

## REPORTS

### CEO OVERVIEW REPORT- ANNUAL PLAN 2023/24

Department: Finance and Executive Leadership Team

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#### EXECUTIVE SUMMARY

- 1 This report provides an overview of the budgets to be included in the draft 2023/24 Annual Plan ("the draft Plan"). The draft Plan for 2023/24 is an update of year three of the 10 year plan 2021-31.
- 2 This report highlights the budget challenges the DCC faces with the current economic climate of high inflation and rising interest rates. While savings have been found across the board, these are 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 The draft budgets propose a rate rise of 6.5% for 2023/24 which is lower than the 7.0% provided for in year three of the 10 year plan but in line with the Financial Strategy.

#### RECOMMENDATIONS

That the Council:

- a) **Adopts** the draft 2023/24 operating budgets for the purpose of community engagement as shown/amended at Attachment A.
- b) **Notes** that any resolution made during this meeting related to the 2023/24 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 2023/24 is an update of year three of the 10 year plan. Budgets for the 2023/24 year have been reviewed and budget update reports for each activity of Council have been prepared for consideration at this meeting.

## **DISCUSSION**

- 6 This has been a challenging budget process with pressures from rising inflation, as well as interest costs increasing by \$9.500 million, and depreciation expense due to the revaluation of assets, and an extensive capital work programme increasing by \$38.272 million. When those factors are accounted for the budget shows savings have been made in other areas of the organisation where costs are controllable.
- 7 This includes continuing work to reduce the reliance on consultants while recognising that there will always be a need for specialist services. The reliance on consultants continues to be a challenge especially in a tight employment market. Further work is being undertaken to review these costs.
- 8 When the 10 year plan budgets were set, the financial climate and broader economy were very different than they are now. Inflationary pressures have been felt in all areas of the Council operations. Staff have worked hard to absorb cost increases by finding efficiencies and different ways of doing things while trying to maintain current levels of service. The impact of interest cost increases and depreciation have made this especially challenging.
- 9 A rate increase of 6.5% has been used to develop the draft budgets with no obvious decreases to levels of service.
- 10 In line with an early engagement approach, staff have worked with a range of parties and organisations about various initiatives suggested by the community. As a result of this engagement, some of these initiatives can be met from existing budgets and is covered off in separate reports.
- 11 Council have also asked staff to prepare a number of reports as part of the development of the Annual Plan, and these are presented at this meeting alongside the relevant activity report.

## **Workstreams for the next 10 year plan**

- 12 This budget signals some challenging conversations will be needed with the community around the next 10 year plan. In the context of Central Government's reform programme and the broader economic outlook, the DCC will need to review a range of services to ensure services can be delivered on a sustainable basis.
- 13 Work on levels of service will begin shortly to feed into the 10 year plan. Alongside that, work is progressing on an Investment Plan that will look at how the DCC can ensure income generating assets are managed to ensure they are delivering an adequate return to the ratepayer.

- 14 As part of the development of the 10 year plan 2024-34, there are a number of workstreams which will determine future budgets. These workstreams include:
- Delivery of services – a review to identify streamlining opportunities and build in further efficiencies in service delivery
  - Levels of service – reviewing what levels of service we provide, how much we provide and how they will be paid for
  - Capital programme - developing a sustainable capital work programme for the next 10 years
  - Strategic refresh – including the development of wellbeing statements
  - Grants – a cross council review of all grant funding pools and spend
  - 3 Waters reform – the timing and impacts of reform
  - Investment Plan – implementing the provisions of the Investment Plan following its adoption
  - Revenue and Financing Policy – a full review of the policy including charges for community housing and aquatic services.

#### **Significant forecasting assumptions**

- 15 The 10 year plan sets out a number of significant forecasting assumptions that have been used in the development of the draft annual plan 2023/24. Some relate to inflation and interest rates and these have been updated for the draft budgets.
- 16 Key assumptions included in the preparation of the draft budget will be further updated in May 2023. This will include but not be limited to:
- a) Interest rate on borrowings – including allocation of interest cost to each activity group
  - b) Forecast debt as at 30 June 2024
  - c) Update assumptions for the 3 Waters depreciation following finalisation and audit clearance of year end valuation as at 30 June 2022
  - d) Updating rates on DCC owned properties
  - e) The impacts of inflation.

#### **Capital expenditure**

- 17 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. Capital expenditure was forecast to be \$204.543 million for the 2023/24 year. Cost escalations and increases in interest rates have prompted a need to reduce this to a more sustainable level which is in line with year three of the 10 year plan (\$145.050 million).
- 18 Capital budget updates for 2023/24 are underway and will be presented at the May 2023 deliberations meeting, when we have more clarity about the proposed levels of spend.

