Revised

Draft Annual Plan 2020/21

Consultation document

(Note: that this document is the final draft. The designed version will be tabled at the meeting on 16 June 2020)

Key dates

Public consultation: 17 June - 1 July

Submission hearings: 2 - 7 July

Council deliberations: 15 - 17 July

Adoption of annual plan: 30 July

LET US KNOW what you think

Online:

use the online submission form available at www.tauranga.govt.nz/annualplan2020

In person:

drop off your submission form at our 91 Willow Street service centre or at your local library

Email:

email it to submissions@tauranga.govt.nz. You can also email us directly with your feedback, without needing to complete a submission form

Post:

place your completed form in an envelope and send it to this address (no stamp required):

Freepost Authority Number 370

Annual Plan 2020/21

Tauranga City Council

Private Bag 12022

Tauranga 3143

If you wish to speak in support of your submission, please let us know on your submission form and indicate whether a day or evening hearing suits you best.

Welcome to the revised draft Annual Plan 2020/21

The COVID-19 pandemic is causing financial hardship and uncertainty for many people and businesses in our community.

An earlier draft of this annual plan went out for consultation from April 3 to May 3, but it has since been reconsidered and budgets revised to take into account the effects of COVID-19 on the community and the impacts on our business and services.

It is crucial that we hear the views of our community on this document, which sets out our revised work plans and budget for 2020/21.

The original draft annual plan recognised that we were already facing challenges with our finances before COVID-19 arrived. For many years, our debt has been increasing as we have had to invest significant amounts each year in new infrastructure to cope with population growth. Our revenue has not kept pace with our debt and as a result, our ability to borrow to fund necessary infrastructure investment has been compromised.

COVID-19 has added to these financial challenges. We now expect our operating revenue to drop by around $14 million in the coming year as people make less use of facilities, our building sector activities slow down, and as we seek to support our businesses and community through challenging economic times.

To make up for this loss in revenue, we have reduced costs in activities affected by reduced use, and across the wider business. We are proposing to cut $11 million from our operational budget and have also reprioritised our capital expenditure plans.

While we recognise that the COVID-19 economic slump is hurting ratepayers and have been looking for ways to limit rates rises, we still need to ensure that the necessary investment can continue, to help the city recover from this crisis.

Looking back to the start of this process, the initial proposal was for a rates budget with an overall rates increase of 12.6%. This was reduced to 7.6% prior to the first round of consultation, and we are now proposing to cut it further to an overall rates increase of 4.7% after growth. This would involve an increase in the median residential rate[1] of 1.0% and a median commercial rate[1] increase of 11%. In dollar terms, this would represent an increase of 44 cents a week for the median residential ratepayer[1] and $9.32 a week for the median commercial ratepayer[1].

Council needs to continue to provide essential services to the community and invest in city infrastructure to address existing problems and provide for the future.

Fundamentally, we need new infrastructure to ensure our city can function effectively for the growing number of people living here. Our largest capital expenditure is to increase our water supply capacity and improve our wastewater treatment and disposal infrastructure. We also need to provide infrastructure to support additional housing to cater for population growth, so that we can avoid a worsening housing shortage and the resulting impacts on housing costs and affordability.

[1] The 'median' ratepayer is a property owner whose property is at the mid-point of all residential or commercial property values. Tauranga City Council uses the median ratepayer rather than the average ratepayer, for comparative purposes, because a relatively small number of high value residential or commercial properties in the city significantly increase our average values and distort the true impact of rates on most ratepayers.

We have a planned capital investment programme for 2020/21 of $244m. Of this programme, $209m is new capital, while $35m is to continue work budgeted for, but not completed in 2019/20.

This proposed capital investment provides essential long-term infrastructure for the city, while providing the short-term benefit of stimulating the local economy, supporting businesses and providing jobs.

At such a challenging time, it would be understandable if people felt our city's problems should be put aside for a while.

However, at times of economic recession, local government is better placed than the private sector to keep things moving – and more investment means more jobs. As a local government agency, our role is to meet the needs of our city, while providing infrastructure and supporting the local economy.

Our financial position has been affected by COVID-19 and the economic recession caused by the pandemic. Reduced revenue will affect our ability to deliver the infrastructure the city needs, unless we have a significant increase in rates and user fees revenue in future years. A later section of this document sets out our revised financial information for the next year and the implications for later years. Later this year, we will be drafting our 2021-31 Long-term Plan, which will consider how we can manage those issues while continuing to invest in the infrastructure the city needs. The Long-term Plan will be provided for community consultation in early-2021.

Furthermore, we are looking to work with central Government to bring additional funding into our city through investment in a recovery package. That will require us to demonstrate that we are willing and able to co-invest in the city's future. The Government will expect us to contribute from rates and borrowing towards any 'shovel-ready' infrastructure projects included in the recovery package.

The Council will also be looking to build upon the work of the Mayoral Taskforce on Homelessness and has identified addressing homelessness as a key focus for coming years. This initiative is now embodied in a multi-agency strategy and action plan called Kāinga Tupu: Growing Homes. Council will consider identifying funding to support this initiative in this Annual Plan and through next year's Long-term Plan.

Please take this chance to have your say on the Annual Plan 2020/21. Your feedback will help us navigate a difficult year as we strive to address rates affordability issues, while ensuring we are in a position to invest in economic stimulus projects which will help the community recover from the current recession.

sidebar

We received 291 submissions on the first draft of our annual plan. Consultation finished on May 3. People who submitted on this earlier plan have the option of retaining, revising or retracting their submissions. If you submitted on the previous draft annual plan and have not yet been contacted to confirm which of the above options you prefer, please email: submissions@tauranga.govt.nz

Council’s Recovery Plan and the Annual Plan

While as a nation we combat the COVID-19 pandemic and its ongoing economic impacts, locally we remain focused on protecting the health and wellbeing of our residents and supporting Tauranga's recovery.

The draft Annual Plan has been revised to consider how we adapt to a post-COVID-19 environment. It builds on the three key elements of our recovery plan.

Assist business and the community in the short-term (largely in the 2019/20 year):

- Short-term support is forecast to reduce council revenue or increase costs by up to $1 million.

Adapt the services provided for our communities, by reassessing operating and capital expenditure:

- What is the impact on our services?
- Looking at new ways of working.
- Opportunities to think differently and deliver differently.
- What are the implications for our capital programme?

Stimulate Tauranga’s post-COVID recovery through strategic infrastructure investment, by reassessing our capital programme and working with central Government to deliver stimulus opportunities:

- Applications will affect the annual plan and long-term plan, but the timing and impact are not yet clear.
- How do we maximise opportunities?

