Draft Long-Term Plan 2024-34

30 October 2023 LTP/AP subcommittee meeting

▲ Pukeatua / Wainuiomata Hill

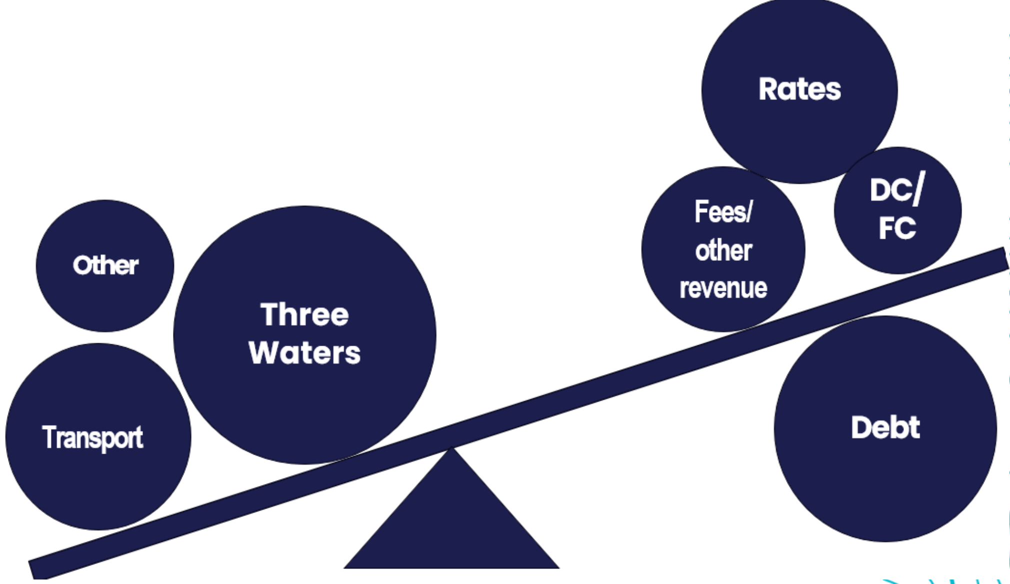
Contents

High level timeline

Activity	Date	Status
Council hui to set initial priorities and objectives for the DLTP	31 May 2023	Complete
Council agrees on draft strategic framework, approach to early engagement and high level approach to DLTP	30 June 2023	Complete
Council decisions following feedback from early engagement and progressing decisions on key DLTP assumptions	30 August 2023	Complete
Council decisions on draft budgets and key initiatives, trade-off considerations.	30 October 2023	Today
Council agreement on final budgets, policies and strategies, trade-off considerations. Includes Infrastructure Strategy & KPIs.	27 November 2023	
Council agrees on DLTP and the approach to consultation	12 December 2023	
Council approves Consultation Document (CD) and DLTP	31 January 2024	
Council adopts DLTP and consultation material for the formal public consultation process	27 March 2024	
Public consultation process	April 2024	

A challenging context

Challenging economic climate, particularly driven by high inflation and borrowing costs



Infrastructure deficit

Council owns many ageing assets that require significant investment.

While this is critical, there is a need to balance investment against financial sustainability and rates affordability.

Borrowing capacity constraints

Due to the rising costs across the board which limits our debt capacity, there is a need for prioritisation of the investment options.

Standard & Poors Credit Rating Aug. 2023 – AA Stable outlook revised to AA negative outlook

Affordability constraints

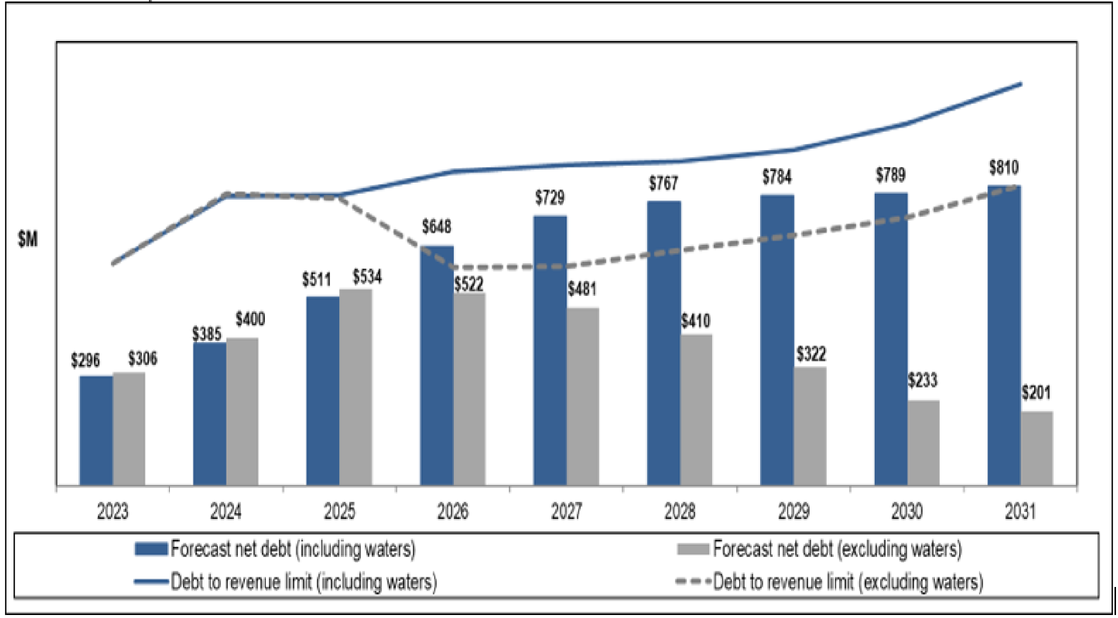
We don't want to put off intergenerational and strategic investments, but we do want to ensure we recognise the need to prioritise and consider what we ask the community to pay for, given the economic climate.

Water Services Reform

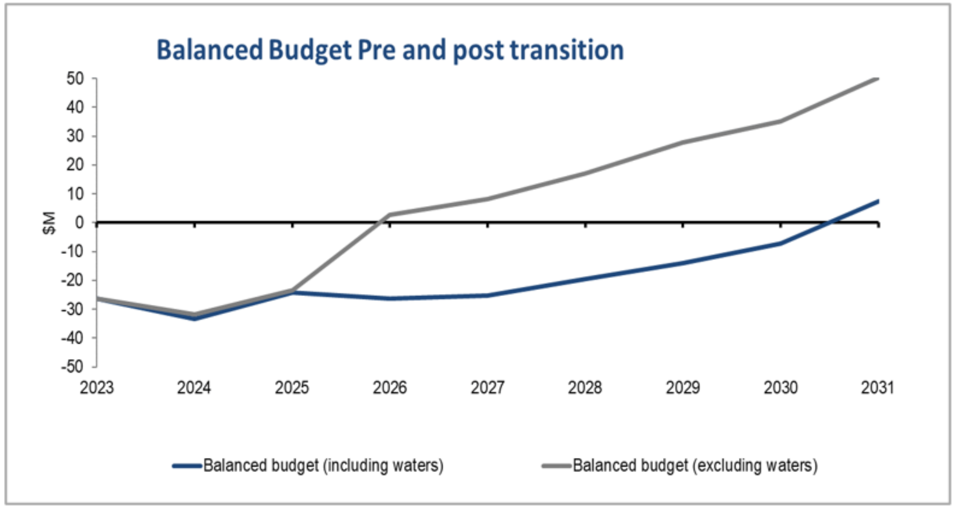
– Significantly more favourable position with reform

Projections completed in June 2023 show financial impacts comparison of water services reform proceeding or not.
In reform scenario (excluding waters) - assumes Council delivers water services until 30 June 2025; Water related debt is paid back to Council over five-year period.