## Operating budgets

- 19 The draft operating budget for 2023/24 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 \$411.044 million (refer to Attachment A).
- 20 The rate increase of 6.5% included in the draft budget, while consistent with the Financial Strategy, does not deliver a balanced budget. A balanced budget means that we will have a positive operating surplus. The draft budget doesn't deliver this for the 2023/24 year due to the significant increases in interest and depreciation. The draft budget provides a net deficit of \$38.476 million.
- 21 Expenses within our control continue to be reviewed in order to find further savings to address the budget deficit. The draft operating budget shows savings have been made in other areas of the organisation where costs are controllable.
- 22 The draft Transport budget is the most challenging because of increased costs, including traffic management and contract escalations. Work is being undertaken to find alternatives for the provision of traffic management services, to improve our understanding of Central Government funding and reviewing levels of service.
- 23 For the 2023/24 year, focus will be on how to deliver the work programme within the Transport budget while determining the services we deliver for the 10 year plan as part of the review of levels of service. An updated Transport budget will be provided in May 2023 when more work has been done to understand the cost pressures and impact on service delivery.
- 24 Each of the DCC's groups of activities have updated year three 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

- 25 The draft operating budget for 2023/24 shows overall rates revenue increasing by \$12.400 million, which is 6.5% higher than 2022/23, but is lower than the rate increase of 7.0% provided for in the 10 year plan.
- 26 External revenue has increased by \$8.330 million, 10.1%. The main changes to external revenue are:
  - Governance and Support Services – an increase of \$5.673 million reflecting a \$5.500 million increase in dividends from Dunedin City Holdings Limited.
  - Parks and Recreation – an increase of \$1.613 million relating mainly to Te Puna o Whakaehu.
  - Waste Management – an increase of \$672k due to increases in the waste disposal levy and Green Island Landfill revenue.
- 27 Fees and charges are discussed separately in the group budget reports. There has been a consolidation of Parking fees and charges to reduce the types of paid parking zones. Details are outlined in the Regulatory Services Group report but of note is that the paid main street 30-minute parking restriction will be replaced by an unpaid 30-minute restriction.

- 28 There are some variances with the Revenue and Financing Policy and these are highlighted in a separate report – Revenue Policy Compliance. A full review of the policy will occur as part of the development of the next 10 year plan.

## **Expenditure**

### **Staff costs**

- 29 The draft budget provides for an increase in personnel costs of \$4.397 million, 5.7%, incorporating an increase of 41.9 full time equivalent (FTE) staff. Further details are provided in each of the group budget reports.
- 30 Staffing numbers have increased in the draft budgets. Around half the increase (17 FTE) is required to staff Te Puna o Whakaehu.
- 31 The other roles are spread across the organisation. These roles, many in back-of-house support areas like IT, HR and quality improvement, are necessary to support the changes that are being made internally to increase efficiency and support service delivery.
- 32 The increases should be seen in the context of the level of vacancies that are being carried. Currently, there are 85 vacant positions. As work continues to find efficiencies and right size various activities, how and if these roles are filled will be considered.
- 33 The vacancies mean there is an allowance in the budget that is available to fund a salary increase for existing staff, as no increase has been factored into the draft budget.

### **Operations and maintenance costs**

- 34 Operations and maintenance costs have increased by \$1.287 million, 1.7%. The main changes are due to:
- Waste Management – an increase of \$1.062 million relates primarily to increases at the Green Island Landfill and the kerbside collection contract.
  - Community and Planning – an increase of \$783k for community events.
  - Transport - an increase of \$532k mostly relating to coastal management costs, \$426k of this was transferred from Parks and Recreation.
  - Parks and Recreation – an increase of \$224k due to Te Puna o Whakaehu and maintenance cost increases.
  - 3 Waters – a reduction of \$743k primarily related to sludge from the Tahuna wastewater treatment plant (\$1.099 million) which can now be lime treated and transferred to the Green Island Landfill, partially offset by an increase in internal disposal costs of \$794k. A reduction in contracted services offsets internal resourcing changes. Other changes reflect increases in maintenance, shipping charges for chemicals and additional regulations around laboratory testing requirements.
  - Governance and Support Services– a reduction of \$549k due mainly to the election.

### Occupancy costs

- 35 Occupancy and property-related costs such as rates, insurance and fuel have increased by \$2.799 million, 9.3%. Note the rates expenditure budgets will be reviewed to reflect the new rating valuations.

