



**For now &
our future**

LTP24.34 workshop 1 Nov

Climate Resilience Funding

Climate Resilience Funding Review

The review has highlighted valuable information on the distribution of rates across the community.

The information is encouraging us to reshape our thinking on how the community funds council operations.

It is apparent that the current rates funding using a mix of capital and land value is not sharing the rates imposed across the community in a way that reflects the benefits arising from council's work.

Moving towards capital value rating is recommended as an approach to address that.

Further, it's apparent that capital value alone does not necessarily recognise the benefits to sections of the community that arise from the work of council.

There appears to be a genuine case for the creation of differentials in addition to the move to capital value.

The recommendation is that council continue to review options and consider staging the changes across several years.

Outcomes for this workshop

1. Review of progress to date
 - Two options for consultation
2. New investment
 - Funding Climate resilience projects
 - Principles
3. Leasehold income
 - Use of Leasehold income and impact

1. Progress to date

	Option 1	Option 2
1. Catchment management funding	100% cv regional	100% regional
2. River management – regional vs local	100% cv regional	70%/30%
3. Local share – classifications	use of cv	current
4. New investment and asset maintenance	100% cv regional	region/local
5. Land management rates, Bio and Land sus	100% cv regional	transition
6. UAGC (reduce to “balance” shift in rates)	\$70-\$143	transition

Timing / Impact

Consider if there is a need for “transition” towards use of capital value across the region

Which option(s) provides best path towards overall community outcomes that we sought to achieve at the commencement

Which UAGC \$ is best longer term

Do one or both land values rates change this year

Consider all with view to having “differential” rates

for large industry/utilities

Two models for review

Included are two options for review and consideration.

The second two models, #3 and #4, both with a \$143 UAGC, show the outcomes if only the catchment rates are changed.

Model 3 shows all catchment rates becoming 100% capital value rates, no classifications and the Bio and Land sus rates remaining as they are.

Model 4 shows mostly the same, the difference being 70% rates being capital value, with the remaining 30% local using the current classifications.

Model #1 and #2 show the changes occurring where the land value rates also change to capital value. #1 is 100% general rate for catchment, #2 shows the 70% rate with 30% local using the current classifications

Two models for review

Understanding the models

These are not necessarily the final models, but they are leading us in the right direction, where we can understand the impacts.

The models have been chosen to demonstrate the impact from changing the catchment rates only, through to changing all land value based rates. The best solution could be one of these or sit between these two models.

The 70% option for both has been included as a potential “Option 2”, where council transitions to a simpler system with less or no classifications.

Moving towards all rates being capital value rates will achieve the outcomes desired from the review. Using the UAGC to “balance” the change in impact is an important part of the final solution.

Potential options

Land use	100% Gen rate, no classifications, no land rates, UAGC \$70	70% Gen rate, current classifications, no land rates, UAGC \$70	100% Gen rate, no classifications, current land rates, UAGC \$143	70% Gen rate, current classifications, current land rates, UAGC \$143
Residential	-75,514	-222,988	507,127	359,752
Rural Industry	-702,352	-491,491	-700,624	-489,758
Commercial	129,743	127,346	-11,405	-13,788
Utilities CV	320,483	291,133	98,400	69,055
Large Industry	343,027	311,407	106,197	74,579
% change				
Residential	-1%	-2%	4%	3%
Rural Industry	-5%	-4%	-5%	-4%
Commercial	8%	7%	-1%	-1%
Utilities CV	111%	101%	34%	24%
Large Industry	109%	99%	34%	24%
Outcomes				
Wider sharing of cost	yes	yes	no	no
Simplification	yes	No	yes	no
Impact	high cv	high cv	residential	residential