Graph 3: The comparison of projected debt pre and post transition is presented below, together with the debt to revenue limits in each scenario (draft Annual Plan 2023-24).



Graph 4: Balanced budget position based on draft Annual Plan 2023-24 budgets



The Hutt City Council balanced budget target is defined as the Local Government (Financial Reporting and Prudence) Regulations 2014 definition, modified to exclude from the definition of revenue Waka Kotahi NZ Transport Agency's Capital improvement subsidies, Infrastructure Acceleration Fund grants and central government COVID-19 Response and Recovery co-funding for Naenae Pool and Tupua Horo Nuku.

Extract Council report 30 June 2023 – Initial direction and approach for the LTP 2024-2034. HCC2023/3/199

Base budget review process

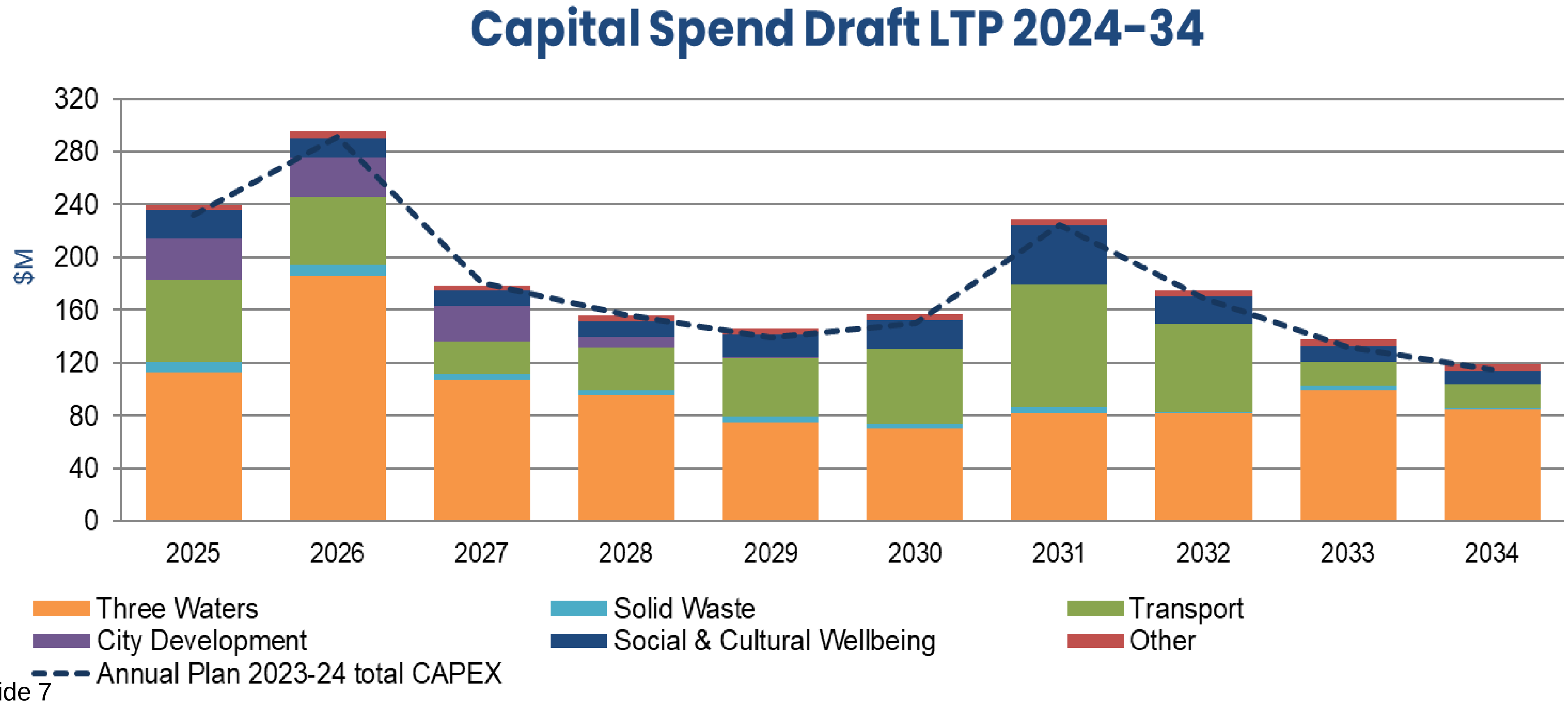
In summary
- Detailed review by Budget Managers, Business Unit Manager, Directors and CLT.
- Budgets adjusted for
    - Underlying assumptions approved by Council 30 August (e.g., inflation, interest costs etc);
    - Unavoidable increases, such as contractual commitments;
    - Approved staffing levels and related costs;
    - Approved service level changes;
    - Revenue reviews;
    - Other justifiable approved changes.

Note:
- Three waters budgets have not followed this process. Separate report in the agenda for Wellington Water Ltd opex advices but capex advice not available as yet. We are also awaiting information on bulkwater costs.
- There are some fee reviews incomplete and there are some areas requiring further review, e.g. depreciation.
- Further BERL inflation adjustors received which is slightly higher. Updates still to be undertaken.
- Awaiting further information eg RiverLink

