

2024-34 Long-term Plan Budget Briefing

12 December 2023

Our 10-Year Plan
2024-2034

Absolutely Positively
Wellington City Council
Me Heke Ki Pōneke

PART 1: Where we are at



Agenda

1. Where we are at

- Purpose of today
- Recap of what we have done
- Overview of the challenges we face
- Not unique

2. Overview of the budget position

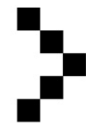
- Driver of rates increase
- What's in / out of the budget
- Draft budget position – rates

3. Options to reduce budget

- Further options to reduce costs
- What those options would do to rates and debt

4. Next steps

- Next steps
- Key stages of decision-making in 2024
- What is in the CD
- Consultation process



Purpose of today

Overview of updated budgeting position

Overview of the updated budget and the drivers that are causing budget pressures.

Options to reduce budget further

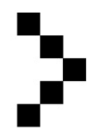
Overview of levers and options that can be used to bring the draft rates increase position down further.

Clarify what options to bring back

Identify options that Councillors want brought back with more detail in February.

What you can expect in 2024

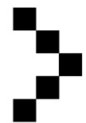
When key decisions will be made, what is going into the CD and timings etc.



We have come a long way and we are on track

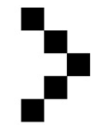
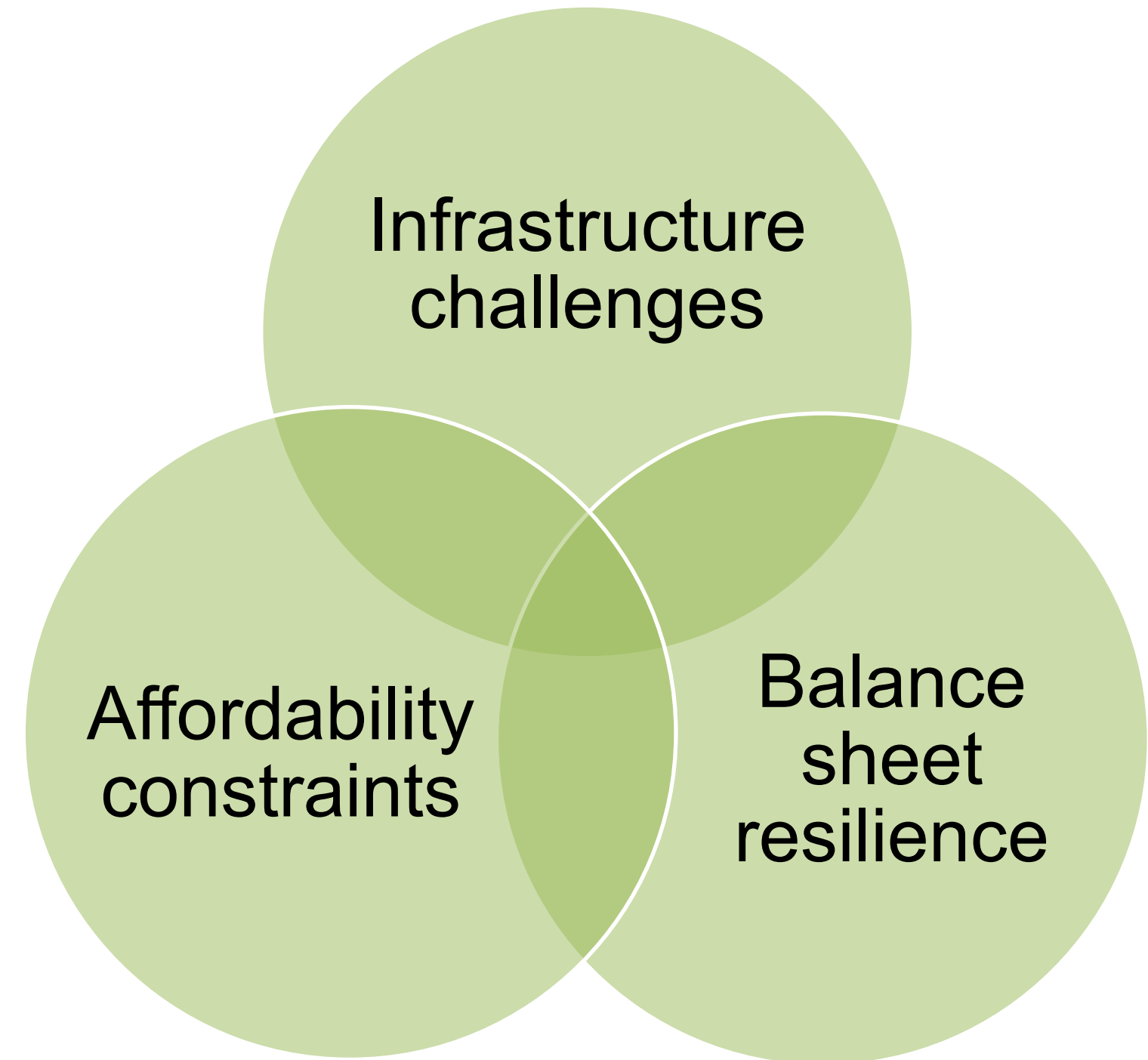


- We started early.
- Sequencing of LTP work much better.
- Multiple engagements with the community to increase buy in and build community views into decision-making as we progress.
- We are where we expected to be and on par with where other councils are at.
- Our current focus is on the developing the budget and what the options are for consultation.
- Early next year will be when decisions on the budget are made, the consultation document is developed, an audit and formal consultation on the proposed content of the LTP.



It is a challenging environment to develop an LTP budget

- The cost of delivering our current levels of service are increasing, with major cost pressures including inflation and interest costs.
- At the same time, we own significant infrastructure that requires investment.
- We need to continue to invest in the city.
- Therefore, to manage immediate cost pressures and maintain capacity for the future we need to:
 - look at prioritising & rephasing our capital programme, and
 - make efficiencies and reduce some levels of service.
- To prepare a prudent budget over the 10-year plan we also need to maximise all of the levers we can to ensure our balance sheet is resilience, including making better use of our investments.



