Absolutely Positively **Wellington** City Council
Me Heke Ki Pōneke

EXTRAORDINARY MEETING

OF

WELLINGTON CITY COUNCIL

AGENDA

Time:	**2:00 pm**
Date:	**Thursday, 9 April 2020**
Venue:	**Virtual meeting**

MEMBERSHIP

Mayor Foster
Councillor Calvert
Councillor Condie
Councillor Day
Councillor Fitzsimons
Councillor Foon
Councillor Free (Deputy Mayor)
Councillor Matthews
Councillor O'Neill
Councillor Pannett
Councillor Paul
Councillor Rush
Councillor Sparrow
Councillor Woolf
Councillor Young

Have your say!
You can make a short presentation to the Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this either by phoning 04-803-8334, emailing public.participation@wcc.govt.nz or writing to Democracy Services, Wellington City Council, PO Box 2199, Wellington, giving your name, phone number, and the issue you would like to talk about. All Council and committee meetings are livestreamed on our YouTube page. This includes any public participation at the meeting.

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1. Meeting Conduct

1.1 Karakia

The Chairperson will open the meeting with a karakia.

Whakataka te hau ki te uru,	Cease oh winds of the west
Whakataka te hau ki te tonga.	and of the south
Kia mākinakina ki uta,	Let the bracing breezes flow,
Kia mātaratara ki tai.	over the land and the sea.
E hī ake ana te atākura.	Let the red-tipped dawn come
He tio, he huka, he hauhū.	with a sharpened edge, a touch of frost,
Tihei Mauri Ora!	a promise of a glorious day

At the appropriate time, the following karakia will be read to close the meeting.

Unuhia, unuhia, unuhia ki te uru tapu nui	Draw on, draw on
Kia wātea, kia māmā, te ngākau, te tinana, te wairua	Draw on the supreme sacredness
I te ara takatū	To clear, to free the heart, the body
Koia rā e Rongo, whakairia ake ki runga	and the spirit of mankind
Kia wātea, kia wātea	Oh Rongo, above (symbol of peace)
Āe rā, kua wātea!	Let this all be done in unity

1. 2 Apologies

The Chairperson invites notice from members of:

1. Leave of absence for future meetings of the Wellington City Council; or
2. Apologies, including apologies for lateness and early departure from the meeting, where leave of absence has not previously been granted.

1. 3 Announcements by the Mayor

1. 4 Conflict of Interest Declarations

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have.

1. 5 Items not on the Agenda

The Chairperson will give notice of items not on the agenda as follows:

Matters Requiring Urgent Attention as Determined by Resolution of the Wellington City Council

The Chairperson shall state to the meeting.

1. The reason why the item is not on the agenda; and
2. The reason why discussion of the item cannot be delayed until a subsequent meeting.

The item may be allowed onto the agenda by resolution of the Wellington City Council.

Minor Matters relating to the General Business of the Wellington City Council

The Chairperson shall state to the meeting that the item will be discussed, but no resolution, decision, or recommendation may be made in respect of the item except to refer it to a subsequent meeting of the Wellington City Council for further discussion.

1. 6 Public Participation

A maximum of 60 minutes is set aside for public participation at the commencement of any meeting of the Council or committee that is open to the public. Under Standing Order 3.23.3 a written, oral or electronic application to address the meeting setting forth the subject, is required to be lodged with the Chief Executive by 12.00 noon of the working day prior to the meeting concerned, and subsequently approved by the Chairperson.

2. General Business

PANDEMIC RESPONSE PLAN AND ANNUAL PLAN NEXT STEPS

Purpose

1. The purpose of this report is to agree the next steps in the development of the 2020/21 draft Annual Plan, and agree the initial Pandemic Response Plan to support those in the community facing hardship.

Summary

2. Covid-19 is expected to continue to place unprecedented pressure on communities and on the Councils that provide services to their communities. Council is responding with a Pandemic Response Plan, which along with the support of central government, aims to alleviate some of the stress and financial hardship faced by businesses and households. This Plan has been formed in a short timeframe in a rapidly changing environment and should be regarded as a guiding framework. It will continue to be subject to more in-depth analysis and change as circumstances become clearer.

3. Some of the items in the Pandemic Response Plan will provide immediate benefit. Others are designed to alleviate future pressure on the community and support the city's recovery from the pandemic. The immediate responses include relief around current year rates, Council rents, and fast tracking payments to suppliers to support the cash-flow of businesses that are contracted to provide services to the Council.

4. Other actions are focused on the recovery phase and include working with Central Government and Council's regional partners on preparing a list of 'shovel ready' projects that can be funded to act as an economic stimulus package, through to providing free access to some Council facilities (like pools) to encourage people to get out and active after the lockdown ends. The Pandemic Response Plan is outlined in more detail in the body of this report and the Plan itself is included as Attachment 1.

5. With closure of facilities and other responses to Covid-19 Council is forecasting a significant drop in revenue of $55m in 2020/21 that would normally offset rates. Council will also incur a significant operating deficit in 2019/20 year as a result. Council's Annual Plan funding assumptions will also

require a significant reset. This will impact not only on 2020/21 but also future years.

6. This paper also outlines the next steps in developing the 2020/21 Annual Plan and budget. In setting a draft Annual Plan for consultation, it will be important to strike the right balance between supporting the needs of the current community who are facing significant financial hardship, without overly burdening future generations with an inappropriate level of debt and thereby reducing choices for them in respect of significant investments required in infrastructure and preparing for the impacts of climate change, to ensure that Wellington is a capital fit for the future.

7. Therefore it is important that Council take a prudent approach – one that involves an overall assessment of circumstances, and ensures decision-making recognises the future impact of financial and non-financial consequences of any decision. This approach has been strongly emphasised by both LGNZ and SOLGM in their advice to Councils around New Zealand (refer to Attachment 2 for more information).

8. In setting a draft Annual Plan and budget for the year ahead, it will also be important to hear from the city's ratepayers and residents before it is finalised. It is proposed that a preferred rates option be presented to the community, but also an overview of alternative options as discussed below. From there, Councillors will be in a strong position to finalise the Annual Plan and budget in June for the 2020/21 year.

9. In preparing this report officers have considered three scenarios, presented as options below. Council will need to decide whether it consults on one or more options in preparing 2020/21 Annual Plan. More detail on each option is included in the body of the report.

- *Option 1):* maintain current service levels and debt fund the one-off impact of $45m lost revenue in 2020/21 and $11m impact of not increasing fees, along with $12m of funding adjustments, a total of $68m, with a resulting average rates increase of 4.8% percent.

  Option 1 provides a pragmatic balance between managing the pressures on current ratepayers and ensuring the Council remains financially sustainable into the future, whereby the actions of today do not impact unfairly on ratepayers in the future. The borrowing proposed is for a specific purpose, in funding the one-off shortfall in operating revenue anticipated in 2020/21. While this does not meet the S100(i) balanced budget provision of the Local Government Act, it can be resolved that it is financially prudent due to the one off nature, with revenues recovering and repayment of the debt occurring over a 10 year period to avoid a significant one off impact on future ratepayers. It is also considered the most prudent and transparent of the three options. Officers recommend this option.

