



***Meeting of the***

***LONG TERM PLAN WORKING GROUP to be held in  
Council Chambers, 15 Seymour Street, Blenheim  
on Wednesday, 5 October 2022***

***1.00 pm to 3.00 pm***

# **A G E N D A**

1.	2023-24 Annual Plan Interest Rate on Council Borrowings Assumption .....	3
2.	Section 17A Review .....	8
3.	Review of Depreciation Policies .....	26

Record No: 22197463

File Ref: D050-001-L24



# 1. 2023-24 Annual Plan Interest Rate on Council Borrowings Assumption

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(Report prepared by Chris Lake)

## Purpose of Report

1. To review Council's current interest rate assumption and identify the anticipated impacts of any change on rates and Council's financial position.

## Executive Summary

2. The Council's current internal interest rate of 4.0% was agreed by the Long Term Plan Working Group on 25 November 2021.
3. The 5 year swap rate at 30 June 2022 was 3.95% and 27 September 2022 was 4.49%.
4. As a result, Council could consider amending its interest rate assumption. This paper gives 5 options:
  - retain the status quo of 4%
  - increase the interest rate to 4.5%
  - increase the interest rate to 5.0%
  - increase the interest rate to 5.0% with an increased rates subsidy
  - increase the interest rate to 5.0% with an increased rates subsidy at the discretion of the CFO in consultation with the Mayor and the Chair of the Planning, Finance and Community Committee (PFC).
5. An increase in Council's interest rate assumption would not only meet the increased cost of external debt, but also increase the funding available to either:
  - provide a "General Rates and Charges Subsidy" to Ratepayers; or
  - increase the amount available to replenish the Emergency Events Reserve,but at an increased cost to those ratepayers paying capital intensive charges eg targeted capital water and sewerage rates.

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## RECOMMENDATIONS

That the LTP Working Group recommend to Council that it:

1. **Agree to increase the internal interest rate assumption to 5% for the 2023-24 Annual Plan**
2. **Agree to increase the rates subsidy by a figure agreed by the CFO, in consultation with the Mayor and the Chair of the Planning, Finance and Community Committee without decreasing the funds to the Emergency events reserve.**
3. **Note the impact of the recommended option on the benchmark properties.**

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## Background/Context

6. The interest rate assumption is a key component to Council's budget and rate setting process and is reviewed annually.
7. Currently the interest charged to activities is credited to the General Revenues Account. This account, in addition to meeting external interest costs, pays for a number of non-activity specific costs, nonactivity related insurance and rates remissions. The account also funds a subsidy to General Rates and Charges (last year \$3.85M) and the replenishment of Council's Emergency Events Reserve.
8. As at 30 June 2022 the value of internal loans was \$137m and have a forecast balance in the Annual plan of \$173M at June 2024. The majority of these loans are for a 20 year term.
9. The table below shows prior year interest rate assumptions:

Annual Plan	Interest Rate
2015-16	7.0%
2016-17	6.0%
2017-18	6.0%
2018-19	5.5%
2019-20	5.5%
2020-21	4.5%
2021-22	4.0%
2022-23	4.0%

### Current Debt

10. As at 30 September 2022 Council had \$79m of long term external debt with a weighted average of 3.82%. Using the budgeted figured from the 2022-23 Annual plan, the \$149M of external debt as at 30 June 2024 has been estimated which has a weighted average of 4.54%. The details are shown in the following table:

\$ Millions	As at 30 September 2022		Estimated interest rate as at 30 June 2024
	Maturity Dates	Interest Rate %	
27	14/10/2022	3.20%	4.97%
6	15/04/2023	5.68%	5.17%
4	15/04/2027	2.82%	2.82%
14	17/03/2025	4.29%	4.29%
4	15/05/2024	3.62%	3.62%
10	16/03/2026	3.91%	3.91%
4	15/03/2027	3.93%	3.93%
10	15/03/2027	4.09%	4.09%
20	15/12/2027	N/A	5.13%
50	30/06/2029	N/A	4.53%
Weighted average 3.82%			Weighted average 4.54%

*NB: For the purposes of this paper, debt raised for MDC Holdings Ltd, and its subsidiaries, has been excluded.*

### Interest Rate Forecasts

11. Even though Council now raises its debt via the Local Government Funding Agency, the forecasts have been obtained for two reasons:
- The LGFA doesn't publish forecast interest rates for out years;
  - The Banks have significant teams of economic researchers/forecasters.
12. The five-year rates are the most relevant to use as comparisons as they reflect Council's current philosophy of borrowing long term to provide greater certainty of interest costs when financing long life assets and largely match current maturities. Below are details of the 5 year swap rates.

### Forecast Five Year Swap Rates

13. In the table below, the first two rows show the actual rates as at 30 June 2022 and 27 September 2022. All other rows are the forecasts from the respective banks as were available on the 20 September. There publication dates vary from 23 September to 27 September.
14. The LGFA rates are updated weekly. The rates for the 30 June 2022, and 28 September 22 are 4.14% and 5.23% respectively for a fixed rate long term to April-2027 (closest LGFA loan to a

five-year loan). The margins between these rates and the average actual rates are 0.19% and 0.74% respectively.

15. The far right column shows the Average of the banks rates plus the LGFA margin of 0.74% (as on 27 September 2022).
16. All forecasts available from the 4 banks are shown for the period Sept 2022 to June 2025.

Year	BNZ	Westpac	ASB	ANZ	Average	Average plus LGFA Margin
Actual 30 June 22	3.92	3.92	3.91	4.04	3.95%	4.14%
Actual 27 Sept 22	4.53	4.42	4.53		4.49%	5.23%
<b>Forecasts:</b>						
Sep-22	4.35	4.10	3.98	4.51	4.24%	4.97%
Dec-22	4.40	4.10	4.30	4.76	4.39%	5.13%
Mar-23	4.50	4.00	4.30	4.95	4.44%	5.17%
Jun-23	4.30	3.90	4.30	4.95	4.36%	5.10%
Sep-23	4.05	3.70	4.30	4.95	4.25%	4.99%
Dec-23	3.80	3.50	4.30	4.95	4.14%	4.87%
Mar-24	3.65	3.30	4.25	4.79	4.00%	4.73%
Jun-24	3.50	3.15		4.73	3.79%	4.53%
Sep-24		3.00		4.73	3.87%	4.60%
Dec-24	3.25	2.85		4.63	3.58%	4.31%
Mar-25	3.15	2.75	4.05		3.32%	4.05%
Jun-25		2.65			2.65%	3.39%

