

REPORTS

CEO OVERVIEW REPORT - ANNUAL PLAN 2024/25

Department: Civic and Finance

EXECUTIVE SUMMARY

- 1 On 16 February 2024, the Water Services Act Repeal Act 2024 (the Repeal Act) was enacted. Given the significant changes to 3 Water reform, the Repeal Act provides the ability to prepare an enhanced Annual Plan for the 2024/25 year, rather than completing a 10 year plan 2024-34.
- 2 At its meeting on 27 February, Council approved the preparation of a 2024/25 Annual Plan for community consultation. The 2024/25 Annual Plan will be followed by the completion of a 9 year plan for the period 2025-34.
- 3 This report provides an overview of the budgets to be included in the draft 2024/25 Annual Plan (the draft Annual Plan). The draft Annual Plan is an update of year four of the 10 year plan 2021-31. Draft Income Statements are at Attachment A, and draft Funding Impact Statements are at Attachment B.
- 4 This report highlights the budget challenges the DCC faces with the current economic climate of high inflation and interest rates. Savings have been found across the organisation, but these have largely been offset by rising costs.
- 5 The draft budgets propose a rate rise of 17.5% for 2024/25 which is higher than the 6.0% provided for in year four of the 10 year plan, and higher than the Financial Strategy rate limit of 6.5%.
- 6 Budgeted staffing numbers have reduced from 903 FTE to 852 FTE – a reduction in 51 FTE positions. All other controllable costs have been reviewed and reduced where possible.

RECOMMENDATIONS

That the Council:

- a) **Adopts** the draft 2024/25 operating budgets for the purpose of community engagement as shown / amended at Attachment A.
- b) **Notes** that any resolution made during this meeting relating to the 2024/25 Annual Plan reports may be subject to further discussions and decision by the meeting.

BACKGROUND

- 7 Following the enactment of the Repeal Act on 16 February 2024, at its meeting on 27 February, Council approved taking up the option of preparing an enhanced 2024/25 Annual Plan for community consultation, rather than preparing a 10 year plan 2024-34.
- 8 This decision was made following consideration of factors such as the changing legislative environment (both recent and signalled), and our need for more information that will allow us to prepare a more robust and informed 9 year plan.
- 9 The Local Government Act 2002 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.*
- 10 The Repeal Act provides that an enhanced Annual Plan is to include information additional to the Local Government Act requirements. The additional information includes financial statements and statement of service performance information for each group activity. This information will be included in the 2024/25 Annual Plan document adopted in June 2024.
- 11 The draft Annual Plan for 2024/25 is an update of year four of the 10 year plan. Budgets for the 2024/25 year have been reviewed and budget update reports for each activity of Council have been prepared for consideration at this meeting.

DISCUSSION

- 12 When the decision was made to prepare an enhanced Annual Plan, a significant amount of work had already been undertaken to prepare both operating and capital budgets for the 10 year period 2024 – 34. There was, however, a high level of uncertainty of our information for years 2 – 10, as legislative changes signalled by the new Government would likely take effect from 2025/26 year onwards. Staff have confidence in the 2024/25 information, which is being used to produce the draft Annual Plan.
- 13 We continue to have the pressures of high inflation rates, increased interest costs – both rate increases combined with increasing debt levels, and the impact of asset revaluation on our depreciation costs. Interest is estimated to be up \$6.1 million (23.3% on 2023/24), and depreciation by \$5.2 million.
- 14 Many of the cost increases we are experiencing are outside of the control of Council, e.g., increased energy costs to run our pools and other facilities, insurance costs, and new costs such as compliance monitoring to meet water quality standards.

- 15 A rate increase of 17.5% is proposed in the draft budgets. This increase in rates will maintain current service levels but also pay for an increased level of service for a new kerbside collection service. This new service, commencing in July 2024, replaces the black rubbish bag system. Of the 17.5% rate increase, 4.4% will cover the cost of this new service.

Significant forecasting assumptions

- 16 The 10 year plan sets out a number of Significant Forecasting Assumptions. Assumptions relating to inflation and interest rates have been updated for the draft budgets.
- 17 Key assumptions included in the preparation of the draft budgets will be further updated in May 2024 if required. This will include but not be limited to:
- Interest rates on borrowing – including the allocation of interest costs to each activity group.
 - Forecast debt as at 30 June 2025.
 - The impacts of inflation.
 - The level of grant funding from NZTA Waka Kotahi (if available).