We are not the only ones facing this problem

Key projects at risk as major rates hike looms for Hutt City – and others

 Nicholas Boyack | November 1, 2023

LOCAL COUNCIL

Double-digit rate hikes on the cards as mayors warn of 'broken' council funding system

From [Morning Report](#), 7:35 am on 5 December 2023

Ellen O'Dwyer

Tuesday, 5 December 2023


'Significant rate rise' on the cards for Canterbury

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 78  1 

[Canterbury](#) > [Christchurch](#)

Massive rates hike of 25.5% now on the cards for Hamilton residents

 Stephen Ward | November 30, 2023

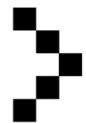
Christchurch council will have to 'sell assets or do less', mayor says

 Tina Law | September 5, 2023

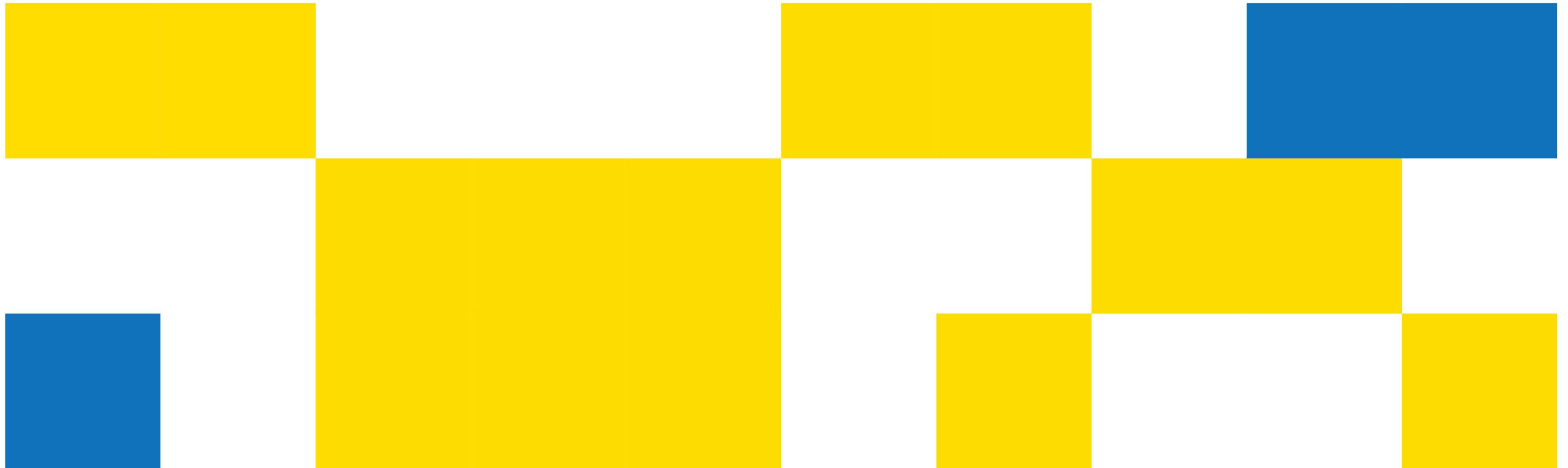
NEWS

Auckland Council confirms sale of Auckland International Airport shares

Publish Date : 01 Sep 2023 [FINANCE](#) [COUNCIL NEWS](#)



PART 2: LTP Budgeting Process So Far



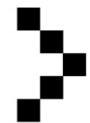
Recap - work to date

9 November Levels of service recommendations

- On 9 November, the LTP, Finance & Performance committee made decisions, mainly focussed on the capital programme, which looked at our investment over the next 10 years. The impact of the decisions mainly impacts our investment and associated borrowing.

21 November Three waters investment options workshop

- On 21 November Wellington Water presented the investment options for the LTP.
- These options for operating costs are outlined below:
 - Option 1 – based on 2021/31 LTP baseline budget
 - Option 2 – based on 2023/24 budget + unavoidable cost increases
 - Option 3 – WWL recommended budget .
- Affordability constraints were key to selecting option 2 in the LTP budgeting process.



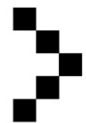
What is included in the budgeting proceed to date:

Included

- Baseline 2023/24 costs
- Committee decisions made on 9 November
- Uncontrollable cost pressures that cannot be held at 23/24 levels (bulk water, energy costs etc)
- Three waters – based on 2023/24 budget + unavoidable cost increases

Not included

- Level of service proposals to be agreed in February 2024
- Community facilities plan changes
- Some user fees and charges changes
- Three water reform changes – at this point we are providing the full anticipated cost of three waters.



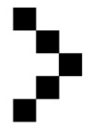
Key assumptions

Water Reform

- Currently budgeting includes funding for 3 waters across the 10-year period of the LTP.
- However, current legislative settings is to prepare LTPs on the basis of the current legislative requirements (three waters out).
- We will monitor any changes to the legislation as signalled based on the Government's 100-day plan.
- It may be that we need to prepare a dual (hybrid) LTP and consultation document, which can be adjusted to either a 'waters in' or 'waters out' LTP for adoption (dual option)".