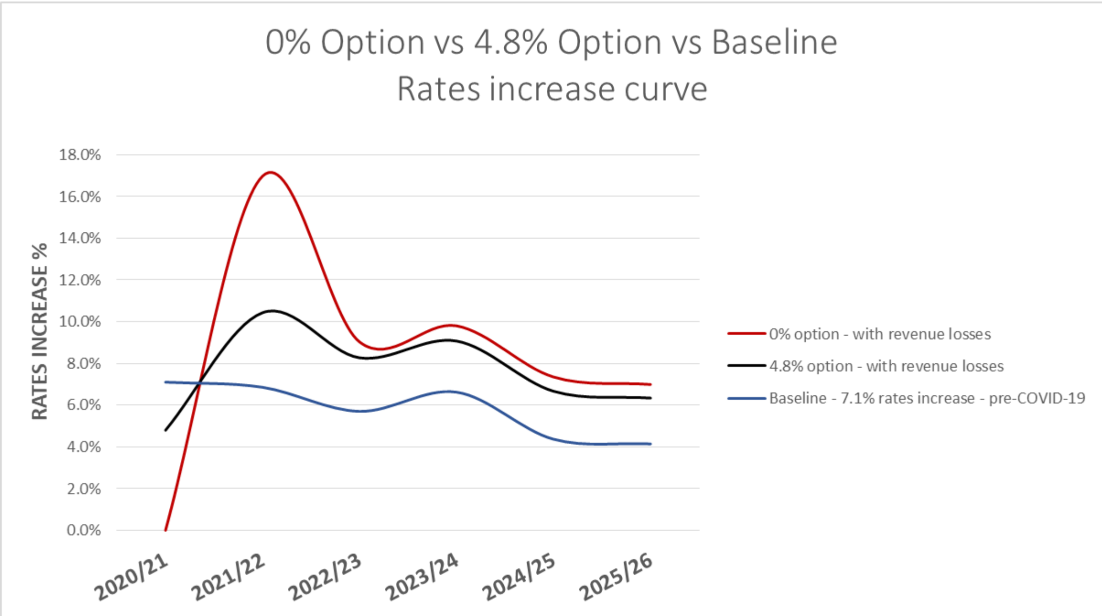
- *Option 2):* the same as option (1) and also debt fund additional depreciation costs incurred from the 2020 infrastructure revaluation. This could achieve a rates increase of circa 2% percent in 2020, but risk insufficient funding for infrastructure in future years. This would result in additional borrowing of $11m, resulting in total debt funded operating costs of $79m.

  Option 2 proposes debt funding a specific operating expense to lower the prospective rates increase, by not increasing rates funding for additional depreciation resulting from the 2020 infrastructural asset revaluation. This option is similarly challenging to option 3, as it doesn't meet the balanced budget requirement or the Council's financially prudent Revenue and Financing Policy. Funding of depreciation is how we fund the replacement of infrastructural assets. Reducing depreciation funding at a time when the city has an expectation of increased funding of infrastructure, is not recommended. If this was considered as a one-off solution it would also pass a significant rates impost onto future ratepayers. Officers do not recommend this option.

- *Option 3):* the same as option (1) above, and additionally introduce austerity measures / reduction in levels of service to enable a lower rates increase. To achieve a zero percent rates rise would require a further $16m of savings compared to option 1. Alternatively without service level reductions an additional $16m of debt funding would be required, resulting in total debt funded operating costs of $84m.

  Option 3). At the request of Councillors, officers have reviewed the option of a zero rates increase without reducing service levels. Officers' advice is that we cannot reduce the costs by the $16m required, while maintaining current service levels. If service level cuts were to be proposed, it is likely that significant changes to service levels in community based services would be required. This would trigger a Long-term Plan Amendment. There is insufficient time to complete an LTP amendment process. If Council attempted to achieve a zero rates increase by arbitrarily debt funding $16m of operating costs this would not be financially prudent, and therefore would not be consistent with Council's Revenue and Financing Policy or Section 101, (Financial Management) and section 100 (Balanced Budget) of the Local Government Act. At a practical level it also poses a significant rates impost onto future ratepayers. Officers do not recommend this option.

10. The benefits and risks associated with the rates scenarios outlined above are outlined in more detail in the body of the report. The rates increase impact is shown in the graph below.



Recommendation/s

That the Council:

1. Receive the information.

2. Note that Covid-19 has had a material impact on households and businesses and Council has developed a Pandemic Response Plan that includes a range of actions to support those facing hardship in the community. Also that the Pandemic Response Plan includes a range of actions that can be delivered immediately, and others are in development and focused on the recovery phase.

3. Agree to the Pandemic Response Plan as outlined in the body of this report and Attachment 1, noting that it is a living plan and more detail and additional actions will be included over time in consultation with the Council and other key stakeholders.

4. Agree to the immediate actions from the Pandemic Response Plan (as outlined in Attachment 1) in regard to:
   a) Rates relief (commercial ratepayers and residential ratepayers)
   b) Rent relief
   c) Parking fees
   d) Food and liquor fees
   e) Community sector support/grants

5. Note that there will be regular briefing sessions/workshops to update elected members and seek Councillor input, and make decisions where they are beyond the delegations of officers.

6. Note that Covid-19 has also had a material impact on Council's budget for the current year (2019/20) and is expected to have a significant impact on the budget for 2020/21.

7. Note the LGNZ and SOLGM guidance for the development of 2020/21 Annual Plans, based on independent legal advice from Simpson Grierson, as outlined in Attachment 2.

8. Agree that the 2020/21 Annual Plan consultation document be prepared based on Option 1, which forecasts a 4.8% rates increase for consideration by the Council.

9. Agree to the Annual Plan timeline as described in this report.

10. Note that any option that requires a Long-term Plan amendment would not provide sufficient time to complete the Annual Plan/ LTP by 30 June 2020 as required in the Local Government Act 2002.

Background

11. This is the third year of the 2018 Long-term Plan. An initial draft annual plan was prepared for consultation and scheduled for committee consideration in March. With the Covid-19 pandemic situation rapidly overtaking events, this draft plan was not considered and this paper recommends that a new draft

2020/21 Annual Plan be prepared for consideration in May that reflects the challenges ahead.

12. The approach and assumptions to guide the development of that draft annual plan are outlined for agreement in this report.

13. This report also includes the draft Pandemic Response Plan that outlines a series of actions that are recommended by Council officers to support households and businesses facing financial hardship. Many of the actions included in the draft Pandemic Response Plan can be initiated immediately and will support those facing financial difficulties in the last quarter of 2019/20 (note: Council financial year ends in June).

Discussion

Pandemic Response Plan overview

14. The impact of the Covid-19 pandemic has drastically altered the way New Zealanders live, work and play.

15. At this stage many factors that allow the Council to plan for the long-term future of Wellington are very uncertain. It is not known how long the pandemic will last, how long the city will be in lockdown, how much more support will be provided by Central Government, and how quickly it will take New Zealand and Wellington to return to normal. The environment will be volatile for an extended period and this will require an agile approach to planning with an expectation that adjustments will continue to need to be made.

16. While there is much uncertainty, what is known, is that many households and businesses are facing hardship. In response the Council has developed a draft Pandemic Response Plan that includes a range of actions that will support Wellington residents and businesses.

Six areas of focus

17. Council has identified six area of focus for the draft Pandemic Response Plan. The full Pandemic Plan is included as attachment 1 to this report. The summery below outlines a high level snapshot of the areas of focus of the Pandemic Plan.

- *Council financial support* – With the lockdown in place, some businesses and households will be facing significant financial hardship. The government is providing a range of support mechanisms as are banks. Council is proposing to add a range of support actions including flexibility around the timing of rates payments and early payments to suppliers who provide goods and services to Council as some of the mechanisms to support the Wellington community.

- *Economic support –* Businesses pay 45% of the total rates in the city, and provide jobs for Wellingtonians as well many others in the region. It is important that businesses are supported through the lockdown so they can be at the forefront of the economic recovery. Actions include WellingtonNZ providing planning advice to various business sectors to best manage the lockdown period, providing fee refunds in some circumstances, and planning for an economic stimulus package with key city stakeholders for the recovery phase.

- *Community wellbeing* – There are communities in Wellington that are disadvantaged and this stream of work is focused on looking after the city's most vulnerable during the pandemic. This includes working with other agencies to provide outreach services as well as support with accommodation for those that need it.

- *Absolutely Positively Wellington* – Wellington has a strong sense of community and is no stranger to a crisis. As shown with the earthquake in 2016, Wellingtonians are resilient and look after each other in times of need. This area of focus is about maintaining pride in the city, looking after each other, and looking after everything local.

