

PART A REPORTS

CEO OVERVIEW REPORT - ANNUAL PLAN 2022/23

Department: Executive Leadership Team

EXECUTIVE SUMMARY

- 1 This report provides an overview of the budgets to be included in the draft 2022/23 Annual Plan ("the draft Plan"). The draft Plan for 2022/23 is an update of year two of the 10 year plan 2021-31.
- 2 This report highlights the budget challenges the DCC faces with the uncertainty of COVID-19 and its impacts. While savings have been found across the board, this is largely offset by the inflationary pressures faced when procuring goods and services and operating the business. The budget approach has also needed to balance the costs associated with the planned work programme against the resources it takes to deliver this work.
- 3 At the completion of this work, the draft budgets propose a rate rise of 6.5% for 2022/23 which is lower than the 7.0% provided for in year two of the 10 year plan.

RECOMMENDATIONS

That the Council:

- a) **Adopts** the draft 2022/23 operating budget for the DCC overall as shown/amended at Attachment A.
- b) **Notes** that any resolution made in this meeting related to the 2022/23 Annual Plan reports may be subject to further discussions and decision by the meeting.

BACKGROUND

- 4 The Local Government Act 2002 (the Act) provides that Council must prepare and adopt an annual plan for each financial year. Section 95 (5) sets out the purpose of an annual plan as follows:

The purpose of an annual plan is to –

- (a) *Contain the proposed annual budget and funding impact statement for the year to which the annual plan relates; and*

- (b) *Identify any variation from the financial statements and funding impact statement included in the local authority's long-term plan in respect of the year; and*
- (c) *Provide integrated decision making and co-ordination of the resources of the local authority; and*
- (d) *Contribute to the accountability of the local authority to the community.*

- 5 The draft Plan for 2022/23 is an update of year two of the 10 year plan. Budgets for the 2022/23 year have been reviewed and budget update reports for each activity of Council have been prepared for consideration at this meeting. If Council chooses to do everything included in the draft budgets, the overall rate increase for the 2022/23 year will be 6.5%, compared to a 7.0% rate increase provided for in the 10 year plan.

DISCUSSION

- 6 This has been a challenging budget process with pressures from increasing inflation, a high level of growth and associated building activity in the city, increases in depreciation expense due to the revaluation of assets, and an extensive work programme that has incorporated a number of new initiatives introduced through the 10 year plan.
- 7 In developing the draft budgets, the approach taken has involved a review of all costs and included initial reviews of service delivery options in some areas. Insourcing options have been examined with a view to achieving efficiencies and increasing organisational resilience. This includes beginning work to reduce the reliance on consultants while recognising that there will always be a need for specialist services.
- 8 The budget incorporates a range of savings with additional savings still required to achieve a balanced budget. Further savings in contracted services and consultancy are being worked through and the outcome reported in May 2022.
- 9 While year 2 of the 10 year plan provided for a 7.0% rates increase and an inflation assumption ranging from 1.7% to 3.5%, the draft budget has a proposed rate increase of 6.5% with no proposed decreases to levels of service.
- 10 In line with an early engagement approach, staff have worked with a range of submitters and organisations about various initiatives suggested by the community. This has resulted in some items being included in the draft budgets - most notably, an allowance has been provided for the Otago Museum to accommodate payment of the living wage and the property budget reprioritised to allow for the remediation of the Sims building site.
- 11 Council has asked staff to prepare a number of option reports as part of the development of the draft Plan, and these are also presented at this meeting. Reports provide updates on issues including how to fund the new kerbside recycling service, options for a destination playground, the Community Housing Policy, a Sims building update and options for a sports hub at Logan Park.

Significant forecasting assumptions

- 12 The uncertainty that COVID-19 presents continues to be challenging. The move to the "Red" level in the Covid-19 Protection Framework will impact on our staff, our community, and the

services that Council delivers. The effects will be both social and economic and create challenges across the board. The draft budgets attempt to account for some of this uncertainty.

- 13 The 10 year plan sets out a number of significant forecasting assumptions that have been used in the development of the draft annual plan. Some relate to growth, inflation and COVID-19.
- 14 Revenue budgets have been prepared in line with the 10 year plan. There is however, a level of uncertainty about the level of external income that will actually be received, given the current COVID-19 situation.
- 15 Inflation has increased to its highest level since around 2010, with annual inflation in the September 2021 quarter being 4.9%. Actual inflation rates are higher than those assumed in the preparation of the 10 year plan, resulting in additional operating costs being incorporated into draft budgets.

