Our 2022/23 Budget Journey

Rhys Dempster
17th August 2023

Your Marina Committee hard at work

Background:

- After the new Marina Committee commenced in Sept 2022 it was clear we had some challenges ahead of us.

    - Long awaited E Pier project was at the engineering stage but with debates about materials selection, an unclear scope and a draft contract that we were uncertain would provide the result we thought was required.

    - After a number of visits to other marinas to ascertain their MO compared to ours it became clear that our infrastructure condition and work systems needed reviewing.

    - The asset management system that we felt should be delivering a good condition-based planned maintenance process was not functioning properly.

- The early impressions were that the refurbishment provision was felt to be undercooked for the scale of what seemed to be needed.

- Plus a number of other indicators that the facility needed some investment not the least of which were observations during Gabrielle and the other summer storms.

And

- In October 2022 our insurers described difficulties they (and all NZ marinas) were having in reinsuring, that the costs would increase significantly and that we were required to undertake a Condition Report assessment.

We realised that it’s easy to jump to conclusions too early so we needed to validate

or clarify these early impressions

AND

undertake a condition report assessment for our own benefit to ascertain the marina

condition from an independent engineering professional plus to also satisfy

the insurer’s requirements.

From this we could then develop an action plan for verified marina needs.

But We Had A Problem!

We had no budget provision to cover this expense and we had no idea of a suitably capable and qualified engineering expert to do the work.

Another question arose: “What condition level should we aim for?”

(Given that there is a direct relationship between condition and cost)

We sought advice from the Berth Licence Agreement and The Berth Licence Rules:

The marina's aim is "To provide affordable berths for Club members."

- "Affordable" means different things to each of us so it was too loose to use as a yardstick of how to operate the marina.

- We needed something else to define what we should aim for in terms of condition versus cost.

- We felt it didn’t mean “cheap” as that ran the risk of running the asset into the ground (or sea!) and this could affect personal safety, lose the value in our berths, affect our insurance and our legal liability as well as the security of our vessels .
- It clearly didn’t mean a gold-plated operation as that would almost certainly not be "affordable”.

So, another problem – what standard do we aim for, how to measure it and at what cost?

Action Plan:

- We used to a competitive tender process, as required by our Club policies, to let a contract to Shorewise Engineering (Rob Brown) to complete a Condition Report process.

- We were able to use 2023 budget provision that was unlikely to be spent to cover the $17K cost. (Nothing comes cheap in this industry! … or very affordable!)

- The report was received in April and has led to the work plans and opex and refurb costs that you're going to hear more about tonight.

- As importantly, the report introduced us to an infrastructure condition assessment tool that we found further use to assist in defining "affordable." (see next slide)

Condition Rating Structure:

To define Fit for Purpose, and having "Affordability" in mind, then for Doves Bay we could say that we must meet an overall condition rating of 3 for each inspection. The gap establishes annual work plans. We don't want gold standard as this will be less "affordable". We don't want to allow poor condition as this puts our boats and the club at risk.

1	2	3	4	5
Very Good Condition	Good Condition	Moderate Condition	Poor Condition	Very Poor Condition
Remaining life 100% – 65%	Remaining life 65% – 40%	Remaining life 40% – 25%	Remaining life 25% – 10%	Remaining life 10% – 0%
As new.	Very minor wear and tear, but does not have a functional impact	Wear and tear evident very minor functional impact if any	Significant wear and tear or damages. May have a functional impact such as reliability issues developing	At the point of failure or failed. On failure the asset function is no longer performed

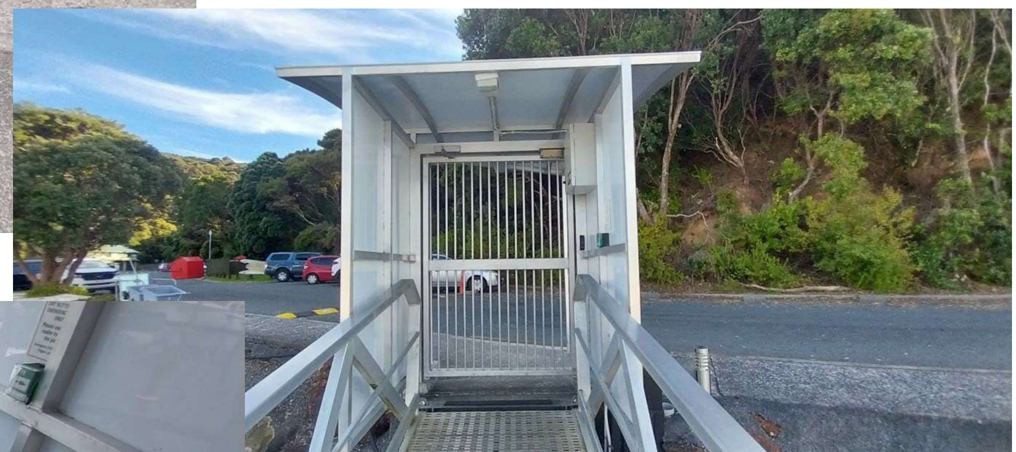
International Infrastructure Management Manual (IIMM 2015)