### Consumables and general costs

- 36 Consumables and general costs have increased by \$1.081 million, 4.7%. The main changes are due to:
- Waste Management – an increase of \$628k relates primarily to increases at the Green Island Landfill for the waste disposal levy.
  - Galleries, Libraries and Museums – an increase of \$291k for stock purchases and catering, which are both recovered, and increased costs.
  - Governance and Support Services – an increase of \$260k due to costs associated with the 10 year plan 2024-34 development including an audit fee of \$145k.
  - Community and Planning – an increase of \$194k due to increased legal fees for appeals to the 2<sup>nd</sup> Generation District Plan's Variation 2 Greenfield rezoning.
  - Parks and Recreation – a decrease of \$283k due to savings in consultancy and a transfer of budget to Transport.
  - Transport - a decrease of \$250k primarily driven by a reduction in consultants.

### Depreciation

- 37 Depreciation expense has increased by \$38.272 million, 44.7%. The main increase in depreciation for the draft budget 2023/24 relates to reticulation assets within 3 Waters. Previously the DCC valued its 3 Waters assets based on historical replacement costs indexed annually to reflect the cost/valuation for accounting purposes. Last financial year it was concluded that this methodology was no longer appropriate, and a methodology based on current replacement costs has been applied as at 30 June 2022.
- 38 This change in methodology has seen an increase in cost/valuation for accounting purposes of circa \$1.3 billion and comes with an increased level of depreciation which has been estimated for the draft budgets.
- 39 The valuation uplift is subject to audit clearance and further work is still required to ensure the depreciation correctly reflects the new values. It is possible that the valuation will be reduced, which would see a reduction in depreciation and therefore in the budget deficit.

### Interest

- 40 Interest expense has increased by \$9.500 million, 69.4% reflecting the predicted increase in debt funding required to support the planned capital expenditure programme and an increase in interest rates.

- 41 The long term plan 2021-2031 included an interest rate assumption of 2.85%. At the time the corresponding OCR was 0.25%. This rate was increased for the 2022/23 annual plan to 3.6% (OCR 2.00%). The DCC current interest rate applicable to its borrowing is 4.35% which was effective from 1 January 2023 – up from the predicted 3.60%.
- 42 The interest rate used in developing the 2023/24 draft budget has been set at 4.85%. Interest rates over the last 12 months have been impacted by various world events. The New Zealand official cash rate has increased markedly in this period and currently sits at 4.25%.

### Funding Depreciation

- 43 There is no ability for Council to fund the uplift in depreciation for 3 Waters. Funding this alone would mean a rates increase of 17%. Given the reform environment and likely decisions about 3 Waters, it is not prudent to rate fund this increase at this time.
- 44 This does not mean that renewal work is not happening because the draft budgets focus on trying to fund capital renewals expenditure from operations rather than trying to fund depreciation.
- 45 The budget for each group (and all of Council) includes a Funding Impact Statement (FIS) – see Attachment B. The FIS statements represent a restatement of the income statements by:
- Removing non-cash items including depreciation
  - Separating operating and capital funding
  - Including how the total funding will be used ie capital expenditure
  - Identifying how any shortfall in funding will be financed ie increase in debt.
- 46 Ideally the available operating funding being “Surplus/(deficit) of operating funding (A-B)” plus “Subsidies and grants for renewal expenditure” will be sufficient to cover capital expenditure “to replace existing assets”.

<b>Funding Impact Summary</b>	<b>Budget 2022/23 \$000</b>	<b>Draft Budget 2023/24 \$000</b>	<b>Increase (Decrease) \$000</b>
<b>Surplus/(deficit) of operating funding (A-B)</b>	58,610	60,398	1,788
<b>Subsidies &amp; grants for renewals expenditure</b>	8,140	7,272	(868)
<b>Capex to replace existing assets</b>	(105,344)	(88,247)	17,097
<b>Increase in investment DCHL</b>	(2,550)	(2,550)	-
<b>Funding surplus/(deficit)</b>	<b>(41,144)</b>	<b>(23,127)</b>	<b>18,017</b>

- 47 What the table shows is that we are borrowing \$23.127 million in the draft budgets to fund renewals. While this is not sustainable long-term, it is necessary to ensure that we continue with the renewal programme while we develop a sustainable capital expenditure programme as part of the next 10 year plan.

### OPTIONS

- 48 There are no options.