- *Regional and central government collaboration* – As part of the recovery phase it will important that economic stimulus projects are strongly aligned with central government efforts to ensure benefits are maximised. The key area of focus is on preparing a package of 'shovel ready' projects to support economic growth and job creation in the region. Discussions are already underway with regional mayors and central government ministers. Wellington will also be looking to central government for other collaborative initiatives to help with the recovery.

- *Council services* – Council services are important for community wellbeing. While many are temporarily on hold, essential services continue to be delivered and others are being delivered in a different way. Council services will play an important part of the recovery phase and proposed actions include, for example, providing free entry to Council facilities like the Zoo, Zealandia and Pools for a period of time to encourage people to get active and healthy.

Preparing a budget for 2020/21 – setting the scene

18. The fast-changing events of the past month and changes to Council's finances have meant it is difficult to prepare our Annual Plan for 2020/21 with any certainty. It is, in effect, an emergency budget rather than a normal Annual Plan.

19. Council is committed to planning for a programme and budget that supports the city to recover, but many of those details are based on several factors, including how long the Covid-19 pandemic and the lockdown lasts, what role Central Government will play in recovery, and the impact on the economy on residents and businesses.

20. While it will be important to build a budget that recognises the current financial challenges that households and businesses face, it is also important to note that substantial support packages are available via government, banks and local government.

21. It is important to note that any costs deferred, or funded through different funding mechanisms, shift this year's rates burden to future years and rates increases will be steeper in those years as a consequence.

22. This broad basis for setting the 2020/21 budget is finding the right balance between supporting those in need now, while not over burdening ratepayers in future years.

Covid-19 – the financial response

In summary

23. This section of the report explains the impacts of the Covid-19 pandemic on Council finances and funding challenges this presents. It discusses four options:
    - **The base scenario** – a 7.1% increase – before Council understood the implications of Covid-19 for Council revenue. This option is no longer

valid or recommended. This option had significant savings and risks built in to it to enable the $50m increase in operating expenditure.

- **Option 1** – using the adjusted Base Scenario costs, savings and funding adjustment initiatives, but funding the anticipated gap in revenue through debt. This results in an indicative rates increase of 4.8%.
- **Option 2** – As for Option 1, but assuming that the Council made a decision to also debt fund the increase in depreciation resulting from the 2020 asset revaluation. This results in an indicative rates increase of 2%.

- **Option 3** – As for Option 1, but assuming that reductions in service levels would be required to achieve a lower level of rates. $16m of savings required to deliver a 0% rates increase and an LTP amendment.

Note: All scenarios are based on an assumption of 1% growth in the ratepayer growth. This could be at risk as currently overall only 0.32% growth has been realised year to date.

24. The table below summarises the pros and cons of each option.

Potential 2020/21 Annual Plan ***Funding Scenarios***	***Option 1***	***Option 2***	***Option 3***
Rates increase 2020/21	4.8%	2%	0%
Rates increase in 2021/22	10%	16%	17%
No increase in fees in 2020/21	√	√	√
No reduction in service levels	√	√	X
Debt funds the shortfall in revenue, reducing the impact on ratepayers in 2020/21	√	√	√
Additional debt funding is ‘one-off’ so minimal impact	√	X	X

Potential 2020/21 Annual Plan ***Funding Scenarios***	***Option 1***	***Option 2***	***Option 3***
on future years			
Unlikely to require an LTP amendment	√	√	X
Unlikely to require amendment to Revenue and Financing Policy	√	X	X
Likely to meet financial prudence test	√	X	X
Meets balanced budget requirement	X	X	√-X
Recommended by officers	√	X	X

25. Option 1 provides a pragmatic balance between managing the pressures on current ratepayers and ensuring the Council remains financially sustainable into the future, whereby the actions of today do not impact unfairly on ratepayers in the future. The borrowing proposed is for a specific purpose, in funding the one-off shortfall in operating revenue anticipated in 2020/21. While this does not meet the S100(i) balanced budget provision of the Local Government Act, it can be resolved that it is financially prudent due to the one off nature, with revenues recovering and repayment of the debt occurring over a 10 year period to avoid a significant one off impact on future ratepayers. It is also considered the most prudent and transparent of the three options. Officers recommend this option.

26. Option 1 with an indicative rates increase of 4.8%, is 4.4% below the original draft budget rates increase of 9.2% and 2.3% below the base case increase.

27. Option 2 proposes debt funding a specific operating expense to lower the prospective rates increase, by not increasing rates funding for additional depreciation resulting from the 2020 infrastructural asset revaluation. This option is similarly challenging to option 3 (below), as it doesn't meet the balanced budget requirement or the Council's financially prudent Revenue and Financing Policy. Funding of depreciation is how we fund the

replacement of infrastructural assets. Reducing depreciation funding at a time when the city has an expectation of increased funding of infrastructure, is not recommended. If this was considered as a one-off solution it would also pass a significant rates impost onto future ratepayers. Officers do not recommend this option.

28. At the request of Councillors, officers have reviewed the option of a zero rates increase without reducing service levels. This is option 3 in this document. Officers' advice is that we cannot reduce the costs by the $16m required, while maintaining current service levels. If service level cuts were proposed this would trigger a Long-term Plan Amendment. There is insufficient time to complete an LTP amendment process. If Council attempted to achieve a zero rates increase by arbitrarily debt funding $16m of operating costs this would not be financially prudent, and therefore would not be consistent with Councils Revenue and Financing Policy or Section 101, (Financial Management) and section 100 (Balanced Budget) of the Local Government Act. At a practical level it also passes a significant rates impost onto future ratepayers. Officers do not recommend this option.

29. It is also noted that the Pandemic Plan includes consideration of rates postponement options for the 2020/21 rates, for which the first invoice would normally be due for payment on 1 September. This will be considered once more information is known on the medium term impacts of covid-19.

Pre-Covid-19 budgets

30. There was already significant cost pressure on Council pre-Covid-19. Council's original 2020/21 budget included gross increases in costs of $55m (equivalent to a 15.5% rates increase). This was in response earthquake and resilience issues and higher asset values impacting on depreciation requirements.

31. To reduce the impact these cost pressures would have on rates, the 2020/21 pre-Covid-19 budget already assumes a significant savings target and risk (c. $10m). Along with proposed fee increases this brought the base rates increase to 9.2%.

32. Officers presented an alternative option that reduced the rates increase to 7.1% if Council delayed starting to fund projects such as Let's Get Wellington Moving and Civic Square master-planning for a further year.

The impact of Covid-19 on Council Finances

Revenue

33. Loss of non-rates operating revenue is the most significant financial impact facing Council as a result of Covid-19. Forecasts indicate minimal fee and user charge revenue until the end of June due to the lockdown and recovery phase.

34. Initial estimates are that revenue will be down $28m for the remainder of the 2019/20 year and $30m in 2020/21. In addition original draft budget forecasts extra revenue from increases to fees and charges for council services equating to $11m.

35. These increases were intended to achieve better compliance with the revenue and financing policy, offsetting the impact forecast cost increases would have on rates.

36. Under the Council's current funding policies, rates would need to increase by an additional 13% to offset this shortfall in revenue. This is clearly untenable in any circumstances. Alternative options are discussed later in this section of the report.

37. There is also risk to Councils lease and property revenue as a result of tenant hardship. A combination of short-term rent abatement and deferred payment of rents are proposed.

38. The dividend the Council originally expected to receive from its shareholding in Wellington Airport is at risk. A dividend of $14m was originally expected to offset the Council rates requirement in 2020/21.

Operating expenditure

39. There are some minor cost reductions that have occurred directly as a result of the Covid-19 shutdown. These include reduction in energy costs, and some of the operating expenses in our facilities, but Council continues to incur the majority of its operating costs that maintain services in the city.