Models

1

2

3

4

Impacts – no or low catchment rates currently

LandUse_Grp	1st Owner	08. U-\$70, Land-Nill, C_Gen-100%, Drain_Gen-10%	28. U-\$70, Land-Nill, C_Gen-70% C_Bal-Class, Drain_Gen-10%	01. U-\$143, Land-LV, C_Gen-100%, Drain_Gen-10%	21. U-\$143, Land-LV, C_Gen-70% C_Bal-Class, Drain_Gen-10%
Commercial		129,743	127,346	-11,405	-13,788
Utilities CV	Vodafone New Zealand Limited	351	313	130	91
	Vector Ltd	-44	-47	9	6
	Transpower NZ Ltd	18,602	16,889	5,744	4,031
	The Power Company Ltd	65,942	59,921	20,189	14,168
	Southland District Council	43,901	39,886	13,463	9,448
	One New Zealand Group Ltd	593	525	226	158
	NZ Post Ltd	-186	-189	11	7
	Invercargill City Council	137,317	124,791	41,992	29,470
	Gore District Council	10,406	9,445	3,220	2,260
	Electricity Invercargill Ltd	16,893	15,348	5,177	3,633
	Chorus NZ Ltd	26,660	24,213	8,202	5,756
	Aurora Energy Ltd	49	38	37	26
Utilities CV Total		320,483	291,133	98,400	69,055
Large Industry	Pacific Aluminium (New Zealand)	118	81	123	86
	NZ Aluminium Smelters Ltd	66,446	60,217	20,881	14,654
	Meridian Energy Ltd	276,464	251,109	85,194	59,839
Large Industry Total		343,027	311,407	106,197	74,579
Grand Total		793,253	729,887	193,191	129,846

Models

1

2

3

4

Rates increase – no or low catchment rates currently

Primary River	LandUse_Grp	08. U-\$70, Land-Nill, C_Gen-100%, Drain_Gen-10%	28. U-\$70, Land-Nill, C_Gen-70% C_Bal-Class, Drain_Gen-10%	01. U-\$143, Land-LV, C_Gen-100%, Drain_Gen-10%	21. U-\$143, Land-LV, C_Gen-70% C_Bal-Class, Drain_Gen-10%
No River Rate	Residential	159,044	90,594	215,760	147,321
	Rural Industry	172,894	94,541	176,462	98,111
	Commercial	54,371	46,255	25,950	17,836
	Utilities CV	320,483	291,133	98,400	69,055
	Large Industry	314,528	285,541	97,191	68,206
No River Rate Total		1,021,321	808,065	613,763	400,529
Grand Total		1,021,321	808,065	613,763	400,529

Rates changes will impact those not currently in a catchment scheme. While currently paying 30% contribution as a general rate, rates will increase with proposed changes. Note majority of increase sits with Utilities and large industry.

Models	1	2	3	4
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Feedback on options?

Which “model” best achieves goal of funding review and improves community outcomes?

Models #1 & #2

Or

Models #3 & #4

2. New investment in CR infrastructure

New investment and improvements (repairs to infrastructure)

Neither are currently “funded”

Funding options

1. Reserves
2. Debt /rates
3. Leasehold income

Current projects – local share cost

Projects other than Stead St pump station are very close to original budget

Stead St cost \$11m more than original budget

Original plan for funding was \$4m debt with \$625k of reserves used.

Debt was forecast to be repaid over 10 years, @ 2%, with leasehold income a potential funding source, meaning no additional rates were forecast.

The AP 2023.24 forecast \$15.5m debt for current projects @ 5% over 25 years.

Projects		Original Budget	Original Kanoa funding	Original ES Share	Forecast local share
Stead St		3,000,000	2,250,000	750,000	11,578,160
Flood banks	Ingill	4,000,000	3,000,000	1,000,000	624,250
	Eastern	10,500,000	7,875,000	2,625,000	2,989,071
Waiiau		1,000,000	750,000	250,000	199,066
		15,500,000	11,625,000	3,875,000	3,812,387
Totals		18,500,000	13,875,000	4,625,000	15,390,547

1. Funding with reserves

Lease areas hold total reserve balances of \$7m at 30 June 2023

Each lease area has a minimum “holding”, a balance that is considered essential to reinstate properties after potential flood damage.

Investment income (approx. \$200k) from lease reserves invested, is used to offset general rates.

Use of reserves reduces the amount of debt and repayments required.