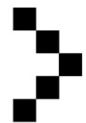
LGWM

- Current budgeting has funding for the transitional programme including:
 - Thorndon Quay Hutt Road
 - Golden Mile
 - Targeted improvements
 - City Streets



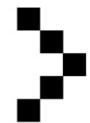
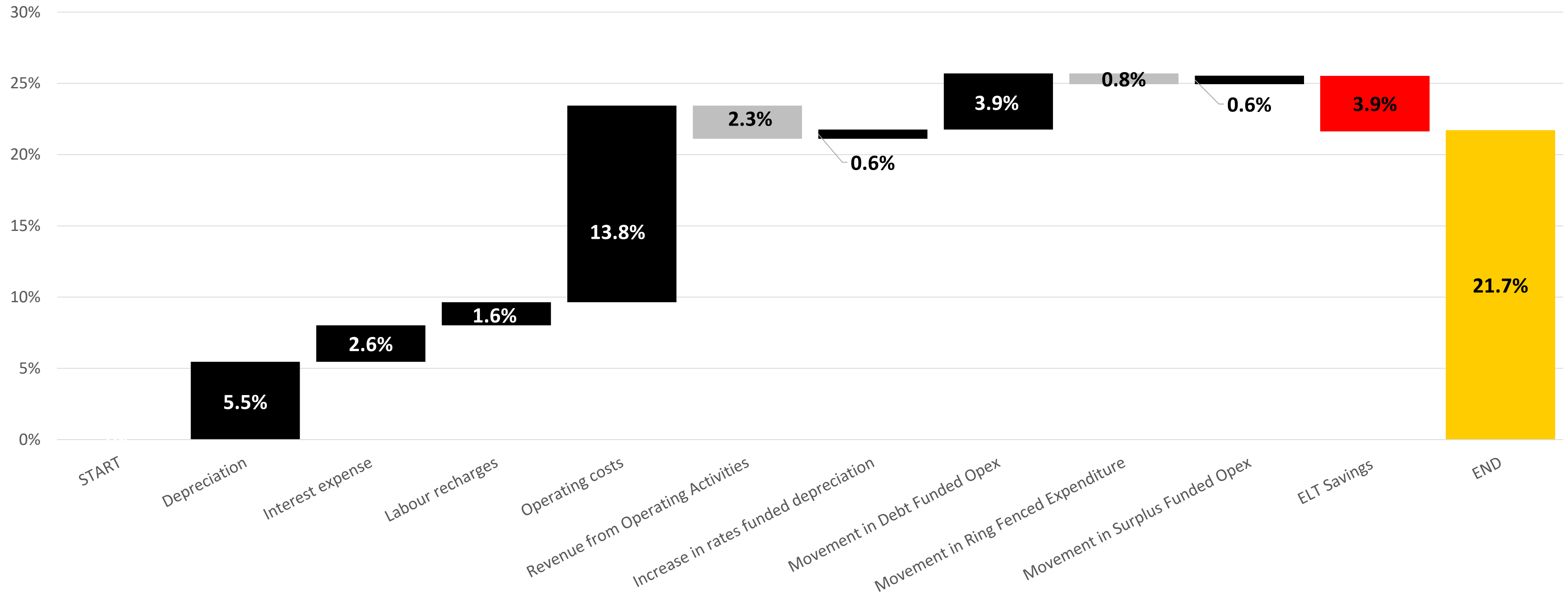
2024/25 rates starting position

- Following the decisions made on 9 November LTP, Finance and Performance Committee we continued the LTP budget development process.
- The starting position reflected a rates increase of approximately **26%**. This was based on the current estimated costs to deliver our current levels of service.
- Over the last few weeks there has been a line-by-line review of all operating costs.
- In completing the line-by-line review the intent was to revert to 2023/24 budgets where possible, and savings which won't impact levels of service (as this is a decision for elected members).
- Organisational savings & funding adjustments of approximately \$18m were identified. However, these savings have a number of material risks - they are stretching the capability and capacity of the organisation.
- This resulted in a rates increase of **21.7%** in year one (2024/25).



2024/25 indicative starting position - rates increase drivers

2024/25 Rates Increase Drivers (before growth)



Primary drivers for rates increase

Operating costs (see next slide)

- This includes one off contracts such as demolition of CAB for next year, as well as increases in costs such as bulk water.

Depreciation

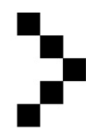
- Depreciation costs form a material component of the rates increase and provide funding for the renewal programme.
- Previous years decisions include unfunded depreciation for three waters. We are working towards returning to fully funding depreciation by 2028/29.

Interest

- Interest rates are expected to remain higher in the near future and this will impact rates more than in previous years.

Movement in debt funded operating costs

- This is based on previous decisions made to debt fund operating costs, this is the impact of repaying these through rates (e.g. lost revenue during covid, pop up libraries, 2023/24 AP decision to delay repayments for one year).

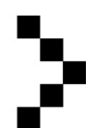


Key drivers of increase in operating costs

A breakdown of the increase in operating costs include:

Operating Costs	2024/25 Budget (\$000's)	Rates impact
Bulk Water purchase – 25% increase	5,389	1.1%
Quarry Operations (Note: offset by revenue increase)	2,315	0.5%
CAB Demolition	7,441	1.6%
Insurance	3,539	0.7%
Electricity & gas	2,953	0.6%
Internal rates	3,696	0.8%
Rent	9,356	1.9%

Note: the budget also includes lost parking revenue of \$7.8m.



Estimated capital programme

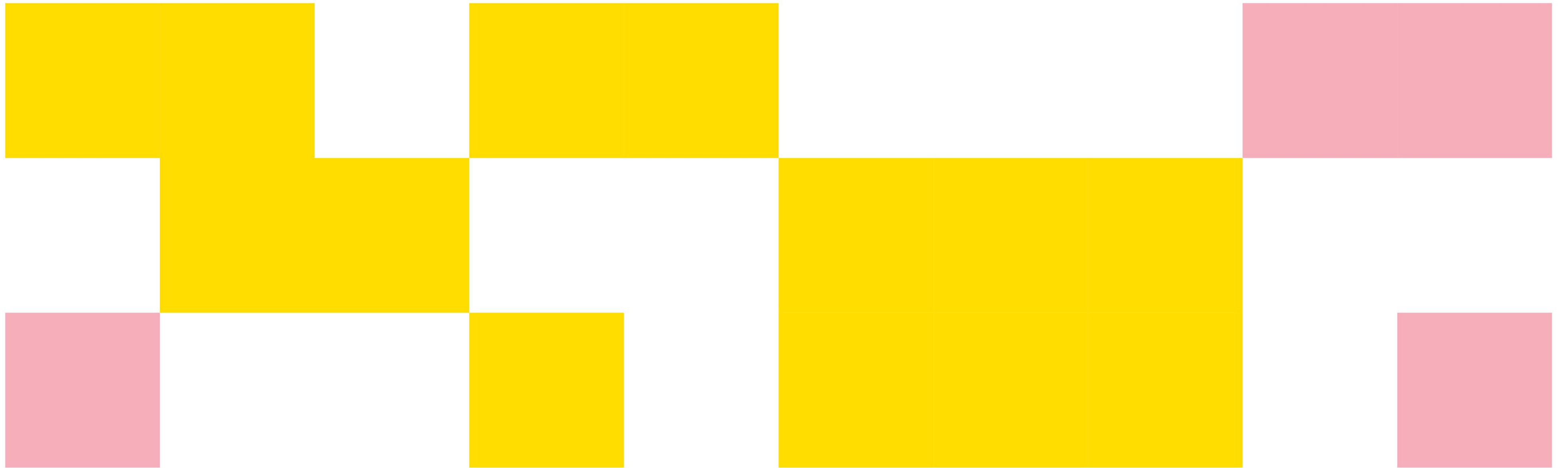
Capital Programme	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Draft budget (\$'000's)	545,952	448,400	391,380	342,209	329,730	323,649	297,959	338,503	282,334	273,980