AP24 = Annual Plan 2023-24
DLTP= Draft Long-Term Plan 2024-34

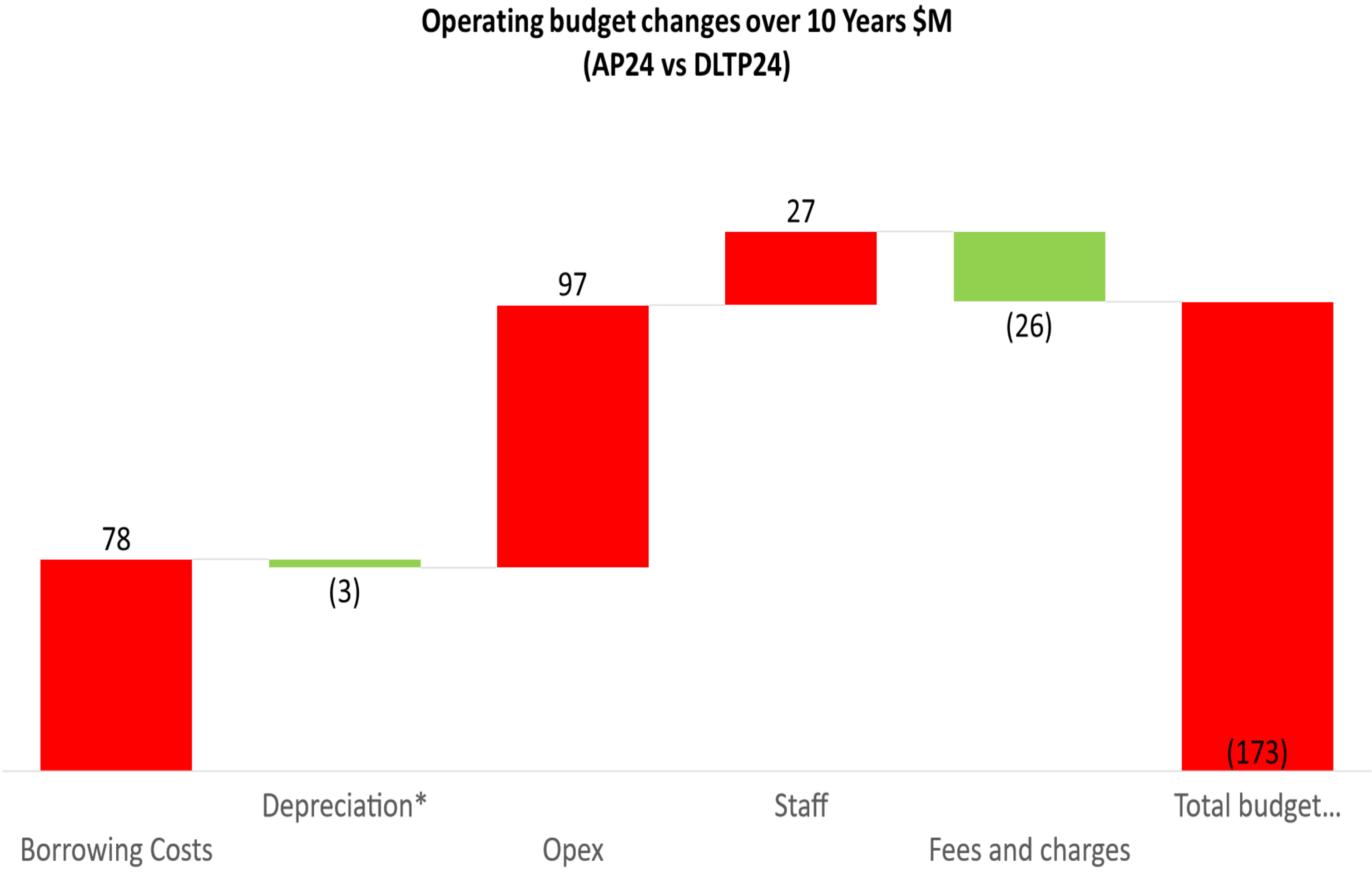
Capital Expenditure - AP24 versus DLTP

Capex is $1,831M (an increase of $40.5M on AP24) over the 10-year plan. This includes transport contract changes of $16.7M, net Asset review increase of $25M, some carryover adjustments related to 2022-23, updated budgets for the last three years of the plan and inflationary changes.



Key operating budget changes – AP24 versus DLTP including 3W Opex

Post base budget review and without any changes to rates revenue.



The graph presents the base budget changes to the operating costs and revenue compared to approved Annual Plan 2023-24 projections. The net position is a total increase of $173M over 10 years.

Borrowing cost $78M linked to the higher capital programme, additional opex funded through debt and higher cost of funds.

Operating costs $97M: three waters opex increase, Insurance cost increase, unavoidable contract cost increases in various areas, IT base budget increases, transport contract adjustments.

Employee costs $27M: Revised organisational structure, higher market related costs and impacts of living wage.

These cost increases are offset by:

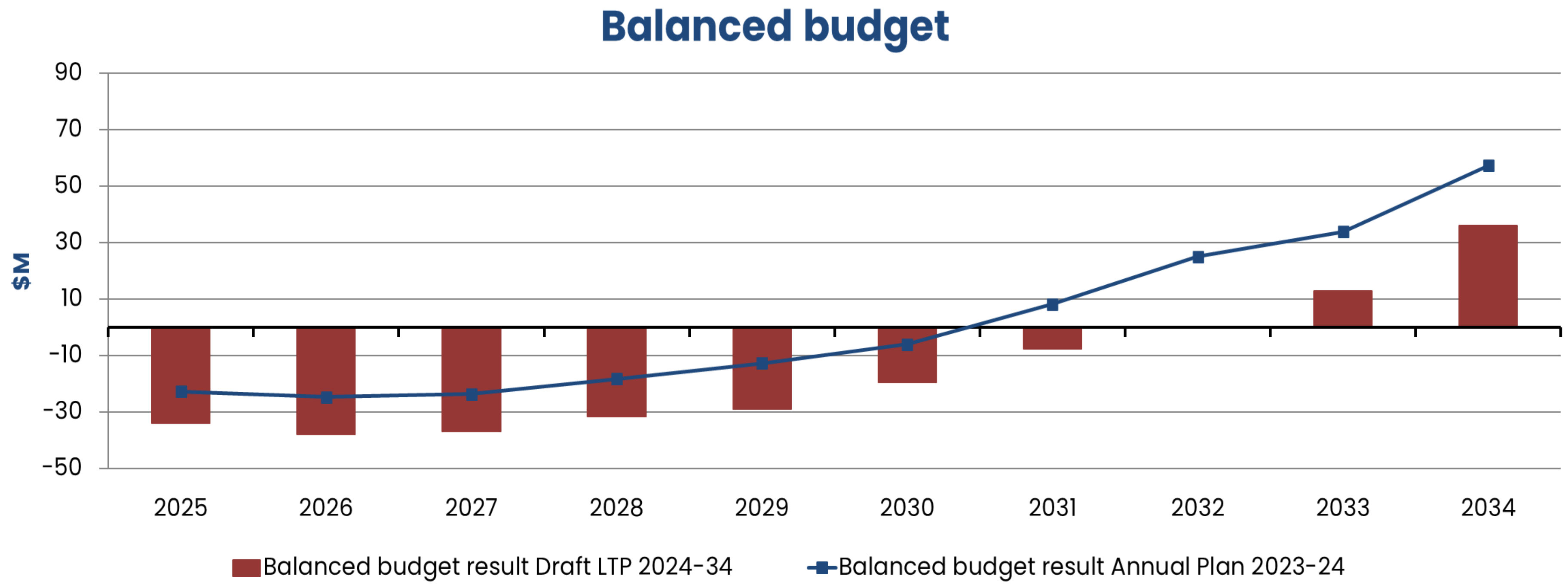
Fees, charges and other revenue $26M: increases across a number of areas offset by Landfill revenue reduction to account for waste minimisation goals.