Rates breakdown at a high level

- 18 The summary below provides a breakdown of the main factors making up the rate increase:

3 Waters	5.4%
Increase in depreciation (excl. 3 waters)	4.9%
New kerbside collection service	4.4%
Interest (excl. 3 waters)	1.8%
All other costs	1.0%
Total rate increase	17.5%

- 19 The breakdown is relatively simplistic and does not take into account the impact of increases in other revenue but does highlight the three main drivers of the rates increase. Broadly this shows that costs have been absorb where they can be, and savings found in an attempt to control discretionary expenditure. Fees and charges have been reviewed more critically, and rather than apply a blanket increase across these, many have been modified to reflect the actual cost of the services provided.
- 20 The increase in 3 Waters includes increased regulation and compliance costs to meet water quality standards, such as for chemicals and laboratory testing.
- 21 The increase in depreciation reflects the revaluation of some assets and the budgeted capital programme.
- 22 The Kerbside collection rates are for the new service starting in July 2024, replacing the current black bag system.

Capital expenditure

- 23 The draft capital budget for the Annual Plan provides for replacing existing assets and infrastructure. Across the Council's activities, the proposed budget is \$207.357 million in the 2024/25 year, compared to \$157.044 million provided for in year four of the 10 year plan.
- 24 One area of uncertainty is the amount of co-funding that may be received from NZTA Waka Kotahi for budgeted transport activities. The draft Government Policy Statement on land transport 2024-34 has now been released for consultation purposes. It sets out the Government's priorities for land transport investment. Staff are reviewing the draft Statement to understand the impacts it may have on our assumptions around co-funding for transport initiatives. Our findings will be reported to Council before finalising the Annual Plan.

Operating budgets

- 25 The draft operating budgets provide for the day to day running of all the activities and services the DCC provides to its community. These include 3 Waters services, parks, galleries, libraries, pool, and roading.
- 26 The rate increase of 17.5% included in the draft budget does not deliver a balanced budget, but provides for a net deficit of \$25.655 million.
- 27 The revaluation of three waters infrastructure assets in 2022/23 resulted in a significant increase in depreciation. Since this time, the depreciation charge has not been fully funded, and Council has been running an operating deficit budget.
- 28 As part of the development of the 9 year plan 2025-34, a financial strategy will be prepared that addresses the issue of ongoing deficits, and provide for balancing the budget before the end of the 9 year plan.
- 29 Expenses within our control have been reviewed and the operating budgets show that savings have been made in many of the group activities.
- 30 The biggest area of increase in operating budgets is in the Waste Management activity. This significant increase in operating budget is primarily due to new contracts for the new kerbside collection service and monitoring costs required in the consent for the new Smooth Hill Landfill.
- 31 Each of the groups of activities have updated year 4 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 discussed in the group operating budget reports.

Revenue

Rates

- 32 The draft operating budget for 2024/25 shows overall rates revenue increasing by \$35.588 million, which is 17.5% higher than 2023/24. It is also higher than the rate increase of 6.0% provided for in the 10 year plan.

External revenue

- 33 External revenue has increased by \$5.405 million, 5.9%. The main changes to external revenue are:

- Waste Management – a net increase of \$2.553 million reflecting an increase in landfill revenue due to an expected increase in tonnage because of the closure of a transfer station and an increase in landfill disposal charges to cover expected increases in waste levy and ETS charges. Offsetting these increases, revenue from the sale of black rubbish bags ceases.
- Property – an increase of \$877k due primarily to an increase in community housing rental.
- 3 Waters – an increase of \$647k due to increases in fees and charges, including water sales and trade waste.
- Regulatory – an increase of \$499k in fees to recover increased costs of processing consents and licenses.

34 Fees and charges are discussed separately in the group budget reports. Rather than apply a fee increase of 3%, as has been done in past years, fee increases for some areas are reflecting the increase in costs from the 2023/24 year.

Grants

35 Grant funding received from NZTA Waka Kotahi for transport activities is based on the nature of the planned capital works, and their eligibility for funding. It is also dependent on how much funding assistance is available, noting that there has been a shortfall in the Funding Assistant Rate in recent years.

36 The 2024/25 draft budget shows operating grants and subsidies revenue is down \$2.499 million. The main changes are as follows:

- 3 Waters – operating grant funding has decrease by \$4.400 million. The Transition Support Package funded by the former Government, set up to contribute towards transitioning to the now repealed Water Services Entities has been discontinued. In addition, Government funding for the 3 Waters Strategic Work Programme has been replaced by Better off Funding.
- Governance – operating grant funding has increased by \$2.559 million, being the Government’s Better Off Funding package. This funding is being used for various projects across Council.