17. The Banks are forecasting that the increase in interest rates we have seen are slowing and are expected to decrease in 2024.
18. Please note, caution should be exercised as the figures supplied by the banks are only forecasts based on currently known data. Any shift in the economic performance of the major world economies could have an immediate impact on New Zealand interest rates.
19. Other factors to consider are:
  - i) The weighted average interest rate of long-term current debt as at 30 September 2022 is 3.82%. The budgeted weighted average interest rate for 30 June 2024 is 4.54%.  
The Council has an overdraft facility of \$20M with Westpac that we use for cashflow variances shortfalls when long term loans are not required. As at 31 August 2022 the rate charged for funds used in this facility is 4.3%.
  - ii) For budgeting purposes, the internal long term interest rate is for the entire 10 years covered by the Annual Plan, commencing 1 July 2023.
  - iii) At present the interest rates are volatile and the 5-year swap rate has increased from 2.54% to 3.95% between November 2021 and June 2022. The forecast in November 21 for June 22 was 2.77%.
  - iv) Last year we held the interest rate at 4% even though the statistics showed it could go lower, but as it turned out the outcome has been higher rates. This year there is enough publicity surrounding increasing rates that an increase should not be a surprise to rate payers.

- v) The average home mortgage rates fixed for 1, 2 or 3 years is currently at 5.86%, with this being 4.08% last year and 2.86% in the year before that.

### Emergency Events Reserve

20. The results of consultation of the 2018/28 LTP regarding the Emergency Events Reserve indicated a preferred balance of between \$10-15m by 2028. While normally the Emergency Events Reserve is replenished by surpluses from the General Revenues account, the Covid Rates Relief Reserve budget paper provides other means to achieve the targeted balances. Council agreed that following the COVID-19 Rates Relief Reserve achieving a positive balance, surplus funding from the Infrastructure Upgrade Reserve be allocated to Emergency Events Reserve until such time as an appropriate balance is achieved, as informed by consultation undertaken as part of the 2018-28 LTP. This is on the assumption that the 3 Waters reforms proceed.
21. The effect of this is not included in the figures below.
22. Additional external interest expenditure will decrease the portion of the general revenues that will be able to be transferred to the Emergency events reserve. A figure has been allowed for external interest expenditure, but this cannot be calculated accurately without the full budgeting process of the annual plan.

### Interest Rate Options

23. Below are a number of scenarios that were considered, as identified in the above summary. The first line being the Annual plan for 2022-23 for comparison purposes.

Model	Internal Interest Rate	Rates Subsidy per annum	Emergency Events Reserve after 10 * Years	Rates Increase			
				2022-23 Year 1	2023-24 Year 2	2024-25 Year 3	2025-26 Year 4
Annual Plan / Option 1	4.0%	\$3.85M	\$5.7M	5.39%	** 8.2%	*** 11.4%	4.5%
Option 2	4.5%	\$3.85M	\$ -	6.2%	8.4%	11.5%	4.6%
Option 3	5.0%	\$3.85M	\$11.4M	7.1%	8.5%	11.5%	4.8%
Option 4	5.0%	\$4.25M	\$7.4M	6.5%	8.6%	11.6%	4.8%

\* Any additional external interest expenditure will require the funding to the Emergency Events Reserve to decrease.

\*\* The 3 waters wellbeing funding used to reduce rates in 2022-23 has not been applied to 2023-24, so this percentage will be approximately 0.75% lower.

\*\*\* The unbundling of the covid rates relieve reserve.

#### Option 1 – 4.0% Status quo

24. The current interest rate for last year's Annual Plan was higher than the statistics of the day, but there was uncertainty in the economy due to Covid which could have an effect on interest rates in the future. Due to the uncertainty it was recommended that the current interest rate of 4% to be retained.
25. This effect on interest rates has happened, with the 5-year swap rate being above 4% and expected to increase in the short term.
26. As the interest rates are expected to be higher than the current 4%, a higher rate is recommended.

#### Option 2 – Increase interest rate to 4.5 %

27. The current forecast rates (including the LGFA Margin) for the period, June 2023-June 2024 have an average of 4.84%.

28. Increasing the interest rate to 4.5% without increasing the rates subsidy would push the rates increase to 6.2%.
29. The internal interest is offset by the external interest expense, so no change to the rates subsidy is available.
30. While not the most financially prudent option, it would allow a more gradual transition from the current low interest rate environment.

***Option 3 – Increase interest rate to 5.0 %***

31. The current forecast rates (including the LGFA Margin) for the period, June 2023-June 2024 have an average of 4.84%.
32. Should Council decide to increase its interest rate assumption to 5% this would increase the revenue to the General Revenues Account. Using the 2022-23 Annual Plan borrowings and interest amounts, a 1.0% interest rate increase (to 5.0%) would equate to a 1.7% increase in rates. This would equate to \$1.6M.
33. It is expected that funds would be used for interest on external borrowings and the balance would transfer to the Emergency Events Reserve. This would give a balance to this account of \$11.4M over a ten-year period.

***Option 4 – Increase interest rate to 5.0 % and increase Rates Subsidy to \$4.25M***

34. This option is using a 5% internal interest rate as in option 3, but would be using \$400K of the additional funds to increase the rates subsidy account.
35. The estimated income from the increase in the internal interest rate would be \$1.6M and the cost of the for interest on external borrowings would be \$1.2M, for the 2023-24 year. This would allow \$400K to be transferred to the Rates subsidy.
36. This would give the emergency events reserve a balance after 10 years of \$7.4M
37. The funds to the rates subsidy would allow the rates increase to be 6.5%.

***Option 5 – Increase interest rate to 5.0 % and increase the Rates Subsidy without decreasing the funds to the emergency reserve. (Recommended)***

38. This option is similar to option 4, but allows some flexibility for the change to the rates subsidy amount.
39. If we increased the amount of funds to the rates subsidy by a similar amount each year this could decrease the funds to the Emergency Events Reserve in some of the future years. As this reserve is being regularly used at present, it is not recommended to decrease the funds that replenish it.
40. The figure for the external interest expense is unable to be correctly calculated without the full budgeting process of the annual plan. One reason being the additions of assets for 2023-24 is likely to decrease to bring them in line with LTP expectations which is expected to decrease the amount of external interest expense required.
41. This option allows the CFO to increase the rates subsidy as much as possible, once the interest rates for the external interest expense is done.

The impact of option 2 and 4 on the Benchmark properties will be available at the meeting.