Lower depreciation of $3M – this number is still being validated.

Rates increase at 8.9% (after growth) including Three Waters Opex

Projections below are based on inclusion of all the base budget changes, assets review and three Waters Opex increase (refer to graph below for details) but rates revenue increase remains at 8.9% (after growth).

Projecting to reach a balanced budget in 2032-33 (two years later than AP24) with deficits of $194M* (AP24 $108M) until then

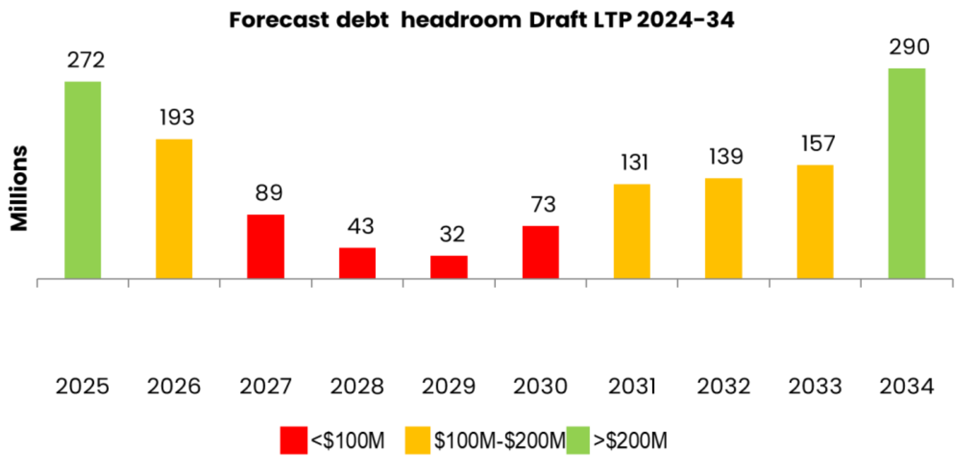


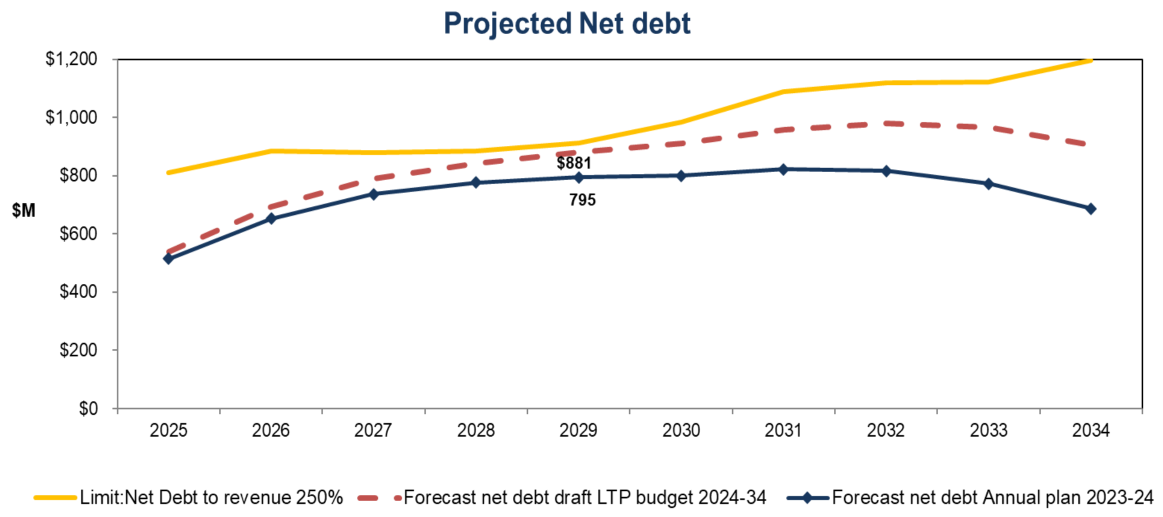
*Includes capital subsidy revenue for capital renewals

Rates increase at 8.9% (after growth) including Three Waters Opex

Projections below are based on inclusion of all the budget changes per slide 9 but rates revenue increase remains at 8.9% (after growth).

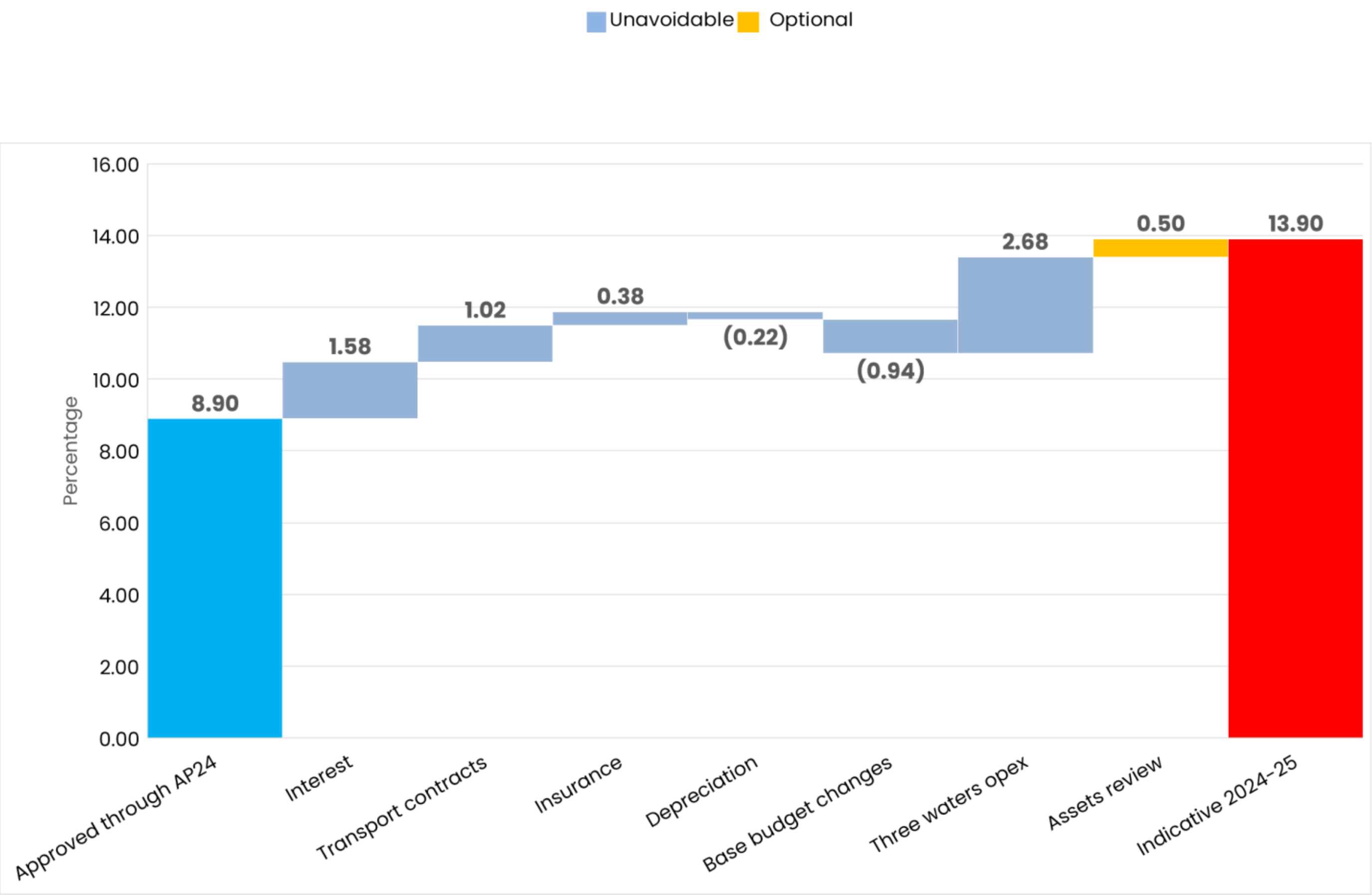
	LGFA limit	HCC limit	8.9% rates(+ growth)
Net debt to revenue	280%	250%	241% (Headroom $32M)
Net interest to rates revenue	30%	25%*	18.8% (2028)
Net interest to revenue	20%	15%*	12.1% (2029)