Capital budget

- 16 In terms of the capital budgets, good progress has been made against the 10 year plan capital programme, and this has been reported regularly to Council. Supply chain disruptions and the move to "Red" are likely to impact on the timing of some projects when compared to the timetable in the 10 year plan.
- 17 Capital budget updates for 2022/23 are underway and will incorporate the impacts of timing delays that may be experienced over the next six months and will be presented at the May 2022 deliberations meeting, when more information is known.
- 18 There is one report, the Dunedin Urban Cycleways Programme, that asks Council to consider changes to the capital programme.

Operating budgets

- 19 The draft operating budget for 2022/23 provides for the day-to-day running of all the activities and services the DCC provides such as core water and roading infrastructure, waste management, parks, pools, libraries, galleries and museums. The draft budget includes operating expenditure of \$341.090 million (refer to Attachment A).
- 20 The proposed rate increase of 6.5% delivers a balanced budget. The draft budget provides a net surplus of \$8.480 million.
- 21 Each of the DCC's groups of activities have updated year two of their draft operating budgets as provided for in the 10 year plan. The key changes in funding sources and expected costs of delivery are explained in the group operating budget reports.

Revenue

- 22 The draft operating budget for 2022/23 shows overall rates revenue increasing by \$11.643 million, which is 6.5% higher than 2021/22, but lower than the rate increase of 7.0% provided for in the 10 year plan.
- 23 At the end of 2021 Council indicated to Dunedin City Holdings Limited (DCHL) in the Letter of Expectation, that among other things, it intended to develop an Investment Plan and review the Dividend Policy. Initial work on the plan and early discussions with DCHL indicate that the first dividend is likely in 2022/23. This reflects the positive work undertaken in recent years and is

the first return on the capital investment that has been applied to the companies. The exact level of the dividend is unknown, but the budgets allow for a conservative figure of \$5.500 million in 2022/23. An update will be presented to the May 2022 deliberations meeting after work on both the investment plan and dividend policy have been progressed.

24 External revenue has increased by \$7.257 million, 9.8%. The main changes to external revenue are:

- Governance and Support Services group – an increase of \$5.894 million reflecting a \$5.500 million dividend from Dunedin City Holdings Limited.
- Regulatory Services – an increase of \$1.593 million primarily related to Building Services reflecting an increase in building consenting activity.
- Community and Planning group – a decrease of \$475k reflecting the removal of ICC's contribution towards the ICC Women's Cricket World Cup 2022 (ICC WCC 2022) and Masters Games cost recoveries included in the 2021/22 budget.

25 Fees and charges are discussed separately in the group budget reports.

Expenditure

26 The draft budget provides for an increase of \$3.604 million, 5.2% in personnel costs, incorporating an increase of 36.3 full time equivalent (FTE) staff. The increase in staff numbers is to respond to the growth and associated building activity in the city, meeting the needs of businesses and the community, and delivering on a number of new initiatives. An increase in the vacancy allowance of \$1.500 million has been included.

27 The increase in staff numbers primarily relates to:

- Responding to the demands for building and other consents so as not to cause any delay in enabling that growth: Building Services has budgeted for an additional 9 FTEs that will be fully funded by fees and charges, and Resource Consents has budgeted for 3 FTEs that will be partially funded by fees and charges.
- In order to reduce reliance on contractors and create capacity and resilience: increase of 5 FTEs for project management / procurement, to enable more efficient project delivery and insourcing.
- Following Council's decision to implement a new kerbside recycling service, waste management has budgeted for an additional 4.8 FTEs (4 fixed term) to manage the new kerbside collection contract and implement other waste futures work.
- The development of aquatic services including the new Mosgiel Pool: 4.5 FTEs are a reinstatement of staff for the new Mosgiel Pool, and for administrative support at Moana Pool.
- To meet rostering obligations: Galleries, libraries and museums has budgeted for an additional 4.2 FTEs primarily as visitor hosts and technical specialists for the Art Gallery and Toitū.
- To deliver on the zero carbon initiatives and Maori Partnerships: Corporate Policy has budgeted for an additional 1.8 FTEs.

