additionally funded) and assets vested by developers (which are reported as capital spending) can complicate this which is why they are explained by staff in reports.

Attachment

Attachment 5.1 – Identifies The "life cycle" of the capital budget for the 2021-22 financial year Page 22

Author	Alison Vile, Senior Management Accountant
Authoriser	Martin Fletcher, CFO

The "life cycle" of the capital budget

The life cycle of the capital budget e.g. for financial year 2021-22

8.1 October 2020: draft budget – based on current levels of service. Note at this stage staff may have little idea how 2019-20 capital projects are progressing.

8.2 November 2020: Management review

8.3 December 2020: capital budget funded and rating impact identified

8.4 February 2021: Council consider budget and decide on proposed increased levels of service projects. Budget financials are based on actual spending being less than the capital budget.

Budget updated to consultation version.

8.5 June 2021: Council make final budget decisions and budget adopted – rates struck.

8.6 August 2021: unspent portion of 2020-21 capital budget is identified and where appropriate Council are asked to approve carryovers into 2021-22.

8.7 July 2021-June 2022: staff progress as much of the 2021-22 capital budget and the 2020-21 carryovers as possible, with regular reporting to management and Council.

8.8 October 2022: we start again …