The expected remaining lifespan of various marina components is:

Condition	1	2	3	4	5
Condition Rating	Very Good Condition	Good Condition	Moderate Condition	Poor Condition	Very Poor Condition
Remaining Life	100% - 65%	65% - 40%	40% - 25%	25% - 10%	10% - 0%
Concrete Pontoons	35 -22 Yrs	22 – 14 Yrs	14 – 9 Yrs	9 – 3 Yrs	3 – 0 Yrs
Walers	20 – 13 Yrs	13 – 8 Yrs	8 – 5 Yrs	5 – 2 Yrs	2 – 0 Yrs
Galvanised Through Rods	20 – 13 Yrs	13 – 8 Yrs	8 – 5 Yrs	5 – 2 Yrs	2 – 0 Yrs
Galvanised Corner Frames / Pile Guides	16 – 10 Yrs	10 – 6 Yrs	6 – 4 Yrs	4 – 2 Yrs	2 – 0 Yrs
Painted Steel Corner Frames / Pile Guides	20 – 13 Yrs	13 – 8 Yrs	8 – 5 Yrs	5 – 2 Yrs	2 – 0 Yrs
Stainless steel Corner Frames / Pile Guides	25 – 16 Yrs	16 – 10 Yrs	10 – 6 Yrs	6 – 2 Yrs	2 – 0 Yrs
Timber Piles	20 – 13 Yrs	13 – 8 Yrs	8 – 5 Yrs	5 – 2 Yrs	2 – 0 Yrs
PE Sleeved piles	50 – 32 Yrs	32 – 20 Yrs	20 – 12 Yrs	12 – 5 Yrs	5 – 0 Yrs

The above table is a guideline only, the lifespan will depend on the design and manufacturing quality of the items, quality of the treatment system, exposure at the site and routine maintenance carried out.

Typical Condition Level 4/5



Typical Condition
level 1, 2, 3.

But wait there's more…..

Vision 2051:

During late 2022 we commenced what we called our "Vision 2051" project to try to define things like "Affordable Berths", the marina condition required at the time of our licence renewals in 2051 and how we got from here to there regarding maintenance, refurbishment projects, cost and work systems.

We held a number of Marina Committee workshops during Feb and March to define:

1. What we needed to do – work systems and processes.
   (next slide)

2. What it was going to cost.

3. How we were going to try to fund it all.

Still work in progress

22/3/23

VISION 2051
"Affordable Berths for Club Members"

Funding Plan, Annual Budgets and Actions to Achieve Class 3 Minimum Marina Condition Standard (IIMM 2015) Measured by 5 yearly Condition Report (1, 5, 10 and 20 year projections)

Level 1: R&M Minor/Routine: Internal Resources Plus Local, As Required, Support
Level 2: R&M Large item/refurb Major/infrequent: Preferred Contractor Support. (3 year term)

- 5 Yearly Condition Report drives planned work schedule
- Walk-around Ad Hoc Worklist
- Gabrielle Recovery
- E Pier Refurbishment
- Planned Minor R&M
- Annual Pile Replc't Programme and Worklist: Lock-in contractor attendance at site.

Asset Management system

- Build and maintain working relationships with Reg Council, residents, Iwi.
- Standard: Decision on Replacement Pile Types by Location.
- Ropes and Lines Standards and Protocols
- Annual Revenue and Capital Budgets to support Condition Report, Refurb Plans and Annual Operating Costs.
- Additional Operating Standards Yet to be Identified and Developed
- Policies and Procedures updated and fully integrated
- General C'ttee, Trustees and Licence Holder Engagement – Comms, Newsletters, Briefings, SGM, AGM, etc
- Marina Costs Benchmark Review
- Vision Brainstorm Workshop
- People Resources: Headcount, Skills, Knowledge, Training.

KCC Marina Management and Operating Staff

KCC Marina Committee

KCC Policies and Procedures

KCC General Committee

How we take Doves Bay Marina to consistent Class 3 condition rating by 2028 Measured by IIMM 2015.