Actions undertaken

- Remodelling annual plan budgets based on revenue reduction assumptions.

- Identifying immediate cost reduction opportunities, as well as new revenue sources, and incorporating them into the revised budget.

- Identifying for Council consideration areas of service level review that could lead to greater cost reductions (noting some additional costs have also been incorporated).

- Prioritising the capital programme to ensure it is aligned to the changing post-COVID-19 environment and allows for necessary investment to support the long-term growth projections of the city and assist economic recovery.

<call out box>

Crown Infrastructure Partnership (CIP) funding

To stimulate economic recovery, central Government is looking to co-invest in 'shovel-ready' infrastructure projects that can be started quickly.

'Shovel ready' projects:

- are construction-ready (within the next 6-12 months)
- involve infrastructure which has public or regional benefit (economic, social and environmental)
- must be of a significant size ($10 million+) and create jobs
- must modernise the economy, enhancing sustainable productivity in the future
- must meet Treasury's living standard framework and sustainable development goals.

We've applied for more than $1 billion of work under two themes: creating communities and housing for all; and employing our people. If Government funding is approved for some of these projects, we will see a significant injection of finance into the local economy, creating jobs and accelerating the delivery of necessary infrastructure and amenities for the city's long-term benefit.

Ministry of Housing and Urban Development (MHUD) funding

MHUD has invited growth councils such as ours to submit projects that would provide infrastructure necessary to ensure that the supply of land for housing and employment is delivered in a timely manner to meet future needs (and not deferred or otherwise negatively affected by COVID-19).

In conjunction with our local government partners, we made a submission for over $3 billion of projects in the western Bay of Plenty sub-region. Most of these relate to Tauranga, though some are not our projects (for example, NZTA is responsible for work on the state highway network).

Long-term Plan 2021-31 – future discussions

This annual plan does not provide all the solutions to the challenges we are facing.

However, it does focus on the short-term responses that need to be considered to address our immediate issues. Our challenges will be discussed in a broader context through the preparation of the Long-term Plan 2021-31 (LTP).

A core issue to be addressed is the council's inability to fund all the infrastructure needed to deliver the additional residential and commercial land the city requires. In simple terms, our revenue has not kept pace with our borrowing needs to finance essential new infrastructure like water and wastewater treatment facilities, transport improvements and the community facilities needed by our fast-growing city. If central Government or other funding support is not available, the council will have to make some difficult decisions on future investment priorities, which will inevitably affect the availability of serviced land and place more pressure on the affordability of residential house prices. There is an opportunity for central and local Government to find collaborative solutions to this situation and we anticipate discussing those options with you through the Long-term Plan.

It's also likely we'll want to discuss with you:

- continuing the budgeting actions started through this annual plan
- the likelihood that the reversal of the temporary savings proposed this year will have a flow-on impact in 2021/22 equivalent to a 2-3% rates increase

- our engagement with regional and national partners on alternative funding and financing approaches to meet our growth-related infrastructure needs and help the city prosper
- consideration of funding and service delivery options, such as asset sales or amending service levels
- engagement with the community on the future of the city and the financial and delivery tools that will be needed
- the ongoing impact of COVID-19 on our community.

We look forward to engaging with you about these matters over the next year.

What you need to know

We are continuing to provide all the services we did pre-COVID-19. Essential services such as water supply, wastewater, maintenance of roads and parks will continue unaffected.

Areas of community services such as libraries, Baycourt and the Historic Village have been particularly affected by the COVID-19 lockdown and Alert Level 3 restrictions. As we move into Alert Level 1, we expect to operate similar services to before, with some adjustments.

We have been asked to do more to help local businesses cope with the impacts of recession. We are therefore working closely with organisations that work with the commercial sector, including Priority One, Tourism Bay of Plenty and the Chamber of Commerce.

Our revenue is expected to reduce during the post-pandemic recession, and we have had to reduce our costs for next year to deliver an affordable budget. The main reductions have been to staff-related budgets; and we have also factored in financial cost reductions arising from lower interest rates.

We have looked at ways to further reduce expenditure on services we provide to the community, and we are seeking feedback on these measures.

We are looking to reduce spending on large events during the next year. However, we propose to continue with New Year's Eve family and community events across the city.

Council has led a comprehensive review of capital expenditure, which has seen a reprioritisation of the capital budget proposed in the original draft annual plan.

The review was undertaken in two stages – a project-by-project assessment, then a prioritisation ranking under different scenarios. As a result, a number of investment projects have been prioritised as part of a proposed capital programme totalling $244m. This includes new capital projects costing $209 million and uncompleted capital projects carried forward from the current year worth $35 million. Additional debt raised to cover the cost of the capital programme will be capped at $170 million, reflecting the likelihood that not all of the projects involved will be able to be completed in 2020/21. This approach allows planning for the maximum amount of investment to continue, but ensures ratepayers are not burdened by a higher level of debt-funding if the full investment programme is not able to be achieved.

The proposed capital programme will ensure we continue to deliver on the needs of the city next year, while remaining within financial limits. Supported by government and councils, the Local Government Funding Agency has proposed an increase in borrowing limits to enable councils to continue to deliver necessary capital projects, despite a temporary reduction in revenue.

As a result, we have proposed a capital programme that will result in a higher debt-to-revenue ratio than was forecast in the original draft annual plan, while our total programme of work is similar to that originally proposed.

Key financial information

	Initial AP 2020/2021 proposal $m	Revised Annual Plan proposal 2020/2021 $m	Variance to Initial Annual Plan proposal
Operational Summary			
Rates [1]	194	190	(4)
Other operating revenue	69	59	(10)
Subsidies and grants received for capital [2]	23	17	(6)
Total operating revenue including grants	286	266	(20)
Operating expenditure	284	273	(11)
Surplus / (deficit)	2	(7)	(9)
Rates increase average after growth [3]	**7.6%**	**4.7%**	**-2.9%**
Debt Summary			
Net debt at 30 June 2020 [4]	704	672	(32)
Debt / revenue ratio [5]	235%	239%	4%
New capital investment [6]	244	209	(35)
Development contributions	23	18	(5)

1 includes metered water income of $24 million

2 Best estimate based on expected delivery of approved business cases

3 increase is a flat average before adjusting for the commercial differential and Uniform Annual General Charge

4 approximately 65% of debt is funded through rates. The remainder is funded by development contributions or user fees. Includes BVL consolidated revenue of $14.9m for 2020/21 revised proposal

5 includes capital funding for NZTA standard projects

6 Total figure is on a consolidated basis, reduced by a capital delivery adjustment that acknowledges that not all capital work proposed is likely to be delivered, and therefore the debt level budgeted is based on $170m of new capital.