Author	Chris Lake, Financial Services Manager
Authoriser	Martin Fletcher, CFO

## 2. Section 17A Review

(Report prepared by Martin Fletcher)

F220-002-020-16

### Purpose of Report

1. To present the preliminary analysis undertaken on whether or not a more extensive review should be undertaken on how Council's Activities are delivered.

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### RECOMMENDATION

**That LTP Working Group recommend to Council that it agree to exempt all Activities from further review in accordance with s 17A of the Local Government Act 2002.**

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### Background/Context

2. S17A Local Government Act 2002 (the Act) –(Attached) – requires Council to review the cost effectiveness of its Activities. This review can be undertaken at an Activity Group, Activity, Activity Component or contract level. Taituarā (formerly the Society of Local Government's advice is to generally start at an Activity level and then reconsider once a preliminary review has been completed.
3. The Act requires reviews to be undertaken:
  - In conjunction with consideration of any significant levels of service.  
**Comment:** in general terms the focus of Council has been to maintain service levels. Levels of service increases have in the main been progressive and relatively minor because of the drive to constrain rates. The exceptions are possibly in the Activities of Water, Environmental Science, Compliance and Building Control (which have been driven by the need to meet Central Government requirements), Roading and Solid Waste where increases are in response to Community requests.
  - Within two years before the expiry of any contract/binding agreement relating to the delivery of the Activity.  
**Comment:** This review was undertaken when the contract with the NZTA for the delivery of Roading was undertaken. With the review of Roading being completed this accounts for approximately 20% of Council's expenditure. Consideration of whether or not to bring Solid Waste in house was also undertaken prior to the last contract renewal for this Activity. To my knowledge, other Activity contract renewals have not considered the implications of S17A, because of the exemptions agreed to by the previous Council.
  - As a minimum six years from the last review.

### Exemptions

4. The Act provides two exemptions to the above requirements. These exemptions are:
  - The extent that an Activity is governed by legislation, contract or other binding agreement that cannot be altered in the next two years.  
**Comment:** Activities that could fall under the legislation umbrella are Building Control and the need to meet IANZ requirements to maintain accreditation and Environmental Health and the need to meet the new Food Act requirements.
  - Where a Local Authority is satisfied that the potential benefits of undertaking a review do not justify the costs.  
**Comment:** An example of this would be Culture and Heritage which is delivered by means of grants to community trust/organisations and administered by a part time resource. The use of community organisations/trusts has proven to be highly efficient because of their ability to access volunteers, government and Community Trust grants and their different cost structures.

### Alternate High Level View

5. While a review is required on an Activity basis, it is also important for Council to have confidence that Activities are being efficiently delivered at a high level. There are a number of ways that this can be done, one is to look at the level of rates and second is to look at input costs.



6. The following table has been extracted from 2022/23 Annual Plan information. Nelson and Tasman have been selected as they are both Unitary Authorities undertaking similar activities at similar levels of service. While the information is a little out of date the trends contained in the table are still valid whether looking at it on a per property or total basis.

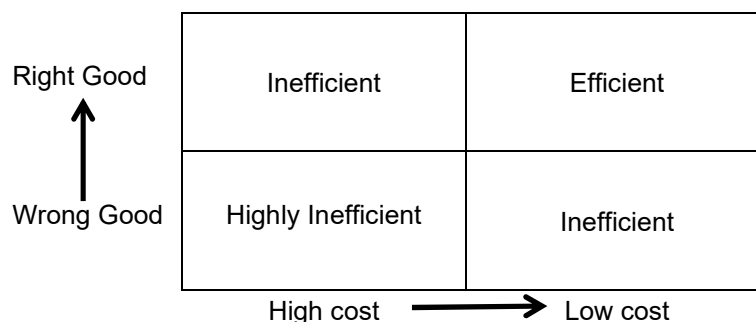
2022/23 AP	Total Rates (\$000)  (including metered water)	Rateable Units  (2021 Annual Report)	Rates Per Property	Forecast Debt @ 30-6-2023 (\$000)
<b>Marlborough DC</b>	<b>80,098</b>	<b>26,433</b>	<b>3,030</b>	<b>70,071</b>
Nelson CC	87,611	22,822	3,839	175,296
Tasman DC	87,988	25,875	3,401	258,314

7. As stated above another way of looking at the cost of Council services is to examine Activity input costs as there are significant cost components affecting all Activities including for example (\$ values are for the 2022-23 budget):

- **Interest - \$11.2M** - External finance is secured via the LGFA which is the lowest cost available.
- **Depreciation - \$32.0M** - Economic lives are consistent with other Local Authorities.
- **Electricity – \$2.7M** - Competitively tendered every 2-3 years
- **Insurance – 3.5M** – Procured jointly with Nelson, Tasman and via LAPP.
- **Personnel Costs – \$30.5M** - When Full Time Equivalent (FTE) comparisons are undertaken with other Local Authorities, Marlborough consistently scores at the low end for Councils of similar size.
- **Competitive Pricing** – Council currently contracts a significant portion of its operating expenditure to the private sector. Virtually all capital expenditure is competitively tendered. Believers in the concept that the use of the competitive market results in the most efficient means of delivery should gain comfort from the value of external competitively tendered delivery.

Balanced against this philosophy is the need to maintain “in-house” sufficient expertise to remain a “smart purchaser”. Smart purchasing is identifying the most appropriate goods or services and then ensuring that the contracted goods or services are delivered.

It should always be remembered that if the wrong goods or services are purchased, that inefficiency arises no matter how low the price is. A possible example of this is Wanganui’s sewerage scheme.



Council staff aim to procure the “Right Good for the Right Price”.

- **All of Government contracts** – Marlborough has currently entered into all of Government contracts for the following services:
  - Transactional banking
  - IT Hardware
  - Consultancy Services
  - Energy Management Services
  - Microsoft Licensing Agreement

- Office Supplies
- Print Technology and Associated Services
- Rental Vehicles
- Risk Financing & Insurance
- Telecommunications as a Service
- Vehicles
  
- Advertising Services (automatic-don't need to sign up)
- Media (automatic-don't need to sign up)
- Construction Consultancy
- Air Travel
- Information and communications technology (ICT) – various
- First Aid Training & Related Services

Other categories are reviewed as they become available

- **Community Organisations** - Council also delivers activities through community organisations. As stated earlier the cost structures of these organisations are typically much lower than Council, because of their use of volunteers. They also have access to alternative funding sources that Council doesn't, such as the Rata Foundation.

