

**QLDC Council
27 November 2014**

Report for Agenda Item: 16

**Department
Finance**

16: Transfer of Rural Fire Assets to Otago Rural Fire Authority ('ORFA')

Purpose

To consider and make decisions on the transfer of assets to the Otago Rural Fire Authority.

Recommendation

That the Council resolves to:

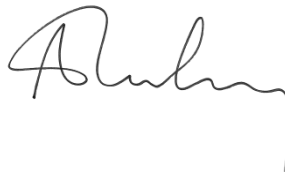
- a. **Transfer** all non-property rural fire assets to the Otago Rural Fire Authority (ORFA) at their net book value as recorded at 30 June 2014;
- b. **Recognise** the transfer by way of internal loan and that this loan be treated as a community loan with no interest or principal payment to be made prior to the period starting 1 July 2018, the first year of the 2018 – 28 Long Term Plan and that the decision on the conversion of the loans to a grant or the payment of interest and principal will need to be made as part of the overall funding formula discussion;
- c. **Lease** all required property rural fire assets to ORFA at a rate that recognises the utility of properties involved and the commitment by ORFA to pay all ownership and occupancy costs including but not limited to all repairs, maintenance, power, communications and rates as applicable. All current lease obligations will be transferred to ORFA;
- d. **Authorise** the Chief Executive to enter into all necessary agreements to allow this matter to proceed and to vary any terms to ensure consistency with all member entities; and
- e. **Note** that further decisions will be required in relation to the funding formula for ORFA in terms of operational costs, plant replacement and improvements costs, and unrecovered incident or event costs.

Prepared by:



Stewart Burns
Chief Financial Officer
14/11/2014

Reviewed and Authorised by:



Adam Feeley
Chief Executive
14/11/2014

Background

- 1 Council agreed to the establishment of an enlarged rural fire district and the formation of the Otago Rural Fire Authority (ORFA). Rural fire responsibilities were transferred to ORFA on 1 July 2014. It also agreed to provide a level of funding equivalent to its input into this activity for a minimum period of 3 years. This contribution is to be inflation adjusted in years 2 and 3. A number of matters were left unresolved, including how the rural fire related assets would be treated, the process to develop a long term funding formula and the process to acquire and fund any additional resources.
- 2 There are several matters that need to be reconsidered prior to making a decision on the matters covered in this report.
- 3 The most critical of these is the reiteration of the reasons for an enlarged rural fire district. Although the process was strongly promoted at a national level it was recognised that there was an inconsistent approach to rural fire across the parties involved and that there were potential benefits to be gained by the whole community from a consistent and more structured approach to this activity. It was also believed that it would have major benefits in terms of the training, availability and safety of the volunteers and staff involved in this function. Finally, it was considered that it would be a more efficient and effective approach to this issue with some potential cost reductions in the longer term.
- 4 There was also a general understanding that many issues could not be resolved until ORFA was established and more detailed understanding of the status of the activity across the region as a whole was established. It also needed to be acknowledged that there would be a number of potentially unforeseen matters to be considered and resolved.

Comment

- 5 ORFA was established on 1 July 2014. Stephanie Rotarangi was appointed Chief Executive prior to this date. Much of her time in the role to date has been spent gaining an understanding of the area and the status in relation to each of the contributing entities. As she began working on getting the activity to function as a cohesive whole it became clear that having day to day control of the plant, appliances, buildings, and other assets was a priority. This prompted discussion with the contributing entities about the best and quickest way this could be achieved.
- 6 Initial discussions on this matter highlighted a number of critical issues that made this process far from straight forward.
- 7 Each contributing entity had developed a unique mix of assets that were a reflection of their specific needs, their service delivery model and, in part, the interest and expertise of the staff involved. How the acquisition of the assets was funded also varied significantly between entities. All used different mixes of national subsidies, community contributions and direct rates or tax input to acquire these assets. This makes identifying what was ratepayer versus wider community input difficult. Further complicating this were issues like hiring in plant rather than owning it and whether annual depreciation or specific renewals were funded. This latter point also has an impact of the level of contribution captured

by operating budgets. All of this means that developing a fair and equitable funding arrangement that recognises the different needs and contributions of each entity will take some time to develop. It is therefore impractical to wait until this is resolved before making a decision about which and how assets will be transferred to ORFA.

- 8 It also needs to be recognized by all of the contributing members that funding commitment relates to operational costs only. The level of contribution being made does not recognise or include any regular or semi-regular funding acquired and additional equipment provided. In fact, because of the different approaches to the funding of renewals and depreciation, it is unclear whether there is sufficient funding to renew the existing assets when they reach the end of the operational lives. This is likely to mean that even if there are efficiency gains there is likely to be a long term funding shortfall if the current level of total contribution continues. The shortfall could grow as initial assessment indicates that most members should have been doing more to ensure the health and safety of the volunteers involved in the activity. Likely changes to health and safety legislation will mean requirements in this will continue to grow.
- 9 The following options consider how this can be done so that ORFA can start making operational decisions whilst still protecting the position of the contributing entity. The preferred option has been developed by all the members and will be presented to all the governing bodies for approval.