Rates revenue increase impact – 13.9% (after growth)

Based on unavoidable costs and council decisions to date, and **after** detailed budgeting process

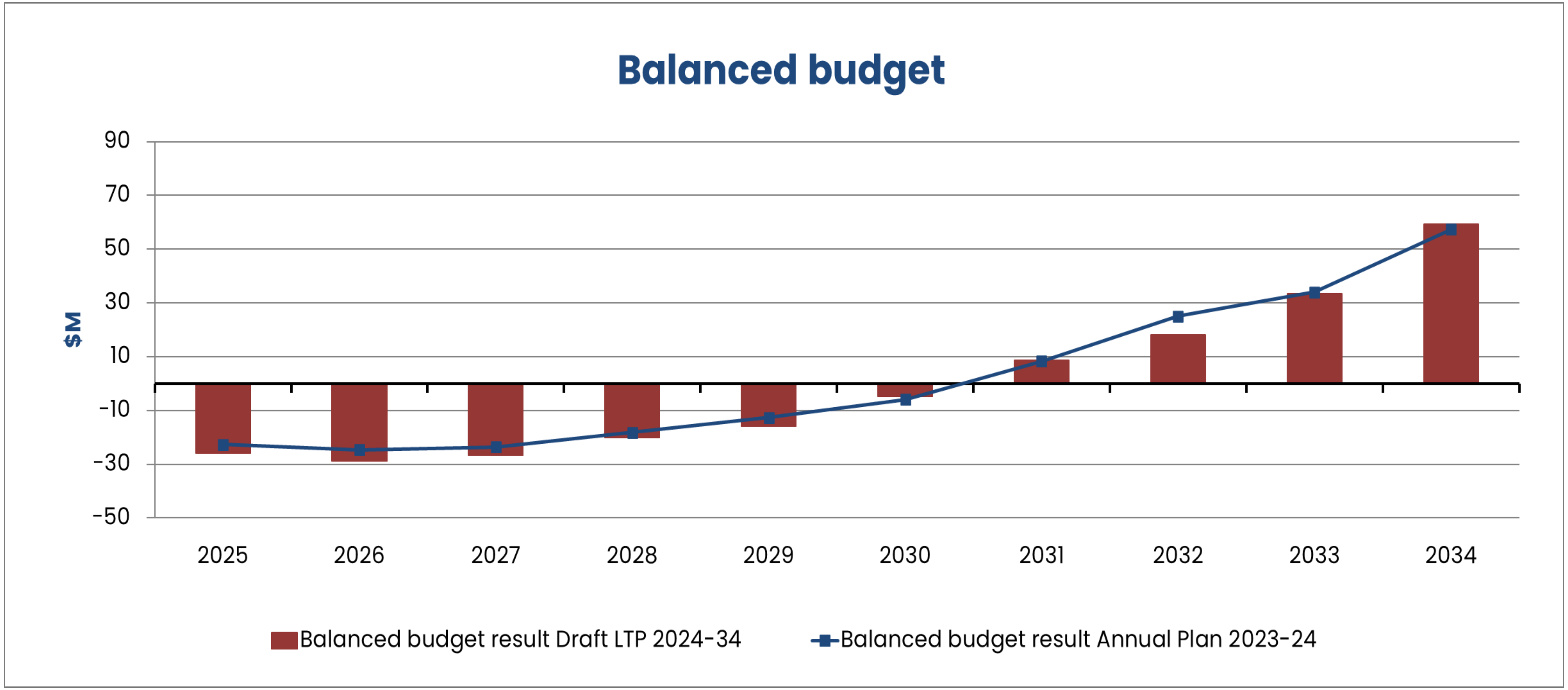


Delivery in line with the rates revenue increase of 8.9% as planned in Annual Plan 2023-24 is not going to be possible unless trade-offs are agreed, and service level reductions are considered.

Presented in the graph is the indicative rates impact based on current known unavoidable costs and council decisions to date. A rates revenue increase (after growth) of 13.9% is required to meet the current funding needs ahead of any further optional initiatives being considered as a part of the DLTP24.

Balanced budget, with rates increase at 13.9% (after growth)

Projecting to reach a balanced budget in 2030-31 (same as AP24) with deficits of $122M* (AP24 $108M) until then.