Top 5 Projects	2024/25
Te Matapihi - Remediation	82,767
Build Wellington - EQS - Town Hall	64,167
Golden Mile	43,007
Housing renewals & upgrades	38,963
Cycleways	19,896
Total	248,800

Note: These numbers *exclude* the sludge minimisation facility



PART 3: Options to close the gap



Reducing Costs - Available Levers

We previously identified levers available to reduce costs. Most were used to some degree to create the options for 9 November. There are now ***no new levers*** - just the ability to pull harder on the existing ones.

The levers are:

Impact on Capital costs (Borrowing)

Capital programme reductions

Slow down the capital programme and stop some work.

Levels of service reductions

Reduce service levels further.

More active asset divestment strategy

Identify assets for sale and assets that will not be replaced.

Optimise asset renewals

Fund renewals at 75% of unconstrained budget.

Pause and reset

Pause investment needs temporarily in areas that have complex problems to allow for strategic options to be identified.

Impact on Operating costs (Rates)

Levels of service reductions

Reduce service levels further.

Adjust the revenue policy

Maximise fees and charges.

Commercial approach

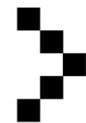
Take a more commercial approach to operating some services.

Work within tight operating budgets

Operate within existing budget envelopes, refine the operating model.

Depreciation methodology

Review level of depreciation funding.



We propose pulling harder on these levers to reduce costs, increase revenue and decrease rates as follows:

1. Organisational initiatives

\$5m (approx.)

- Further efficiencies through organisational change that can be implemented over time.

2. Fees & Charges/New Revenue

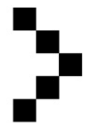
\$5m (approx.)

- We are budgeting to collect fees and charges of around \$175m in 23/24. Some of the cost increases can be offset by an increase in fees and charges as opposed to rates.
- A \$5 m increase in user fees & charges is an increase of approximately 3% of revenue from operating activities.

3. Sale of surplus assets

\$8m (approx.)

- At the 9 November LTP, Finance and Performance Committee a decision was made to sell some non-strategic assets (that do not contribute to delivering a level of service).
- Our treasury policy is that proceeds from the sale of assets would be used to repay debt. However, in circumstances where ratepayers are facing significant cost pressures using proceeds to offset the rates requirements can be justified.
- This is an option used by Councils in difficult circumstances.



Proposed levers con't

4. Not fully fund depreciation

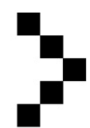
\$10m (approx.)

- Local Government Act specified that Council's must ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expense (*the "balanced budget" test*). Therefore, a Council must fund its depreciation expense.
- However, there are circumstances when the Council can resolve not to set a balanced budget. Following the 30 June 2022 water revaluation, which resulted in a significant increase in the value of water assets, Council agreed to rates fund the three waters depreciation expense based on the quantum of the three waters renewals capital programme in 2022/23 and 2023/24. This enabled three waters renewals to be fully funded while taking a graduated approach to return to fully funding depreciation and imposing significant increases in rates immediately.
- We could delay the implementation of returning to fully funding depreciation on three waters assets and explore other opportunities to defer fully funding depreciation on assets. For example, Tākina.

5. Decrease in levels of services

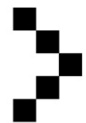
\$7m (target.)

- Proposed levels of service changes will be worked through in January/February for decision making on 15th February 2024.