37 Capital grants revenue is down \$3.697 million. The main changes are as follows:

- Waste - capital grant revenue has decreased by \$670k. In 2023/24 grant funding was provided from the Ministry for the Environment for the purchase of bins.
- Transport – capital grant revenue has decreased by \$3.067 million, based on the proposed capital programme and estimated funding assistance from NZTA Waka Kotahi.

Expenditure

Staff costs

38 The draft budget provides for an increase in personnel costs of \$2.667 million, 3.3%. This provides for a union negotiated salary increase for staff.

- 39 The 2023/24 budget did not provide for a salary increase, and the negotiated increase was absorbed within existing budgets.
- 40 This saving has been achieved by vacancy management and a slow-down in recruitment. Vacancy management and a thorough review of budgets has resulted in the budgeted headcount reducing from 903 FTE to 852 FTE – a reduction in 51 FTE positions. Management of vacancies continues to be a priority, along with careful recruitment and looking after existing staff.

Operations and maintenance costs

- 41 Operations and maintenance costs have increased by \$12.706 million, 16.5%. The main changes are due to the following:
- Waste management – an increase of \$10.158 million relates primarily to the new kerbside collection service, increases in ETS costs and Green Island landfill costs, and additional monitoring for Smooth Hill and the implementation of the Southern Black Back Gull management plan, both required under the resource consent.
 - 3 Waters – an increase of \$2.311 million relates to plant maintenance cost increases, chemical and laboratory cost increases. There is a reduction in contractor fees, as government funding for the 3 Waters Strategic Work Programme ends.
 - Transport – an increase of \$737k, with \$486k relating to costal management work, and \$234k for an increase in bus shelters (fully recoverable from the Otago Regional Council) and State Highway maintenance (fully recoverable from NZTA Waka Kotahi).
 - Parks, Galleries Libraries and Museums, Community and Planning, Property, and Economic Development have all made savings in their operations and maintenance costs. Further details are provided in each of the group budget reports.

Occupancy costs

- 42 Occupancy and property related costs such as rates, insurance and fuel have increased by \$3.150 million, 9.7%. These increases have largely impacted the Property activity with an increase of \$1.780 million and 3 Waters with an increase of \$1.005 million.

Consumables and general costs

- 43 Consumables and general costs have increased by \$1.822 million. The main changes are due to the following:
- Waste Management – an increase of \$870k due to an increase in waste levy costs at the Green Island landfill, reflecting an increased tonnage in materials entering the landfill, offset by a reduction in costs relating to communications and marketing of the new kerbside collection service.
 - Governance – an increase of \$970k largely due to increases in software licencing fees of \$743k.

Depreciation

- 44 Depreciation expense has increased by \$5.215 million, 4.5%, reflecting the valuation of assets at 30 June 2023 and the capital expenditure programme. The increase is reflected mainly in the Transport, 3 Waters, Property, and Parks and Recreation activities.

Interest

- 45 Interest expense has increased by \$6.118 million, 23.3%, reflecting the increase in debt funding required to support the planned capital expenditure programme and an increase in interest rates.
- 46 The 10 year plan 2021-31 had an interest rate assumption of 2.85%. The DCC's current interest rate applicable to its borrowing is 4.66% as advised by Dunedin City Treasury Limited. For the purposes of preparing the draft Annual Plan, an assumption has been made that the borrowing rate for the 2024/25 year will be 5%.

Funding impact statement

- 47 The budget for each group, and all of Council, includes a Funding Impact Statement, as provided at Attachment B. Funding Impact Statements differ from Income Statements because they:
- Remove non-cash items such as depreciation,
 - Separate operating and capital funding
 - Include how total funding will be used, i.e., capital expenditure
 - Identify how any shortfall in funding will be financed, i.e., an increase in debt.
- 48 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".

Funding Impact Summary	Budget 2023/24 \$000	Draft Budget 2024/25 \$000
Surplus/(deficit) of operating funding (A-B)	59,579	71,707
Subsidies & grants for renewals expenditure	8,012	11,840
Capex to replace existing assets	(138,077)	(101,139)
Increase in investment DCHL	(2,550)	(2,550)
Funding surplus/(deficit)	(73,036)	(20,142)

- 49 The table above shows that we are borrowing \$20.142 million in the draft budgets to fund renewals. While this is not sustainable long-term, this will be addressed in a review of the Financial Strategy that will be prepared for the 9 year plan 2025-34.

Debt

- 50 The Draft Forecast Financial Statements at Attachment C shows that by 30 June 2025, the estimated debt level will be \$706.528 million which is 188.6% of revenue. The debt limit provided for in the current Financial Strategy is 250% of revenue. This is an increase in debt of \$117.554 million on the 2023/24 Annual Plan.