The prospect of an economic recession post-COVID-19 has generated forecasts of significant reductions to revenue from user fees and charges, subsidies and development contributions. In order to control the effect on rates, savings have been made in operating expenditure, primarily in employment costs ($5m), finance costs ($4m) and depreciation $2m.

Proposed changes to the UAGC and commercial differential rate

General rates are a mix of a fixed uniform annual general charge (UAGC) and a variable rate, calculated using the rating valuation of each property.

The UAGC ensures that everyone pays something towards the general rates which fund services and activities that benefit the whole community. Higher uniform annual general charges mean that lower value properties, which are generally owned by people with lower incomes, make a proportionately higher contribution to general rates revenue. Lowering the UAGC as a proportion of general rates reduces the rates cost for lower value properties and increases the cost for higher value properties.

All of New Zealand's major metropolitan councils also have a commercial differential rate. This means that commercial properties pay proportionately more general rates than residential properties.

Since 2004, Tauranga City Council has had the lowest commercial differential and the highest UAGC of any major New Zealand city. As a result, Tauranga commercial rating units currently contribute around 16% of the general rate, compared with 32-44% in other major cities (as illustrated in the following table).

2019/20 Council Rates components	UAGC (incl GST)	UAGC % of rates	Commercial Differential	Commercial share of general rates
Tauranga	$ 600	20%	1.134	16%
Hamilton	$ 348	10%	2.569	33%
Auckland	$ 424	12%	2.800	32%
Christchurch	$ 130	4%	1.697	32%
Dunedin	$ -	0%	2.450	32%
Wellington	$ -	0%	3.250	44%

In the 2020/2021 draft annual plan, Council proposes reducing the UAGC from 20% to 10% of total rates (which would reduce the UAGC for each property from $475, as indicated in the Long-term Plan, to $296) and increasing the commercial differential from 1.134 to 1.2. This will assist affordability for lower value properties and ensure that Tauranga businesses pay a fairer share of general rates.

Both of those proposals were included in the original draft Annual Plan published in April.

The effect of the UAGC and commercial differential changes on median rates costs is set out below.

The 'median' ratepayer is a property owner whose property is at the mid-point of all residential or commercial property values. Tauranga City Council uses the median ratepayer rather than the average ratepayer, for comparative purposes, because a relatively small number of high value residential or commercial properties in the city significantly increase our average values and distort the true impact of rates on most ratepayers.

<u>Median residential rates rise: 44 cents a week (1.0%)*</u>

The median residential ratepayer (with a property capital value of $650,000) would pay 44 cents a week more than they do now. Overall, their proposed annual rates bill would be $2,345.

This is less than in the original draft Annual Plan published in April.

<u>Median commercial rates rise: $9.32 a week (11%)*</u>

The median commercial ratepayer (capital value $1,070,000) would pay $9.32 a week more than they do now. Overall, their proposed annual rates bill would be $4,843.

This is less than in the original draft Annual Plan published in April.

*Note: Council has policies for rates remission, postponement and hardship.

For a more accurate indication of how much rates are likely to be for your property, see our rating calculator at www.tauranga.govt.nz/property-search

Other key information

New capital expenditure of $209 million

We plan to spend $209m of new capital expenditure on infrastructure projects related to transport, water supply, wastewater, parks and other important facilities needed for our growing city. A further $35m of projects budgeted in 2019-20, but not completed, will also be undertaken, bringing the total capital investment programme next year to $244m.

The make-up of the capital programme differs from the original draft Annual Plan published in April, largely reflecting a change in the timing of projects.

Further information on the proposed capital programme is provided in the supporting documentation.

Debt-to-revenue ratio of up to 250%

We intend to cap our debt at 2.5 times our annual revenue. We consider this to be a prudent level to keep interest repayments affordable and ensure we can borrow more in an emergency. If we meet our budgeted debt and revenue levels, we would achieve a 239% debt-to-revenue ratio. However, we have allowed capacity for a higher ratio due to uncertainty around revenue and debt, and to allow for the possibility that we may invest more in capital if we are successful in gaining government funding support for more infrastructure projects.

The expected debt-to-revenue ratio is higher than in the original draft Annual Plan published in April.

Petition for a referendum

On May 19, seven ratepayer groups asked us to hold a referendum about topics including rates increases, operating expenses, kerbside rubbish and recycling collections, and capital expenditure.

A referendum would have cost an estimated $190,000 to $210,000, delayed the adoption of this annual plan, and would have repeated some topics already covered in our planned consultation process.

The council therefore decided not to grant this request. However, we are committed to listening to our community and recognise that the issues raised in the referendum request are of genuine concern to many ratepayers. The following matters which requested to be addressed in a referendum are included in this consultation document for community feedback:

- Average rates increase
- Commercial rate differential
- Operating costs
- Capital expenditure level

There was also a request for a referendum question on the kerbside residential rubbish collection service. This service was consulted on through the 2018-2028 Long Term Plan. The proposed kerbside rubbish and recycling service would not be introduced until 2021/22 and therefore falls outside of this annual plan period. This proposal is subject to a Request for Proposal process confirming that a comprehensive service can be provided at an affordable cost. It is anticipated that the service cost would be less than or similar to the costs many people are already paying for a less-comprehensive, commercially-provided service.

The complete list of requested referendum questions, together with explanations of what is included in the draft Annual Plan, is available in the supporting information on our website at www.tauranga.govt.nz/annualplan2020

Changes to our operational budgets

Since the last round of consultation finished, we have reviewed our staff costs and the services we provide to the community to see what savings can be made.

Temporary reductions would require more expenditure in future years (likely in the range of a 2-3% rates rise) when service levels, staffing requirements and market-related salaries and conditions are restored.

Staff cost reviews

Council has considered and, after consultation with staff, decided upon the cost-cutting measures outlined below. The $5 million total reduction has already been built into this draft annual plan.

Recruitment – all but essential recruitment on hold. Exceptions will require approval from the CEO	Expected to save $2 million during 2020/21
Training freeze - Training plans for the remainder of 2019/20 and 2020/21 will not proceed unless required to meet legal, technical or professional requirements	Expected to save $1 million during 2020/21
Salary budget cap – the salary and wage budget will not be increased for a period of time	The 0% budget increase for salaries is expected to save $2 million in 2020/21

Service reviews

Council assessed services according to three categories:

(i) Essential services

(ii) Services recommended to continue

(iii) Services where a review is required

A brief review of category III services was conducted to understand the key issues, opportunities and impacts of any changes in a post-COVID, financially-constrained environment.