## Suggested Approach

8. Having gained an impression of Council's high level delivery and relative cost effectiveness, it is time to move to examining individual Activities. It is proposed to do this using a two-step process. The first step is to undertake a preliminary analysis to determine what, if any, Activities Council considers it can exempt from further review under the exemption provision in the Act. The second step is a more detailed review of Activities.

## Review of Activities for Possible Exemption

9. Under this section each activity will be discussed briefly before a recommendation is made for possible exemption from a more detailed review. Activities will be discussed in the same order as they appear in the Annual Plan.
10. However, before doing so it is important to understand if there are alternative means of delivery available. As a result it is timely to ask, are there appropriate external suppliers available in the market, as the s17A has a large component of it dedicated to this aspect? To date there has been little appetite from our Top of the South Councils to form a shared services vehicle(s) for the delivery of services. However, there are shared service suppliers elsewhere in NZ, for example Wellington Water which is contracted to supply management services for the three waters in the greater Wellington area and BOPLASS. BOPLASS Ltd is a company owned by nine councils - Bay of Plenty Regional Council, Rotorua Lakes Council, Western Bay of Plenty District Council, Kawerau District Council, Tauranga City Council, Ōpōtiki District Council, Whakatāne District Council, Taupō District Council and Gisborne District Council.
11. The other point Councillors may like to consider in regard to alternate suppliers is the need to maintain independence and avoid conflict of interest for the Regulatory functions of Council. This can be challenging for a commercial provider unless Council is the sole client in Marlborough.
12. For each Activity the following will be provided:
  - Department and Activity Manager
  - The main expenditure types and the percentage that they make up of the Activity's total budget. The purpose of this is to gain an understanding of whether there is the potential to gain economic benefit from a review or whether costs are appropriate. For example in Building Control the largest expenditure item is personnel costs. The opportunities for reduction here are very limited as resourcing was only recently increased to meet IANZ requirement for maintaining Council accreditation, the lack of an alternate supplier and the need to maintain independence to avoid conflict of interest situations. Much of the underlying detail information relating to contracts and grants is contained in the 24 February 2022 Budget Meeting's Activity Information Package
  - An assessment of whether a further review more in depth review is likely to yield sufficient benefit to justify it being undertaken.

13. Regarding the overall quantum involved, Councillors will gain a further opportunity to review these, firstly as part of Levels of Service reviews for the Long Term Plan (LoS increases/decreases translate to either increased or decreased \$cost) and ultimately as part of the budget approval and rates setting processes.

## Democracy

*Department Manager:* Dean Heiford

*Activity Manager:* Mike Porter

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Corporate Overhead Allocation	1,699,554	
Section Management	429,058	
Councillor Salaries	760,000	
Personnel Costs	303,728	
Advertising	159,700	Delivery mechanisms are continually being reviewed for better targeting and cost effectiveness
Subscriptions	116,200	Primarily to Local Government NZ and Reuters
Election	190,000	Contractor to facilitate the election process, including voting and calculation of the results.
	\$3,658,240	
Budget Total	\$3,962,957	
% of Budget Total	92.3%	

### Comment

This Activity relates to Council's engagement with the Community. While the review of some delivery means, i.e. the use of newspapers and radio, is already being undertaken, there is little opportunity for further reductions. Also it is considered that Council would like a high level of "control" over this Activity. As a result it is recommended that Council exempt this activity from further review.

## Culture and Heritage

*Department Manager:* Dean Heiford

*Activity Manager:* Jodie Griffiths

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Grants	1,221,189	
Interest	56,631	
Section & Corporate Management	189,380	Includes part of 1 FTE salary
	\$1,467,200	
Budget Total	\$1,497,442	
% of Budget Total	98.0%	

### Comment

This activity is primarily delivered by Community Trusts with oversight by part of one Council staff member. As discussed earlier, this means of delivery is highly efficient. As a result it is recommended that Council exempt this activity from further review.

## Senior Housing

Department Manager: Jamie Lyall

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Repairs and maintenance	646,484	Property Manager
Contracts	92,388	
Rates	320,437	
Depreciation	496,016	
Property Management	101,183	
Insurance	123,859	
Section & Corporate Management	76,185	
	1,863,552	
Budget Total	\$1,901,819	
% of Budget Total	98.0%	

### Comment

Rates, depreciation and insurance (following Top of the South joint procurement) are set by Council. Property management is competitively tendered as are portions of repairs and maintenance. It is considered that there is little opportunity for significant efficiencies, and it is recommended that this activity be exempted.

## Community Support

Department Manager: Dean Heiford

Activity Manager: Jodie Griffiths

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Personnel	87,217	
Lease Equipment	136,000	Lease of Security cameras
Contracts	486,152	Mainly Blenheim Urban Bus Service, Total Mobility Scheme and Community Events
Minor improvements - safety	100,500	Bus shelters
Materials	130,000	Total Mobility Scheme on behalf of government
Grants	711,200	Community grants, Creative Communities grants, Youth Council.
Energy efficiency	747,200	Service provider selected by ratepayer, this represents the value of the advance to subsequently be repaid by a voluntary targeted rate.
Discounted Leases	135,040	To recognise the actual cost of providing discounted leases to community organisations.
Corporate and Section Allocations	251,002	
	\$2,784,311	
Budget Total	\$2,990,790	
% of Budget Total	93.1%	

## Comment

This activity is primarily delivered by Community Organisations and contracts with oversight by part of one Council staff member. As discussed earlier, this means of delivery should be efficient. As a result it is recommended that Council exempt this activity from further review.

## Library Services

*Department Manager:* Dean Heiford

*Activity Manager:* Glenn Webster

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Personnel costs	1,439,122	
Corporate allocations	750,023	
Depreciation	437,791	
Interest	172,807	Competitively procured as part of Top of South Contract
Contracts	109,500	Kotui National Library System
Cleaning	84,500	Cleaning is competitive tendered
	\$2,993,743	
Budget Total	\$3,280,069	
% of Budget Total	91.3%	

## Comment

As the majority of the costs are personnel and corporate allocations (including interest and depreciation) there is little opportunity for cost reduction making a further review at this time uneconomic. There is no known alternate provider of library services. In addition when the new libraries at Picton and Blenheim are complete there will be a review of how best to operate these facilities. However, bearing in mind the significant increase in size of these facilities, it is unlikely that cost reductions would result. As a result it is considered uneconomic for Council to undertake a further review at this time.

## Emergency Management

*Department Manager:* Richard Coningham

*Activity Manager:* Brian Paton

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Personnel costs	442,504	
Corporate allocations	148,269	
Depreciation	44,357	
	\$635,130	
Budget Total	\$825,466	
% of Budget Total	76.9%	

## Comment

This Activity is one of Council's smallest. It is considered that the residual staff numbers are the minimum for this Activity. As a result it is considered that it would be uneconomic to undertake a further review at this time.

