

# The Treasury

## Budget 2011 Information Release

### Release Document

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**Vote Local Government**

# Four-year Budget Plan

Version 1.2

10 February 2011

Submitted by:

**Department of Internal Affairs**

## Section 1: New Baseline and Summary of Changes

### Direction of Change

The main impact on Vote Local Government relates to the implications of the Auckland governance reforms for the local government system in the rest of New Zealand.

The local government system as a whole will be reviewed, and consideration given to any necessary reforms. Relevant factors include:

- the implications of the Auckland reforms for local government;
- the Government's strategic economic policy of significantly lifting growth and prosperity, and reducing the income gap with Australia and other comparable economies; other key policy agendas, such as regulatory reform; and the part that local government can play in these agendas; and
- issues, tensions and inconsistencies in the local government system, and in the relationship between central and local government, that have become evident to the Minister of Local Government.

The Minister of Local Government's priorities for 2011 and the medium term therefore are:

- first principles review of the local government system;
- engagement in the development of the Auckland Council's first Spatial Plan; and
- improving local government transparency, accountability and financial management.

These priorities are consistent with Government's goals of improving state sector performance and delivering better value for money.

The **spatial plan** will contribute to improved outcomes for Auckland and to the Government's economic growth, social, environmental and infrastructure objectives.

Improving **transparency, accountability and financial management** in local government aligns to the Government's strategic economic policy of significantly lifting growth and prosperity.

### Overall Impact

The Department of Internal Affairs, which administers Vote Local Government, is expected to manage the priorities outlined above within existing baselines.

The Vote has additional financial pressures arising from the integration of the Department of Internal Affairs, the National Library of New Zealand and Archives New Zealand. Cabinet agreed to additional one-off expenditure in 2010/11 to cover the immediate integration expenses, but has also set the new Department savings targets for the following four financial years. These targets represent the financial savings expected to flow from the integration, for example from the rationalisation of support functions across the new Department.

For Vote Local Government, the indicative savings targets are \$0.140 million per annum over the next four years. Additional one-off costs of integration and outyear baseline reductions for the ongoing savings that will be realised from integration were included in the October Baseline Update, with the spread being across all Votes in the affected agencies.

Operating	Impact (\$000s)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Current Baseline *	74,029	73,868	73,862	73,862	73,862
Cost of new/increased activities	-	2,896	-	-	-
Amount reprioritised	-	-	-	-	-
New baseline	74,029	76,764	73,862	73,862	73,862

\* Includes \$57.800 million in 2010/11 and \$60.000 million per year from 2011/12 for Benefits and Other Unrequited Expenses – Rates Rebate Scheme.

### Lake Taupo Crown Assets

The Department of Internal Affairs is responsible for the Harbourmaster function for Lake Taupo and administers the Crown-owned facilities, including 17 ramps, three marinas and a number of jetties valued at approximately \$4.700 million.

The Harbourmaster is responsible for maintaining the facilities in a safe and usable condition, and manages an annual programme of maintenance for the Crown assets.

The Crown is responsible for the replacement, enhancement, and modernisation of its assets at Lake Taupo.

In 1992, the Crown transferred ownership of the lakebeds to the Tuwharetoa Maori Trust Board (the Trust Board) through a Trust Deed. The deed was revised in 2007 for the Crown to make an annual payment to the Trust Board to ensure continued public access.

### Condition of the assets and asset management

One of the major recommendations of the Lake Taupo fees review (see below) was the preparation of an asset management plan for the Crown-owned facilities at Lake Taupo. The Department commissioned independent experts in December 2010 to complete and provide a more detailed analysis on the current and future state of the Crown-owned assets.

The Department has now completed the asset management plan for the Lake Taupo assets. The purpose of completing an asset management plan is to assist the Department in managing projected costs associated with the future maintenance of the assets and provide an accurate assessment of the future capital needs.

The asset management report confirms that the general condition of the Lake Taupo assets is below standard and that major work is required to bring the assets back to the required standard to ensure the safety of users and the general public. This will require significant levels of funding, due largely to a history of under-funding by the Crown. The under-funding means that both capital and operating expenditure will be required to return the existing assets to a minimum acceptable level that is safe for users.

In addition, attention needs to be given to the upgrade of all current facilities to cater for an anticipated increase in demand. Increased usage, compounded by use of the facilities by much larger and heavier boats than what the facilities were designed for, is increasing the rate of depreciation and maintenance costs, and causing the progressive deterioration of the assets.

[6]

[6]

## Funding

Current funding and revenue related to Lake Taupo are summarised in the table below.