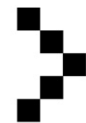
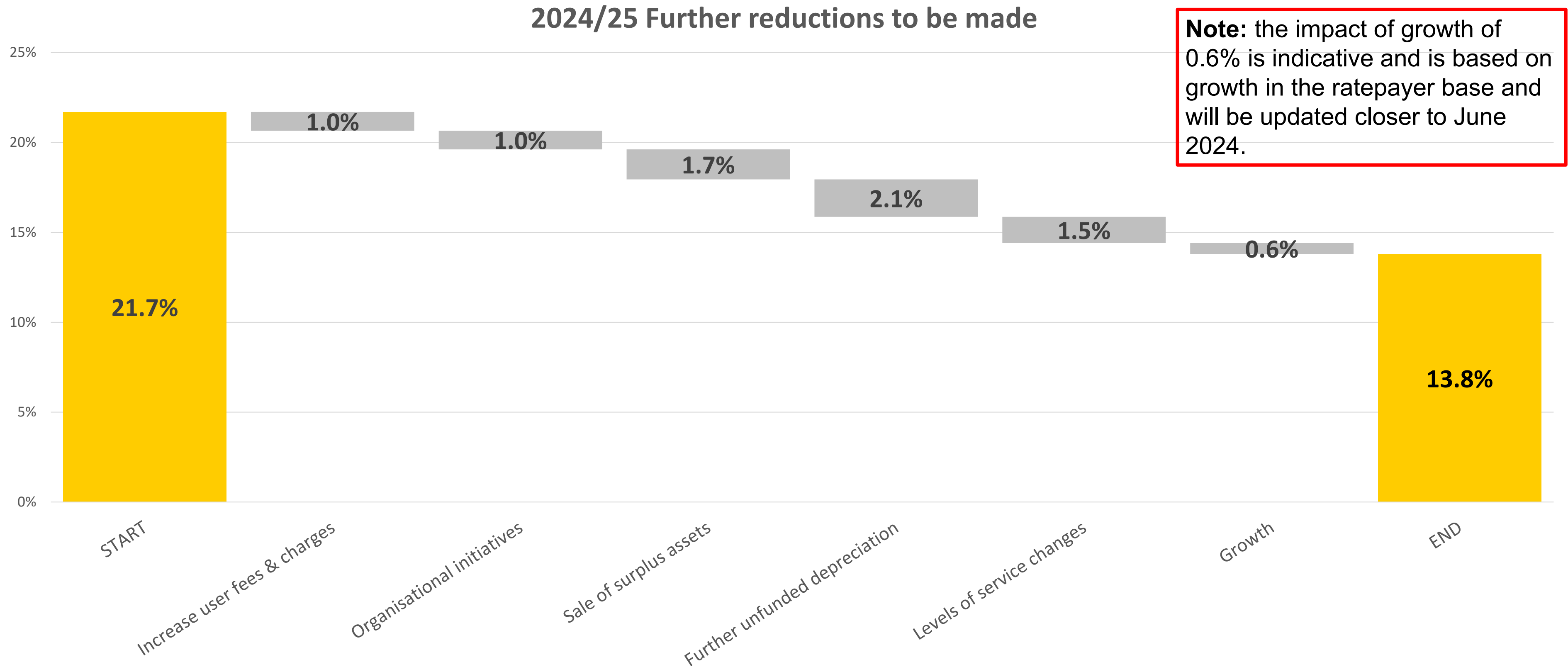


Impact of pulling these levers on LTP budgeting process

- Applying these levers delivers an ***indicative rates increase*** of approximately **13.8%** for 2024/25 (after growth in ratepayer base).
- However, this will result in:
 - Accepting greater risk and reducing some levels of service
 - Includes further organisational efficiencies which will be challenging to achieve. We have already achieved significant savings of \$45+ million over the last 4 years (including the current financial year 2023/24); and
 - Not funding some of the depreciation on our assets (as we have done previously with our water infrastructure assets).
- A reminder that not fully funding depreciation creates a deficit - as we are not collecting enough revenue to cover our costs. This also impacts future years rates increases as we move back to fully funding depreciation.
- **In the current financial environment, it is likely that further cost pressures will arise over the next 6 months that will need to be factored in. On this basis the rates increases are indicative only at this point and is subject to further changes.**

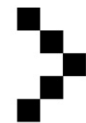
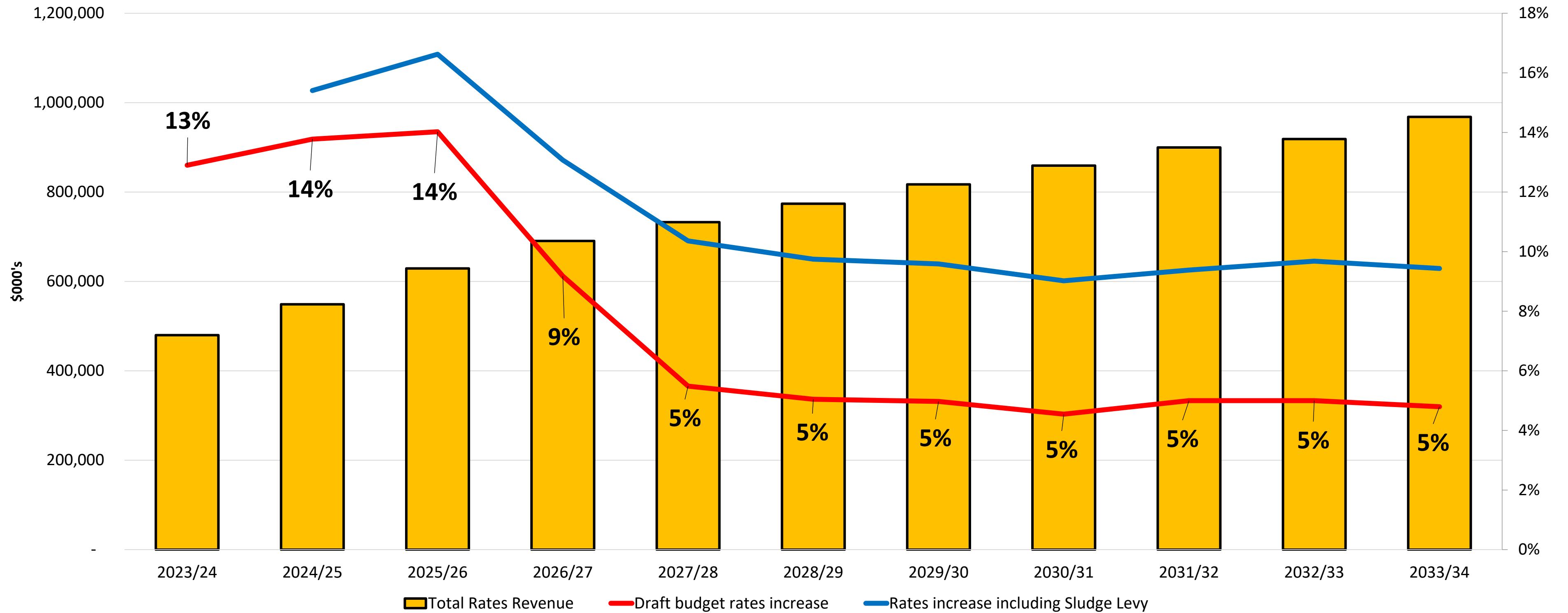