The mayor and councillors considered staff recommendations at a meeting on 28 May, and their decisions are summarised below. All of these decisions are subject to community feedback provided through draft annual plan submissions.

Proposed changes to operating expenditure budgets APPROVED by council

Change and impacts	Temporary or Permanent
Reduction in Events Framework Funding (EFF) of $200,000	Temporary

Without support from the EFF, a majority of the events funded (approx. 70 per annum) would not be able to proceed, as they rely heavily on council support (e.g. National Jazz Festival, Garden and Art Festival, Anchor AIMS Games, ICC Women's Cricket World Cup 2021). Financial support from local government and the sponsorship market will be essential to allow the events industry to restart/reinvent itself now that mass-gathering restrictions have been lifted. Events are expected to play a key role in the post-COVID recovery and, in particular, in the success of regional tourism. In addition to economic and tourism factors, events can also help to improve social cohesion and build community spirit. $110,075 will remain in this budget.	
Reduction in budget for other Council-organised events of $100,000 This affects events organised by Council, including a possible Americas Cup Fan Zone, Trophy Tour and post-event celebration; Charter parade(s); ICC Women's Cricket World Cup commitments; and the annual ANZAC Day services across the city. This reduction would allow some events to continue, but others would need to be cancelled. $105,000 will remain in this budget in 2020/21.	Temporary
Reduction in the functions and events budget at the Historic Village of $40,000 (note - non-rates funded) This service is proposed to be retained. However, it includes a role that is currently vacant. The proposal is to delay recruitment by six months until functions/event levels pick-up. $39,000 will remain in this budget in 2020/21.	Temporary
Reduction in the Emergency Management community education budget of $45,000 While this is an important statutory role, a current vacancy provides an opportunity to consider different delivery options in the short-term. Not providing education would mean greater reliance on digital resources and could affect future consultation for climate change, sea level rise, tsunami risk management and other issues. It is proposed that public education be reduced for 2020/21 only (not a permanent change). $55,000 will remain in this budget in 2020/21.	Temporary
Reduction in the harbour encroachment budget of $50,000 Temporarily reducing this budget by $50,000 will have little community impact. The implementation delay will be used to refresh the communications and engagement plan for this project.	Temporary

Budget will be reduced to zero in 2020/21.	
Reduction in budget for the Waterline education programme of $45,000 A 25% reduction in non-staff expenditure would result in Waterline stopping the following activities: media advertising associated with water conservation; its home show presence; and reductions to some planned campaigns and education elements. $85,443 will remain in this budget in 2020/21.	Temporary
Closure of the Our Place site If support for Our Place is continued through the current lease arrangement, there will be a risk that the business model, which is not self-sustaining, will require further operational expenditure support. The operator is looking at potential future models, but additional alternative funding sources have yet to be confirmed. If our Place continues, an additional $200,000 in annual revenue will be needed to cover operating costs. If that revenue cannot be achieved, it's likely Council will be asked to cover the funding shortfall. The current tenants of Our Place will need to find new premises if Our Place is decommissioned. Decommissioning would also involve a one-off estimated cost of $200,000. Ongoing management of Our Place has been resource-intensive for staff and the need to support previous business model shortcomings has affected parking revenue. The proposal is that Our Place be closed down permanently.	Permanent

Proposed changes to operating expenditure budgets <u>NOT</u> APPROVED by council

Change and impacts	Temporary or Permanent
Reduction in New Year's Eve event funding of $444,000 It was put to Council to permanently cease funding for New Year's Eve celebrations, but to retain a $50k budget for safety management. Council chose not to pursue this option. Budget of $464,081 will remain in 2020/21.	Permanent
Removal of the $61,000 budget for the tropical display house in Robbins Park and withdrawal of that service. Council chose not to pursue this option.	Permanent

Change and impacts	Temporary or Permanent
Removal of the $89,000 budget for hanging baskets in the city centre and withdrawal of that service. Council chose not to pursue this option.	Permanent

Proposed additional operating expenditure changes APPROVED by council

Change	Temporary or Permanent
Allocation of $200,000 of council's annual operational expenditure budget to the creation and implementation of a sustainable framework led by a TCC Independent Sustainability Advisory Board (ISAB). Of this, approximately $80,000 was funded in the original draft Annual Plan and $120,000 is additional. The ISAB must have an independent chair, and a majority of independent members. The ISAB's purpose is to: • Facilitate the provision of independent information to TCC to inform decision-making at all levels, including, but not limited to, strategy, programme and project. • Facilitate the provision of independent information to inform Tauranga City Council's engagement and consultation processes at all levels, including but not limited to strategy, programme and project. It is envisioned that the ISAB is initially tasked with the delivery of a stocktake on the organisation and the development of a high-level framework and action plan linked to the 2021-31 LTP process. All work is to be informed directly by Government policy statements, the living standards framework, and UNESCO sustainable development goals.	Permanent
An additional $130,000 provided to Priority 1 for economic development investment Providing budget for a total of $435,099 in economic development projects. Detail of the planned initiatives is available in the supporting information on our website at www.tauranga.govt.nz/annualplan2020	Temporary

Proposed additional operating expenditure changes NOT APPROVED by council

Change	Temporary or Permanent
Increase in the budget for feasibility and community engagement on the proposed Strand-to-Memorial Park walkway of $200,000. Council chose not to pursue this option.	Temporary

Proposed additional debt funding of operating expenditure APPROVED by council

Change	Temporary or Permanent
Inclusion of a budget of $600,000 to implement the cycle action plan. The request was to fund this from the operational budget, after it was originally considered as capital expenditure. Council resolved to debt-fund this sum.	Temporary

Council Controlled Organisations (CCOs)

Council's CCOs were also asked to undertake similar service reviews to that of Council.

Council has decided to keep budgets the same in this draft annual plan as they were in the previous draft annual plan.

It should be noted that Bay Venues Ltd is expecting a drop in revenue due to a COVID-related downturn in patronage. The plan is to debt-fund this shortfall.