- 28 A vacancy allowance is once again provided for in the budget to recognise that in an organisation of this size, we will always carry vacancies. It has been increased this year in part to recognise what will be recruitment challenges and in part to reflect actual savings that have been achieved in recent years. This allowance is managed centrally and sits in the Governance Group.
- 29 Operations and maintenance costs have increased by \$5.140 million, 7.6%. The main changes are due to:
- 3 Waters – an increase of \$2.338 million primarily related to sludge removal and disposal from the Tahuna wastewater treatment plant (\$1.197 million). Previously this was an internal cost paid to the Green Island Landfill (\$752k). Other changes reflect increases in maintenance and chemicals.
 - Property – an increase of \$1.442 million mainly relates to increased compliance work, additional maintenance and cost increases.
 - Waste Management – an increase of \$958k relates primarily to increases in costs associated with operating the Green Island Landfill.
 - Governance and Support Services group – a reduction of \$1.500 million reflecting required savings.
- 30 Occupancy and property-related costs such as rates and insurance have increased by \$684k, 2.5%.
- 31 Consumables and general costs have decreased by \$584k, -2.4%. The main changes are due to:
- Governance and Support Services group – a reduction of \$456k reflecting required savings of \$1.000 million. Increases include BIS contract costs and providing services for the local body election.
 - Community and Planning group – a decrease of \$244k reflecting the removal of funding for the ICC WCC 2022 included in the 2020/21 budget.
- 32 Grants and subsidies expenditure has increased by \$467k, 4.6%, primarily reflecting year two of the 10 year plan. Work has been undertaken with the Otago Museum, and in addition to the 10 year plan grant provision for the Otago Museum, the budget has increased to allow the Otago Museum to pay the living wage to its staff, in line with DCC policy.
- 33 Depreciation has increased by \$9.077 million, 11.9% reflecting the impact of the latest revaluations as well as the capital expenditure programme, however more work is needed to finalise the depreciation budget.
- 34 Interest expense has increased by \$799k, 8.0% reflecting the predicted increase in debt funding required to support the planned capital expenditure programme. The 10 year plan interest assumption of 2.85% is still applicable for the 2022/23 financial year. There is still upward pressure on interest rates, but Dunedin City Treasury Limited continues to manage this risk through interest rate hedging, sourcing both short and long term funding and managing overall cash on hand.

3 Waters Strategic Work Programme

- 35 A report presenting possible options to enable delivery of the 3 Waters Strategic Work Programme, which considers the transition to a new 3 Waters entity, is being developed. As there is a level of uncertainty about any Government funding that may be available to progress the transitional work, the report will be presented to Council at its deliberations meeting in May 2022, when further information is known.

Revenue Policy for Community Housing

- 36 At its meeting on 31 May 2021, Council requested that a review of the Revenue and Financing Policy for Community Housing be undertaken to inform the 2022/23 Annual Plan.
- 37 Rental fees for community housing are proposed to increase by between 3.6% - 4.2%, being between \$4 - \$8 per unit per week. This would achieve compliance with the current revenue policy - 90% of the operating cost funded from rents, and 10% from rates, before providing for any increase in depreciation. The increase in fees would take effect from 1 August 2022. Once the depreciation expense has been confirmed, staff will provide an update on compliance with the revenue policy.
- 38 A review of the Revenue Policy for community housing has not yet been undertaken but will be completed following the completion of work on the depreciation expense.

Performing Arts

- 39 On 31 May 2021 a report that summarised feedback received during the 10 Year Plan consultation on the development of a performing arts venue was presented for Council consideration. Council resolved that staff re-engage with the performing arts community in relation to venue options and report back as part of this annual plan process.
- 40 From October to December 2021 staff met with representatives from existing performing arts venues, organisations, and individual practitioners. Staff asked for their feedback about proposed options for a performing arts venue. The engagement process has highlighted a number of priority areas, issues and opportunities that require further time to explore and analyse.
- 41 A separate report for this has not been prepared for this meeting as conversations with the performing arts community are ongoing and there are no budgetary implications for this Annual Plan. An update report will be presented to the Community and Culture Committee in February 2022. The current 10 year plan capital budget of \$17.1 million is unchanged.