40. Many events in the city have been cancelled as a result of Covid-19, including iconic events such as WoW. Grants that Council provides to support

community, arts and cultural organisations will still be needed to sustain these organisations. Some grant funds will be able to be repurposed towards Council's proposed Response & Recovery fund. This will help pay for a range of initiatives included in Council's broader Pandemic Response Plan.

41. The Covid-19 outbreak and subsequent lockdown also has implications for each of Council's Council Controlled Organisations, the primary and almost immediate impact has been the collapse in third party external revenues.

42. This has affected all of the CCOs to varying degrees depending on their respective reliance on external revenue. In terms of the immediate response to the changing financial position the CCOs have either accessed the Government wage subsidies or are in the process of accessing the available subsidies. Council is not anticipating any material recovery in the external revenues between now and the end of the financial year and the CCOs are utilising their cash reserves to meet operating cost requirements.

43. The latest cash flow forecasts from the CCOs indicate that the Zoo will exhaust its available cash reserves before year end and require additional financial support currently estimated at around $500k, the Museums Trust and Basin Reserve Trust are broadly breakeven but may require some funding assistance prior to year-end. The cash flow positions with respect to the other CCOs are currently indicating that they will not require any additional Council funding between now and 30 June 2020. Within WellingtonNZ the Venues project is forecasting a deterioration of around $700k between now and 30 June 2020 and will be funded through their working capital facility within Council.

Capital expenditure

44. Prior to Covid-19 the Council was forecasting approximately $40m of capex that was originally planned for 2019/20 that would not be completed. This forecast has subsequently been increased to $84m. There is already a significant Council funded capex programme planned for 2020/21. For financial modelling purposes it is assumed that a similar level of unspent capex budget will be carried through to June 2021. This reduces the borrowing (debt) requirement for capex in 2019/20 and will partly offset the increased temporary debt funding required to support the rates deferral proposal included in the draft Pandemic Response Plan.

Council's Annual Plan response

45. The Pandemic Response Plans outlines Council's response to assist the wider community in its response to and recovery from the Covid-19 emergency. This plan contains a number of financial responses including opportunities for those in financial difficulty as a result of Covid-19 to defer rates payments.

46. It is estimated that deferral of Quarter 4 2019/20 rates invoices (for those ratepayers whose cash flow pressures meant they were unable to pay immediately) will require additional temporary borrowing capacity of up to $60m. While access to funds is currently tight officers are confident the Council can manage this short term impost.

47. Analysis shows that short-term rates relief (in the form of deferred payment) is able to provide significantly higher benefit to those ratepayers that are genuinely cash strapped, compared to the impact of an adjustment to the annual rates increase itself. This is because the deferral gives relief to the entire rates bill, whereas the benefit from a change to the rates increases provides a marginal benefit.

48. The analysis shows the impact on council and the benefit to ratepayers from deferring quarter 4 rates compared to the benefit provided by reducing the rates increase in 2020/21 from 4.8% to 0%.

49. This shows that the six months rates deferral has more than three times the net cash flow benefit to ratepayers over a six month period, than a one year rates freeze, which is repaid over ten years. This is because the rates deferral is on the whole rates bill whereas the rates freeze scenario only impacts a fraction of the overall rates bill.

	2019/20 Q4 Rates Deferral	**2020/21 Rates Freeze**
Effective	Immediately	Between September 2020 (Q1 due date) and June 2021 (Q4 due date)
Benefit	Targeted	All
Repayment timeline	6 months	10 years
Debt requirement / value of relief	$67m	$19m
Interest cost	$3.9m	$5.7m

Cashflow benefit

Sector	Cashflow Benefit
Total Residential	$ 26,190,360
Average Residential	$ 2,850
Total Commercial	$ 40,943,455
Average Commercial	$ 31,290

Sector	Cashflow Benefit
Total Residential	$ 10,565,284
Average Residential	$ 135
Total Commercial	$ 8,247,467
Average Commercial	$ 1,484

50. In addition to the significant difficulties ratepayers are experiencing there is also a significant challenge in responding to Council's own financial predicament caused by already existing cost pressures being compounded by a significant shortfall in revenue.

51. In preparing the original budget officers provided Councillors with a scenario that reduced the rates funding requirement from the earlier 9.2% down to 7.1%. For the purposes of this document we have referred to this (7.1%) as the base scenario.

52. The base scenario assumed:
    - $9.9m of savings target and unbudgeted risks
    - $8.4m of increased revenue from fee and volume changes (in addition to $5.5m already budgeted.
    - $6.6m of additional borrowing.

Base budget scenario

	Rates funding $m	% on rates	Debt fund
2019/20 total rates	$324.61		
Increased expenditure: To deliver existing services (net) Increased asset costs Resilience response LGWM Other contracted/service pressures	 $10.76 $14.80 $10.00 $ 3.00 $11.77	 3.3% 4.6% 3.1% 0.9% 3.6%	
Total Cost Increases	$50.33	15.5%	
LESS: Savings and risk: Organisational savings target Take on more self-insurance risk Use prior year surpluses Increased capitalised labour	 $3.20 $2.00 $1.70 $2.00	 1.0% 0.6% 0.5% 0.6%	
Total Savings & Risk	$9.90	2.7%	
Additional revenue: Price increases Additional $4.5m already in budget) Volume increases (additional $1m already in budget)	 $6.60 $1.80	 2.0% 0.6%	
Total Revenue Increases	$8.4m	2.6%	
Funding changes: Defer funding LGWM Reduce Weathertight homes funding	 $3.00 $3.95	 0.9% 1.2%	 $3.00 $3.95
Funding changes	$6.95	2.1%	
2020/21 Rates funding requirement	$324.61	8.1%	
Less growth in ratepayer base		1%	
Rates increase for resilience Balance of rates increase		2.2% 4.9%	
Total average rates increase		7.1%	
Total funded by additional debt instead of rates			$6.95m

Additional budget options

Option 1

53. In the face of Covid-19 further options are being sought to reduce the rates increase. At the same time Council is forecasting that with closure of facilities, lower dividends and its responses to help the city in the short-term, 2020/21 Council revenue is expected to be up to $45m lower than our initial budget expectations. If proposed fee increases are not progressed this adds a further $11m shortfall, to a total of around $56m. This is money that would have usually offset rates, so at a time when the city is hurting so is city's 'equity' in the Council.

54. If Council applied its existing funding policies rates would need to increase around 24% to cover the gap. This is clearly untenable in any situation let alone the current one, however it does clearly reflect the increase in operating expenditure in the 2020/21 budget

55. While outside of current Council policies (which tightly controls what it can do without consulting with the public), there is a rationale for borrowing to fund the short-term impact of the short-fall in revenue compared to the expectations of the Council's Revenue and Financing Policy and pre-Covid-19 budget. The rationale is that it is prudent to do so, on the basis that the revenue loss is a significant one off event from which there has been no time to recover as we are still in lockdown, and that revenue levels are assumed to recover the following year.

56. Officers have modelled this as Option One.
    a. Under a 2020/21 scenario where:
        i. there are no increases to fees and charges
        ii. the shortfall in non-rates revenue is debt funded
        iii. the Council deferred starting to rates fund the cost of planning for the upgrade of Civic Square and Lets Get Wellington Moving
        iv. the council continues with current service levels and investment programme

57. The increase to borrowing to replace fees and other income revenue that would otherwise be covered by rates under this scenario is estimated at $68m. This is equivalent to a 21% of rates transferred to debt. The average rates increase in this scenario for 2020/21 would be approximately 4.8%, consisting of 1.8% for resilience and 3.0% increase in other rates. Under this scenario, based on the 2018-28 LTP plus the flow on impacts of temporary

debt funding in 2020/21, the 2021/22 rates increase would like be in the range of 10%.