	Funding & Revenue \$million
Departmental output expense appropriation - Harbourmaster functions	0.385
Third party fees - Lake services	0.345
Non-departmental expense appropriation – depreciation on Crown assets (includes \$0.071 million attributable to the assets utilised in the delivery of third-party funded activities) <sup>1</sup>	0.147
Non-departmental expense appropriation – annual payment to the Tuwharetoa Maori Trust Board (includes \$0.240 million attributable to the rental of the Lake bed for boating facilities)	1.500
Non-departmental capital appropriation – investment in Crown assets	0.034

[4]

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<sup>1</sup> This is a non-cash appropriation, with no funding flows to the Department for this cost.

[4]

### Capital Injection requirement

The outcomes of the fees review and asset management plan has confirmed that additional capital is required to be invested in the Crown-owned assets at Lake Taupo, and a plan of remedial work is being scoped.

Options of reprioritising within Vote Local Government has been considered but are not feasible as all capital and operating funding in the Vote is tagged for specific purposes. In view of the other priorities in the work programme there are no opportunities to re-allocate funding.

The Department is therefore recommending Non-Departmental Capital Injections in Budget 2011. For the current baseline period these are included in the table below.

	Impact (\$000s)				
	2010/11	2011/12	2012/13	2013/14	2014/15
<b>Capital</b>					
Capital proposals seeking new funding in Budget 2011	-	944	308	303	396
Capital proposals seeking decisions in Budget 2011 funded within baselines	-	-	-	-	-
<b>Total capital intentions</b>	<b>-</b>	<b>944</b>	<b>308</b>	<b>303</b>	<b>396</b>
<b>Operating</b>					
Proposals seeking new Operating funding in Budget 2011	-	2,896	-	-	-
Proposals seeking decisions in Budget 2011 funded within baselines	-	-	-	-	-
<b>Total Operating Proposals</b>	<b>-</b>	<b>2,896</b>	<b>-</b>	<b>-</b>	<b>-</b>

Capital injections beyond the baseline period total \$4.110 million from 2015/16 to 2019/20 will also be required for the completion of the work programme.

In addition to the capital injections identified, the long term financial risk for capital expenditure beyond 2019/20 has been estimated at \$2.078 million. This estimated funding will be required to replace the Lake Taupo assets as part of the long term asset management plan.

[6]

Once facilities have been brought up to required standards, costs of routine and ongoing maintenance will be able to be managed through the memorandum account and recovered through regular fee reviews.

**Risk to the management of Crown assets**

There is an element of risk to the Department, Crown and the Minister of Local Government if the proposal for capital investment for the Crown-owned assets at Lake Taupo is not successful.

[3]

**Asset ownership options**

The question of whether the Lake Taupo Harbourmaster responsibility should be devolved to local government has been raised on a number of occasions. There are no current plans for the Department to hand over the assets and Harbourmaster function to the local and regional council. However, if devolution were to take place, the Harbourmaster's regulatory responsibilities, including the regulation of moorings, would automatically devolve to Environment Waikato.

The Local Government Act 1974 makes the regulation of navigation safety a regional council function. For the boating facilities, potentially both the Trust Board and the Taupo District Council have expressed an interest in potentially taking over the ownership in the future. It should be noted that in the 2007 Deed of Settlement, the Trust Board has first right of refusal if the boating facilities were to be sold.

## **Section 2: Vote Priorities and Pressures**

### *Vote Priorities*

As outlined in Section One, the following are the priorities for Vote Local Government.

#### **Priority 1 - First principles review of the local government system**

This review will consider local government's purpose, structure, functions, status and funding. It will also consider the relationship of local government with central government, private and voluntary sectors, communities, citizens and ratepayers, and iwi and Māori. The overall objective is to produce a more efficient and effective system of local government.

#### **Priority 2 - Engagement in the development of the Auckland Council's first Spatial Plan.**

Central government's engagement with the Auckland Council is a critical component in achieving success in the Auckland governance reforms. A Spatial Plan illustrates future development of a city region, including the sequencing of growth and infrastructure provision.

The Auckland Council is required to prepare a Spatial Plan and must seek to involve central government throughout the Plan's development and implementation. Central government can support the early success of the governance reforms by providing appropriate, timely and coordinated engagement with the Auckland Council as it develops its first spatial plan.

#### **Priority 3 - Improving local government transparency accountability and financial management**

The Local Government Act 2002 Amendment Act will streamline council decision-making and ensure ratepayers have better quality information about council performance. This will give ratepayers greater opportunity to understand and influence their councils' activities and spending. Councils will also be encouraged to focus on frontline and core services.

In addition to publicising and educating stakeholders about the changes made by the Act, further work will need to be undertaken to develop the supporting regulatory instruments, including proposed financial management regulations and the development of rules specifying performance measures for five major infrastructure services provided by local government. The latter will require extensive consultation with a range of stakeholders.