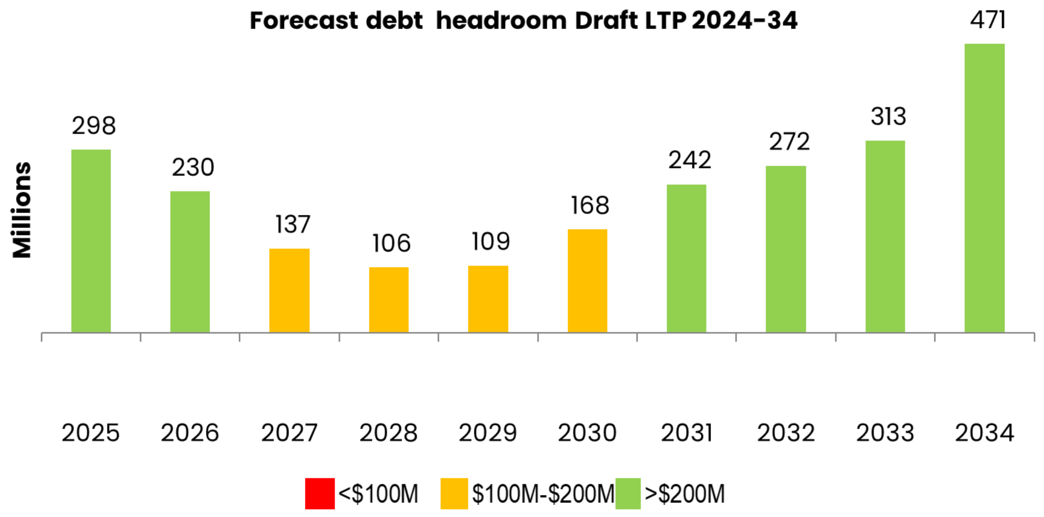


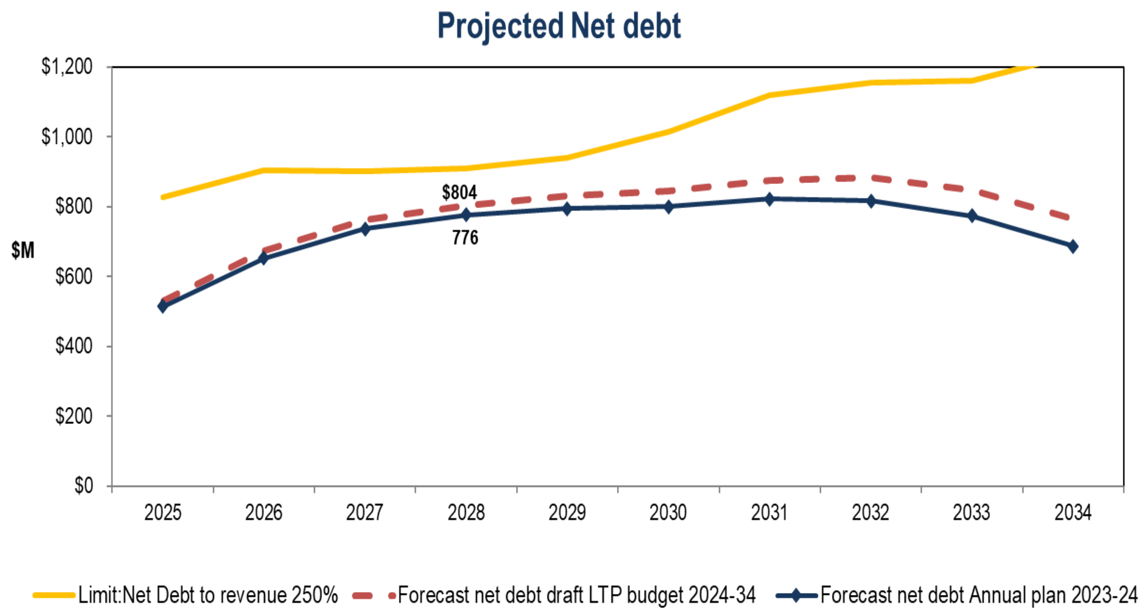
*Includes capital subsidy revenue for capital renewals

Debt forecasts, with rates increase at 13.9% (after growth)

Net debt is projected to peak in 2028 at 221% against the limit of 250% with headroom of $106M.

	LGFA limit	HCC limit	13.9% rates(+ growth)
Net debt to revenue	280%	250%	221% (Headroom $106M)
Net interest to rates revenue	30%	25%*	17.3% (2028)
Net interest to revenue	20%	15%*	11.1% (2029)





* Increased limits approved on 30 August 2023

Rates increase scenario of 20.7%

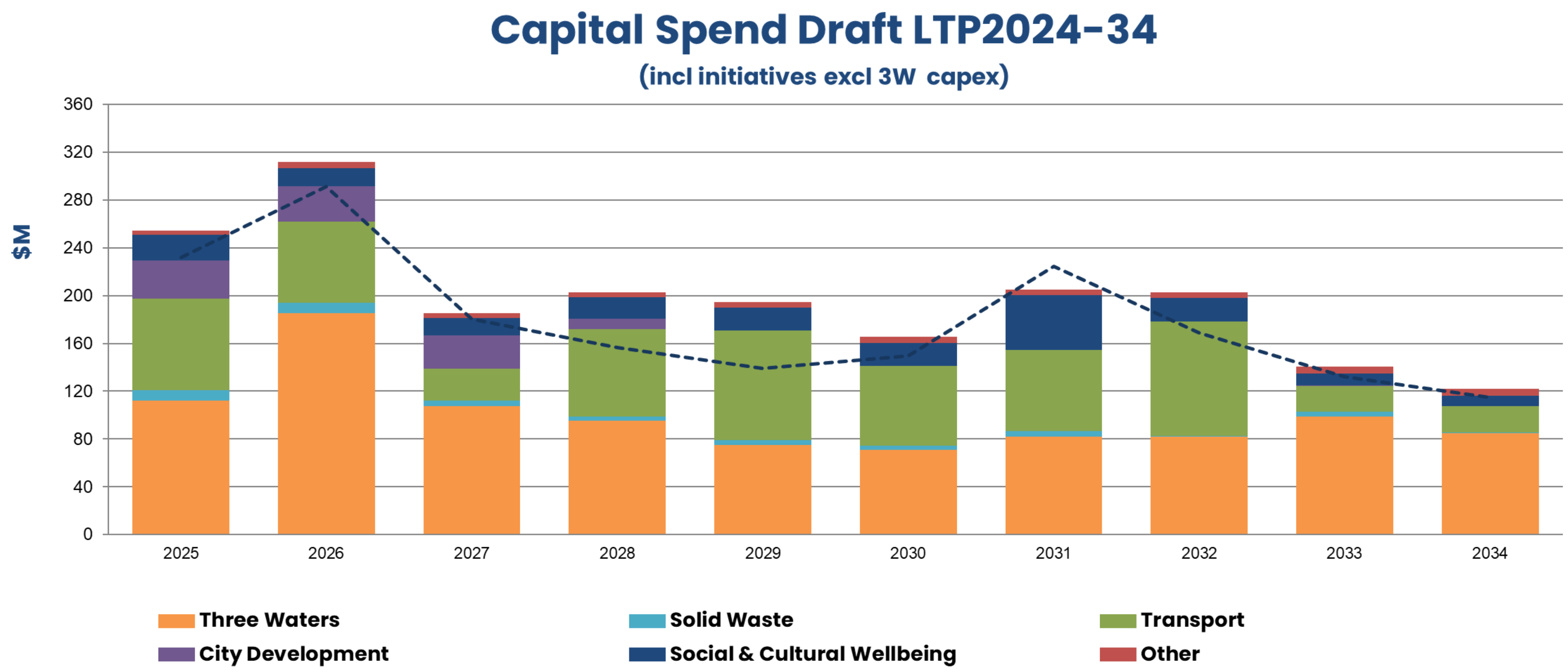
A range of additional budget proposals are included in the agenda papers (Refer page 14, table 3). These cover Transport, Information Technology, emergency management, Indigenous biodiversity, Reserves Investment Strategy, Urban Renewal programme, Rangatahi engagement, financial hardship rates remission etc. There is also proposed offset Parking fee reviews.