## Community Facilities

Department Manager: Jamie Lyall

Activity Manager: Jane Tito

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
R & M	1,435,895	The majority of R and M is paid for based on day rates that are negotiated as part of the original competitively tendered contracts.
Insurance	250,665	Competitively procured as part of Top of South Contract
Grants	833,655	Includes grants to Linked Pathway, Endeavour Park Pavilion and Renwick Sports Centre.
Contributions	314,606	Mainly for Community Servicing of facilities
Personnel Costs	691,194	External Gardens staff
Corporate Overhead	719,807	
Interest	891,635	
Section & Department Management	1,469,732	Primarily staff costs
Depreciation	2,437,257	
Contracts	4,728,554	The majority of these costs are competitively tendered.
	\$13,773,000	
Budget Total	\$15,038,045	
% of Budget Total	91.6%%	

These expenditure items can be grouped into three main categories:

- Physical delivery of the Activity – Contracts, R & M, Grants, Contributions 7,312,710
- Personnel cost – Section Management, Personnel costs 2,160,926
- Corporate cost – Depreciation, Interest, Overhead and Insurance 4,299,364
- Total \$13,773,000**

Each will be discussed in turn.

### Physical Delivery

These costs are already either competitively tendered or delivered through the highly efficient community organisations.

### Personnel Costs

This area has two components, gardening staff and management component. Council has excluded the maintenance of its gardens from contracts previously because of the focus and pride in our premier gardens and wanted the maintenance of these under Council's direct control i.e; it did not want the risk of poor contract performance. This approach has been recently endorsed in regards to Picton Foreshore maintenance.

The second part relates to the planning, management and community engagement associated with this activity. These functions can best be undertaken by inhouse resources as Council needs to be a smart purchaser and have direct engagement with the community.

### Corporate Costs

Interest and depreciation form the biggest element of this cost and would not be affected by an alternative means of delivery.

### Summary

As a result of a large component of this activity's cost being already competitively priced, not affected by alternative means of delivery and incurred to avoid risk, there is little opportunity remaining for

Council to significantly reduce cost. As a result it is recommended that this Activity be exempted from further review.

## Roads

*Department Manager:* Richard Coningham

### Comment:

Roads have already been reviewed from a s17A perspective when the contract with Waka Kotahi/NZTA was renewed. Also, the Network Operations Contract which covers the major portion of roading expenditure was retendered in 2019. A new contractor consortium was appointed which took over the contract from 1 April 2020. Council also recognised the deterioration in the road network and, in conjunction with Waka Kotahi, increased the budget from \$39.0M to \$51.8M. It is recommended that no further work be done on this Activity until the either the Waka Kotahi or NOC contract is due for renewal, both of which are due for renewal well outside the 2 year contract period identified in S17A(3)(a) as grounds for exemption.

## Flood Protection and Control Works

*Department Manager:* Richard Coningham

*Activity Manager:* Geoff Dick

Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Section & Dept Management	1,563,296	Primarily staff costs
Contract Works	3,027,998	Competitively tendered
Flood Damage	3,304,500	
Metal	300,000	Council quarry
Insurance	225,390	Competitively tendered Top of the South Councils
Depreciation	339,201	
Corporate Overhead	414,459	
Property Management	145,703	For River Leases
	\$8,755,956	
Budget Total	\$9,486,872	
% of Budget Total	92.3%	

### Comment

With the absence of an alternate supplier, the high level of contract works and the need to maintain a core competency and in this high skilled, difficult to recruit in, area, there is little opportunity for Council to improve the efficiency of delivery. As a result it is recommended that this Activity be exempted from further review.

## Three Waters

*Department Manager:* Richard Coningham

*Activity Manager:* Stephen Rooney

This section will address **Water Supply, Sewerage and Stormwater**. Collectively these Activities are called the three waters. These three Activities are due for transfer to one of the new three waters entities in July 2024. As a result, there is little point in undertaking a detailed review now and accordingly an exemption is recommended.

## Solid Waste Management

Department Manager: Richard Coningham

Activity Manager: Alec McNeil

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Contracts	6,598,604	Competitively tendered
Levies & ETS Obligations	3,351,969	Set by Government
Section Management	1,221,599	Includes personnel
Corporate Management	581,111	
Depreciation	2,068,875	
Interest	581,111	
	\$11,753,283	
Budget Total	\$15,669,187	
% of Budget Total	92.2%	

### Comment

The major contract for the delivery of this service was undertaken earlier in 2022. At that time the elements of S17A were considered. There is little opportunity for Council to improve the efficiency of delivery. As a result it is recommended that this Activity be exempted from further review.

## Environmental Policy

Department Manager: Hans Versteegh

Activity Manager: Pere Hawes

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Personnel costs	997,772	
Consultancy	715,000	Consultants are engaged according to the nature of the environmental policy work (i.e., what resource is to be managed) and past involvement in PMEPP process. Consultants engaged to provide S42A report writing have been retained, where necessary, to support the process of addressing appeals on the same topics.
Contracts	100,000	Contracts typically involve the use of hearings commissioners. These are a mix of Councillors and independent commissioners. In both cases the minimum requirement is certification under the Making Good Decisions Course. Availability and familiarity with Marlborough's environment are key components.
Corporate Overhead	415,388	
Legal	150,000	
	\$2,378,160	
Budget Total	\$2,404,412	
% of Budget Total	98.9%	



It is prudent for Council to retain its own capability as it works through the increasingly complex Environmental Policy. Anecdotal benchmarking of staffing levels compared to other Regional Councils puts Marlborough at the lower end of the resourcing scale.

Also the Proposed Marlborough Environment Plan is a major piece of well advanced policy work that is currently at the end of the First Schedule process (in Environment Court appeals phase). There is also the probability of several major new National Policy Statements being gazetted over the next few years. As a result of the above in addition to there being little to be gained from further review, it would be a distraction and inappropriate in the midst of this key project. As a result it is recommended that this Activity be exempted from further review.