Engagement

- 42 Under section 82 (2A) of the Act, Council is not required to consult on the draft Plan if it doesn't include significant or material differences from year two of the Council's 10 year plan 2021-31 (10 year plan).
- 43 The draft Plan does not include any significant or material differences to that provided for in the 10 year plan. Council is therefore not required to undertake any formal engagement.
- 44 Following decisions made at this meeting, a report will be presented to the February 2022 Council meeting outlining options for engagement. The report will include recommendations that any engagement on the draft Plan includes pre-engagement on the next 10 year plan (2024-34).

- 45 This report has been delayed until February 2022 to better assess the implications of the current red traffic light settings and determine what might be the best options for engagement given the Omicron situation. In all likelihood our ability to hold face to face engagement will be extremely limited, and the report will look to a range of other options.

Signatories

Author:	Gavin Logie - Chief Financial Officer
Authoriser:	Sandy Graham - Chief Executive Officer

Attachments

	Title	Page
Download	Draft operating budget 2022/23	27

SUMMARY OF CONSIDERATIONS

Fit with purpose of Local Government

This decision enables democratic local decision making and action by, and on behalf of communities, and promotes the social economic, environmental, and cultural well-being of communities in the present and for the future.

Fit with strategic framework

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Economic Development Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Environment Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Arts and Culture Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Waters Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Spatial Plan	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Integrated Transport Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Parks and Recreation Strategy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other strategic projects/policies/plans	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Group Activities contribute to the objectives and priorities of the above strategies.

Māori Impact Statement

Council budgets impact broadly across all Dunedin communities including Māori. The Council is committed to developing ongoing relationships with Māori communities, particularly with mana whenua. Strategic projects that have significance to Māori have been identified from across the organisation and these projects will work collaboratively with the Maori Partnerships Manager to ensure beneficial outcomes for Māori are achieved.

Sustainability

The draft budgets continue to support the principles of sustainability and financial resilience, as outlined in the 10 year plan, most notably in the Infrastructure Strategy and in the Financial Strategy.

LTP/Annual Plan / Financial Strategy /Infrastructure Strategy

This report provides draft budget information for inclusion in the draft 2022/23 Annual Plan.

Financial considerations

Financial considerations are detailed in the report.

Significance

The 10 year plan 2021-31 budgets were considered significant in terms of the Council's Significance and Engagement Policy, and were consulted on. Variations to those budgets as discussed in this report are not considered significant in terms of the policy.

Engagement – external

A report on options for engagement will be presented to Council in February 2022.

Engagement - internal

Staff from across the Council have been involved in the development of the draft budgets and reports.

SUMMARY OF CONSIDERATIONS***Risks: Legal / Health and Safety etc.***

There are no identified risks.

Conflict of Interest

There are no known conflicts of interest.

Community Boards

Projects identified in Community Board Plans were considered in the development of the budgets for the 10 year plan, and Community Boards were consulted at this time. Community Boards will have an opportunity to present on the draft 2022/23 Annual Plan.

Dunedin City Council
Income Statement
for the Year Ended 30 June 2023

Actual		Budget	Draft Budget	Budget Inc (Dec)	Budget Inc (Dec)
2020-21		2021-22	2022-23		
\$000		\$000	\$000	\$000	%
Revenue					
163,492	Rates revenue	179,124	190,767	11,643	6.5%
1,055	Rates penalties	850	850	-	0.0%
90,062	External revenue	74,203	81,460	7,257	9.8%
14,723	Grants and subsidies operating	11,847	12,133	286	2.4%
26,504	Grants and subsidies capital	21,445	21,492	47	0.2%
2,154	Development contributions	3,467	3,784	317	9.1%
7,957	Vested assets	3,000	3,000	-	0.0%
35,795	Internal revenue	35,297	35,634	337	1.0%
734	Tax refund	450	450	-	0.0%
342,476	Total revenue	329,683	349,570	19,887	6.0%
Expenditure					
65,970	Personnel costs	69,965	73,569	3,604	5.2%
77,835	Operations & maintenance	67,667	72,807	5,140	7.6%
25,584	Occupancy costs	27,875	28,559	684	2.5%
27,148	Consumables & general	24,057	23,473	(584)	-2.4%
10,588	Grants & subsidies	10,243	10,710	467	4.6%
35,795	Internal charges	35,297	35,634	337	1.0%
74,283	Depreciation	76,519	85,596	9,077	11.9%
8,103	Interest	9,943	10,742	799	8.0%
325,306	Total expenditure	321,566	341,090	19,524	6.1%
17,170	Net surplus/(deficit)	8,117	8,480	363	4.5%