58. Formulating alternatives is difficult. Legislation does not permit a Council to set a rates level (and/or rates increase) that does not either show a balanced budget (where operating revenue is equal to operating cost) or clearly state what cost is not being funded and why that is prudent. This would require a strong rationale for passing the cost onto future generations on the basis that they receive the benefit.

59. Where ongoing operating costs are debt funded in one year this significantly increases rates the following year unless it is debt funded perpetually (i.e. not one off) which is neither prudent nor sustainable.

Option 2

60. Consideration has been given to the significant impost that the increase in depreciation funding requirement is expected to have on the 2020/21 budget. The current draft budget shows a $11m increase in depreciation funding requirement in 2020/21 from revaluation. This is the result of a significant revaluation of water and transport infrastructure assets, which in turn increases the amount of depreciation to be funded. There is a risk that this increase will increase further once asset valuations are finalised in late April.

61. Wellington City Council has a strong history of funding depreciation prudently. This ensures that each generation pays its share for the assets we use. While it may appear attractive in the short-term, reducing depreciation funding would be at odds with the increasing community expectation that Council allocates sufficient funding to make sure it maintains and renews the city's infrastructure appropriately and for increased resilience.

62. Not funding depreciation is inconsistent with the Council's Revenue and Financing Policy and the balanced budget requirement in Section 100 of the Local Government Act. The policy could be amended by undertaking consultation and would likely require audit sign-off but not require a Long-term Plan amendment.

63. If Council chose not to fund this increase it would need to substantiate why it thought it was prudent to do so. Not funding the increased depreciation from the 2020 revaluation would reduce the average rates increase to between 1% and 2%. This is not recommended.

Option 3

64. The baseline 2020/21 budget already includes a significant savings target and unbudgeted risks of $10m.

65. The Council could attempt to make further cuts to operating expenditure budgets; but given the budget already includes significant savings targets and unbudgeted risks, this would inevitably need to result in significant service level reductions. Determining what services to cut is likely to be extremely challenging in the current environment- amidst an expectation that Council should be upping support to its community and investing in its infrastructure to aide recovery, rather than reducing it. A reduction in services could also impact disproportionately on the most vulnerable residents, at a difficult time. Adding to this is the likelihood that dependant on what the service is, cuts to service levels often take quite some time to initiate, and include potential contract settlements and redundancy costs – meaning the savings may not be evident immediately. This process would also trigger an LTP amendment which cannot be achieved in the time available.

66. If service reductions resulted in a cost saving this could translate directly to a reduction in rates. Approximately $3.3m of savings would deliver a 1% reduction in rates. If there was a desire to reduce the rates increase to 0%, under this scenario $16m of service level reduction would be required. This is the equivalent of 73% of the total Cultural Wellbeing budget, the equivalent of the swimming pools budget and more than the Library network wide operations budget.

67. DIA and OAG advice is that any service level reduction would also require a Long-term Plan amendment – a process that requires Audit NZ sign-off – This would take longer than four months pushing agreement of our Annual Plan out well beyond June 2020.

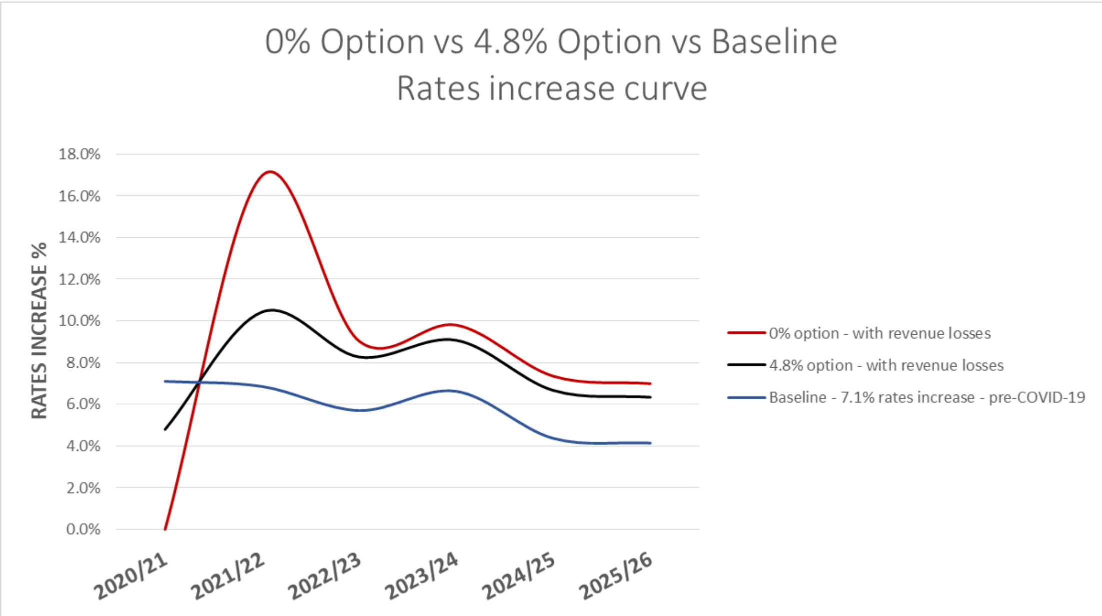
Funding comparisons

68. Each of the three options presented have varying impacts on rates and debt levels not only in the 2020/21 year but also in subsequent years.

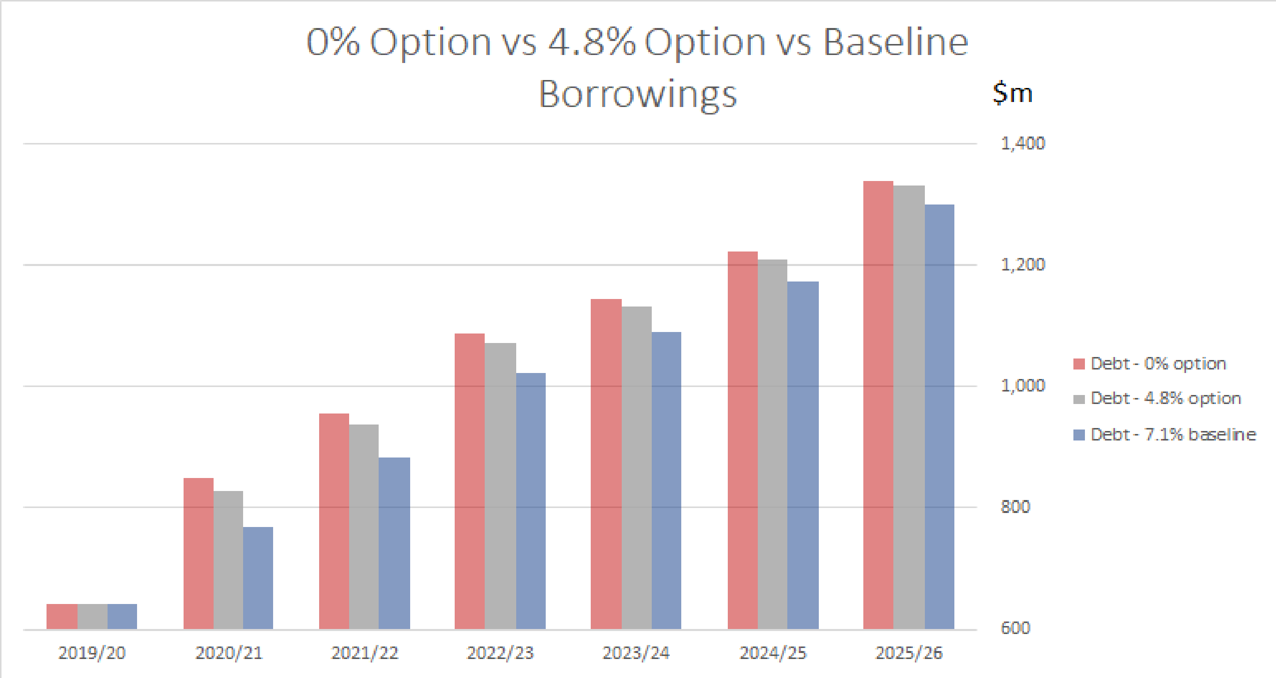
69. The graphs below illustrate the comparable rates impacts between Options 1 and 3. Option 3 provides a 0% rates increase in 2020/21 but forecasts a significantly higher rates increase in 2021/21 on the assumption that the additional costs that were not 'one-off' impact that were debt funded in that year, would still exist in the following year and need to be funded.