Then things all started to arrive at the same time:

- We felt that the Berth Licence Agreement guided us to the outcome that the marina had to arrive at 2051 in a good enough condition to be able to have the berth and environmental consent licences renewed.

- This set in place an asset condition plan and refurbishment need between now and then so a viable asset with retained value in the licences could be operated into the future.

- The Condition Report gave us a short and long-term work plan with timing for refurbishment project implementation.

- It also provided us with a tool that we felt could be used to define “affordable.”
  - If the marina had to maintain a condition to, and beyond 2051 then the best condition level to do this with a balance between Level 1, “as new/high cost” and Level 5, “imminent failure/cheap” then we felt that aiming at achieving and holding Condition level 3, ”Moderate Condition,” with 5 yearly reviews for quality assurance, would provide the best balance.

  - “Affordable” then becomes defined as <u>the least cost to achieve and maintain Condition level 3 on-going.</u>

- The Vision 2051 project provided the work systems required for Melanie and her team to deliver the 2051 objective.

- We developed a long-term cash flow projection that scared the hell out of us – and we're now trying to have the costs validated by an IQP to confirm the numbers. This is critical as our future refurb contributions rely on this work.

- And we spent a long time reviewing alternative funding systems that didn't just rely on increasing fees to licence holders.

You’ll hear more about the current status for this work during this evening but the elephant in the room now is how we budget and pay for:

- Insurance increases
- Operating costs increases
- Refurbishment needs over the next 15-20 years
- Feasibility studies and investigations

This leads us into this evening’s presentations and Murray will now describe the budget and berth licence fee structure.

KCC Doves Bay Marina – Cost Structure

Murray Lucas
17 August 2023

Our cost structure

First: Definition of terms we'll be using

- BLH – us. Berth Licence Holders

- "Opex" – Operational Expenses. eg power, insurance, maintenance, staff wages, materials for marina and office, IT, cleaning, waste management, etc.

- "Recover(y)" –
  - The annual budget set in June/July describes the expected annual opex costs for the following year.
  - The Club incurs opex costs for day-to-day activities. Wages, waste handling, IT, power, etc.
  - The opex fees are "recovered" from the BLHs twice per year based on the budgeted costs.
  - Our system is a total cost recovery process with no margin, profit or contingency provision.

- "Refurb" or the "Marina Refurbishment Fund". This is an account, managed by the Trustees, for the purposes of "refurbishment of the marina not covered by annual maintenance."

- Contribution – for the refurb. fund management we establish a future cash demand based on costs to maintain the marina, predict when that expenditure is required and invoice a refurb "contribution" which is deposited into an account to support that expenditure. This is the other component of our twice-yearly fees.

- "Fees" – these are the costs invoiced twice yearly to all berth licence holders to recover the sum of the annual Opex costs and required Refurb contributions.

  Our Fees = (Opex Recovery + Refurb. Contribution) according to berth size.

Definition of terms continued

- “R&M” – repairs and maintenance
- “Insurance” – The “Deed of Undertaking” requires the Club to maintain a comprehensive insurance with a reputable insurer.
- “Research Fund” – I’ll cover this in detail in the next slide.
- MTP – maximum transfer price. The cost of our berth licences – currently adjusted by CPI annually. Options, controls and implications of adjusting MTP to assist BLHs to rationalise high cost increases currently under review.
- “Ideas” – six ideas developed in our Vision workshops to reduce current BLH costs – largely leveraging the price differential with closest alternative marina berth options (ie Opua, Whangaroa and Tutukaka)
- IQP – Independent Qualified Person – professional support from engineers, lawyers, accountants, etc. The Club’s policies and procedures require IQP support at various times – especially engineering for high cost procurement expenditures.

Research Fund – a new opex/budget cost category for 2023/24.

To try to reduce the likelihood or extent of BLH's fee increases.

- During the last year the Marina committee has required external professional advice for a number of potential cost saving innovations and feasibility studies.
- For example:
    - 15-20 year marina refurbishment cost projection – need to validate our estimates.($9K quote) Critical to have best possible advice as our annual fees are directly affected by how we build this provision.
    - Effects of adjusting maximum transfer price (MTP) – tax, legal considerations.
    - Recommended A and B Pier replacements in 10 years – renew or repair?
    - Recommended pile types, costs and benefits of sleeved v timber v steel, longevity and installation specifications re driven depth, sea level change, sealed benefits, etc.
    - Feasibility for additional berths within the marina footprint. ($10K quote, approved by General Committee but rejected as "speculative" by Trustees)
    - Wave effects for boats on E pier – re stern-to or bow-to pier orientation in storm conditions. Are we doing the right thing?
    - Legal advice in adopting additional funding ideas to leverage licence cost differential with nearest alternative marina berths (Opua, etc).
    - Implications of debt funding for refurbishment needs.