## Environmental Science and Monitoring

*Department Manager:* Hans Versteegh

*Activity Manager:* Alan Johnson

Major Expenditure items

Expenditure Type	2022-23 Budget	Comment
Personnel costs	2,365,393	Consultants and contractors are selected, and contracts awarded pursuant to Council procurement policy.
Contracts and Consultancy	2,398,210	
Corporate Allocations	1,629,801	Laboratory services are contracted and procured through an open tender process.
Fencing, plants, trees and shrubs	404,500	
Monitoring Expenses and Laboratory Charges	514,699	
Contributions and Grants	215,000	The environmental grant scheme is an open community process and successful applications are awarded on merit and selected by a Grant Subcommittee.
Depreciation	671,898	
	\$8,199,501	
Budget Total	\$8,562,585	
% of Budget Total	95.8%%	

In regard to **data collection, analysis and recommendations** it is considered that there are both efficiencies and quality improvements by keeping the integrated function in house. Gisborne District Council had previously contracted the function out, but have now decided to bring it back in-house as the supplier could not meet the contract specification through an inability to recruit appropriately skilled staff.

**Compliance monitoring and laboratory Charges** – there is the need to maintain independence, not possible with an alternate supplier.

**Science** – there is no alternative provider as there is no university and limited CRI presence in Marlborough. The exception is possibly the Cawthron Institute but as they also do work for the private sector, there is a need to provide an independent viewpoint.

This Activity attempts to keep a balance between in-house and contracted resource. In-house to retain core expertise and a smart purchaser capability and contracted to obtain a diverse range of skills and experience.

In conclusion, for the above reasons the probability of Council generating significant benefit from a more detailed review is low and not worth pursuing.

## Resource Consents

*Department Manager:* Gina Ferguson

*Activity Manager:* Anna Davidson

Major Expenditure items

Expenditure Type	2022-23 Budget	Comment
Personnel costs	1,731,470	
Corporate allocation	656,738	
Legal	220,000	
Commissioner	80,000	
Meeting allowance	80,000	
Depreciation	257,713	
	\$3,025,921	
Budget Total	\$3,089,963	
% of Budget Total	97.9%	

### Comment

For this activity, there is no alternate provider currently operating in Marlborough that would have the necessary independence to effectively discharge this function. Possibly at some point in the future a consenting/compliance shared service could be established between Marlborough, Tasman and Nelson councils, but there appears little appetite for this. Another indicator for this Activity is that approximately 60% of this activity is currently funded by third party fees. Fee levels were revised earlier this calendar year with very few submitters against the revised fees.

Councillors should also note that this Activity must meet statutory timeframes for consent processing. Failure to do so would result in penalty payments required to be made back to the applicant. To date this has not happened.

As a result, it is recommended Council exempt this Activity from further review.

## Building Control

*Department Manager:* Gina Ferguson

*Activity Manager:* Brendon Robertson

Major Expenditure items

Expenditure Type	2022-23 Budget	Comment
Personnel costs	2,474,560	
Corporate & Department Allocations	1,361,538	
Contracts and consultants	330,000	<p>There are two main contactors used by the building group, Focus Consultancy and M&amp;M Consulting.</p> <p>Focus Consultancy were initially engaged in 2018 by the building group as a result of a bi-annual audit carried out by IANZ. The audit identified to ensure that statutory processing timeframes are adhered to during periods of high demand, contractors be engaged. It is not financially prudent to staff to meet peak demand.</p> <p>M&amp;M Consulting is engaged as a quality manager to undertake regulation audit to ensure its</p>

Expenditure Type	2022-23 Budget	Comment
		meeting the BCA is meeting the regulations set out in the Building Act 2004. MDC does not have a trained quality manager on staff. <b>Both contractors are used to ensure that IANZ accreditation is maintained.</b>
	\$4,166,098	
Budget Total	\$4,443,446	
% of Budget Total	93.8%	

### Comment

The same comments that apply to Resource Consents for independence also apply to Building Control. For this activity there is also the need to maintain IANZ accreditation which has driven the need for staff numbers, levels of training and procedures.

As a result, it is recommended Council exempt this Activity from further review.

## Environmental Health

*Department Manager:* Gina Fergusson

*Activity Manager:* Gina Ferguson

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Personnel costs	359,069	Noise control
Contract costs	68,000	
Corporate & Department Allocations	200,831	
Internal recharges	84,783	
	\$712,683	
Budget Total	\$756,089	
% of Budget Total	94.3%	

### Comment

The same comments that apply to Resource Consents for independence also apply to Environmental Health. As a result, it is recommended Council exempt this Activity from further review.

## Biosecurity (Pest Management)

*Department Manager:* Hans Versteegh

*Activity Manager:* Alan Johnson

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Personnel costs	612,243	The majority of the contract costs are for the national wilding conifer programme that are contracted services.
Corporate & Department Allocation	426,406	
Contracts	6,202,940	
Contributions	108,000	
	\$7,349,589	

Expenditure Type	2022-23 Budget	Comment
Budget Total	\$7,549,994	
% of Budget Total	97.3%	

### Comment

This Activity attempts to keep a balance between in-house and contracted resource. In-house to retain core expertise and a smart purchaser capability and contracted to obtain a diverse range of skills and experience.

The same comments that apply to Resource Consents/compliance where independence also applies to the compliance aspect of this function.

Where physical pest eradication/control is required most of the services are contracted out.

As a result, it is recommended Council exempt this Activity from further review.

## Environmental Protection

*Department Manager:* Gina Fergusson

*Activity Manager:* Gina Fergusson

Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Personnel costs	1,121,917	
Corporate allocations	636,396	
Legal	180,000	
	1,938,313	
Budget Total	\$2,037,982	
% of Budget Total	95.1%	

### Comment

This Activity's main responsibility is monitoring compliance with Resource Consents. There is no alternative provider. Also similar to Resource Consents there is a need to maintain independence and avoid potential conflict of interest that may exist with a private sector provider.

As a result of this above and that it is unlikely significant cost savings would be identified, further review is not recommended.

## Animal Control

*Department Manager:* Gina Fergusson

*Activity Manager:* Jamie Clark

Major Expenditure items

Expenditure Type	2022-23 Budget	Comment
Contracts	615,302	Contracted to Maataa Waka Ki Te Tau Ihu Trust Contract commencement date – 1st April 2022  Expiry date - 31 March 2026 with a possible extension of three years.
Corporate & Department Allocation	86,932	
Personnel costs	57,910	Council retains the administration of the contract, makes decisions on classifications of dog and owners, objections to classifications and infringements, and on decisions on whether or not to undertake prosecutions.

Expenditure Type	2022-23 Budget	Comment
	\$760,444	
Budget Total	\$868,776	
% of Budget Total	87.5%	

### Comment

This activity is predominantly contracted out to Maataa Waka Ki Te Tau Ihu Trust. Prior to the last tender an evaluation was undertaken on whether the activity should continue to be contracted or brought in-house. The result was marginally in favour of continuing to contract. From an administration perspective, there are also benefits associated with separating the delivery of this function from Council.