The indicative rates impact based on current known unavoidable costs, council decisions to date and all new initiatives being proposed is a rates revenue increase (after growth) of 20.7%.

Page 237 of the agenda shows the detail assumptions on Council choices that comprise the 20.7% increase.

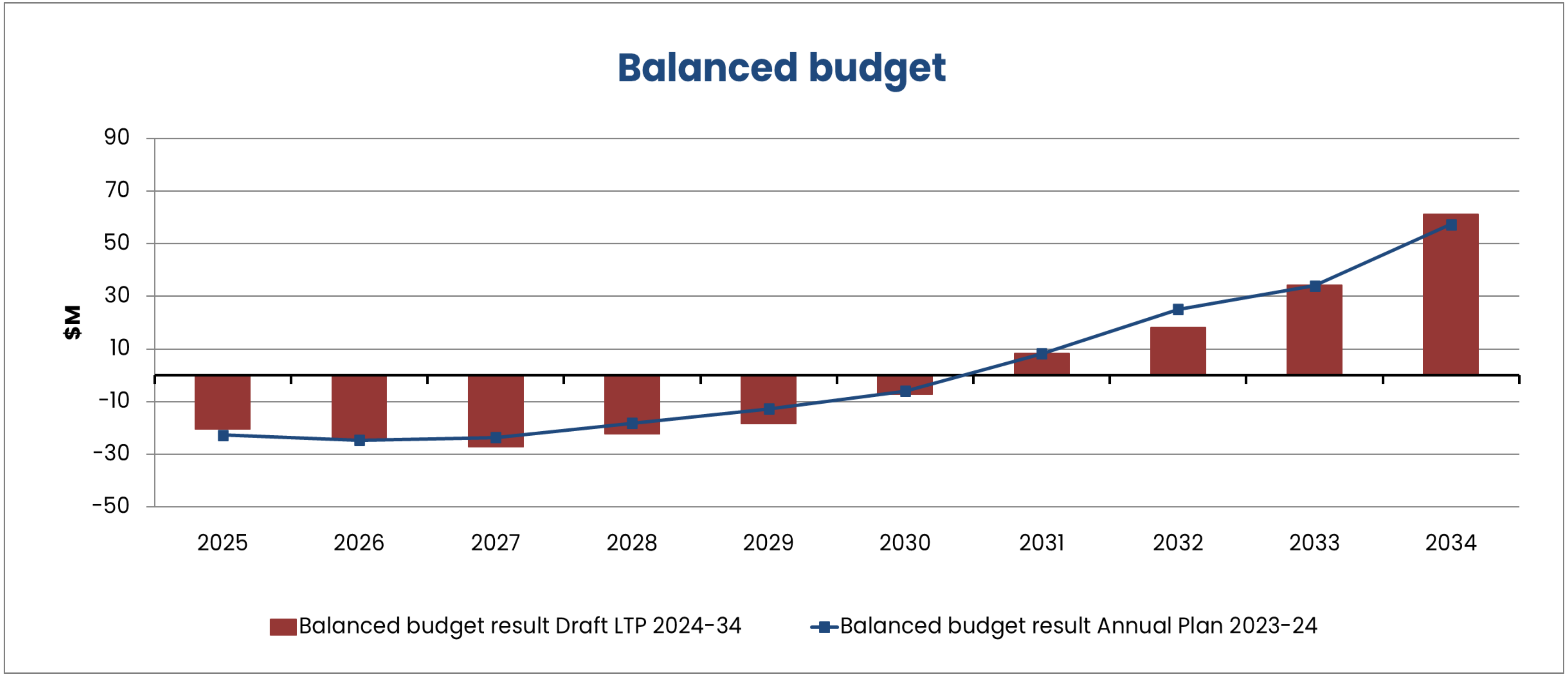
Capital Expenditure – DLTP with new initiatives included (excl 3W)

Capex is $1,942M (an increase of $111M on current budgets) over the 10-year plan. This is largely due to transport projects, and parks and reserves projects.



Balanced budget, with rates increase at 20.7% (after growth)

Projecting to reach a balanced budget in 2030-31 (same as AP24) with deficits of $119M* (AP24 $108M) until then.