- 2023/24 budget provision is $40K. Note that based on actual quoted prices, preliminary investigations into just two of the above ideas would consume half of this provision.

- Without such a fund we have no means of investigating cost saves, innovations and feasibility assessments.

Operating Expenditure - OPEX!

Opex covers all of the operating costs for the marina.

Funds IN

Berth Licence fees

Haul-out income

Sundry sources

Rental Pool Admin
Berth Licence transfers
Sale of rope, shackles
Waiting list registration fees
etc

Marina OPEX

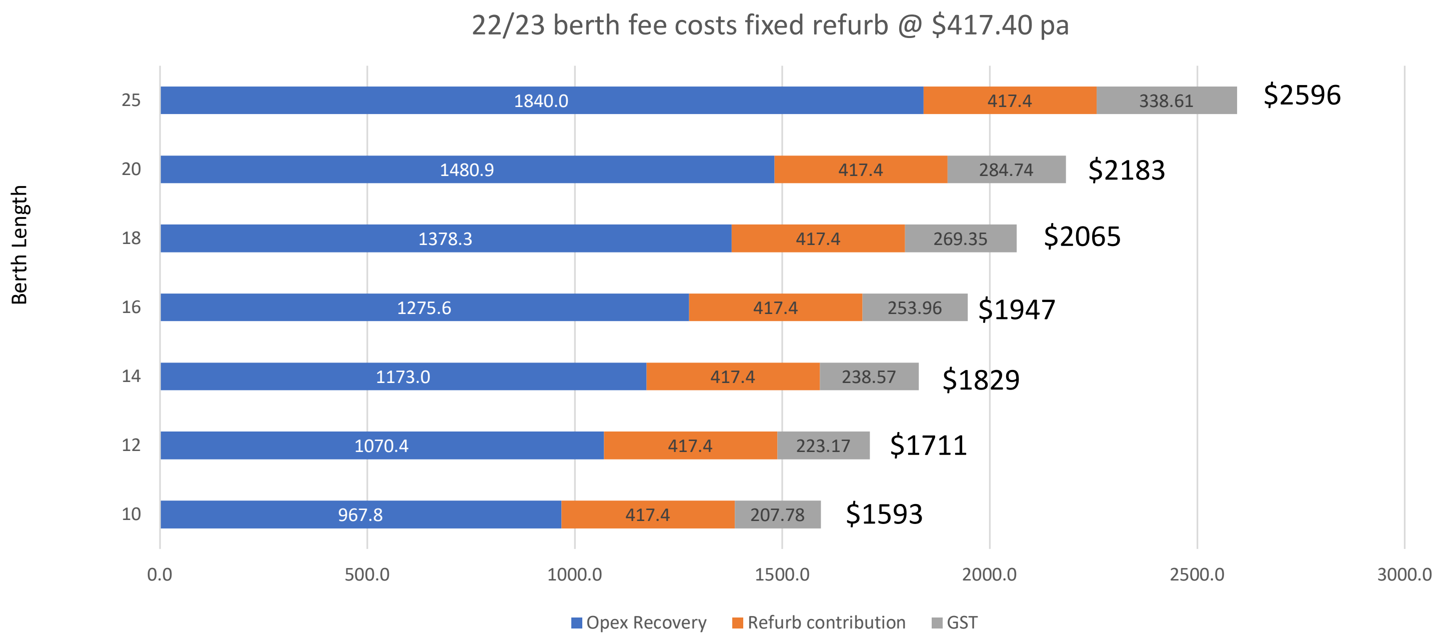
Funds OUT – ie expenditure

Insurance
Wages
Power
Materials
Maintenance
Contractors
Cleaning
Waste management etc

Objective is to balance "Funds In" against "Funds Out" with zero variance

Our annual berth licence fee is made up of three components:

1. Operating costs (opex) recovery - to pay for wages, fuel light and power, R&M etc and is net of some income. eg haul out, rental pool admin, etc.
2. Refurbishment account contribution. (current balance around $1m and an annual contribution of just over (2023) $80K pa from members plus around $20K pa from interest.)
3. GST



Previous Budget Process:

For each budget review during the past few years we would typically adjust the annual licence fees to provide full cost recovery on forecasted cost changes as follows:

1. Move the Opex recovery component by the amount required to recover 100% of the new year's assessed net operating expenses of the marina – The "BUDGET"

2. Add in the Refurbishment Fund contribution as a fixed amount of $417.40

3. Groan about having to pay GST.

But there is a fundamental problem with this approach:

The two controllable components that we apply to cover our marina costs are driven by completely different and separate drivers over significantly different timeframes.