Detail of the outcomes of the reviews is available in the supporting information on our website at www.tauranga.govt.nz/annualplan2020

Changes to the capital programme

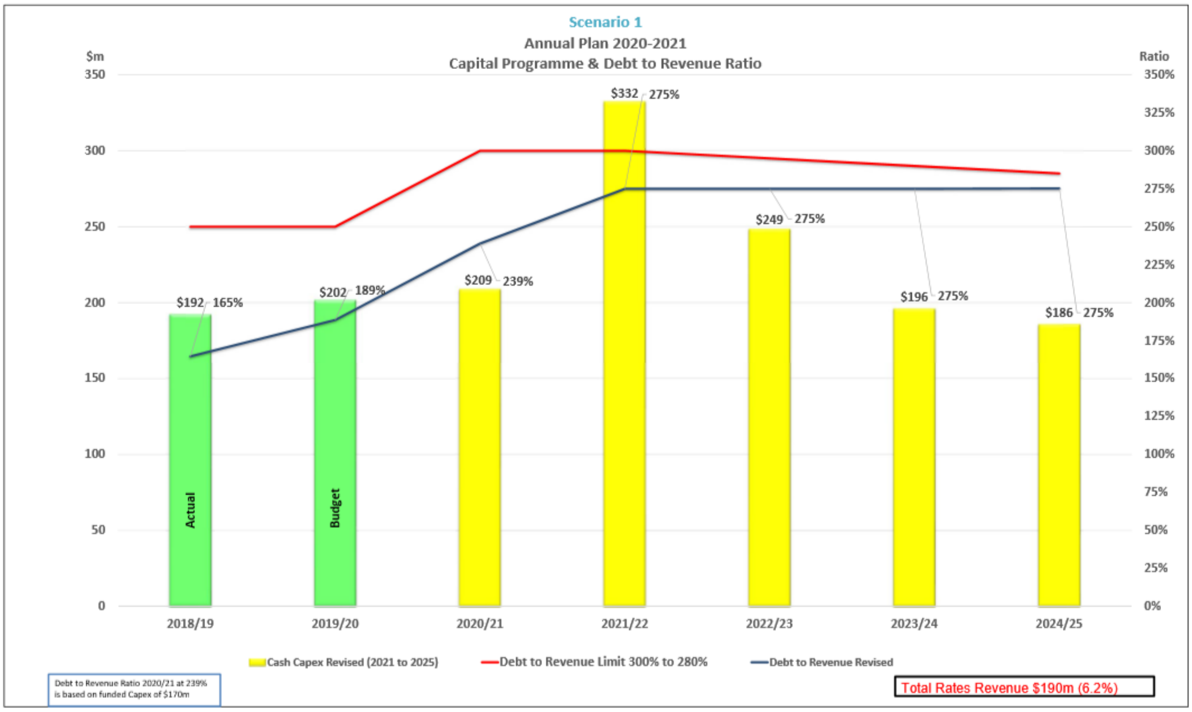
As a growing city, Tauranga requires significant infrastructure investment over the next five to 10 years to complete water supply and wastewater projects and open up new growth areas.

The 2018-28 Long-term Plan shows there is nearly $1 billion of infrastructure to complete. An additional $500 million to $1 billion of investment has been identified in pre-planning for the 2021-31 Long-term Plan.

As we review the capital programme and associated debt in the 2020/21 Annual Plan, we also need to take future investment requirements and their effects on rates into consideration.

The Local Government Funding Authority (LGFA) proposal to increase Council's debt-to-revenue ratio limit from 250% to 300% for the next two years creates additional loan-funding capacity, which could allow Council to expand its capital programme.

The following graph shows the level of capital expenditure relative to debt and revenue over the next five years. It shows that Council could deliver a capital programme above $200 million a year while maintaining a 275% debt-to-revenue ratio, providing that rates revenue continues to increase.



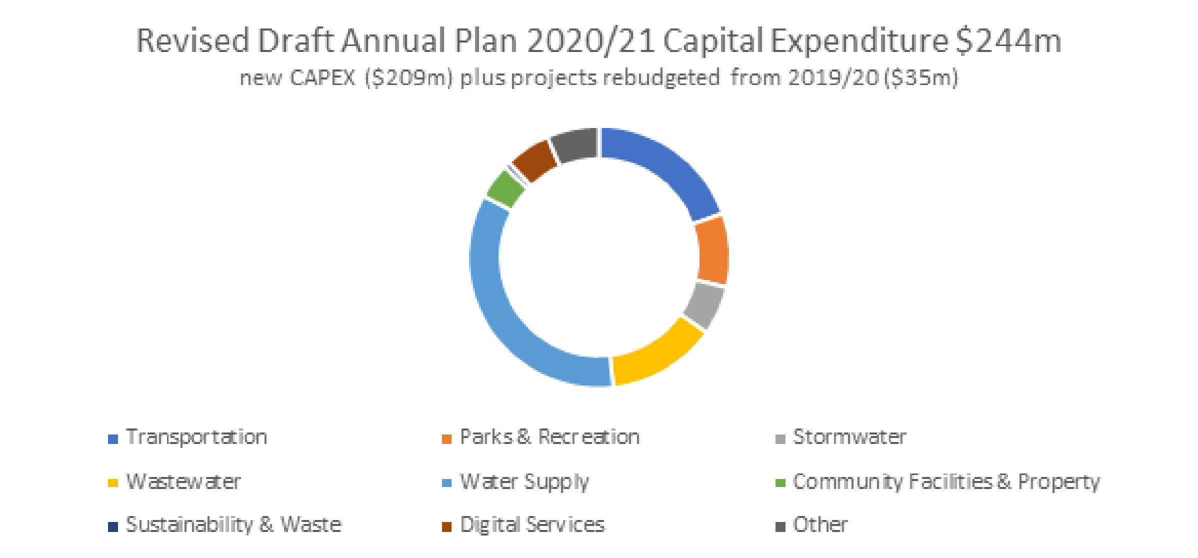
In addition to the $209 million capital programme proposed for 2020/21, a further $35 million of delayed projects originally budgeted for 2019/20 have been added to the list, to give a total capital programme of $244 million for the year. Additional debt raised to cover the cost of the new capital projects will be capped at $170 million, reflecting the likelihood that not all of the projects planned will be able to be completed in 2020/21.

Capital expenditure review

Council must spend heavily on infrastructure to address existing problems and provide for our continued population growth. Priority projects and programmes include:

- the transportation model
- western corridor growth projects
- digital investment
- the renewals programme
- the Waiāri water treatment plant
- Te Maunga wastewater treatment plant upgrades
- Cameron Road corridor public transport and multi-modal project.

The full list of planned capital projects is available in the supporting financial information on our website at www.tauranga.govt.nz/annualplan2020



Growing debt levels and the impact on financial sustainability

Council uses debt primarily to pay for capital expenditure related to growth and improvements.

Although development contributions are levied to fund growth expenditure, collection takes place over a long period of time, while expenditure has to be financed up-front.

We consider that debt-funding capital expenditure is fairest for current and future ratepayers. Most of our assets have very long lives and financing them from debt means everyone who benefits from those assets over their lifetime will contribute to the cost.