OPTIONS

- 51 There are no options.

Signatories

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Authoriser:	Sandy Graham - Chief Executive Officer

Attachments

	Title	Page
↓A	Draft Operating Budget 2024/25	27
↓B	Draft Funding Impact Statement 2024/25	29
↓C	Draft Forecast Financial Statements 2024/25	30

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 type="checkbox"/>	<input type="checkbox"/>
Economic Development Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Environment Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Arts and Culture Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
3 Waters Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Spatial Plan	✓	<input type="checkbox"/>	<input type="checkbox"/>
Integrated Transport Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Parks and Recreation Strategy	✓	<input type="checkbox"/>	<input type="checkbox"/>
Other strategic projects/policies/plans	✓	<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 adoption of Te Taki Haruru – Māori Strategic Framework signals Council's commitment to mana whenua and to its obligations under the Treaty of Waitangi. Mana whenua and Māori will have an opportunity to engage on the Annual Plan 2024/25.

Sustainability

The Annual Plan 2024/25 is not proposing any changes to that provided for in the 10 year plan. Major issues and implications for sustainability are discussed in the Infrastructure Strategy and financial resilience is discussed in the Financial Strategy of the current 10 year plan 2021-31.

LTP/Annual Plan / Financial Strategy /Infrastructure Strategy

This report provides draft budget information for inclusion in the draft 2024/25 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 are discussed in this report. The draft budgets will be included in the Annual Plan 2024/25, and will be consulted on.

Engagement – external

External engagement will be undertaken.

Engagement - internal

Staff from across 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

Community Boards will have the opportunity to present on the draft 2024/25 Annual Plan.

Dunedin City Council
Income Statement
for the Year Ended 30 June 2025

Actual		Budget	Draft Budget	Budget Inc	Budget Inc
2022/23		2023/24	2024/25	(Dec)	(Dec)
\$000		\$000	\$000	\$000	%
Revenue					
191,152	Rates revenue	203,358	238,946	35,588	17.5%
1,231	Rates penalties	1,000	1,000	-	-
85,161	External revenue	90,904	96,309	5,405	5.9%
19,127	Grants and subsidies operating	16,845	14,346	(2,499)	(14.8%)
32,125	Grants and subsidies capital	20,662	16,965	(3,697)	(17.9%)
2,840	Development contributions	3,844	3,850	6	0.2%
2,375	Vested assets	3,000	3,000	-	-
38,813	Internal revenue	37,108	40,927	3,819	10.3%
781	Tax refund	370	250	(120)	(32.4%)
373,605	Total revenue	377,091	415,593	38,502	10.2%
Expenditure					
75,285	Personnel costs	81,212	83,879	2,667	3.3%
88,850	Operations & maintenance	76,926	89,632	12,706	16.5%
31,367	Occupancy costs	32,348	35,498	3,150	9.7%
38,689	Consumables & general	24,031	25,853	1,822	7.6%
11,168	Grants & subsidies	10,668	10,717	49	0.5%
38,813	Internal charges	37,108	40,927	3,819	10.3%
110,128	Depreciation	117,128	122,343	5,215	4.5%
15,687	Interest	26,281	32,399	6,118	23.3%
409,987	Total expenditure	405,702	441,248	35,546	8.8%
(36,382)	Net surplus/(deficit)	(28,611)	(25,655)	2,956	(10.3%)

Actual	Budget	Draft Budget	Budget Inc	Budget Inc
2022/23	2023/24	2024/25	(Dec)	(Dec)
\$000	\$000	\$000	\$000	%
Expenditure by group				
23,367 Waste management	19,847	32,870	13,023	65.6%
109,681 Three Waters	118,514	125,872	7,358	6.2%
65,355 Roading and footpaths	60,915	65,939	5,024	8.2%
53,030 Property	42,579	46,843	4,264	10.0%
39,434 Reserves & recreational facilities	44,138	45,030	892	2.0%
28,127 Galleries, libraries and museums	29,279	30,570	1,291	4.4%
7,765 Economic development	6,036	6,238	202	3.3%
15,526 Community and planning	17,366	16,059	(1,307)	(7.5%)
18,262 Regulatory services	18,914	19,829	915	4.8%
49,440 Governance and support services	48,114	51,998	3,884	8.1%
409,987	405,702	441,248	35,546	8.8%

Dunedin City Council
Funding Impact Statement
for the Year Ended 30 June 2025 (whole of council)