Opex Recovery	Refurb Fund Contribution	GST
Opex is driven by the annual budget and reflects the cost of goods and services, labour and inflation on the cost side and how much income we can generate on the income side via the haul-out, rental pool admin, transfer fees etc. Basically a short-term cover for the net costs of marina operation for the current year.	The Refurbishment Contribution needs are driven by the larger works over the longer term (2-15 years) with cash demands for a works programme to assure continuous safe operation of the facility with a 15-30 year expenditure needs horizon.	And GST is GST!
Traditional treatment for opex is sound	A fixed annual fee doesn't recognise or support the true marina refurb needs.	
Short Term - this year	Long Term – 0-15 year horizon	

Now going to leave you with that background and we'll hear from Melanie on the Opex changes for the 23/24 budget.

I will follow her to provide our forward direction for the Refurb. Situation.

Kerikeri Cruising Club Marina Budget

M MacDiarmid
August 2023

Marina Annual Budget

1. OPEX Portion

Operating Expenses: annual costs including power, wages, insurance, rubbish, NRC consent monitoring fees etc

Minus **Expenses Recovered** & **Sundry Income**

Allocated between total berths = Annual Fees - OPEX portion

2. Refurbishment Fund Contribution

Allocated between total berths = Annual Fees – Refurbishment Fund Contribution

Operating Expenses & Capital Purchases

Operating Expense	2023/2024	2022/2023 – Previous Year
Insurance	$200,000	$40,417
Planning & Research	$40,000	$0
Wages	$145,776	$130,646
Other Expenses	$200,740	$191,907
Total	**$586,516**	**$362,970**
Capital	**$13,600**	**$13,212**

Expenses Recovered & Sundry Income

Expenses Recovered/ Sundry Income	2023/2024	2022/2023 – Previous Year
Haul Out Income	$28,800	$20,774
Visitor Pool Costs Recovered	$49,617	$23,797
Other Expense Recoveries & Sundry Income	$10,596	$66,831
Total	**$89,013**	**$111,402**

Annual Fees - Refurbishment Fund Contribution

Refurbishment Fund Contribution	2023/2024	2022/2023 – Previous Year
	$101,922	$86,444

Marina Budget Summary

Budget	2023/2024	2022/2023 – Previous Year
OPEX	$586,516	$362,970
Capital	$13,600	$13,212
less Recoveries & Sundry Income	$111,009	$141,883
	$489,107	$234,299
Refurbishment Fund Contribution	$101,922	$86,444
Total Fees Collected from Licensees	$591,029	$297,942