As a result of this above and that it is unlikely significant cost savings would be identified, further review is not recommended.

## Harbours

*Department Manager:* Hans Versteegh

*Activity Manager:* Jake Oliver

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Personnel costs	639,991	
Corporate allocations	306,125	
Depreciation	318,022	
Contracts	168,680	
Insurance	160,326	
	\$1,593,144	
Budget Total	\$2,015,106	
% of Budget Total	79.1%	

### Comment

The Marlborough Sounds is one of the busiest areas in New Zealand in terms of vessel movements. The interisland ferries and large small boat usage makes for a complex and potentially hazardous maritime environment, especially when the challenges of marine farm structures and Cook Strait are added into the equation. It is considered important that the control and ownership of this in-house function be maintained. Private sector suppliers are not available and recruitment is challenging.

As a result of the above, further review is not recommended.

## Regional Development

This Activity is made up of five distinct sub activities with delivery by different Council Departments.

Expenditure Type	2022-23 Budget	Comment
Economic Development	1,343,708	
Marketing and Tourism	1,352,793	
Research Centre	389,995	
Irrigation Schemes	1,341,501	
Parking	1,834,474	
Total	\$6,262,472	

Each one will be considered in turn.

## Economic Development

Department Manager: Dean Heiford

Activity Manager: Neil Henry

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Personnel costs	544,800	Projects – This item includes direct contract for delivery of programmes such as business advice, innovation day, start-up weekends and facilitation services for establishing and reviewing Smart+Connected groups.
Projects	300,000	
Grant Commercial Events	130,000	
Corporate Allocations	206,000	
	\$1,180,800	
Budget Total	\$1,343,708	
% of Budget Total	87.9%	

### Comment

See comment after Marketing and Tourism.

## Marketing and Tourism

Department Manager: Dean Heiford

Activity Manager: Neil Henry

### Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Grants	875,849	Comprises amount granted to Destination Marlborough including the Tourism Rate and Convention Marketing. This is the Targeted Tourism Rate
Levy payment	190,000	
Internal contracts & recharges	151,338	
Corporate Allocations	62,389	
	\$1,279,576	
Budget Total	\$1,352,793	
% of Budget Total	94.6%	

### Comment

In 2018, Martin Jenkins consultancy undertook a s17A review of Economic Development, Events and Tourism activities. The result of the review was an Enhanced Status Quo' recommendation that was accepted by Council. i.e. MDC, DM and MRC continue to lead the delivery of their respective activities, with other selected improvements.

## Research Centre

Department Manager: Dean Heiford

Activity Manager: Neil Henry

Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Base grant	284,329	MRC trust allocates funds for primary research important to Marlborough eg. viticulture, forestry, climate and reports on outcomes to Council.
Internal contracts & recharges	66,825	
Grants	21,600	Rental contribution.
	\$372,754	
Budget Total	\$389,995	
% of Budget Total	95.6%	

### Comment

Refer to the above comment under Marketing and Tourism.

## Irrigation Scheme

Department Manager: Richard Coningham

Activity Manager: Stephen Rooney

Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Depreciation	331,378	
Power	300,000	
Interest	209,494	
Corporate allocation	172,366	
Insurance	80,105	
	\$1,093,344	
Budget Total	\$1,341,501	
% of Budget Total	81.5%	

### Comment

With the majority of cost being depreciation, interest and competitively tendered power there is little opportunity for cost saving, making further review unnecessary.

## Parking

Department Manager: Jamie Lyall

Major Expenditure Items

Expenditure Type	2022-23 Budget	Comment
Depreciation	416,260	Enforcement contract competitively tendered
Repairs and Maintenance	297,258	
Contracts	280,241	
Interest	186,858	
Rates	155,713	
Corporate allocation	103,718	
Levy payment	90,000	
Legal	70,000	Primarily Court enforcement
	\$1,600,048	

Expenditure Type	2022-23 Budget	Comment
Budget Total	\$1,834,474	
% of Budget Total	87.2%	

### Comment

With the majority of costs being interest, depreciation, competitively tendered contracts and rates there is little opportunity for cost saving making further review uneconomic.

### Summary

14. Council staff continue to look to opportunities to deliver Council services more cost effectively as evidenced for example by the rapid uptake of All of Government Contracts.
15. However for the reasons contained above, including:
  - a lack of an alternate supplier,
  - maintenance of independence;
  - risk management;
  - ensuring Council has a smart purchaser capability; and
  - the steps taken already to contain costs including contracting out where appropriate;
for most Activities it is unlikely that sufficient benefit will be generated to justify the additional cost of a full s17A review.

Author	Martin Fletcher, CFO
Authoriser	Mark Wheeler, CEO



## Attachment 1

### 17A Delivery of services

- (1) A local authority must review the cost-effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services, and performance of regulatory functions.
- (2) Subject to subsection (3), a review under subsection (1) must be undertaken—
  - (a) in conjunction with consideration of any significant change to relevant service levels; and
  - (b) within 2 years before the expiry of any contract or other binding agreement relating to the delivery of that infrastructure, service, or regulatory function; and
  - (c) at such other times as the local authority considers desirable, but not later than 6 years following the last review under subsection (1).
- (3) Despite subsection (2)(c), a local authority is not required to undertake a review under subsection (1) in relation to the governance, funding, and delivery of any infrastructure, service, or regulatory function—
  - (a) to the extent that the delivery of that infrastructure, service, or regulatory function is governed by legislation, contract, or other binding agreement such that it cannot reasonably be altered within the following 2 years; or
  - (b) if the local authority is satisfied that the potential benefits of undertaking a review in relation to that infrastructure, service, or regulatory function do not justify the costs of undertaking the review.
- (4) A review under subsection (1) must consider options for the governance, funding, and delivery of infrastructure, services, and regulatory functions, including, but not limited to, the following options:
  - (a) responsibility for governance, funding, and delivery is exercised by the local authority;
  - (b) responsibility for governance and funding is exercised by the local authority, and responsibility for delivery is exercised by—
    - (i) a council-controlled organisation of the local authority; or
    - (ii) a council-controlled organisation in which the local authority is one of several shareholders; or
    - (iii) another local authority; or
    - (iv) another person or agency;
  - (c) responsibility for governance and funding is delegated to a joint committee or other shared governance arrangement, and responsibility for delivery is exercised by an entity or a person listed in paragraph (b)(i) to (iv).
- (5) If responsibility for delivery of infrastructure, services, or regulatory functions is to be undertaken by a different entity from that responsible for governance, the entity that is responsible for governance must ensure that there is a contract or other binding agreement that clearly specifies—
  - (a) the required service levels; and
  - (b) the performance measures and targets to be used to assess compliance with the required service levels; and
  - (c) how performance is to be assessed and reported; and
  - (d) how the costs of delivery are to be met; and
  - (e) how any risks are to be managed; and
  - (f) what penalties for non-performance may be applied; and
  - (g) how accountability is to be enforced.
- (6) Subsection (5) does not apply to an arrangement to the extent that any of the matters specified in paragraphs (a) to (g) are—
  - (a) governed by any provision in an enactment; or
  - (b) specified in the constitution or statement of intent of a council-controlled organisation.
- (7) Subsection (5) does not apply to an arrangement if the entity that is responsible for governance is satisfied that—
  - (a) the entity responsible for delivery is a community group or a not-for-profit organisation; and
  - (b) the arrangement does not involve significant cost or risk to any local authority.
- (8) The entity that is responsible for governance must ensure that any agreement under subsection (5) is made publicly available.
- (9) Nothing in this section requires the entity that is responsible for governance to make publicly accessible any information that may be properly withheld if a request for that information were made under the [Local Government Official Information and Meetings Act 1987](#).