#### **Other priorities for Vote Local Government include:**

- a first principles review of public safety around dogs. The objective of the review is to investigate whether the present regime is effective, efficient and fair. In particular, this exercise would determine whether the current dog control regulation is reasonable and in proportion to the actual risks posed to the public. This review may ultimately require legislation; and
- a review of the Local Authorities (Members' Interests) Act 1968 (LAMIA). Work to review the LAMIA commenced in 2009/10, but was deferred due to higher priority work. LAMIA is currently difficult to understand and administer and has out of date language and monetary limits. It falls within the Local Government portfolio responsibility, but the Office of the Auditor-General carries out its day-to-day administration. This review may ultimately require legislation.

### *Vote Pressures*

The major pressures facing the Vote are delivering the Vote Local Government work programme within existing resources and baseline, and managing the priorities within the work programme so that all of the key activities are achieved.

Departmental officials work regularly with the Minister to reprioritise the policy work programme as new and emerging issues arise. For example, the first principles review of



public safety around dogs was deferred to allow higher priority work to proceed in relation to the Christchurch earthquake and freedom camping.

The Vote also undertakes a number of regulatory and operational activities, such as the Harbourmaster for Lake Taupo, rates rebate scheme and national dogs database. This work is currently non-negotiable as it is required by legislation. The work being undertaken in relation to the local government system and dog control has the potential to consider the underlying policy for some of these operational functions.

A Crown risk in respect of Waitangi Wharf in the Chatham Islands has also recently been identified. There is likely to be a requirement for additional funding to meet the cost of remedial or replacement works on the wharf, due to the unaffordability of the required work for the Chatham Islands Enterprise Trust (the owner of the wharf).

The Minister of Internal Affairs is the Settlor for the Trust, and has sought advice on options for funding the cost of the required work. Further work will be undertaken by the Department to determine the extent of the financial risk to the Crown, and options for funding the required work.

### **Section 3: Proposed Changes for Budget 2011 (Reprioritisation)**

No changes to the operating expenses in Vote Local Government are proposed.

As noted above in Section 1, capital cost pressures in respect of Lake Taupo navigational and harbour assets are unable to be met through reprioritisation. Additional funding is therefore sought for these costs.

## Section 4: Summary of Financial Movements

### Four-Year Budget Plan - Financial Summary Report (Operating - Including Operating Associated with Capital Initiatives 2011)

Vote: Local Government	2010/11	2011/12	2012/13	2013/14	2014/15
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Share Allocation	0	0	0	0	0
Operating					
Baseline (2010/11 OBU)	74,029	73,868	73,862	73,862	73,862
Changes:					
Centralised Saving					
Lake Taupo Crown Assets	0	2,896	0	0	0
Total Centralised Saving	0	2,896	0	0	0
Reprioritisation					
Total Reprioritisation	0	0	0	0	0
Transfers Outside Vote					
Total Transfers Outside Vote	0	0	0	0	0
Total Changes	0	2,896	0	0	0
Total Proposed Operating Baseline	74,029	76,764	73,862	73,862	73,862

### Four-Year Budget Plan - Financial Summary Report (Capital 2011)

Vote:	Local Government	2010/11	2011/12	2012/13	2013/14	2014/15
		(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
<b>Capital</b>						
Baseline (2010/11 OBU)		74,861	34	34	34	34
<b>Proposals for new Capital Funding</b>						
<b>Refurbish/Replace</b>						
Total Refurbish/Replace		0	0	0	0	0
<b>Improve Functionality</b>						
Total Improve Functionality		0	0	0	0	0
<b>Meet Demand</b>						
Total Meet Demand		0	0	0	0	0
<b>Capital Associated with Operating Initiatives</b>						
Lake Taupo Crown Assets		0	944	308	303	396
Total Capital Associated with Operating Initiatives		0	944	308	303	396
Total Capital Proposals		0	944	308	303	396
Total Proposed Capital Baseline		74,861	978	342	337	430

**Capital expenditure beyond current baseline period:**

Capital	Impact \$000							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Capital Proposals seeking new funding in Budget 2011	115	1,500	1,500	750	-	245	-	87
Capital proposals seeking decisions in budget 2011 funded within baselines	-	-	-	-	-	-	-	-
<b>Total Capital Intentions</b>	<b>115</b>	<b>1,500</b>	<b>1,500</b>	<b>750</b>	<b>-</b>	<b>245</b>	<b>-</b>	<b>87</b>

Capital <i>(continued)</i>	Impact \$000							
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
<b>\$ million</b>								
Capital Proposals seeking new funding in Budget 2011	1,150	184	-	107	115	227	13	5,993
Capital proposals seeking decisions in budget 2011 funded within baselines	-	-	-	-	-	-	-	-
<b>Total Capital Intentions</b>	<b>1,100</b>	<b>184</b>	<b>-</b>	<b>107</b>	<b>115</b>	<b>227</b>	<b>13</b>	<b>5,297</b>

Periods beyond current baseline period are included to show full profile over asset upgrade and current cycle replacement programme.