

The Treasury

Budget 2011 Information Release

Release Document

June 2011

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Local Government Briefing

Hon Rodney Hide
Minister of Local Government

Copy to: Hon John Carter
 Associate Minister of Local Government

Hon Bill English
 Minister of Finance

Title: Briefing on the Vote Local Government Four Year Budget Plan proposal for the Lake Taupo Crown facilities

Date: 9 February 2011

Key issues

As part of the preparation for Budget 2011, the Minister of Finance wrote to you on 20 December 2010 requesting that the Department resubmit its Vote Local Government Four Year Budget Plan proposal by 10 February 2011 to more fully consider the proposed capital injection for repair work to the Crown-owned assets at Lake Taupo, including options to manage the proposal within current baselines.

Action sought	Timeframe
<p>Note the contents of the briefing.</p> <p>Note the revised Vote Local Government Four Year Budget Plan proposal for the Lake Taupo Crown-owned facilities to be submitted on 10 February 2011.</p>	10 February 2011

Purpose of briefing

1. This briefing:
 - provides you with background information on the Department's proposal for an increase in the non-departmental capital appropriation for Crown-owned assets on Lake Taupo;
 - attaches for your information the a revised Vote Local Government Four Year Budget Plan proposal for Lake Taupo Crown-owned facilities (Appendix one); and
 - provides an Aide Memoire for your reference as needed (Appendix two).

Executive summary

2. The Lake Taupo Harbourmaster administers the Crown-owned facilities. Crown assets include 17 ramps, three marinas and a number of jetties valued at approximately \$4.7 million.
3. 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.
4. From 2009 to 2010 the Department conducted a review of the fees charged for Lake Taupo boating facilities. The fees review recommended that the Department complete a detailed asset management plan for the Crown-owned facilities on the Lake.
5. The completed asset management plan confirms that the general condition of the Lake Taupo assets is below standard and in need of significant repair due to under-funding. Both capital and operating expenditure will be required to return the existing assets to a minimum acceptable level that is safe for users. Some upgrades are required to prevent asset failure, or human or environmental harm. For example an electrical infrastructure upgrade is urgently required at all the Crown-owned marinas.

[4],[6]

11. The costs relate to Crown obligations which cannot be met from Departmental appropriations. There is currently no funding available within Vote Local Government. Options of reprioritising within the Vote have been considered but are not feasible as all capital and operating funding in Vote Local Government is tagged for specific purposes.
12. Lack of capital investment would pose a risk to the Department's responsibilities under the Health and Safety Employment Act 1992. Risks created by hazards which could not be remedied by costs would be mitigated by the Harbourmaster closing facilities. In addition, if harm came to a user from asset failure, the Crown would potentially be held liable.

Background

Vote Local Government Four Year Budget Plan

13. As part of the preparation for Budget 2011, the Minister of Finance wrote to you on 20 December 2010 requesting that the Department resubmit its Vote Local Government Four Year Budget Plan proposal by 10 February 2011 to more fully consider the proposed capital injection for repair work to the Crown-owned assets at Lake Taupo, including options to manage the proposal within current baselines.
14. It should be noted that the Department has re-adjusted the capital injection required on the previously submitted Four Year Budget Plan proposal for the Crown-owned assets, due to the completion of the Lake Taupo asset management plan in late January 2011.

Lake Taupo Harbourmaster Function

15. The Department is responsible for the Lake Taupo Harbourmaster function and administers the Crown-owned facilities, including 17 ramps, three marinas and a number of jetties valued at approximately \$4.7 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.
16. In light of its ownership interest at the Lake, the Crown is responsible for the replacement, enhancement, and modernisation of its assets at Lake Taupo.
17. 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.

Funding

18. Current revenue and funding related to Lake Taupo are summarised in Table one below.

Table One

	Revenue and funding \$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)	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

Condition of the Crown-owned assets and asset management

19. From 2009 to 2010 the Department conducted a review of the fees charged for the Lake Taupo boating facilities. One of the outcomes of the review was the need for the Department to complete a detailed asset management plan for Crown-owned facilities on the Lake.
20. 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.
21. The Department commissioned Opus International Consultants Ltd in December 2010 to complete and provide a detailed analysis on the current and future state of the Crown-owned assets.

22. The Opus 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.
23. 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.

[3]

27. 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. You have indicated that in view of the other priorities in the work programme there are no opportunities to re-allocate funding. As advised the Department is not forecasting any surplus at year end, due to costs associated with state sector reorganisation. In addition the Department have advised that there is shortfall of approximately \$2 million for forecast Rugby World Cup costs in 2011/12.
28. The asset management plan estimates that a further \$0.690 million of capital expenditure is required for some of the existing Crown facilities e.g. the replacement and repair of the foreshore protection at Motuoapa Bay. In addition, demand-based investments needs e.g. proposals for double ramps (where there are currently single ramps), pontoon jetties and modern berthing facilities, such as the marina development at Motuoapa, is estimated at \$4.303 million.

[4],[6]

[4],[6]

Four-year budget plan for capital investment and maintenance of Lake Taupo assets

34. 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.
35. Options of reprioritising within Vote Local Government have been considered but are not feasible as all capital and operating funding in the Vote is tagged for specific purposes. You have indicated that in view of the other priorities in the work programme there are no opportunities to re-allocate funding. As advised the Department is not forecasting any surplus at year end, due to costs associated with state sector reorganisation. In addition the Department have advised that there is shortfall of approximately \$2 million for forecast Rugby World Cup costs in 2011/12.
36. The Crown only provides \$0.034 million for the replacement, enhancement and modernisation for investment in the Crown-owned assets. The Department is therefore recommending non-departmental capital injections to fund the work needed in Budget 2011 (refer to Table Two, below). The revised Vote Local Government Four Year Budget Plan proposal is attached as Appendix two for consideration at the Budget Ministers meeting on 10 February 2011.

Table Two

	Impact \$000					
	2010/11	2011/12	2012/13	2013/14	2014/15	Total
Capital						
Capital proposals seeking new funding in Budget 2011	-	944	308	303	396	1.951
Capital proposals seeking decisions in budget 2011 funded within baselines	-	-	-	-	-	-
Total Capital Intentions	-	944	308	303	396	1.951
Operating						
Proposals seeking new Operating funding in Budget 2011	-	2,896	-	-	-	-
Proposals seeking decisions in Budget 2011 funded within baselines	-	-	-	-	-	-
Total Operating Proposals	-	2,896	-	-	-	-

37. Capital injections beyond the baseline period total \$4.110 million spread across 2015/16 to 2019/20 will also be required for the completion of the asset management plan programme.

38. In addition to the capital injections identified, the long-term financial risk 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.

[3],[6]

41. 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 in management of Crown-owned assets

42. 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]

Stakeholder views

[3]

¹ Kinloch is privately owned and the Tuwharetoa Maori Trust Board has no involvement with the marina. It was built on reclaimed flooded land is not part of the lake bed.

[3]

50. There is also significant community pressure to improve most facilities. Ratepayer associations and residents' groups have raised their own funds to invest in improved facilities e.g. proposals for double ramps (where there are currently single ramps) to meet peak summer demand and to use modern berthing facilities.

Recommendations

51. The recommendations are that you:

- a) **note** the contents of the briefing; and
- b) **note** the revised Vote Local Government Four Year Budget Plan proposal for the Lake Taupo Crown-owned facilities to be submitted on 10 February 2011.

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Hon Rodney Hide
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