We've been borrowing to finance infrastructure costs for our growing city for many years, but our revenue has not kept pace with our borrowings. Consequently, our debt has become high relative to our income, and also relative to other councils.

As we invest in new capital, the cost of our operations increases to service debt, fund depreciation of the assets involved and cover operational costs such as maintenance. Over time, our rates and user fee revenue must increase to cover these costs. Overall, rates revenue needs to increase by about 5% per year just to cover the additional operating costs resulting from the capital programme. The additional revenue required is only partially covered by population growth.

The lower revenue budget proposed for 2020/21 reduces our ability to fund the capital programme we had initially proposed. We have therefore reprioritised the capital programme to reduce costs and are seeking your views on our priorities, and the projects we have left out.

The Local Government Funding Agency (LGFA), from which we borrow, and the Government have recognised the financial constraints affecting highly-indebted growth councils. In response, LGFA has proposed an increase in council's borrowing limits to accommodate the capital investment needed over the next few years.

As a result, we have chosen to increase the debt-to-revenue ratio next year. We are budgeting a level of 239% but we are prepared to increase borrowing up to a 250% debt-to-revenue ratio. This will allow us to undertake the proposed capital programme, at the reduced overall rates increase level proposed, and with the lower revenue levels expected. It provides flexibility if our revenue levels are lower than budgeted, because the recession is more severe than anticipated, or if we want to borrow more to take advantage of Government support for further investment in infrastructure.

This annual plan forecasts external debt of $673 million, consolidated operating revenue of $281 million and a debt-to-revenue ratio of 239%. This debt level provides capacity to deal with unforeseen events and deliver infrastructure through the next long-term plan period.

You can find more information on debt and the capital programme in the supporting financial information, which can be found at: www.tauranga.govt.nz/annualplan2020

What this means for future years

As a growing city, Tauranga's new infrastructure requirement over the next five-to-10 years will continue to be high. The current Long-term Plan (2018-28) shows there is over $1 billion of infrastructure investment to be undertaken over the next five years. Therefore, as we consider the capital programme for 2020-21, we have also considered future investment requirements.

The Local Government Funding Agency has signalled that our increased debt-to-revenue borrowing limit will remain at 300% for the next two years, but will reduce to 280% by 2026. This will need to be addressed through the next Long-term Plan.

To sustain the long-term level of capital investment the city needs, rates and other revenue must continue to increase. The underlying challenges to our city's finances that were discussed in our earlier consultation document remain. Over time, revenue will need to increase in line with our capital investment requirements to enable Tauranga to remain financially sustainable.

Changes to your rates

What does this draft annual plan mean for my rates?

The median residential ratepayer (property capital value of $650,000) would pay $0.44 a week more than they do now. Overall, their proposed annual rates bill would be $2,345.

The median commercial ratepayer (capital value $1,070,000) would pay $9.32 a week more than they do now. Overall, their proposed annual rates would be $4,843.

The table below gives an indication of proposed rates increases, excluding water rates, for lower and higher value properties.

Indicative property rates

	Capital Value	2020/2021 proposed	2019/2020 rates	Increase in general rates	Increase in total rates	Increase in total rates $/pw (excl. water)
Residential						
Lower Residential (1%)	$320,000	$1,581	$1,703	-13.5%	-7.2%	-$2.36
Lower Quartile (25%)	$525,000	$2,056	$2,088	-4.4%	-1.5%	-$0.62
Median (50%)	$650,000	$2,345	$2,322	-0.8%	1.0%	$0.44
Upper Quartile (75%)	$810,000	$2,716	$2,622	2.8%	3.6%	$1.79
Highest residential (99%)	$2,400,000	$6,400	$5,605	15.3%	14.2%	$15.27
Average (mean 66%)	$740,000	$2,554	$2,491	1.4%	2.5%	$1.20
	Capital Value	2020/2021 proposed	2019/2020 rates	Increase in general rates	Increase in total rates	Increase in total rates $/pw (excl. water)
Commercial						
Lower Quartile (25%)	$550,000	$3,126	$2,986	3%	5%	$2.68
Median (50%)	$1,070,000	$4,844	$4,358	14%	11%	$9.32
Upper Quartile (75%)	$2,010,000	$7,951	$6,839	21%	16%	$21.34
Highest commercial (99%)	$25,626,000	$85,996	$69,164	31%	24%	$323.19
Average (mean)	$2,620,000	$9,967	$8,449	23%	18%	$29.14

Council considered many options in deciding to propose amendments to the Uniform Annual General Charge, the commercial differential on the general rate and the capital budget for 2020/21.

These included keeping to the limits approved for year three of the Long-term Plan 2018-2028 (LTP); reducing the Uniform Annual General Charge by a greater amount than year three of the LTP; increasing the commercial differential; and prioritising our capital budget with options for debt management.

At its meeting on March 24, Council adopted a UAGC of 10% and a commercial differential of 1.2:1. These were both consulted on from 3 April – 3 May. If you would like more information on the scenarios Council considered, more information is in the original consultation document pages 11-13, which is available at www.tauranga.govt.nz/annualplan2020

For a more accurate indication of how much you are likely to pay, see our rating calculator at

www.tauranga.gov.nz/property-search

Financial information

Draft annual plan key indicators versus LTP budgets for 2020/21

	AP budget 2019/2020 ($m)	LTP budget 2020/21 ($m)	Revised Annual Plan proposal 2020/2021 $m	Variance to LTP
Operational Summary				
Rates [1]	179	207	190	(17)
Other operating revenue	67	68	59	(9)
Subsidies and grants received for capital [2]	25	31	17	(14)
Total operating revenue including grants	270	306	266	(40)
Operating expenditure	261	281	273	(8)
Surplus / (deficit)	9	26	(7)	(33)
Rates increase average after growth [3]	**3.90%**	**8.2%**	**4.7%**	**-3.5%**
Debt Summary				
Net debt at 30 June 2020 [4]	544	663	672	9
Debt / revenue ratio [5]	186%	212%	239%	27%
New capital investment [6]	188	258	209	(49)
Development contributions	26	28	18	(10)