70. Both scenarios assume that the additional debt funding incurred in 2020/21 is repaid through rates spread over a 10 year period.

71. The graph below shows the impact of the different options on rates increases over the following 5 years.



72. The impact on Councils debt levels from the budget/rates options can be seen in the graph below. The higher the debt funding of operating costs, the lower 2020/21 rates increases, causes a higher:
    - borrowing level
    - subsequent interest cost to council
    - amount to be repaid on top of future years rates increases



Key assumption

73. The LTP rates increases were used to form the base rates in all 3 scenarios. The 7.1% pre-Covid-19 option has the lower rates rises over time as there is less borrowing and repayment occurring in the out-years. Borrowing and repayment over time based on intergenerational equity are assumed to:
    - Repaying $2.5m debt and interest that funded Revenue and Financing policy non-compliance (rated over 10 years)
    - $1.5m of deferring the start of LGWM funding until 21/22
    - Deferring the rates funding of the extra 3 Waters expenditure.

74. The 4.8% with revenue losses' option has an increasing level of rates rise in 2021/22 ($16.1m) is due to:
    - Repaying the debt and interest of $30m rated over 10 years due to lost revenue in 2019/20
    - Repaying the $11m debt (and interest) funding to cover the revenue of the proposed increase in fees and charges for 20/21 (rates funding spread over 10 years)
    - Repaying $2.5m debt and interest that funded Revenue and Financing policy non-compliance (rated over 10 years)
    - $1.5m of deferring the start of LGWM funding until 21/22

- Deferring the rates funding of the extra 3 Waters expenditure
- Non-payment of the WIAL dividend (Rate funded over 10 years).

75. The zero rates increase option has no rates increase in 2020/21, and then increases significantly in 2021/22. The main reasons for this are the same as the 4.8% option above and in addition:
    - $580k rates to repay $2.9m 3 waters additional cost over 5 years
    - $2.24m for repaying the $22.4m borrowed to achieve 0% rates rise in 2019/20. Repayment occurs over 10 years
    - The % rates rise is exacerbated because of the gap between the 4.8% and 0%, being funded by debt and therefore when this funding gap transfers to rates funding it causes a large uplift in % terms.

Annual Plan consultation process and timelines

76. An initial draft Annual Plan and budget was prepared for committee consideration but not considered as the uncertainty created by the Covid-19 situation overtook events. While this makes the process and timeliness more challenging, it does mean that the 2020/2 Annual Plan can be prepared in a way that responds to the challenges ahead.
77. The approach to consultation is difficult to specify in any level of detail at this time and is dependent on whether lockdown is still in force, and if not, what alert level is in operation, as this will also have a bearing on the nature and scale of any engagement that is carried out.

78. The previous consultation approach was largely online and social media focused and this will continue. A dedicated engagement website will be set up to allow people to easily navigate through the information and provide feedback.

79. In the lead-up to the consultation phase the Council will use a variety of communication channels to raise awareness and encourage participation.

80. In terms of timing for consultation, the exact dates are still being worked through but are expected to be in May / early June. The focus is on providing a four week consultation period.

81. Officers will work with the Mayor and the Portfolio Lead - Consultation and Engagement, to finalise the consultation approach and bring the consultation

programme back to committee at the same time as the draft Consultation Document.

Options

82. The options are outlined in this report.

Next Actions

83. A draft 2020/21 Annual Plan Consultation Document and budget will be prepared and brought back to Council for consideration in May. Consultation will follow in May to early June with final adoption of the Annual Plan and budget scheduled for late June.

Attachments

Authors	Baz Kaufman, Manager Strategy Martin Read, Manager Financial Strategy & Treasury
Authoriser	Andy Matthews, Chief Financial Officer Stephen McArthur, Director, Strategy and Governance Barbara McKerrow, Chief Executive Officer

SUPPORTING INFORMATION

Engagement and Consultation
The report outlines a high level engagement approach. The overall approach is dependent on the alert level and will be refined in May.

Treaty of Waitangi considerations
NA

Financial implications
The financial implications of the Pandemic Response Plan and options for the 2020/21 are outlined in the body of the report.

Policy and legislative implications
How the the draft 2020/21 budget is funded may have implications for Councils financial policies. This will addressed in more detail when the draft Annual Plan Consultation Document is brought to Council for adoption (for consultation).

Risks / legal
Sector advice from LGNZ and SOLGM (attached) is underpinned by legal advice.

Climate Change impact and considerations
The annual plan and budget contains all of Council's activities which includes climate change and carbon reduction activities.

Communications Plan
Completed.

Health and Safety Impact considered
NA

ATTACHMENT 1: DRAFT PANDEMIC RESPONSE PLAN

Immediate Support Actions

#	*Support Action*	*Area of Focus*	*Cost*
1	**Rates relief – business and commercial** To provide support to businesses & commercial ratepayers, they will be able to elect to defer their fourth quarter rates without penalty initially for 6 months. Interest will be charged on any amounts deferred to provide a disincentive to those businesses that can afford to pay their rates. This mechanism provides immediate cashflow relief to businesses and because anyone taking advantage of the deferral will still be required to repay the amount deferred and interest, there is minimal cost to Council. The criteria for commercial ratepayers are: • The benefits of rates relief must flow through to tenants • Commercial ratepayers with central government tenants cannot apply • Commercial ratepayers with non-government tenants can defer up to 75 percent of their fourth quarter rates for 6 months • Commercial ratepayers with accommodation, retail or hospitality tenants can defer up to 100 percent of their fourth quarter rates for 6 months.	Council Financial Support	Low
2	**Rates relief - residential** To provide support to residential ratepayers who are not able to pay their fourth quarter rates, residential ratepayers will be able to apply to delay their fourth quarter rates payment through an extension of the 'extraordinary event' criteria in the Council's existing policy. Any deferral on this basis would be via application, will not incur penalties or application charges. Subject to a	Council Financial Support	Low

	suitable payment plan up to a maximum of 6 months duration. Deferrals would incur interest charges at Council's cost of funds and therefore assisting ratepayers who have immediate cashflow challenges, but with low overall cost to Council.		
3	**Rent relief** Council has a diverse property portfolio and many of the tenants will be facing challenging financial times. We propose providing a variety of rent relief or rent payment plans for the balance of 2019/20 to organisations, businesses and clubs that use council facilities. Many of these will be community and sports organisations, council venues, CCOs and other tenants all facing financial hardship. Rent relief will be available to those that meet the set criteria. The cost: estimate for 2019/20 is $2.8m, and this initiative will be looked at in June to see whether further support is required into 2020/21.	Council Financial Support	Medium
4	**Business Cash Flow** To support business cashflows Council will reduce the payment timeframes for payments to suppliers who provide goods and services to Council from 20 to 7 days. There will be some additional funding costs to Council but these are not expected to be material	Council Financial Support	Low
5	**Food and alcohol fees** The hospitality sector is being particularly hard hit with the lockdown and will need support both now, and in the recovery phase. Both the Food Act and Sale and Supply of Alcohol Act state that registration fees (for food) and application and annual fees (for alcohol) must accompany the application or else it is not deemed to be valid. Council wants to support the hospitality industry whilst still meeting our legislative requirements. Therefore, Council will for 2019/20: • *Food* - Food Act annual registration and	Council Services	Food: $200k Alcohol: $100k