Use of debt spreads the cost across generations of ratepayers

Lease area	Balance 2023	Minimum	Balances available
Mataura	2,871,000	540,000	2,331,000
Invercargill	538,000	148,000	390,000
Ferry Rd (Oreti)	2,467,000	460,000	2,007,000
Oreti	882,000	240,000	642,000
Aparima	40,000	22,000	18,000
Winton Dam	206,000	28,000	178,000
	7,004,000	1,438,000	5,566,000

Reserves could be used to reduce debt repayments and rates.

Reducing reserves reduces resilience and future opportunities for leasehold areas.

Should we consider the use of reserves to reduce debt?

Yes because....

No because


2. Funding with debt / rates - cost per annum

Assuming some, or all the local share is funded by debt, the options for repayment are:-

1. Table payments (equal over time, interest and principal)
2. Diminishing, equal payment of principal
3. Interest only

The cost of debt repayment to overall council under each option is equivalent to:-

Interest only	3%
Table	4%
Diminishing	6%

Int rate	6%			
Term		10	25	40
	Interest and principle (Table, Equal payments per annum)			
	Debt	Annual payments		
Stead St	11,578,160	1,573,101	905,721	769,502
Ingill	624,250	84,816	48,833	41,489
Eastern	2,989,071	406,119	233,825	198,658
	15,191,481	2,064,036	1,188,380	1,009,649
				
	Straight line repayment options (Diminishing)			
	Debt	Annual payments		
Stead St	11,578,160	1,852,506	1,157,816	984,144
Ingill	624,250	99,880	62,425	53,061
Eastern	2,989,071	478,251	298,907	254,071
	15,191,481	2,430,637	1,519,148	1,291,276

Annual debt cost vs operating costs

The infrastructure budget graph, shows that debt repayment (funding cost) is a smaller cost than other parts of the Climate resilience budget.

Should the funding of debt repayments be shared in the same way proposed for other costs within CR budgets?

Yes because.....

No because.....



100% Regional share

Illustration of cost per annum shared across the region by either fixed cost per property (UAC) or by general rate on capital value.

The use of a capital value rate shares the cost across all ratepayers including industrial, commercial, utilities.

A combination of UAC and capital value rates could be considered.

Project	Table option 25 years		
	100 %Regional		
	UAC	Av household CV	\$5m property CV
Stead St	19	10	110
Ingill	1	1	6
Eastern	5	3	29

Regional and local share

Example of splitting debt repayments into regional and local share at 70/30 for flood bank protection.

Assumed Stead St 100% regional.

Result would be the splitting of \$3-\$5 per household per year into even smaller amounts.

Annual debt repayment \$			
Area	Region	Local	Total
Stead St	905,721	0	905,721
Ingill	34,183	14,650	48,833
Eastern	163,678	70,148	233,825
	1,103,582	84,797	1,188,380

3. Funding with leasehold income

Net income from lease areas = \$650k pa
Lease income is added to lease reserve balances currently.

The proposed regional approach to Climate Resilience cost sharing is a benefit to “catchment schemes” with Oreti and Mataura the biggest benefactors.

Is a regional approach to use of leasehold income to offset all catchment costs equally appropriate.

Using the lease income to fully offset costs will halve the cost of current repayments on a table basis.

Lease area	Net lease income
1515. Lease Area Otepuni	18,200
1490. Lease Area Aparima	650
1495. Lease Area Ferry Road	176,900
1500. Lease Area Kingswell	6,631
1505. Lease Area Mataura	295,600
1510. Lease Area Oreti	129,590
1520. Lease Area Winton	6,600
1525. Lease Area Waihopai	11,791
1527. Lease Area Waituna	10,548
Grand Total	656,510

Can we use the income from lease land to fund costs across the region, including debt repayment?

Yes because....