### 3. Review of Depreciation Policies

(Report prepared by Alison Vile)

F230-L24-06

#### Purpose of Report

1. Minutes of the previous meeting record:

“At the conclusion of the discussion members suggested that Halls be debt funded; Cemeteries, Street Plots and Street Trees depreciation not be funded and that Reserves and the Event Centre be further investigated and that a further paper be provided.”

It was also recommended that the LTP Working Group seek Council approval agree to:

- further explore the concept of funding depreciation on Reserves and Events Centre as part of the 2024-34 Long Term Plan; and
  - request a paper that identifies the current economic life/assumptions of each class of asset; and
  - transition the application of this policy change over a four-year period.
2. This paper addresses the asset information requested and provides more focused analysis to assist the working group in further exploring the concept of funding depreciation on Reserves and the Event Centre - given Development Contributions are no longer available for this purpose.
  3. This paper does not restate the explanations around funding depreciation set out in the previous paper.

#### Executive Summary

4. As this update paper addresses only Reserve assets and the Event Centre it provides an opportunity for more focused analysis of how the change in use of Development Contributions impacts both how this capital budget is funded and how it is developed.
5. Alongside this funding change the Parks and Open Spaces team is now better resourced to identify individual operational assets and useful information about them, including their condition and expected safe life. This in turn enables more accurate identification of future maintenance and replacement needs.
6. None of this alters the recommendation to change Council’s policy to one of funding depreciation of these assets. However, it is now recommended that a final decision be deferred until the information about these assets as held in Council’s financial system has been reviewed to better align with operational asset information - to improve accuracy and realism. This will inform an accurate assessment of the rating impact of the policy change.
7. Given the use of a common and accurate database the cost decrease from debt funding asset replacement to funding depreciation (and using that revenue to fund asset replacement) will equal the saving in interest expense – over time.

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#### RECOMMENDATIONS

That the LTP Working Group recommend that Council agree to:

1. **Continue to investigate the funding of depreciation on all Reserves and the Event Centre as part of the 2024-34 Long Term Plan;**
  2. **request an updated analysis of the cost of this possible policy change once the underlying data has been reviewed; and**
  3. **note that should a change in policy result from this work, the LTPWG has previously agreed to implementation over a four-year period from 1 July 2024.**
-

## **Economic life assumptions of each class of assets**

8. The requested information was extracted from Council's financial system and further analysed. This prompted questions around the level of "componentisation" of assets. An example is playing surfaces which now carry a significant value in our accounts, with each asset recorded as a single value. It is proposed that these assets could be split into component parts – a significant portion of which would be in the nature of "formation and base layer" and would attract no, or much reduced, depreciation. This is similar to valuation and depreciation approach followed for roads where formation, base course, tunnels and berms are not depreciated.
9. It makes sense to do this work alongside the comparison of the financial data with the operational data held by the Parks and Open Spaces team, especially the actual safe useful lives achieved by assets in reality.
10. The "raw" financial data indicated the amount of depreciation which would require funding at around \$1.3 million in total. A component level review is expected to reduce that figure significantly, but the impact cannot be quantified until the detailed work is completed.

## **Asset management in the Parks and Open Spaces Activity**

11. The Parks and Open Spaces team is now better resourced, in staff and systems, to identify individual operational assets and useful information about them, including their condition and expected life. This information will lead to development of an Asset Management Plan (AMP) for the Activity, in line with other asset intensive Council Activities.
12. Such an AMP would integrate the capital budget for the Activity - for replacement, growth related and improved level of service additions. Historically, as Reserves capital budgets were almost exclusively funded by Development Contributions via the Land Sub reserve, the budget was set in line with the anticipated revenue. Actual projects were reviewed and prioritised by the Assets and Services Committee.
13. This process worked well, but has been overtaken by an improved understanding of the legislation around Development Contributions - narrowing their use to funding only new assets required to meet the demands of growth and any growth component of replacement or enhancements of existing assets.
14. It is likely that a budget based on robust operational information about assets will include significantly more spending on asset replacement than the Activity's budgets have in the past.

## **Advantages and Disadvantages of the two approaches**

15. The advantages and disadvantages of the two approaches are identified below as a refresher for Councillors.

### **Option One (Recommended Option) – fund depreciation**

16. Decide to fund depreciation expense on Reserve assets and/or the Event Centre from rates (and any other income source); first reviewing the underlying data and then transitioning the change over four years.

#### *Advantages*

17. Funds available for asset replacement with minimal or lower impact on rates at the time.
18. Remove potential for asset replacement needs to have to compete with growth or improved level of service projects as these will have different funding sources.
19. Better align users of facilities with funders of those same facilities, improving decisions around use.

#### *Disadvantages*

20. Initial rates increase.

## Option Two – status quo

21. Confirm the current approach of using debt to fund the non-growth-related components of Reserves and/or Event Centre capital projects by:
- initially debt funding the project cost
  - funding annual interest and debt repayment from rates.

### *Advantages*

22. Rates impact of asset replacement deferred.

### *Disadvantages*

23. Higher cost of asset replacement due to the need to borrow and pay interest on that debt.
24. Potential for more future debate around spending priorities, especially as Council approaches its debt cap.

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