Updated 2024/25 Indicative rates reductions



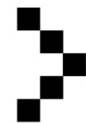
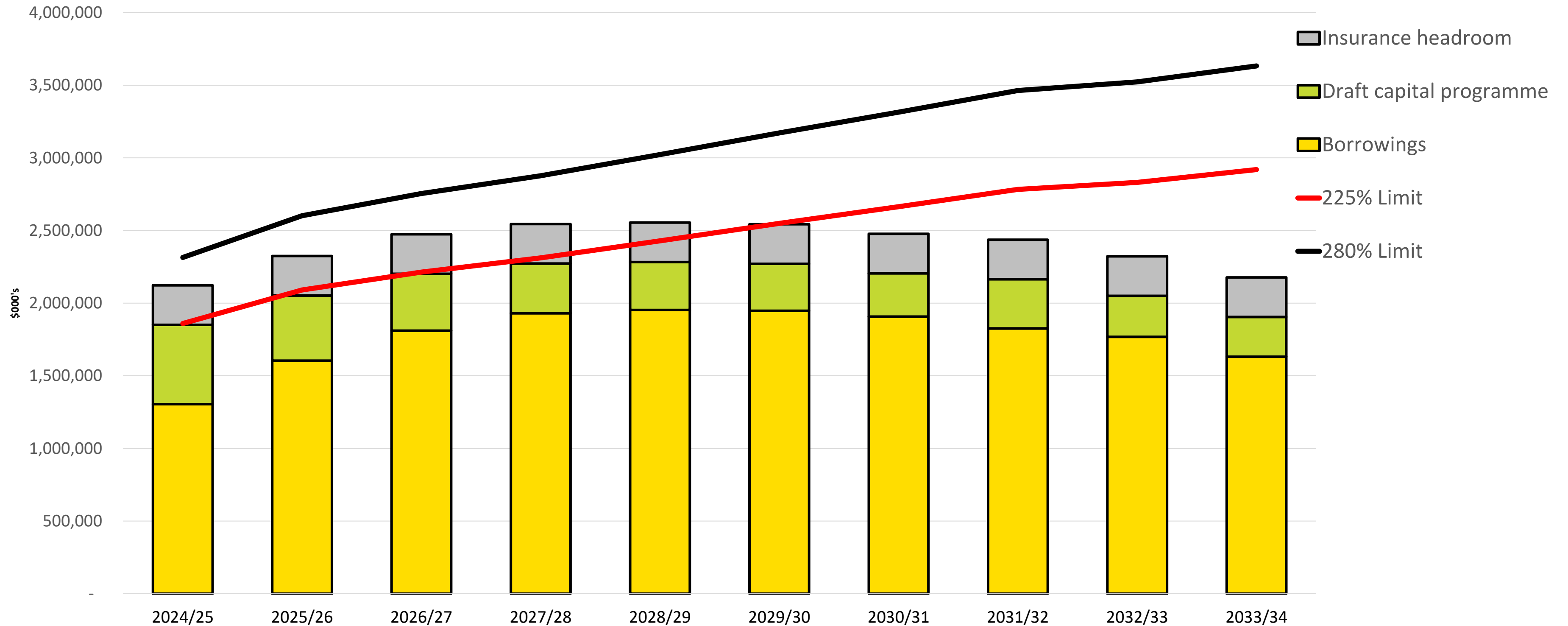
Updated Indicative 10 yr. Rates Profile

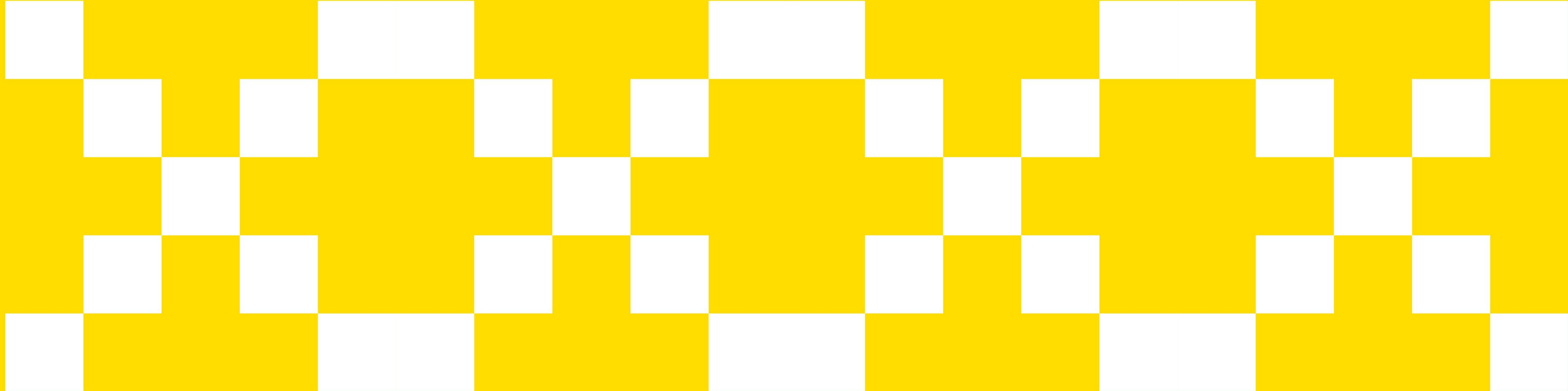
Draft budget rates increase - Average 7%