1 includes metered water income of $24 million

2 Best estimate based on expected delivery of approved business cases

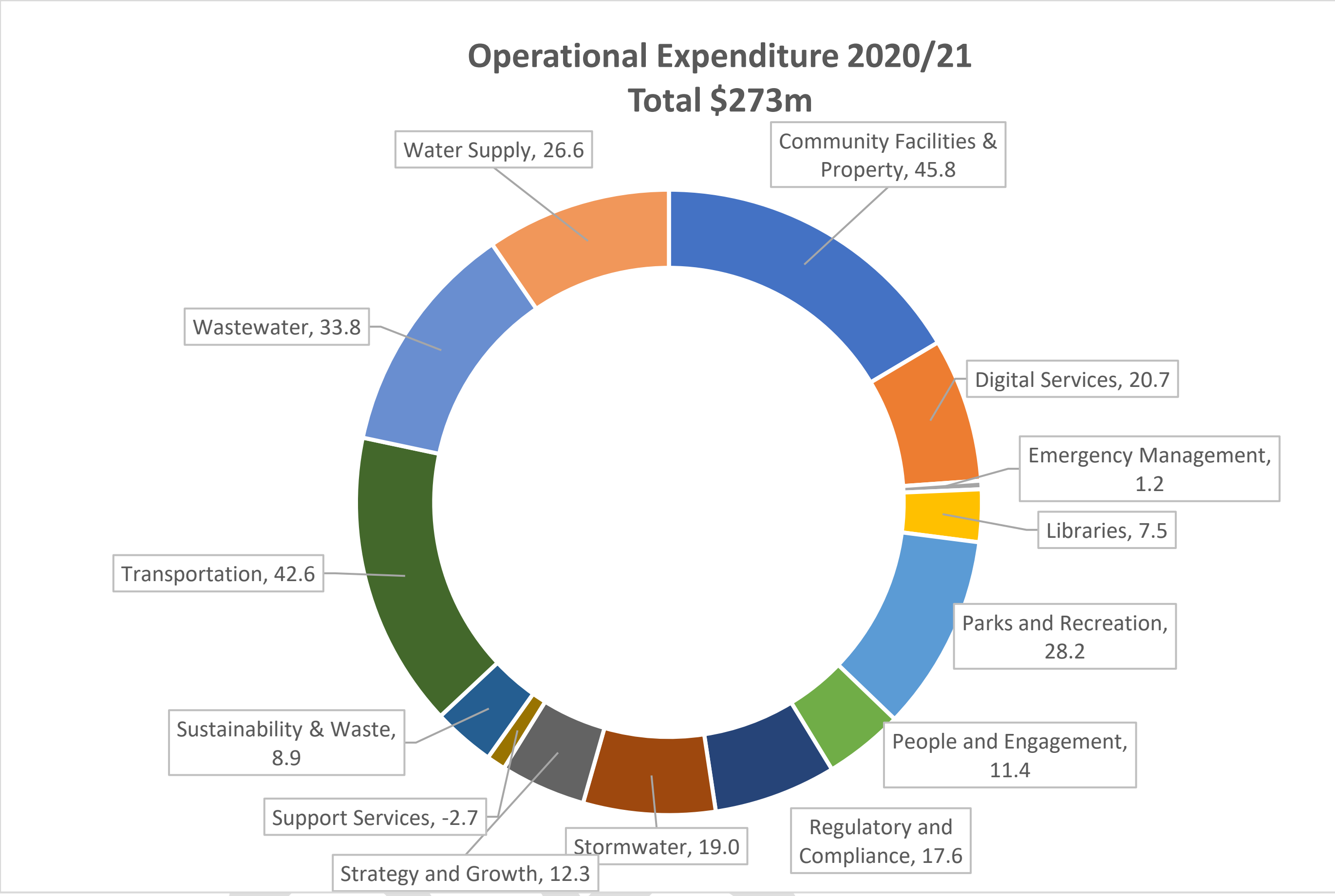
3 increase is a flat average before adjusting for the commercial differential and Uniform Annual General Charge

4 approximately 65% of debt is funded through rates. The remainder is funded by development contributions or user fees. Includes BVL consolidated revenue of $14.9m for 2020/21 revised proposal

5 includes capital funding for NZTA standard projects

6 Total figure is on a consolidated basis, reduced by a capital delivery adjustment that acknowledges that not all capital work proposed is likely to be delivered, and therefore the debt level budgeted is based on $170m of new capital.

Operational expenditure



Support services represent overhead activities such as finance and treasury, insurance and legal, emergency management, and People and engagement.

See supporting documents for a summary statement of comprehensive revenue and expenditure and significant variances from the Long-term Plan.

Levels of service are generally consistent with year three of the Long-term Plan 2018-28 (LTP). Budget adjustments have been made since the initial consultation document to reflect expected reductions in revenue due to post-COVID-19 recessionary impacts, identified savings, particularly in employee costs ($5m) and interest ($4m), and other specific recommendations as described on page 13.

Variances to the LTP as noted in the initial consultation document still stand. The annual plan reflects lower depreciation and interest costs than assumed in the LTP (resulting from changes in the capital programme, asset value differences arising from revaluation, and lower-than-anticipated interest rates).

Council has invested heavily in city growth and planning ($5.8 million) since the LTP was drafted. This includes working with our regional partners and NZTA on planning for urban form and transport needs.

Some of our standard operating costs have increased far more quickly than anticipated in the Long-term Plan, such as electricity (+$1.5 million) and insurance (+$1.2 million). In some cases, we have also had to increase reactive budgets to respond to ratepayers requesting an increase to service levels – for example, more frequent mowing of stormwater reserves.

We have begun the process of upgrading our end-of-life systems, which has resulted in higher digital services contract costs (+$0.9M).

See the supporting documentation for a summary statement of comprehensive revenue and expenditure and significant variances from the LTP.

User fees and charges

In our first round of consultation, we proposed making some changes to user fees and charges.

Details are available in a separate statement of proposal. This is available at www.tauranga.govt.nz/annualplan2020

The statement of proposal will also be available in hard copy at our 91 Willow Street service centre, or at your local library.

Use the annual plan submission form to send us your feedback.

Revenue and Financing Policy

The amendment to the rating structure in the draft annual plan requires a change to our Revenue and Financing Policy.

A copy of the draft Revenue and Financing Policy and a statement of proposal, which outlines all of the changes, is available at www.tauranga.govt.nz/annualplan2020 and will be available in hard copy at our 91 Willow Street service centre or at your local library.

Use the annual plan submission form to send us your feedback.

2020/21 Development Contributions Policy

A draft 2020/21 Development Contributions Policy was produced and consulted on from 3 April to 3 May. We are not proposing any further changes to this draft policy. However, it is expected that the policy will be adopted later than originally intended and will not be implemented until 30 July. To ensure we can keep collecting development contributions, we amended the existing 2019/20 policy so its fees can continue to be applied until the new policy is adopted.

A copy of the draft 2020/21 Development Contributions Policy is available at www.tauranga.govt.nz/annualplan2020

While no changes have been made to this document since the initial consultation, the community can still submit on its content. People who have already submitted on the policy can retain, retract or revise their submissions.