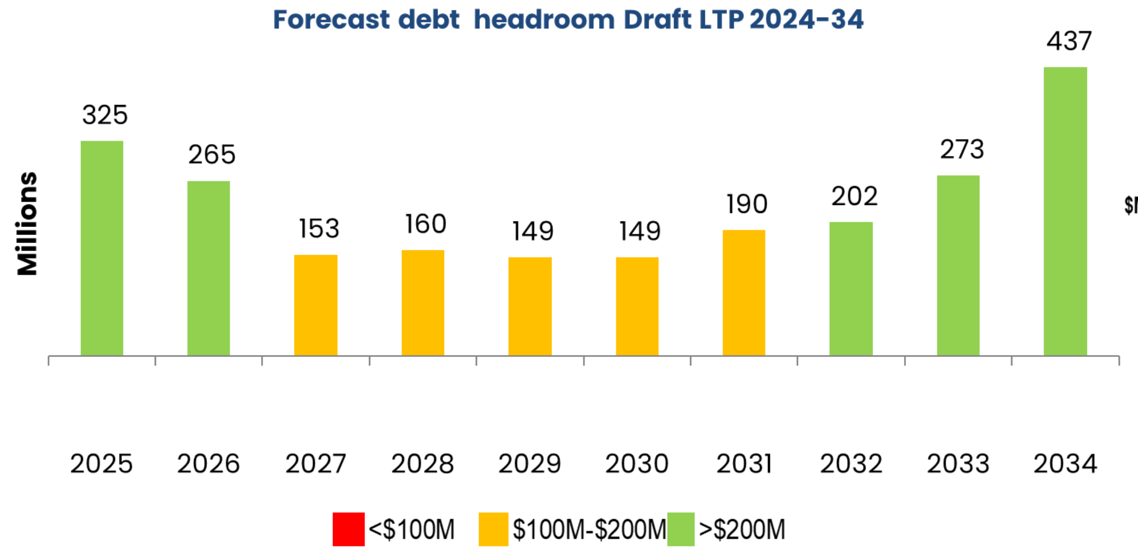


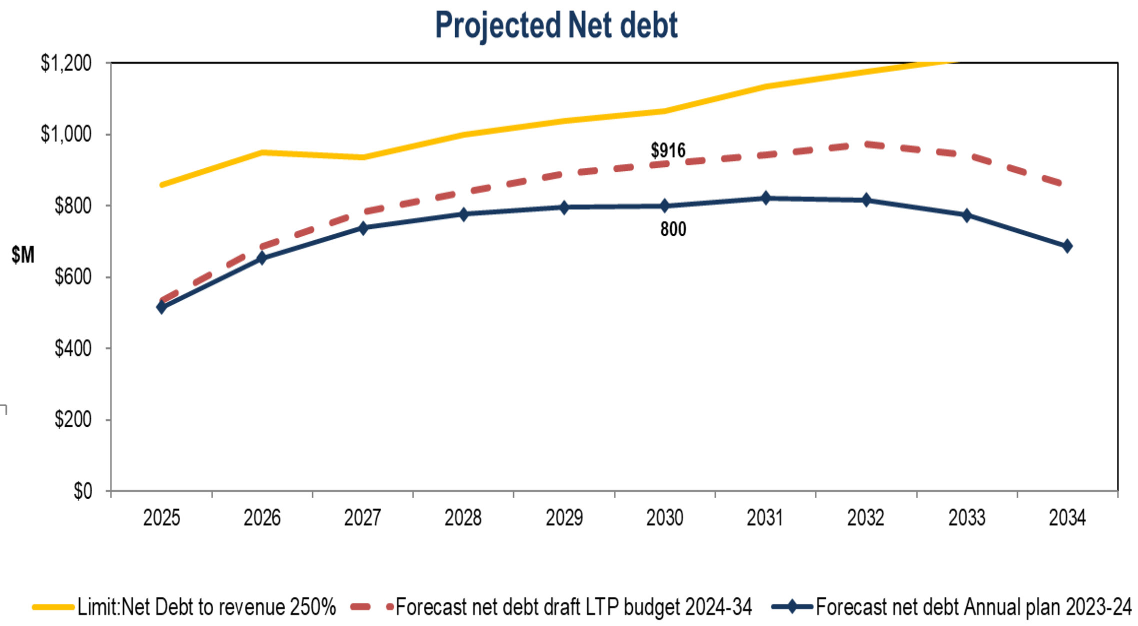
*Includes capital subsidy revenue for capital renewals

Debt forecast– 20.7% Rates increase (after growth)

In this scenario Net debt is projected to peak in 2030 at 215% against the limit of 250% with headroom of $149M.

	LGFA limit	HCC limit	20.7% rates(+ growth)
Net debt to revenue	280%	250%	215% (Headroom $149M)
Net interest to rates revenue	30%	25%*	16.9% (2029)
Net interest to revenue	20%	15%*	11.1% (2030)





* Increased limits approved on 30 August 2023

Assessing the impacts of rates increase

	Scenario 1: Rates increase per AP24 at 8.9% *	Scenario 2: Rates increase 13.9%*	Scenario 3: Rates increase 20.7%*
Key investments with partner funding commitments continue as planned	Yes, however risks	Yes	Yes
Continue delivery of balance of investment programme as planned	No, will require projects to be stopped/paused	Yes	Yes
New investment added	No	No	Yes
Continue further investment into 3 Waters	No	Yes, only for opex	Yes, only for opex
Services levels maintained (apart from minor changes)	No, service level cuts required	Yes	Yes
Increase in debt funding to make up for operating revenue shortfall	Yes	No	No
Likely to meet financial prudence test, and balanced budget requirement	No, unless service level cuts to offset	Yes	Yes
Likely that Standard and Poors AA credit rating retained	No	Yes, although some risks	Yes, although some risks
Rates affordability impact Average residential increase per week	Moderate, $5.39	Moderate $8.35	High $12.66
Recommended by officers	No	Yes	Yes

* - each of these options is after adjusting for rates growth assumption of 1.1%

Early indicative rating impacts – 13.9% increase (after growth)

Property Category	1 July 2023 Capital Value	2023-2024 Rates	2024-2025 Rates	$ Change Amount annual	$ Change Amount Weekly	Change Amount %
Average Residential	$815,000	$3,348	$3,782	$434	$8.35	13.0%
Average Commercial Central	$2,350,000	$19,367	$22,305	$2,939	$56.51	15.2%
Average Commercial Suburban	$2,418,000	$16,501	$18,816	$2,315	$44.51	14.0%
Average Rural (no water or wastewater)	$1,247,000	$2,342	$2,636	$294	$5.65	12.6%
Utilities	$3,262,068	$23,515	$26,997	$3,482	$66.95	14.8%

Early indicative rating impacts – 20.7% increase (after growth)

Property Category	1 July 2023 Capital Value	2023-2024 Rates	2024-2025 Rates	$ Change Amount annual	$ Change Amount Weekly	Change Amount %
Average Residential	$815,000	$3,348	$4,006	$658	$12.66	19.7%
Average Commercial Central	$2,350,000	$19,367	$23,840	$4,473	$86.02	23.1%
Average Commercial Suburban	$2,418,000	$16,501	$20,084	$3,583	$68.90	21.7%
Average Rural (no water or wastewater)	$1,247,000	$2,342	$2,795	$453	$8.71	19.3%
Utilities	$3,262,068	$23,515	$28,840	$5,325	$102.40	22.6%

Savings

Approach over the last few years

- LTP2021-31 – Detailed base budget review process with budgets adjusted for $5.2M savings
- Only unavoidable costs were allowed to be added into budgets since LTP2021
- All other increases have been by Council decision only.
- In Annual Plan 2023-24 due to significant cost increases:
  - a savings exercise was performed and $6.5M of operating costs were reduced over 8 years to 2031
  - initial planned staffing costs were reduced by $12.9M over 8 years to 2031 – this included a vacancy savings assumption of 6%
  - A range of capital projects were also deferred to reduce the burden on debt

Savings

For DLTP 2024-2034

- Approach has been a detailed budget review process.
- Savings of $6.1M over 10 years(with an indicative rating impact of 0.4% in 2024-25) have been made through the base budget review process and are incorporated into budgets.
- Further work underway

• Capex savings
  $1M reduction in Capex will reduce rates requirement by an indicative 0.03% (excluding any costs of maintenance),
• approximately $31M capex would need to be reduced to achieve 1% reduction to rates, so the most impactful rates reduction would relate to operating cost reductions/savings.

Trade–offs and choices

In order to avoid significant debt and rates revenue increases, initiatives and projects (existing and new) need to be prioritised, and decisions made to stop/pause/defer and/or adjust service levels.