Summary of Options Considered

Option 1 – Mixed approach.

The approach for the major asset categories would be as follows:

Vehicles and Appliances

- 10 All items would be transferred at their net book value (cost less accumulated depreciation) as at 30 June 2014. All items transferred would be required to be of suitable standard and any defects would be resolved and paid for prior to the transfer taking place. The rectification of any major issues identified by ORFA in the first six months of ownership would be paid for by the contributing entity.
- 11 The transfer would be “funded” or recognised by way of an internal community loan. There will be no interest or principal payment prior to 1 July 2018, the first year of the next Long Term Plan. At that point the members will need to decide if they wish to convert the loans to a grant or excuse them in some other way or get ORFA to repay the amounts outstanding. If the loans are to be repaid it will require a fully agreed budget and funding mechanism to be in place and an agreement to a significant increase in contributions from all parties.

Plant and Other Equipment

- 12 All plant and other equipment will be transferred on the same date and valuation basis as the vehicles, however this transfer will be on an “as is” basis.

Buildings

- 13 Due to the complicated and varied nature of the land and buildings, these, except for two noted examples, will be leased at a rate that recognises the utility of the building. Any lease will include an obligation on ORFA to fully fund ownership and occupancy costs including but not limited to all repairs, maintenance, power, communications costs and rates as applicable. Any existing commercial lease arrangement would be transferred to ORFA.

Option 2 – Lease

- 14 Under this option the contributing entity would retain ownership but make all assets available by way of lease. Any lease costs would then need to reflect where the ongoing costs of ownership would sit.

Option 3 – Sale / Disposal

- 15 Under this option the contributing entity would sell or otherwise dispose of all the assets involved as these would no longer be required to deliver a service it was responsible for. ORFA could acquire the items it required through this open market process.

Assessment of Preferred Option

- 16 Option 1 is the preferred option. This was developed through general agreement by the contributing entities. It would pass formal operational control to ORFA, ideally before the start of the fire season yet still record and recognise the contribution of the member entities. It would also allow the early redeployment of assets, after appropriate consultation with the affected parties. Although it would leave several key issues unresolved, especially in relation to long term funding, it would allow time for ORFA to get established and develop a better understanding of its short and long term requirements while still meeting its operational obligations.
- 17 The potential negative impact of this option is that given the likelihood of the loans being repaid, the Council is likely to be required to impair or write-down fully the loans in the 2014/15 Annual Report.
- 18 Option 2 is viable although it would require a significantly higher level of initial and ongoing input from members and ORFA as the leases, whether for individual or groups of assets would need on-going attention to keep them up to date as assets are redeployed or replaced. Although the funding and cost impacts are mostly likely to match the current arrangements, further investigation would be needed in terms of how the lease and asset ownership would be reported by both parties.
- 19 Option 3 is not recommended as it is contrary to the aims and objectives of setting up the regional approach. It would also have an operational impact on ORFA as it has very limited, if any, capacity to take on commercial debt and service it.

- 20 It needs to be recognised that the current level of funding being provided is unlikely to be sufficient to either service any debt or fund any equipment leases. This will mean that if the members do not select option one with a grant or debt write-off to follow, they will need to increase their contributions to meet the ongoing funding requirements of ORFA.
- 21 Having considered the options summarised above, the following conclusions have been reached:
- 22 The mixed option of asset transfer is considered to be the option that will produce an outcome most closely aligned to the original reasons for forming an enlarged rural fire district. It will give ORFA the necessary time and space to develop a more detailed understanding of their long term needs yet allow them to operate almost immediately in a more efficient and cohesive manner. It will also allow them to start redeploying assets to the areas of greatest need in a timelier manner.
- 23 Option 1 will also allow ORFA members to develop and agree to a long term funding arrangement that recognises the individual requirements and contributions.
- 24 Option 1 may create some financial reporting and recognition issues however all other options identified create issues to a greater or lesser extent.
- 25 The other options considered have some advantages but these are generally less well aligned with the aims and objectives of the original decision.

Financial Implications

- 26 The financial implications are discussed in the options section above. The total book value of assets transferring is \$245,001.

Local Government Act 2002 Purpose Provisions

- 27 In relation to section 10(1) (b) of the Local Government Act 2002 the proposed activity involves meeting the current and future needs of the Queenstown community for good quality local public services in a way that is most cost effective for households and businesses.

Council Policies

- 28 The following Council Policies were considered:

- Significance Policy: The decision is not considered to be significant in terms of the Policy and is in accordance with assumptions made in the Annual Plan 2014/15.

Consultation

- 29 Prior to its establishment, the proposal to form the Otago Rural Fire Authority was subject to extensive consultation between the territorial local authorities involved.

Publicity

- 30 No media statement is considered necessary.