Some submitters have asked to present their views to Council in person. These hearings will occur alongside annual plan hearings, which will run from July 2-7.

We want to hear from you

Tauranga City Council annual plan submission form

Have your say

Send us your feedback on the draft Annual Plan 2020/21 proposals set out in this consultation document and the statements of proposals on policies and user fees.

Online:

use the online submission form at www.tauranga.govt.nz/annualplan2020

In person:

Drop off your submission form at our 91 Willow Street service centre or at your local library.

Email:

email it to submissions@tauranga.govt.nz

you can also email us directly with your feedback without needing to complete a submission form

Submissions close Wednesday, 1 July 2020 at 5pm

Once the Annual Plan 2020/21 is adopted, submitters will be sent a summary of key decisions. We will not be providing individual responses to submissions.

Written submissions may contain personal information within the meaning of the Privacy Act 1993. By taking part in this public submission process, submitters agree to any personal information (including names and contact details) in their submission being made available to the public as part of the consultation and decision-making process. All information collected will be held by Tauranga City Council, Council Administration Building, 91 Willow Street, Tauranga. Submitters have the right to access and correct personal information.

First Name:

Last Name:

Name of organisation (if submitting on behalf of):

Street:

Suburb:

City:

Postcode:

Phone:

Email:

Would you like your details to be used to enter a draw to win a shopping voucher?

☐ yes	☐ no

Do you wish to speak to Council in support of your submission?

☐ yes	☐ no

If so, please indicate whether you would prefer:

☐	Daytime
☐	Evening

We will contact you to arrange a speaking time. Each speaker is allocated 10 minutes.

Would we be able to contact you again for feedback on other Council issues?

☐	Yes
☐	No thanks.

Questions

In preparing this revised draft annual plan, Council has considered the following key themes and questions:

Our services	What services are we delivering now, what do we need to focus on, and what can Council afford to support to help the community recover?
Our investment	What is our best capital programme? How does this help to stimulate the economy? What debt levels do we want to maintain?
Recovery	How does our Annual Plan support recovery? Is it the best mix of services, investment and affordability for the community?
Direction	The environment is uncertain and changing; how do we ensure we build the best base for our long-term future, in line with our direction and focus on housing, transport, and communities?
Affordability	How do we maintain affordability so that those that can pay do, and relief is provided to those who cannot?

Question 1 – changes to the overall rate increase

We propose cutting the overall rates increase from 7.6% to 4.7% after growth.

This also means the following changes:

- Median residential rates rise: 1% (44 cents per week)
- Median commercial rates rise: 11% ($9.32 per week)
- Uniform Annual General Charge reduction from $475 to $296
- Commercial differential remains at 1:1.2
- New capital expenditure of $209 million
- Debt-to-revenue ratio of up to 250%

How strongly do you agree or disagree with an overall rates rise of 4.7%?

Strongly disagree	Somewhat disagree	Neither agree nor disagree	Somewhat agree	Strongly agree
☐	☐	☐	☐	☐

Further comment?

Question 2 – changes to operational budget

We propose to change spending on services we provide to the community, to make savings where we can.

The main area where we are looking to make savings is in funding large events over the next year, however, Council proposes to continue with the New Year's Eve family and community events across the city.

Changes also include the proposal to close Our Place and also to spend more on sustainability.

How strongly do you agree or disagree with the proposed changes to operational budget?

Strongly disagree	Somewhat disagree	Neither agree nor disagree	Somewhat agree	Strongly agree
☐	☐	☐	☐	☐

Further comment?

Would you like to select which specific changes you agree or disagree with?

☐ yes	☐ no

If yes, please fill in the boxes below, if no, you can skip to question 3.

Do you agree or disagree with the following temporary changes to reduce costs?

Cut $200,000 from events framework funding budget	☐ Agree	☐ Disagree
Cut $100,000 from Council-organised events budget	☐ Agree	☐ Disagree
Cut $40,000 from the Historic Village functions and events budget. (note non-rates funded)	☐ Agree	☐ Disagree
Cut $45,000 from the Emergency Management community education budget	☐ Agree	☐ Disagree
Cut $50,000 from the budget to reduce harbour encroachments	☐ Agree	☐ Disagree
Cut $45,000 from the Waterline education programme budget.	☐ Agree	☐ Disagree

Further comment?

Do you agree or disagree with the following permanent change to reduce costs?

Closure of the Our Place site (City centre container village)	☐ Agree	☐ Disagree

Further comment?

Do you agree or disagree with keeping the following permanent costs in the budget?

Keep $444,000 budget for New Year's Eve event funding	☐ Agree	☐ Disagree
Keep $61,000 to maintain Tropical display house in Robbins Park	☐ Agree	☐ Disagree
Keep the $89,000 budget to maintain hanging flower baskets in the city centre	☐ Agree	☐ Disagree

Further comment?

Do you agree or disagree with adding the following permanent costs to the budget?

Council proposes to add $200,000 towards the creation and implementation of a sustainable framework led by an independent Sustainability Advisory Board.	☐ Agree	☐ Disagree
Council proposes to add an additional $130,000 for Priority One, to support economic development.	☐ Agree	☐ Disagree

Further comment?

Do you agree or disagree with not adding this cost to the budget?

Council proposes to not add $200,000 to the Memorial Park to The Strand Coastal Cycle/Walkway Project, so no further work is progressed this year.	☐ Agree	☐ Disagree

Further comment?

Question 3 – changes to capital project budget

Council has led a comprehensive review of capital spending that has seen a change in investment from the what was consulted on from 3 April to 3 May.

The full list of capital projects that make up the $244m capex budget (including $35m of uncompleted projects carried forward from 2019/20) is available in the supporting financial information on our website at www.tauranga.govt.nz/annualplan2020

How strongly do you agree or disagree with the proposed list of capital projects for 2020/21?

Strongly disagree	Somewhat disagree	Neither agree nor disagree	Somewhat agree	Strongly agree
☐	☐	☐	☐	☐

Further comment?

Question 4 – Do you have any comments on

☐ **Fees and Charges**

☐ **Revenue and Finance Policy**

☐ **2020/21 Development Contributions Policy**

Further comment?

Question 5 - Do you have any other feedback on the contents of the Annual Plan?

Need more room?

You can attach extra pages – just make sure they're A4 and that you include your name and contact information.

Submission guidelines:

- Should you wish to speak to Council at the hearings you must still provide a written submission outlining your main points.
- If you are hand-writing your submission, please use a dark-coloured pen and write as neatly as possible.