Borrowing - Updated Indicative 10yr. Debt:Revenue Ratio Profile

Forecast Debt/Revenue Ratio



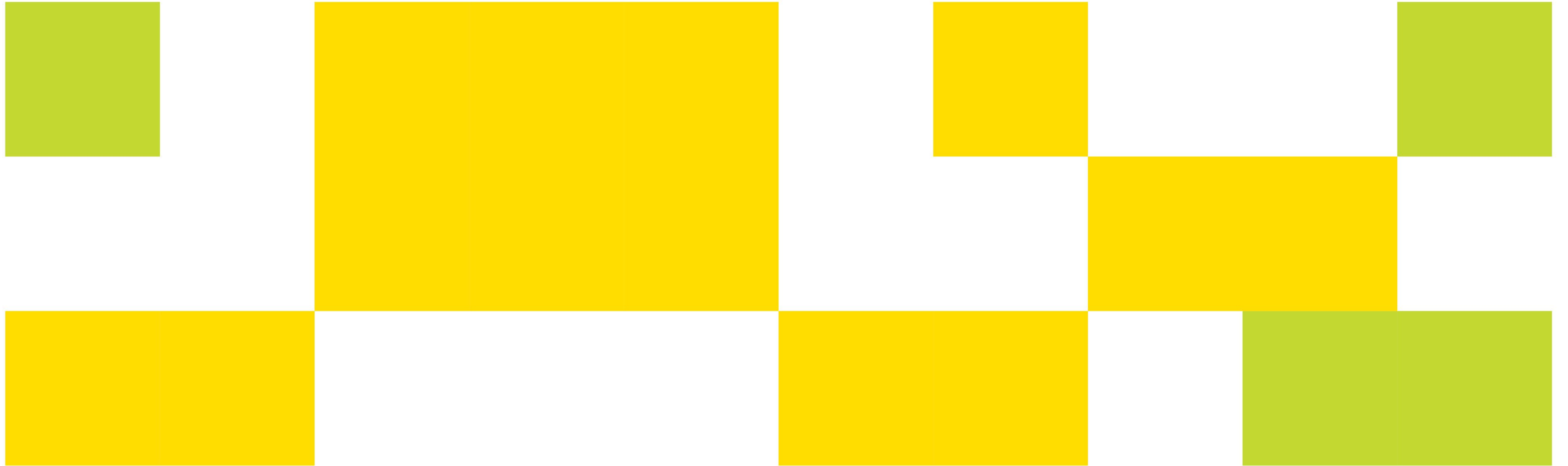


Questions

Our 10-Year Plan
2024-2034

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PART 4: Next steps and consultation issues



There are two key budgeting decision points before Consultation

1

15 February 2024

This is the key point for confirming the content of the draft budget for consultation and the key consultation issues.

You will also review final key components of underlying LTP information:

- User fees and charges
- Revenue and Financing Policy
- Financial Strategy
- Infrastructure Strategy
- Consultation Document issues and approach

2

31 May 2024

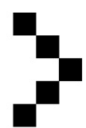
This is final decision making on the draft budget, plan and significant issues following receipt of community feedback.

You will confirm final decisions on all components of the LTP.

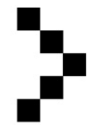
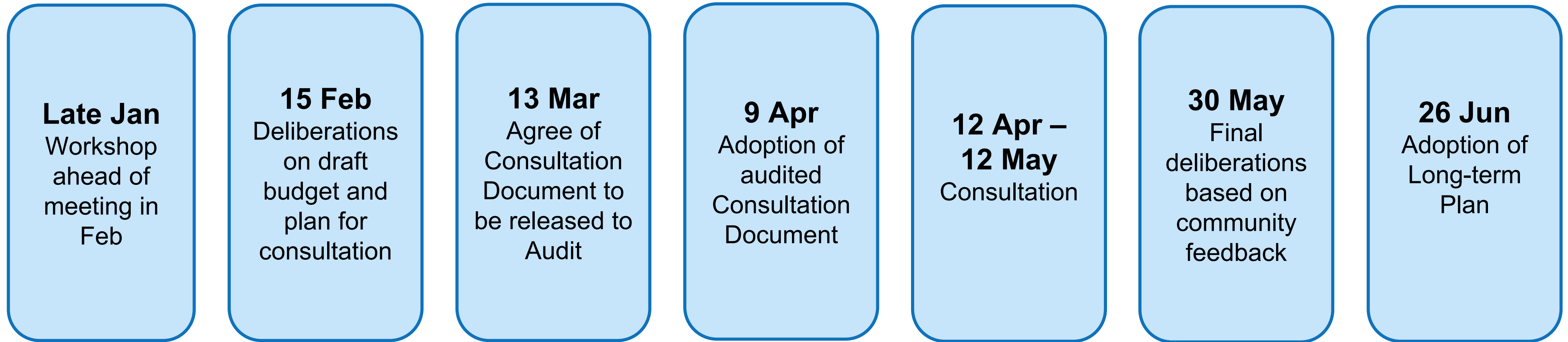
Other meetings:

There are three other committee meetings in the LTP process (other than hearings), however these are not opportunities for substantial change.

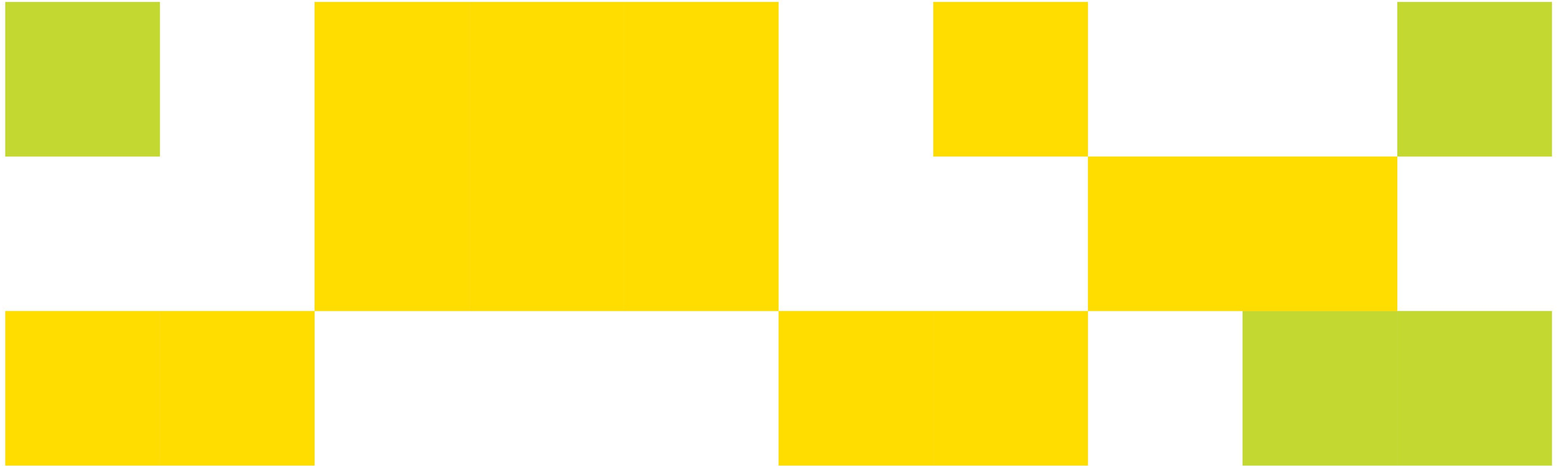
These meetings agree documents for release to Audit NZ and adoption of final documents for publication. Tight timeframes mean that substantial changes to proposals in these meetings are not possible.