	2023/24 Annual Plan \$000	Long-term plan \$000	2024/25 Annual Plan \$000
Sources of operating funding			
General rates, uniform annual general charge, rates penalties	119,041	125,849	135,254
Targeted rates	85,317	92,441	104,692
Subsidies and grants for operating purposes	15,945	11,745	13,446
Fees and charges	67,800	69,039	72,061
Interest and dividends from investments	19,722	8,144	20,931
Local authorities fuel tax, fines, infringement fees, and other receipts	3,219	3,317	3,301
Total operating funding (A)	311,044	310,535	349,685
Applications of operating funding			
Payments to staff and suppliers	225,184	224,802	245,579
Finance costs	26,281	14,615	32,399
Other operating funding applications	-	-	-
Total application of operating funding (B)	251,465	239,417	277,978
Surplus/(deficit) of operating funding (A-B)	59,579	71,118	71,707
Sources of capital funding			
Subsidies and grants for renewals expenditure	8,012	7,006	11,840
Subsidies and grants for capital expenditure	12,650	9,667	5,125
Development and financial contributions	3,844	3,703	3,850
Increase/(decrease) in debt	128,700	66,551	117,554
Gross proceeds from sale of assets	120	120	165
Lump sum contributions	-	-	-
Other dedicated capital funding	-	-	-
Total sources of capital funding (C)	153,326	87,047	138,534
Application of capital funding			
Capital expenditure			
- to meet additional demand	9,641	9,155	6,900
- to improve the level of service	64,792	57,417	99,318
- to replace existing assets	138,077	90,472	101,139
Increase/(decrease) in reserves	-	-	-
Increase/(decrease) in investment (DCHL)	2,550	2,550	2,550
Increase/(decrease) of other investments	(2,155)	(1,429)	334
Total application of capital funding (D)	212,905	158,165	210,241
Surplus/(deficit) of capital funding (C-D)	(59,579)	(71,118)	(71,707)
Funding balance ((A-B)+(C-D))	-	-	-

Dunedin City Council
Statement of Comprehensive Revenue and Expense
for the Year Ended 30 June 2025

Actual		Annual Plan	Draft
2023		Budget	Budget
\$000		2024	2025
		\$000	\$000
Revenue from continuing operations			
191,150	Rates revenue	203,358	238,946
2,839	Development and financial contributions	3,844	3,850
50,049	Subsidies and grants	37,507	31,311
18,353	Financial revenue	20,785	21,847
71,644	Other revenue	74,119	78,463
334,035	Total operating revenue	339,613	374,417
Expenses			
169,400	Other expenses	143,607	161,327
75,285	Personnel expenses	81,212	83,879
346	Audit fees	366	374
16,038	Financial expenses	26,281	32,399
110,128	Depreciation and amortisation	117,128	122,343
371,197	Total operating expenses	368,594	400,322
(37,162)	Operating surplus/(deficit) from continuing operations	(28,981)	(25,905)
-	- Share of associate surplus/(deficit)		-
-			-
(37,162)	Surplus/(deficit) before taxation	(28,981)	(25,905)
(781)	Less taxation	(370)	(250)
(36,381)	Surplus/(deficit) after taxation	(28,611)	(25,655)
Attributable to:			
(36,381)	Dunedin City Council and Group	(28,611)	(25,655)
-	- Non-controlling interest	-	-

Dunedin City Council
**Statement of Other Comprehensive Revenue and Expense
for the Year Ended 30 June 2025**

Actual	Annual Plan	Draft
2023	Budget	Budget
\$000	2024	2025
	\$000	\$000
Other comprehensive revenue and expense		
81,709 Gain/(loss) on property plant and equipment revaluations	120,000	67,903
- Gain/(loss) on property plant and equipment disposals	-	-
20 Gain/(loss) of cash flow hedges at fair value through other comprehensive revenue and expense	-	-
81,729 Total other comprehensive revenue and expense	120,000	67,903
(36,381) Net surplus/(deficit) for the year	(28,611)	(25,655)
45,348 Total comprehensive revenue and expense for the year	91,389	42,248
Attributable to:		
45,348 Dunedin City Council and Group	91,389	42,248
- Non-controlling interest	-	-

Dunedin City Council
**Statement of Changes in Equity
for the Year Ended 30 June 2025**

Actual	Annual Plan	Draft
2023	Budget	Budget
\$000	2024	2025
	\$000	\$000
Movements in equity		
4,309,630 Opening equity	4,399,089	4,450,883
45,348 Total comprehensive revenue and expense	91,389	42,248
4,354,978 Closing equity	4,490,478	4,493,131