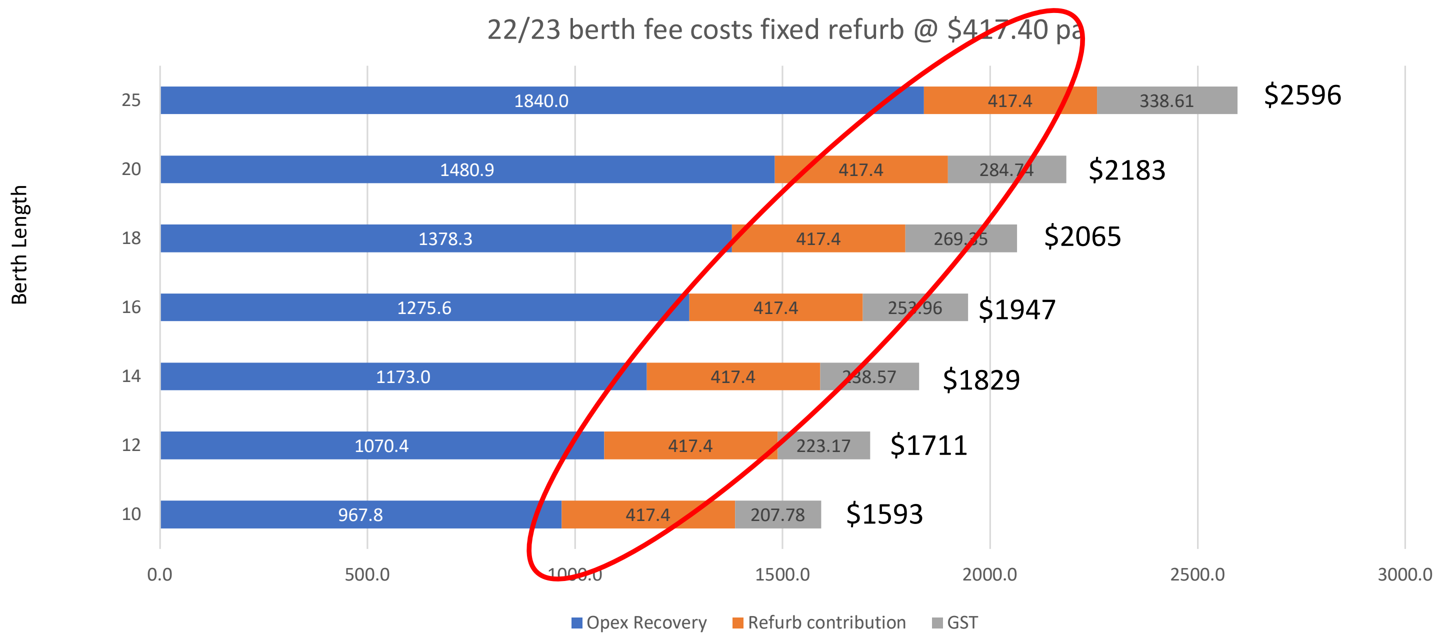
Annual Fees inc GST

Berth Licence Size	2023/2024 Fees			2022/2023 Fees Previous Year
	Total	OPEX	Refurbishment	
10m	$3,025	$2,503	$522	$1,593
12m	$3,345	$2,769	$577	$1,711
14m	$3,666	$3,034	$632	$1,829
16m	$3,987	$3,300	$687	$1,947
18m	$4,308	$3,565	$743	$2,065
20m	$4,629	$3,831	$798	$2,183
25m	$5,751	$4,760	$991	$2,596

KCC Doves Bay Marina – Refurbishment

Our annual berth licence fee is made up of three components:

1. Operating costs (opex) recovery - to pay for wages, fuel light and power, R&M etc and is net of some income. eg haul out, rental pool admin, etc.
2. Refurbishment account contribution. (current balance around $1m and an annual contribution of just over (2023) $80K pa from members plus around $20K pa from interest.)
3. GST



Refurbishment:

- The Refurbishment fee component of our annual berth licence fees has not been escalated for “some” (???) years and sits at a fixed rate of $417.40 pa applied equally over all berths irrespective of length. This delivers around $80K pa to the Refurb account. (193 berths x $417.40 = $80,558.20 pa)

- While the refurb fund has a current balance of around $1m and an annual contribution of around $100K (including interest) there are significant issues with this situation:

    - The immediate-term works programme that’s required for E Pier refurb, piles replacements and work classified as refurbishment from the recent Condition Report will pretty much exhaust this account by the end of 2024.

    - The future refurb needs for the marina are significant. (Piles programme, C&D walers and through bolts, A and B Pier possible replacements, etc)

    - Of the annual contribution rate of $100K, around $20K of this is interest. As the fund is drawn down to cover the works programmes above the interest will reduce and the effective on-going contribution rate would only be around $80K pa as above.

    - We’ve projected 15 years’ major works’ requirements that must be completed to adequately maintain the facility.

Refurbishment Issues cont’d

- Our best estimate at this time is that we would need to contribute around $3-500K pa to ensure we can pay for these works.
- We’re urgently trying to validate these cash flow projections from an independent qualified engineer - but just let’s say the required annual funding was $400kpa.
- For perspective this would be around $1700 per licence holder per year ON TOP of our existing Opex costs, refurb contribution and GST obligations!
- We’ve spent a lot of time over the past 8 months determining just what the overall “cash out” demands for the marina looks like and how we can generate more “cash in” by other means than just increasing our BLH fees.
- There are options, and while we do see the need for increasing the refurb contribution in our fees, we think we can reduce this to some degree by the implementation of some of these other ideas. These largely leverage the buy-in differential between Doves Bay and the next best marina alternatives.

BUT – this is still work in progress and has in the mix considerations of MTP, new entrant levies, waiting list registration fees, transfer fees, BLH fees, rental pool income. It also requires IQP support – hence the Research Fund.

Refurbishment Contribution Cont'd

IMPORTANT NOTE

BUT – this is still work in progress.

We still need to validate the future refurb costs and quantify the potential income from new income streams over and above just direct BLH fee cost increases.