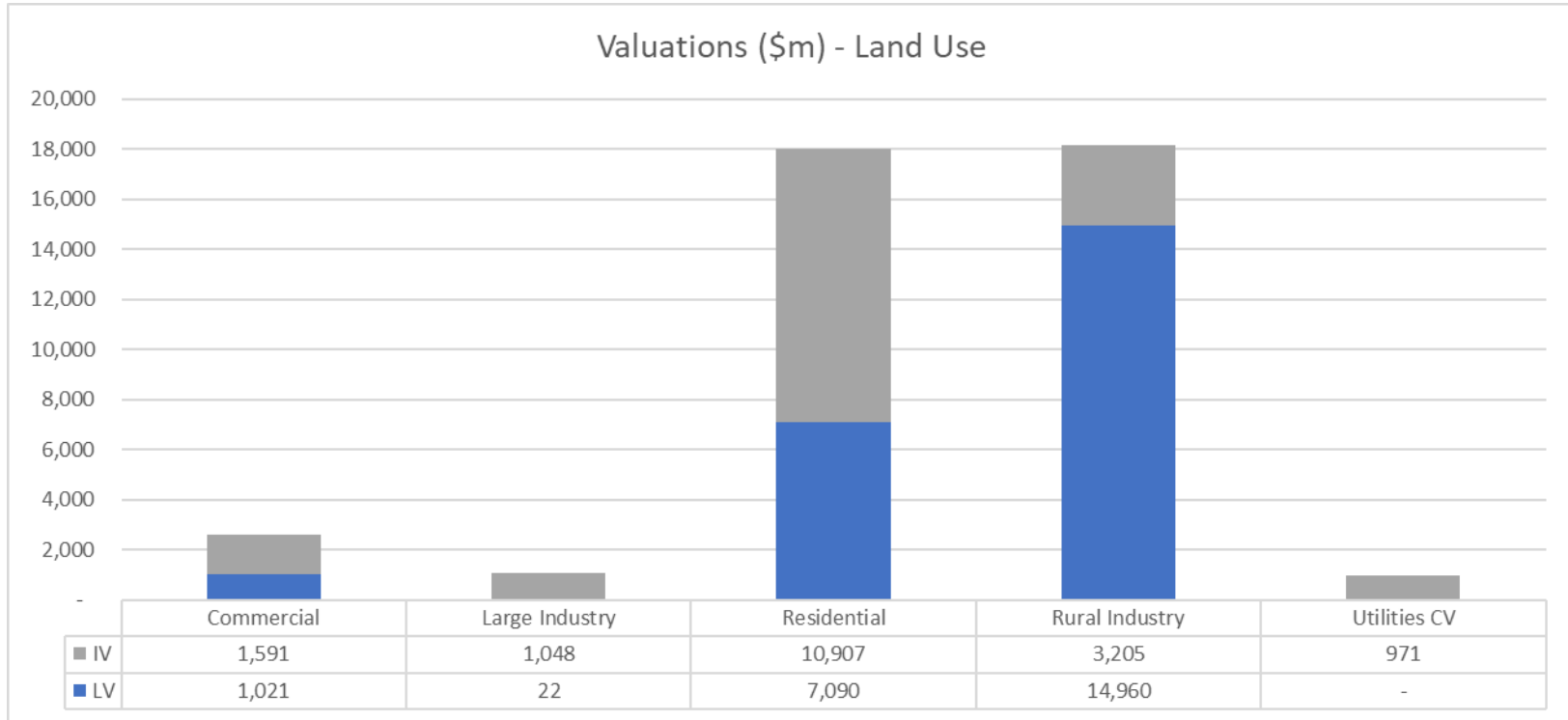
No because.....

Outcomes of this workshop

1. Reviewed progress to date
 - Reviewed two options
 - Focused on transition
2. New investment
 - Considered funding Climate resilience projects
 - Consistent approach, regional vs local
3. Leasehold income
 - Considered use of Leasehold income and impact

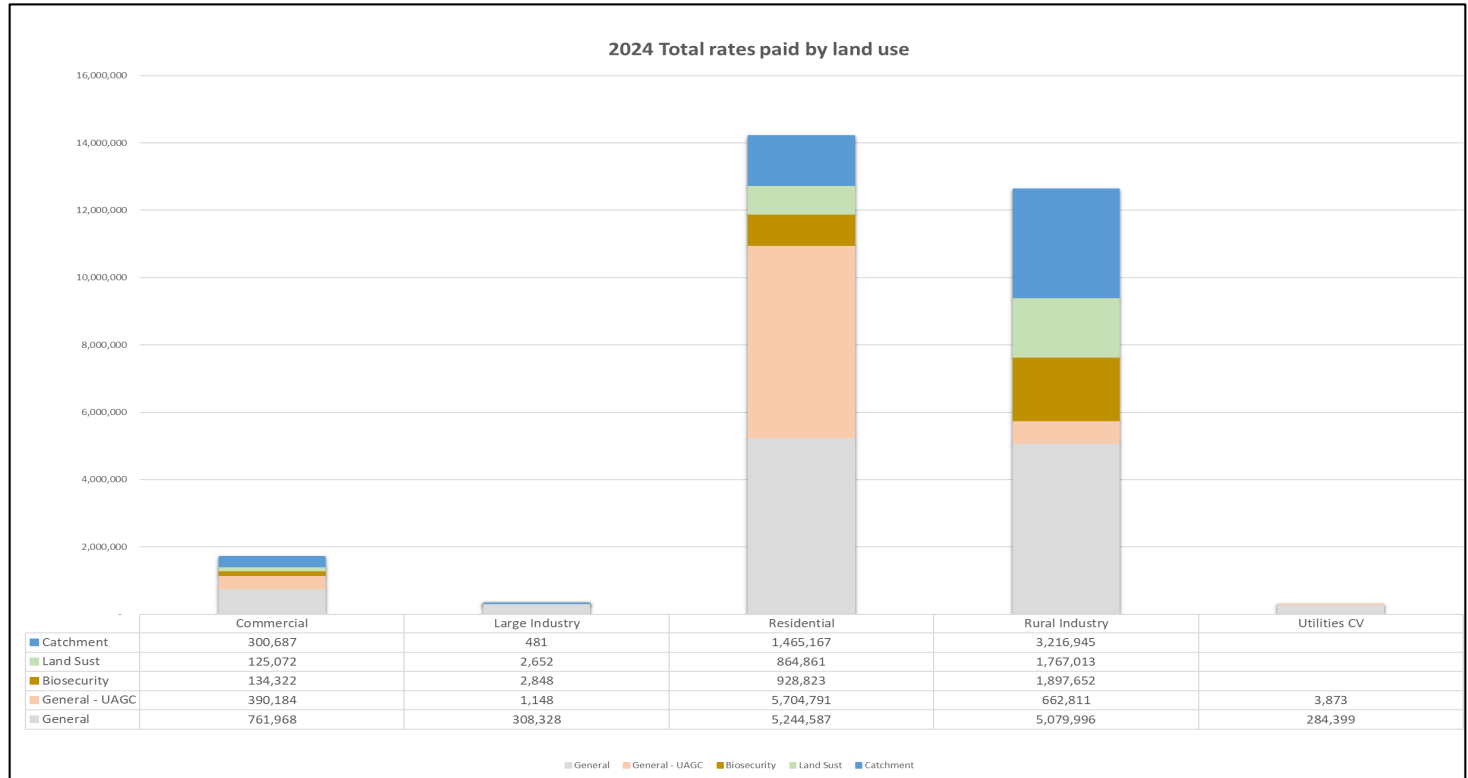
Appendices

Analysis of capital value by land use



Analysis of rates by land use

Catchment rates are currently paid 64% by rural ratepayers, 31% by residential ratepayers and 5% by others



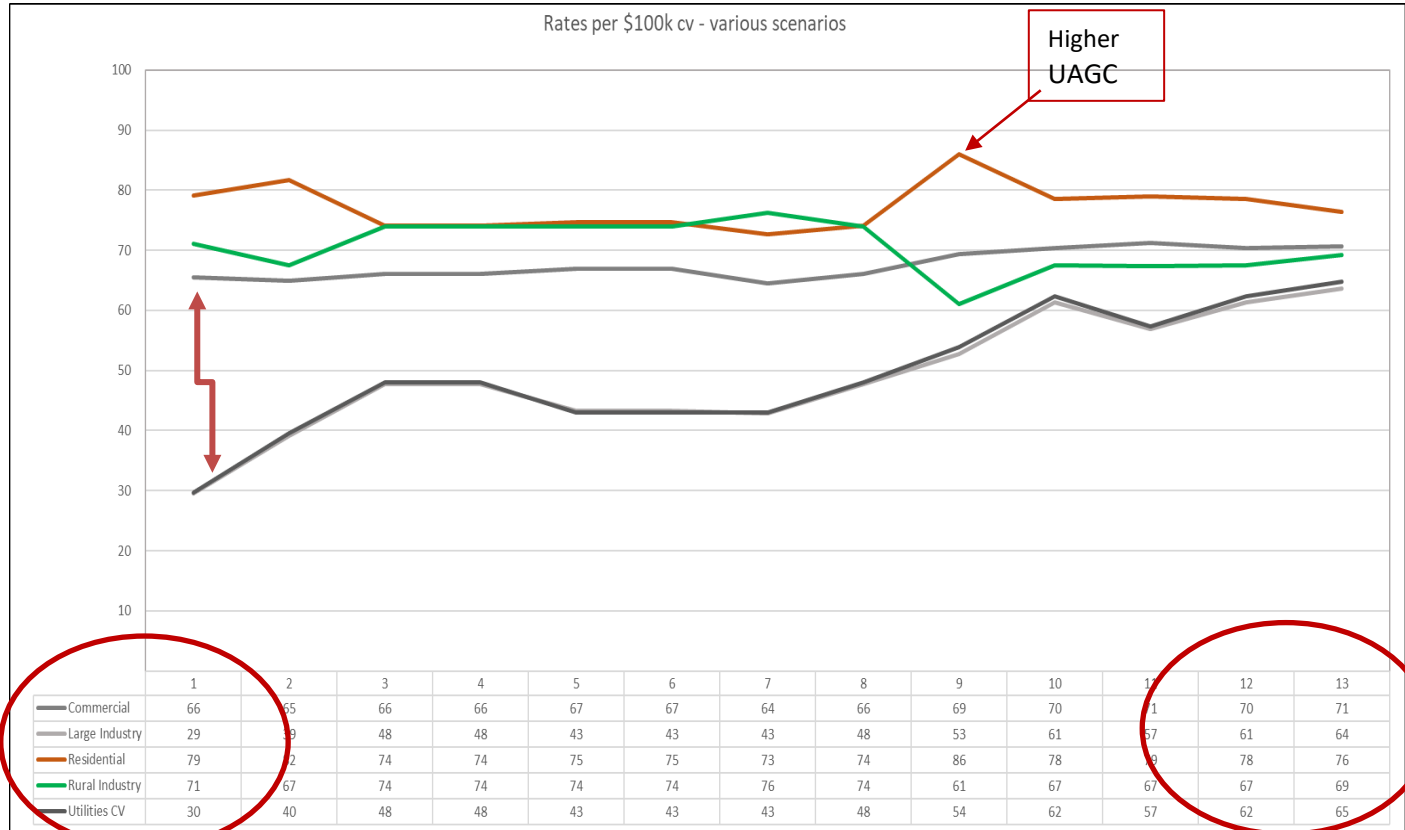
Comparing rates to capital value – land use

The graph displays rates per \$100k of capital value, where current rates models vs various alternative combinations.

From left to right, models show increasingly higher capital value % as rates method.

As capital value % increases, the ratepayer groups rates per \$100k they converge.

A model with a higher UAGC, shows a spike in the residential rates.



Current rates method

100% capital value method with reduced UAGC

Catchment rate classifications

Current catchment rate classifications – rural rating districts

Rate	A, B	properties protected by flood banks
	E	properties that can flood, in floodway
	F	properties above floodways
	D	various depending on scheme

Rural rating districts

Regional contribution	- 30 % gen rate
Local contribution	- 70% split
A – E rates	- 30% of 70%
F rate	- 40% of 70%