The Steps to adopting the LTP in June



Consultation issues



Consultation Documents

The Consultation Document (CD) is a statutory LTP requirement and is audited and reviewed by the OAG.

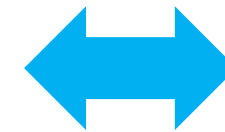
The CD focuses on two tiers of information for public input:

1. key significant decisions for the Long-term Plan, with clear options; and
2. communicating key features of the plan, strategies, policies and budget for community feedback.

The content of the CD is driven both by statutory requirements and the Council's Significance and Engagement Policy.

The LTP work programme has applied both of these drivers in a structured process for assessing the significant decisions for consultation; and

This process is likely to receive audit scrutiny.

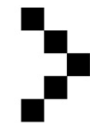


Local Government Act 2002

93B Purpose of consultation document for long-term plan

The purpose of the consultation document is to provide an effective basis for public participation in local authority decision-making processes relating to the content of a long-term plan by:

- (a) providing a fair representation of the matters that are proposed for inclusion in the long-term plan, and presenting these in a way that—
 - (i) explains the overall objectives of the proposals, and how rates, debt, and levels of service might be affected; and
 - (ii) can be readily understood by interested or affected people; and
- (b) identifying and explaining to the people of the district or region, significant and other important issues and choices facing the local authority and district or region, and the consequences of those choices; and
- (c) informing discussions between the local authority and its communities about the matters in paragraphs (a) and (b).



Consultation - LTP significant decisions for 2024

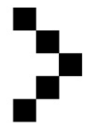
The following significant decisions are to be the basis for consultation

- 1. Airport shares:** Sales of airport shares and ground leases in order to establish a new investment fund to diversify risk/insurance.
- 2. Zero Waste:** Change Council's waste service to meet targets, including moving to a rates-funded service, the introduction of organics collection and other collection changes.
- 3. Future of Te Ngākau:** Options for the City to sea bridge, former capital E building and basement carpark.

In the CD these decisions have specific options for the community to consider along with audited information on financial and non-financial impacts and risks.

Why these issues? - key considerations include:

- Changes to ownership or control of Strategic Assets listed in our Significance and Engagement Policy
 - land and buildings in the area within Civic Square
 - equity securities in Wellington International Airport Limited
- Significant level of service change – new or altered
 - New and changed waste services



Other items in the Consultation Document for feedback

Feedback items

These are decisions facing Council that are not at a significant level but which are likely to be helpfully informed through community feedback. They include:

1. Overall budgeting settings – rates and debt levels
2. Fees and User charges, including Parking services fee changes
3. Revenue and Financing policy
4. Notable LoS trade-offs – to be confirmed.

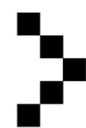
Disclosures

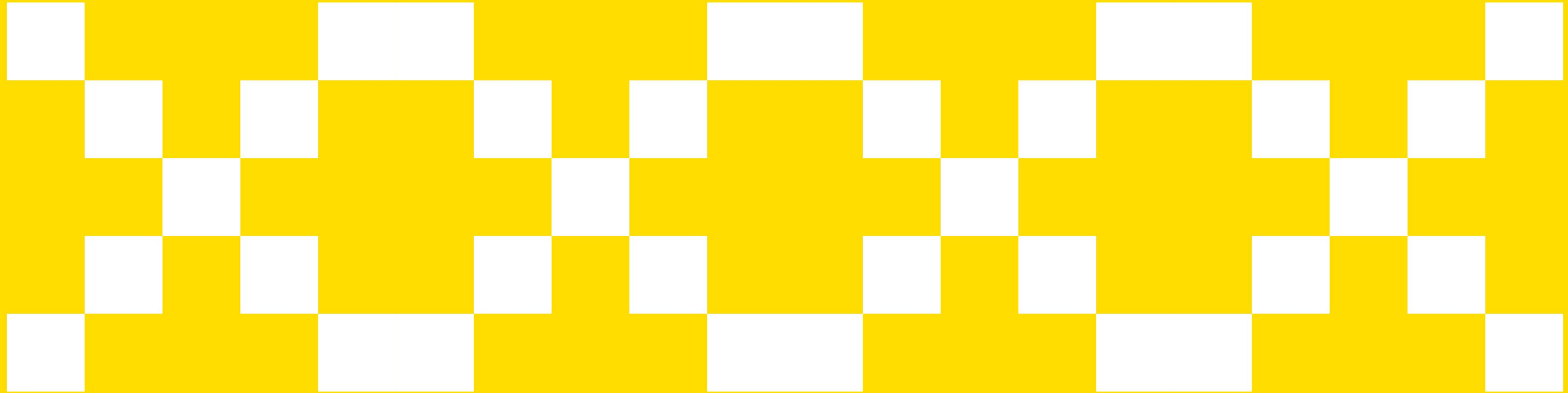
We will also signal the upcoming significant decisions and areas of uncertainty in our planning to ensure the community are well informed.

For example:

1. The three waters funding gap and need for long-term funding solutions for three waters
2. The current state of LGWM projects and funding and the need for future decisions
3. The earthquake prone building issues that will require decision in 2027 LTP.

Note: The CD is required to focus on the key significant 10-year decisions for the LTP. It is not permitted to be a draft plan or budget.





Questions

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