SO, for the August invoice we have simply adjusted the long-standing $417.40 pa by CPI (+7.2%) for the short term and added the Club transfer provision ($16K) as required by our agreed cost splits between Club and Marina.

Between now and the next fees due date early in 2024 we'll validate our cost projections with greater IQP-supported accuracy and gain more certainty and credibility for our future refurb. costs.

SO - For the January BLH fees instalment we should have greater certainty of the future cash needs, mitigation options and consequences to our fees.

BUT – they will almost certainly increase, probably significantly, to cover the refurb fund requirements.

AND – we are considering the role that MTP changes may have to support these increases.

But wait, there's more!

We have a schedule of berth licence fees based on berth length so the current flat fee refurb contribution ($417.40) has a disproportionate component for the shorter berth sizes than it does on the larger sizes.

Berth Size (m)	Current refurb as % total fee
10	26%
12	24%
14	23%
16	21%
18	20%
20	19%
25	16%

Refurb 26% of 10m annual fee.

Refurb 16% of 25m annual fee.

Look what happens if we increase the refurb. contribution by, say, $1000

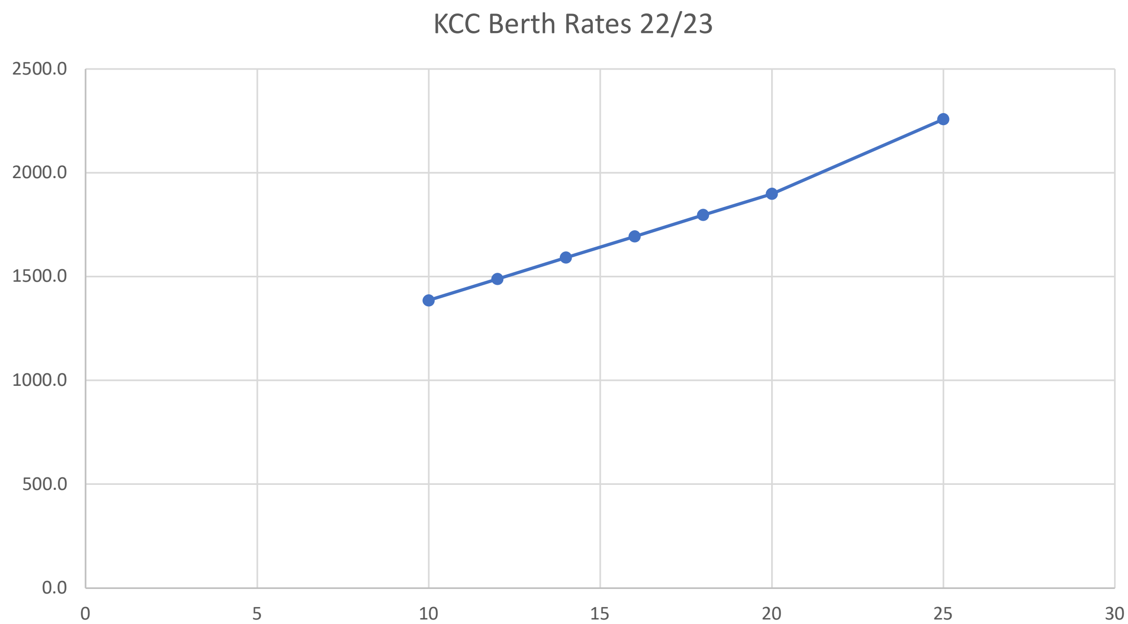
As the refurb contribution increases, which we expect it to do, a flat rate contribution across all berth sizes has an increasingly disproportionate effect on the smaller berths' fees increase compared to the larger sizes.

Berth Size (m)	New refurb $1417.4 as % total fee	% Fee increase
10	55%	63%
12	52%	58%
14	50%	55%
16	48%	51%
18	46%	48%
20	45%	46%
25	39%	39%

Refurb 55% of 10m annual fee and 63% fee increase.

Refurb 39% of 25m annual fee and 39% fee increase.

Is that fair?



We already have a length-based fee structure – our annual fees (incl flat Refurb). Changing the Refurb Contribution to a length-based component aligns this sum with our annual opex fee structure and all changes are the same for all berths percentage-wise.

There is an argument that all berths are created equal and should all have the same fee – but all marinas that we know of use a length-based fee structure.

Our view is that instead of a flat rate refurb contribution across all berth sizes we should have a refurb rate for each berth size, in the same relationship as Opex/length, so that for fee changes all berths would see the same percentage effect to the total fee.