	renewal fees will be set at $1 for quarter 4 (Q4) which is from now until July. When (if) businesses open before 1 July, then any inspection fee would also be charged at a nominal $1. Any business which has already paid its annual registration and renewal fees for the 19/20 year will also be refunded for Q4. • *Alcohol* – annual license and renewal fees will be set at $1 for quarter 4 (Q4) which is from now until July. In addition licensees will still be required to pay the component of the fees payable to ARLA based on the original licence fee as set out in Section 8 of the Sale and Supply of Alcohol Act. • Very High Risk licensed premises are excluded from this support package. The support package outlined above relates to costs incurred for quarter 4 of the current financial year. Support for the sector for 2020/21 will be considered further in June.		
6	**Parking Fees** Parking fees and fines have been removed during the lockdown period to support essential workers. Enforcement around time restrictions and unsafe parking practices will still apply. The assumption made is that this would be in place until June and includes: • Free weekday parking until 30 June 2020 • Coupon Parking would be free during the same period • Clifton Terrace would operate as normal during the week • All other permits types would still be charged for such as residents parking and loading Zone permits etc. • Enforcement around time restrictions and unsafe parking practices will still apply. See also parking options for retail support after June in the next section	Council Services	Lost revenue: $6.5m

7	**Library services** The online reach of the library service has been extended and now anyone is now able to join online with a card valid for 6 months. All fees for overdue items and extending loans will be waived until after lockdown.	Council Services	Low
8	**Fee and Charges** A number of refunds and accommodations will be provided for fees charged by Council. These include: • *Consent Fee refunds* – refunds will be available for consent fees where the customer no longer wishes to proceed with the consented works. • *Pool and gym members* – there will be a fee freeze on gym and pool memberships at Council facilities.	Council Services	Low
9	**Community sector support/grants** Council provides financial support to a wide range of organisations across the arts, culture and sports sectors through grants and sponsorships. To support the ongoing viability of these organisations and their ability to resume operating through the recovery period, Council will continue to provide this support through existing grants for the remainder of 19/20	Council Services	Existing funding
10	**Support those most in need** There are communities in Wellington that are disadvantaged and this stream of work is focused on looking after the city's most vulnerable during the pandemic. Initiatives are delivered in partnership with other agencies and include: • *Support homeless* **-** opened 38 self-contained units in a CBD building for the city's vulnerable homeless community (with City Mission)	Community Wellbeing	Existing Funding

	• *Support for vulnerable* **–** continue to work with the City Mission to ensure the continued delivery of food to people in need, this includes food banks and meals on wheels. • *Outreach* – coordinate with outreach teams and support groups to look after the vulnerable members of the City.		
11	**Business advice** WellingtonNZ has been operating a business advice line and running a series of webinars and online workshops for the business community and has expanded this to also cater for arts and culture organisations. The seminars and workshops provide practical advice for organisations to manage their way through the pandemic, how to access information and how to seek and obtain the various support packages that are available. To date more than 1200 businesses have participated in the webinars and hundreds of calls answered. WellingtonNZ are also offering business advisory support vouchers via Regional Business Partnership programme.	Economic Support	Existing Funding
12	**Support Wellington** WellingtonNZ has paused all destination marketing activities and is working on two programmes to support local businesses and to re-inforce the Wellington caring spirit. • *Buy local* – As we come into the recovery phase it will be important that we support our local businesses. The #LoveLocal programme will be geared up to encourage Wellingtonian's to buy from and support local Wellington businesses and across the region. This programme has the ability to flex as the recovery progresses. • *Pride in the city* **–** a range of initiatives will be undertaken to encourage the Absolutely	APW	

	Positively Wellington pride in our city, foster Wellingtonian's caring spirit and find new ways in which we can support each other. (cost: existing funding)		

Support Initiatives in Development

#	*Support Action*	*Area of Focus*	*Cost*
13	**The City Recovery Fund** It is proposed that a City Recovery Fund is established to ensure that we have an adequate pool of resources available to be able to support and boost the economic recovery. The fund will support marketing campaigns, initiatives that drive the economic recovery and work with the events sector supporting the work of the major events fund to get back on its feet and delivery a strong programme of early events across the city. The fund will be established by aggregating the reserves, unspent funding from 19/20 and 20/21 budgets from the City Growth Fund, Destination Wellington and the Capital of Culture fund. The target is $8m from existing funding and it is intended that we also seek to increase the fund from other sources.	Council Financial Support	$8m (from reprioritised existing funding
14	**City Recovery Plan** To establish a Wellington Recovery Advisory Panel to be a conduit between Council, business and other agencies, with the objective of developing solutions together to address recovery issues and challenges and to feed into the Council Recovery Plan. It is important that the recovery plans encompass the economy but also the cultural dynamic of the city and the ease of getting	Economic Support	Low

	things done. The Mayor will appoint the Panel after consideration of the necessary skills and attributes required to advise on the fastest and smartest way to achieve recovery.		
15	**Revitalise retail** In any recovery it will be important to encourage people back into the city and to provide immediate assistance to the retail and hospitality sectors to get people out and about again and spending money. We will provide a targeted period of free weekend parking. The effectiveness of this initiative will be monitored through the use of market intelligence and tracking tools such as Marketview and Bellwether. *Assumptions include:* • Free weekend parking would apply for 3-6 months • Clifton Terrace would also be free during the weekends • All other permits types (with the exception of coupon parking which is free in the weekend anyway) would be charged for • Enforcement of time restrictions would apply during the free parking period to encourage turnover of vehicles across the city – which would then directly contribute to helping business etc get back on their feet.	Economic Support	Lost revenue: $4m
16	**Boost the capital programme to create jobs** The Government has called for "shovel ready" projects to be put forward as a means of supporting the economic recovery through advancing a range of infrastructure projects. Co uncil will participate in this process and work with the Region and Government to advance projects in the region. In addition we will seek to recommence works on our existing capex projects that were underway and	Regional and Central Government Collaboration	

	accelerate projects where possible.		
17	**Get people active** As we move out of lockdown it will be important to encourage people to get out and about. We will provide discounted or free entry to facilities like the Zoo, Zealandia and Council pools for a period of time to encourage people to get active, outdoors and healthy	Community Wellbeing	Medium
18	**Financial Hardship – Rates Postponement** We will provide rates and rent postponement options including payment plans for those facing financial hardship in 2020/21. The criteria will be developed but will primarily focus on financial hardship, there will be no application fees and there will be interest charged at Council's cost of funds. Because this is basically a timing issue and interest will be charged the cost to Council is minimal.	Council financial support	Low

ATTACHMENT 2: Advice from LGNZ and SOLGM

3 April 2020

Budgeting, planning and setting rates in the face of Covid-19

Local Government New Zealand (LGNZ) and Society of Local Government Managers (SOLGM) Guidance Paper for Covid-19 Local Government Response: Finance Workstream.

Our headline messages

- As existing law provides some flexibility around annual plan and rate setting processes, there is no need to change the law for the 2020/21 financial year.
- An annual plan adopted after 30 June will still be lawful and, if challenged, is unlikely to be declared invalid.
- Councils need to take care in considering significantly different levels of rates to what was previously indicated to the community and/or the option of setting an unbalanced budget for the 2020/21 year.
- A prudent approach would involve an overall assessment of circumstances and decision-making that takes a long-term view with consideration of future financial and non-financial consequences of the decision.
- Councils should seek information from a broad cross-section of their community to develop assumptions about Covid-19 impacts on revenue and expenditure options and to inform thinking about several rating options and how best to support:
    - financially stressed ratepayers; and
    - economic recovery within the council's district/region and more broadly.
- Councils should consider all options for supporting financially stressed ratepayers including: shifting penalty dates; reducing penalty rates; introducing different payment cycles for ratepayers with seasonal income; and considering how best to implement any recent revaluation.
- Councils should consult in their usual ways unless it would breach Covid-19 lockdown rules or usual channels are no longer available. Use of the internet alone is unlikely to be adequate and alternative engagement options should be considered (see below for some suggestions).

Legal advice jointly commissioned by LGNZ and SOLGM that supports some of the content of this Guidance Paper is attached for the information of council readers.

The 2020/21 annual plan process and setting of rates

Councils should continue their 2020/21 annual plan adoption and rate setting processes

Currently, the annual plan and rate setting processes for the 2020/21 financial year are <u>not</u> seen as 'at risk' and there is no current intention to amend or modify the law relating to such processes.

Although Covid-19 is a major disruptor, councils should continue with the processes and consider carefully how best to complete consultation (see below for more information about consultation).

Before making decisions about rates, councils will need to gather and evaluate information from a broad cross-section of their community. Although there are, and will continue to be, considerable uncertainties it should be possible to formulate working assumptions about Covid-19 impacts on revenue and expenditure options.

It is strongly recommended that councils consider more than one rating option for the 2020/21 financial year and the longer-term impacts of each option.

A late annual plan is still a valid plan

Councils should make best endeavours to adopt the annual plan by 30 June. However, if a council expects to be late in adopting its annual plan and rate-setting, it should inform both the Department of Internal Affairs and the council auditors as soon as possible.

An annual plan adopted after 30 June will be lawful unless it is held to be unlawful by the High Court in a successful judicial review proceeding. <u>If the only issue in a judicial review is late adoption of the Plan</u>, we consider it unlikely that the Plan would be declared invalid by the Court, particularly if it was adopted within a reasonable time after the statutory deadline, the delay can be explained, and the plan is not acted on until it is adopted.

In addition to the central government support packages, councils have options for supporting financially stressed ratepayers

In thinking about setting rates in your 2020/21 rates resolution, consideration could also be given to ways that financially stressed ratepayers might be supported by the council, including:

Shifting penalty dates on prior year's arrears

The Local Government (Rating) Act 2002 (LGRA) lets councils charge 2 penalties of up to 10% on outstanding arrears from the previous year. If your council doesn't already push these out, you could recommend applying the first of these penalties in November or December 2020 and the second in May or June 2021. You'll want a date that fits with your invoicing cycle, but by pushing penalties out you give ratepayers who couldn't pay their last instalments the maximum time to fix the problem before further penalties are added. You will need to specify these dates at the time you set your rates.

Lowering the maximum penalty rate

The Rating Act permits penalties not exceeding 10%. You can set them lower. With interest rates so low, you could consider a lower penalty charge this year. You will need to specify the penalty rate at the time you set your rates.

Introducing different payment cycles for ratepayers with seasonal income

Some councils already have different ratepayers on different instalment dates. You could consider setting up instalment cycles for some seasonal businesses that more closely aligned with their income streams, to help with their cashflows. You would need to specify the different cycles and dates in your rates resolution. You would also need to be sure your rating software could handle this.

Considering how best to implement a recent revaluation

If you had a general revaluation this year, then no doubt you will be dealing with variable rates increases and decreases throughout your district. The law requires the revaluation to be implemented this year – it cannot be deferred. You could amend your rates remission policy so that rates increases were limited this year. However, the lost revenue from that remission would be spread over all ratepayers.

If the annual plan is going to be late you can still issue an interim rates invoice

A council cannot lawfully set rates for the 2020/21 financial year before its annual plan for that year is adopted. However, s.50 of the LGRA enables councils to issue an interim rates invoice for not more than 25% of the rates payable in the previous year.

Thinking about changing rates from what was previously indicated?

Whether a council can adopt a different level of rates change from what it has consulted on (or not) depends on whether:

- the option was within the scope of what was consulted on;
- it is reverting to what the long-term plan (LTP) said the level of rates change would be; and
- it is a significant or material change.

Any council considering significantly different levels of rates to what was previously indicated to its community, should assess their circumstances against their significance and engagement and revenue and financing policies. This will inform judgements about how best to ensure ongoing statutory compliance and/or the need for consultation on the new or altered approach.

Changing service levels and transfer of strategic assets

If rates are to be held at lower levels than what was planned councils will, of course, look to reduce expenditure and in doing so s.97(1)(a) of the LGA02 will become particularly relevant. If a council proposes a change in service as an intended response to Covid-19, it would need to consider carefully whether that triggers the requirement for an LTP amendment. Councils should engage with their auditors and other advisors throughout this process.

However, note that if a council did not plan to reduce a service level but simply could not meet the planned service level because of Covid-19 Alert rules then this would not usually require an LTP amendment.

A council response that would result in a council either losing or gaining control of a strategic asset would also require an LTP amendment.

Section 80 of the LGA02

Apart from the decisions that require an amendment to the LTP, councils always have the option of applying s.80 of the LGA02 to the decisions they need to make this year. It is important, if a council goes down this path, to consider and document the Council's decision in a way that complies with that section. Note that s.80 applies to decisions that are inconsistent with any policy or plan.

Balanced budget requirement and financial prudence

We are aware that some councils are considering borrowing to fund operating costs given the extraordinary situation they face. Councils are therefore reminded that they are obliged to manage their financial dealings prudently and that includes consideration of the current and future interests of the community.

A council could decide to set an unbalanced budget for 2020/21 if it considers it financially prudent to do so after considering:

- s.101(1) and (2) of the LGA02; and
- the matters stated in section 100(2)(a) to (d) of the LGA02.

Prudence requires an overall assessment of circumstances and decision-making that takes a long-term view with consideration of future financial and non-financial consequences of the decision. A short-term decision in response to Covid-19 (eg, reducing rates and/or service cuts) might seem prudent now, but may actually impact badly on the community's longer-term capacity to recover – as the economic impacts of Covid-19 are likely to be felt beyond the 2020/21 financial year.

Councils may wish to consider options for balanced and unbalanced budgets in the next and following few years to ascertain which is the most prudent approach and that which promotes the interests of the community, noting that:

- an unbalanced budget in one year will have future financial implications that will need to be managed in later years;
- consideration will involve a balance between supporting local economies now while maintaining appropriate investment levels for the future; and
- councils may consider it is too early to assess the effects of government support on the community and accordingly whether there is a need to run an unbalanced budget.

The decision to set an unbalanced budget should be made before the annual plan is adopted. The resolution should record the council's consideration of the matters identified above.

Depending on what the budget for the relevant year in the LTP is, a desire to set an unbalanced budget may also require annual plan consultation. The consultation material should set out why the Council considers an unbalanced budget to be desirable, again with reference to the matters above. It should also provide an options analysis that complies with s.77 of the LGA02.

If the unbalanced budget decision involves materially funding operational expenditure from debt, this may be at variance with the revenue and financing policy and may need to be addressed by either an amendment to the policy (requiring consultation) or compliance with s.80 of the LGA02. Note also that the decision to borrow money other than provided for in the LTP cannot be delegated and must be made by the full council [refer to cl.32(1)(c) of Schedule 7 of the LGA02].

Consultation considerations

Online engagement is sensible, but consultation using only the internet is unlikely to be adequate in terms of s.82 of the LGA 02. Councils should provide consultation information in their usual ways except by any means which would breach Covid-19 lockdown rules, or which are no longer available due to external constraints (eg, community newspapers no longer being published/delivered).

Councils should also consider alternatives to the internet, such as:

- using local radio stations to raise awareness and provide information about engagement and participation opportunities;
- options for contacting people by telephone and enabling telephone submissions;
- household mailouts and/or special deliveries of printed documents under certain circumstances; and
- accepting and processing hard copy submissions by post with reference to advice from health authorities.

We note that current advice on essential services published by the Ministry of Business Innovation and Employment advises that "*News (including news production) and broadcast media is considered essential. Daily delivery of newspapers is considered essential. Non-daily newspapers for communities that are hard to reach due to physical location and with limited access to digital connectivity, or for non-English language material audiences are considered essential*."