### Signatories

Author:	Carolyn Allan - Senior Management Accountant Gavin Logie - Chief Financial Officer
Authoriser:	Sandy Graham - Chief Executive Officer

### Attachments

	<b>Title</b>	<b>Page</b>
<a href="#">↓A</a>	Draft Operating Budget 2023/24	14
<a href="#">↓B</a>	Draft Funding Impact Statement 2023/24	15



## 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 2023/24 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 engagement is on the agenda.

### ***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 2023/24 Annual Plan.

Dunedin City Council  
**Income Statement**  
for the Year Ended 30 June 2024

Actual	Budget	Draft Budget	Budget Inc (Dec)	Budget Inc (Dec)
2021-22	2022-23	2023-24		
\$000	\$000	\$000	\$000	%
<b>Revenue</b>				
179,560 Rates revenue	190,767	203,167	12,400	6.50%
1,053 Rates penalties	850	1,000	150	17.6%
73,850 External revenue	82,596	90,926	8,330	10.1%
19,520 Grants and subsidies operating	16,410	16,199	(211)	-1.3%
25,791 Grants and subsidies capital	27,361	16,717	(10,644)	-38.9%
3,686 Development contributions	3,784	3,844	60	1.6%
6,785 Vested assets	3,000	3,000	-	0.0%
35,264 Internal revenue	35,634	37,345	1,711	4.8%
371 Tax refund	450	370	(80)	-17.8%
<b>345,880 Total revenue</b>	<b>360,852</b>	<b>372,568</b>	<b>11,716</b>	<b>3.2%</b>
<b>Expenditure</b>				
68,286 Personnel costs	76,816	81,213	4,397	5.7%
75,023 Operations & maintenance	76,624	77,911	1,287	1.7%
28,217 Occupancy costs	30,058	32,857	2,799	9.3%
23,878 Consumables & general	23,044	24,125	1,081	4.7%
11,731 Grants & subsidies	10,711	10,528	(183)	-1.7%
35,264 Internal charges	35,634	37,345	1,711	4.8%
81,350 Depreciation	85,596	123,868	38,272	44.7%
8,630 Interest	13,697	23,197	9,500	69.4%
<b>332,379 Total expenditure</b>	<b>352,180</b>	<b>411,044</b>	<b>58,864</b>	<b>16.7%</b>
<b>13,501 Net surplus/(deficit)</b>	<b>8,672</b>	<b>(38,476)</b>	<b>(47,148)</b>	<b>-543.7%</b>

Dunedin City Council  
**Funding Impact Statement**  
 for the Year Ended 30 June 2023 (whole of council)

	2022/23	2023/24
	Annual Plan	Annual Plan
	\$000	\$000
<b>Sources of operating funding</b>		
General rates, uniform annual general charge, rates penalties	110,294	122,141
Targeted rates	81,323	82,026
Subsidies and grants for operating purposes	15,455	15,300
Fees and charges	65,155	67,821
Interest and dividends from investments	14,107	19,722
Local authorities fuel tax, fines, infringement fees, and other receipts	3,225	3,219
<b>Total operating funding (A)</b>	<b>289,559</b>	<b>310,229</b>
<b>Applications of operating funding</b>		
Payments to staff and suppliers	217,252	226,634
Finance costs	13,697	23,197
Other operating funding applications	-	-
<b>Total application of operating funding (B)</b>	<b>230,949</b>	<b>249,831</b>
<b>Surplus/(deficit) of operating funding (A-B)</b>	<b>58,610</b>	<b>60,398</b>
<b>Sources of capital funding</b>		
Subsidies and grants for renewals expenditure	8,140	7,272
Subsidies and grants for capital expenditure	19,221	9,445
Development and financial contributions	3,784	3,844
Increase/(decrease) in debt	106,000	67,903
Gross proceeds from sale of assets	120	120
Lump sum contributions	-	-
Other dedicated capital funding	-	-
<b>Total sources of capital funding (C)</b>	<b>137,265</b>	<b>88,584</b>
<b>Application of capital funding</b>		
Capital expenditure		
- to meet additional demand	10,662	10,833
- to improve the level of service	73,466	47,352
- to replace existing assets	105,344	88,247
Increase/(decrease) in reserves	-	-
Increase/(decrease) in investment (DCHL)	2,550	2,550
Increase/(decrease) of other investments	3,853	-
<b>Total application of capital funding (D)</b>	<b>195,875</b>	<b>148,982</b>
<b>Surplus/(deficit) of capital funding (C-D)</b>	<b>(58,610)</b>	<b>(60,398)</b>
<b>Funding balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>
 Total capital expenditure	 189,472	 146,432