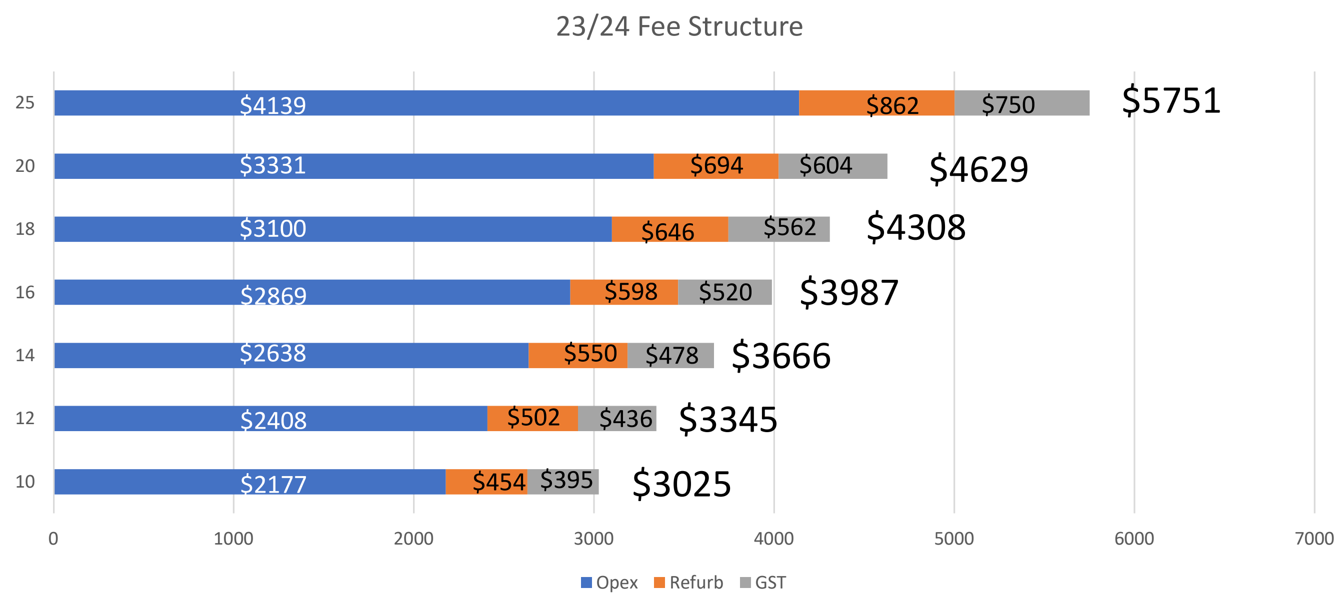
For 2023/24:

Berth Size (m)	No of levied berths	23/24 required refurb rate excl GST	32/24 Refurb recovery excl GST	Refurb as % total fee
10	24	454	$10,884	17%
12	102	502	$51,159	17%
14	32	550	$17,588	17%
16	20	598	$11,954	17%
18	7	646	$4,521	17%
20	7	694	$4,857	17%
25	1	862	$862	17%
	193		$101,825.43	

This schedule of Refurb rates, set in the same relationship as opex/length, provides the same level of Refurb Contribution of $101,922 as the flat fee of $417.40 across all berth sizes.

In addition, for the future, and with required refurb rates set for each berth size at the same opex/length ratio as current, then all berth fees changes would adjust by the same percentage change.

Opex and Refurb Contribution Summary – Fees for 2023/24



Summary

1. The current refurb fund will most likely be fully consumed during the 2024 refurb projects – E Pier, piles and C&D T Heads.

2. The future refurb needs for the marina are significant.

3. The invoiced Refurb rate for first instalment of 2023/24 year fees has been escalated over 22/23 rate by CPI plus a provision for the Club commitment (Total $101,922) as an interim measure.

4. This is pending IQP validation of a 10-15 year refurb cost projection for credible assessment of future marina cash flow requirements.

5. By the due time for second instalment fees in early 2024, and based on outcome of 4 above, the Marina Committee is planning on having a funding package for BLH consideration including fees changes, potential application of "Alternative Funding Ideas" and possible MTP implications.

6. For the second instalment fees we are likely to expect higher refurb contributions to meet the marina refurb. needs.

7. We introduced the concept of a variable refurb. fee by berth length such that all future rate adjustments would affect all berth sizes equally percentage-wise.

8. We advised the interim fee structure for 23/24 and our invoices will be despatched next week for the first instalment of this amount.

About the only consolation is that the next best local alternative is: