

# Joint Development Long Term Plan 2024-2034

Tuesday 25th July 2023

# What we'll cover

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Introduction

Financial Strategy

Infrastructure Strategy

Capex Programme – current position

# Reminders

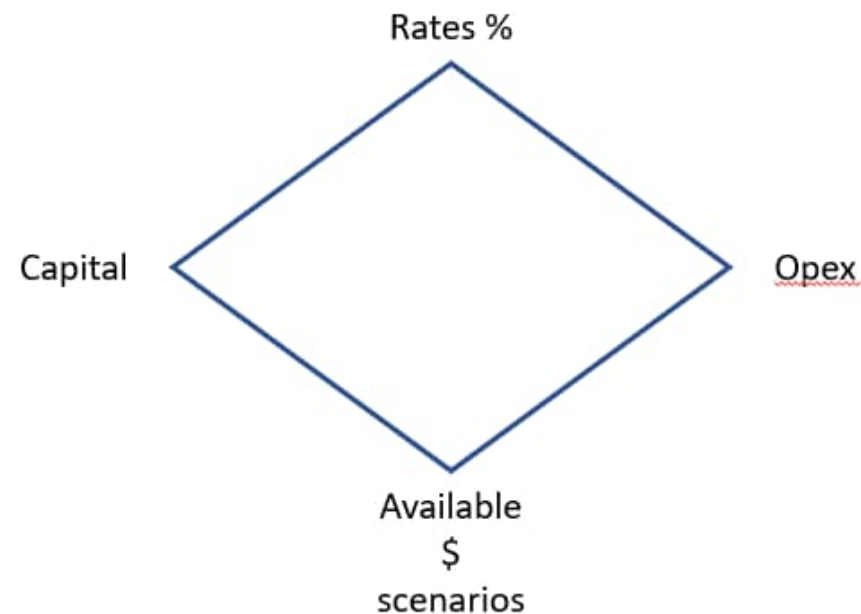
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- Working session
- Draft documents
- LTP joint development briefings will be recorded then made available to the public.  
This includes last week's 'Set the Scene' and the briefing 25 July. Draft LTP documents will also be made available to the public after each briefing.
- Specific confidential or staff related matters
- Summary notes will be taken

# Introduction

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LTPs contain an immense amount of detail and process, but the core issue is always the same – understanding the major drivers, then striking the right balance.



# Financial Strategy

# What is the Financial Strategy?

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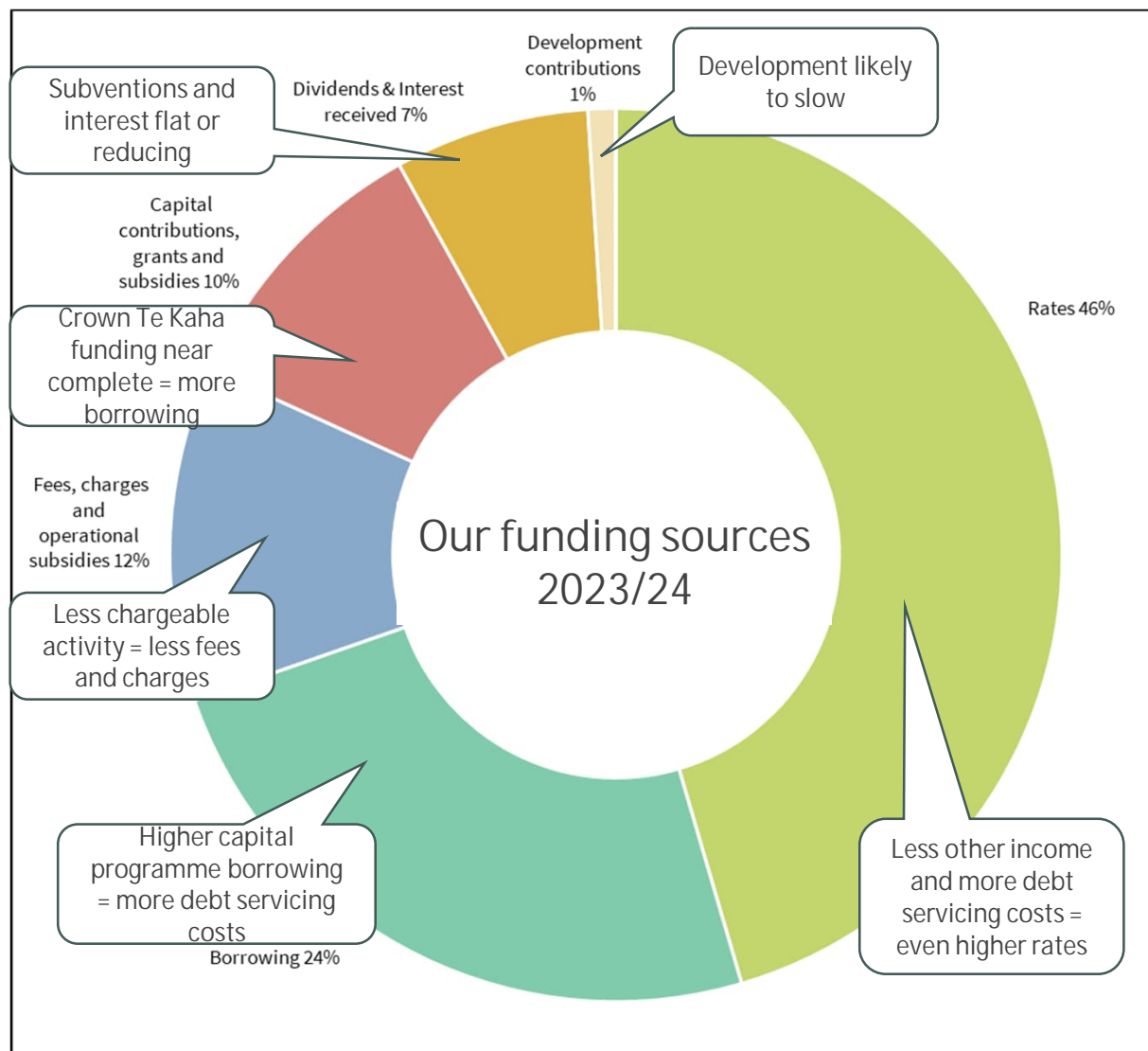
- How Council funds its Services, Programmes and Projects
- Supports Strategic Priorities
- Hand in Glove with Infrastructure Strategy
  - Deliverable and Affordable programme
  - Maintain Level of Service
  - Deliver new assets to meet community needs
- Balance financial resilience with rates affordability
  - Ensure flexibility for future ratepayers
  - Set Debt Cap
  - Set Financial benchmarks/covenants/ratios
- Reliance on, and use of, investment income
- Affordable Waters impact
- Future for Local Government – New funding options

# Financial Strategy – Objectives/ Tensions

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- Fund delivery of appropriate facilities and services
- Fund an optimised capital renewals programme
- Fund appropriately to service growth
- Maintain prudent debt to income ratio
- Maintain “safe” level of debt headroom
- Maintain acceptable rates increases – but acknowledge they may be high
- Ensure a sustainable (work programme and) budget – not taking from future generations

**All within a changing  
LG environment and  
wider economic  
challenges**



## Starting point 2024-25

Inflation	+4.4%
Opex changes	+1.1%
One off revenue removal	+1.9%
Increased dividends	-0.9%
Asset renewal funding	+2.1%
23/24 borrowing servicing	+3.5%
24/25 borrowing servicing	+1.3%
Debt repayment benefit	-0.8%
Rating growth	-0.9%
Total rates increase	+11.7%

*Could grow higher – see left*

*Potential starting position potentially ≈ 14%*

## Levers available

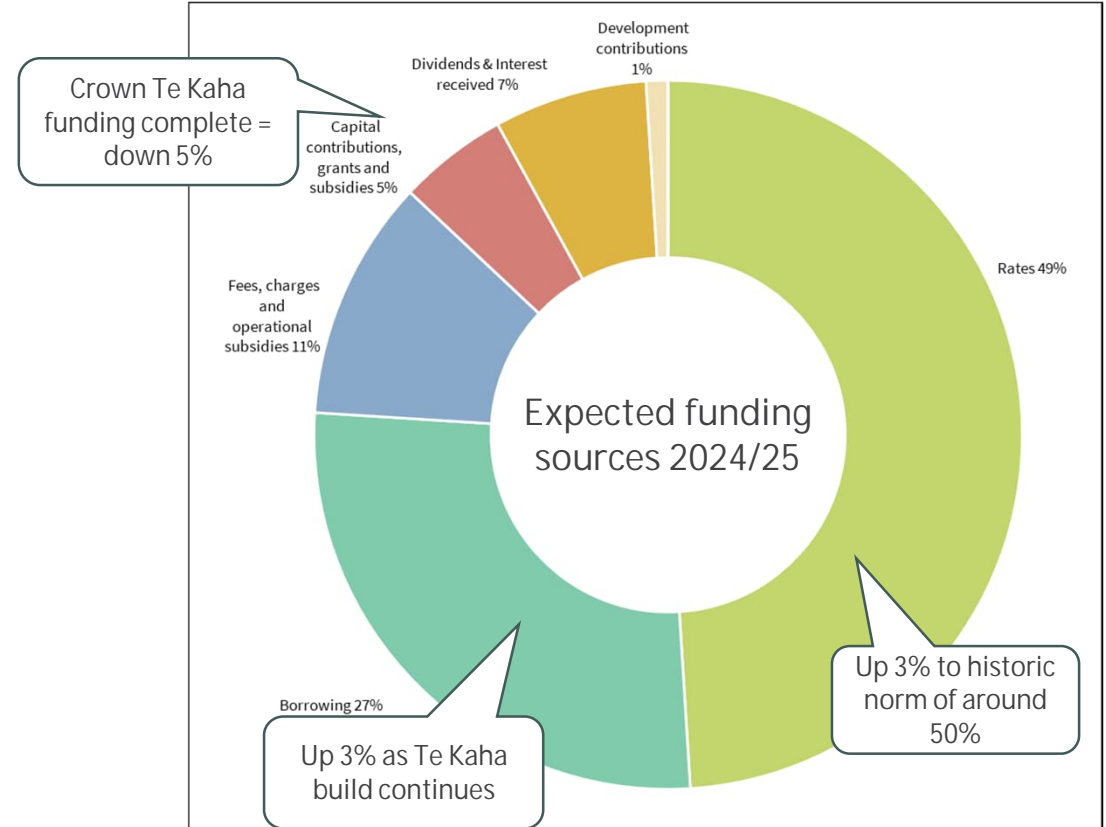
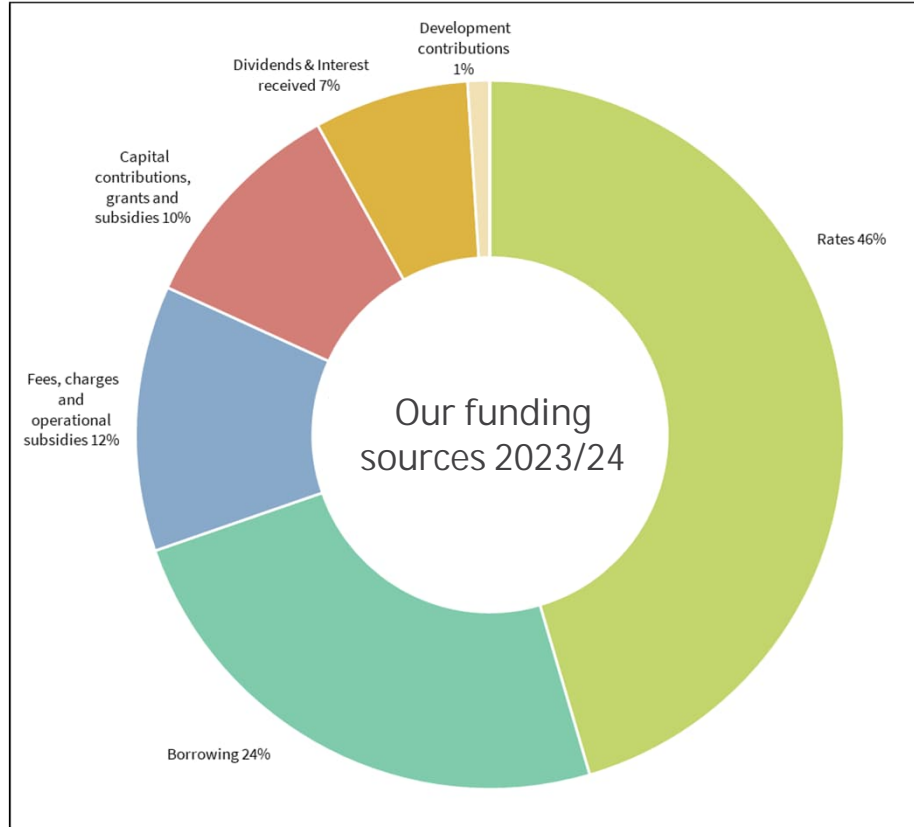
Reduce opex by reducing service levels  
 Reduce capex borrowing  
 Review debt strategies  
 Recycle capital – asset sales  
 Introduce new revenue streams

Increase rate rise beyond “normal” levels

*What is the best mix of responses?*



# 6% funding move to Ratepayers in 24/25



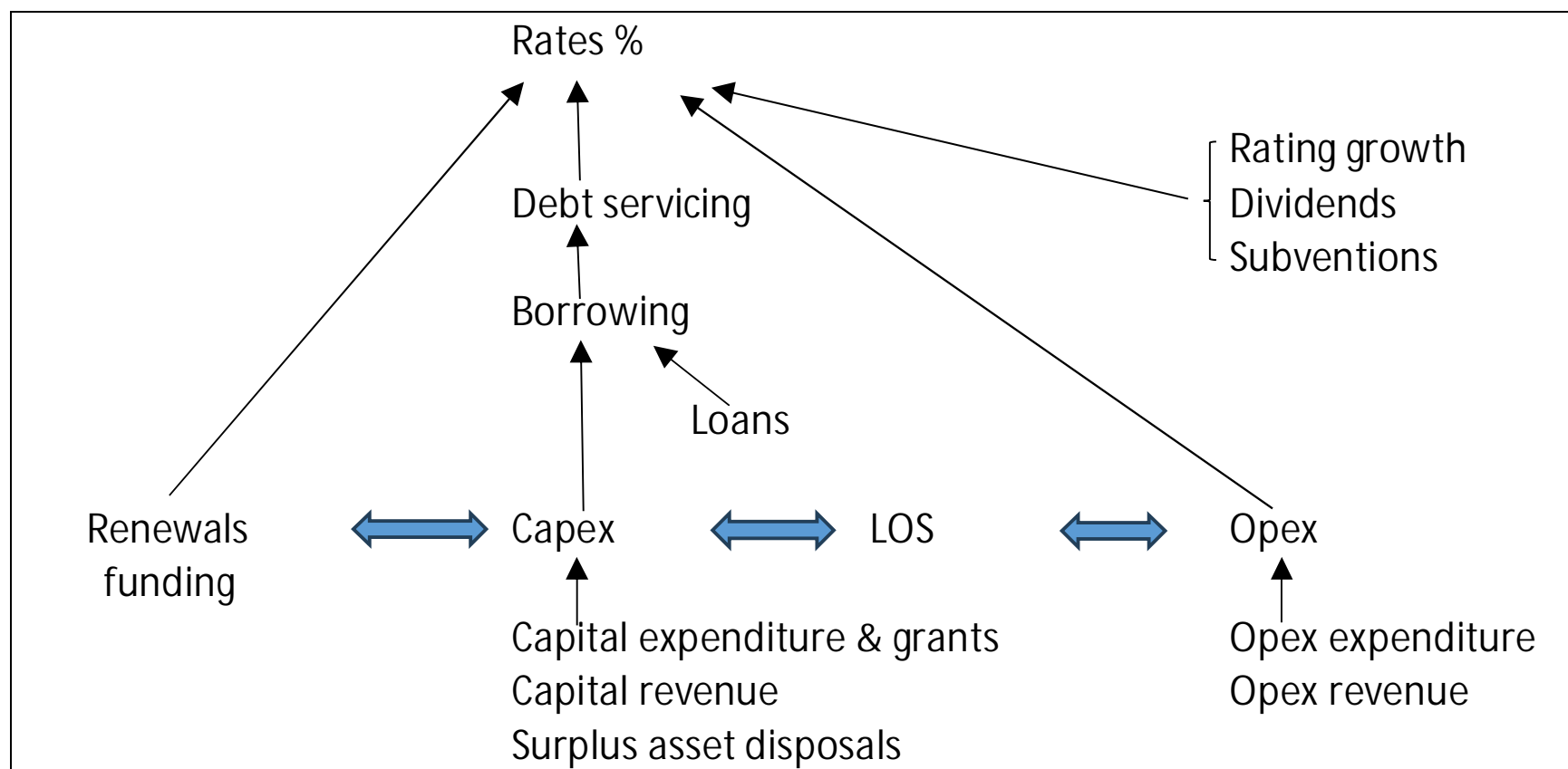
# Operationalising the levers available

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- Prioritise Opex
  - Look hard at BAU – what do we deliver, how do we deliver it, what can we do differently
  - Review fees and charges – are we recovering costs appropriately
- Prioritise Capex
  - Too late to revisit Te Kaha/ Parakiore/ Court Theatre/ Hornby Hub
  - Continuing to further sweat assets to reduce capital renewals may be counterproductive
  - Required to provide core infrastructure for growth
  - What are the nice to haves?
- Defer increased rating for renewals
  - Pushing more costs on future residents
  - Is there a trade-off given current investment in long-lived assets?
- Defer repaying 23-24 borrowing
  - Pushing costs on future residents
  - Is there a trade-off given current investment in long-lived assets?
- Recycle capital
  - Increased surplus land sales disposals?
  - CCHL report recommendations?
- Introduce new revenue streams
  - Unlikely to be soon enough
  - Most need Government action
- Increase rate rise beyond “normal” levels
  - Already at peak rates?
  - Hugely unpopular
  - May be less visible if/when Affordable Waters kicks in

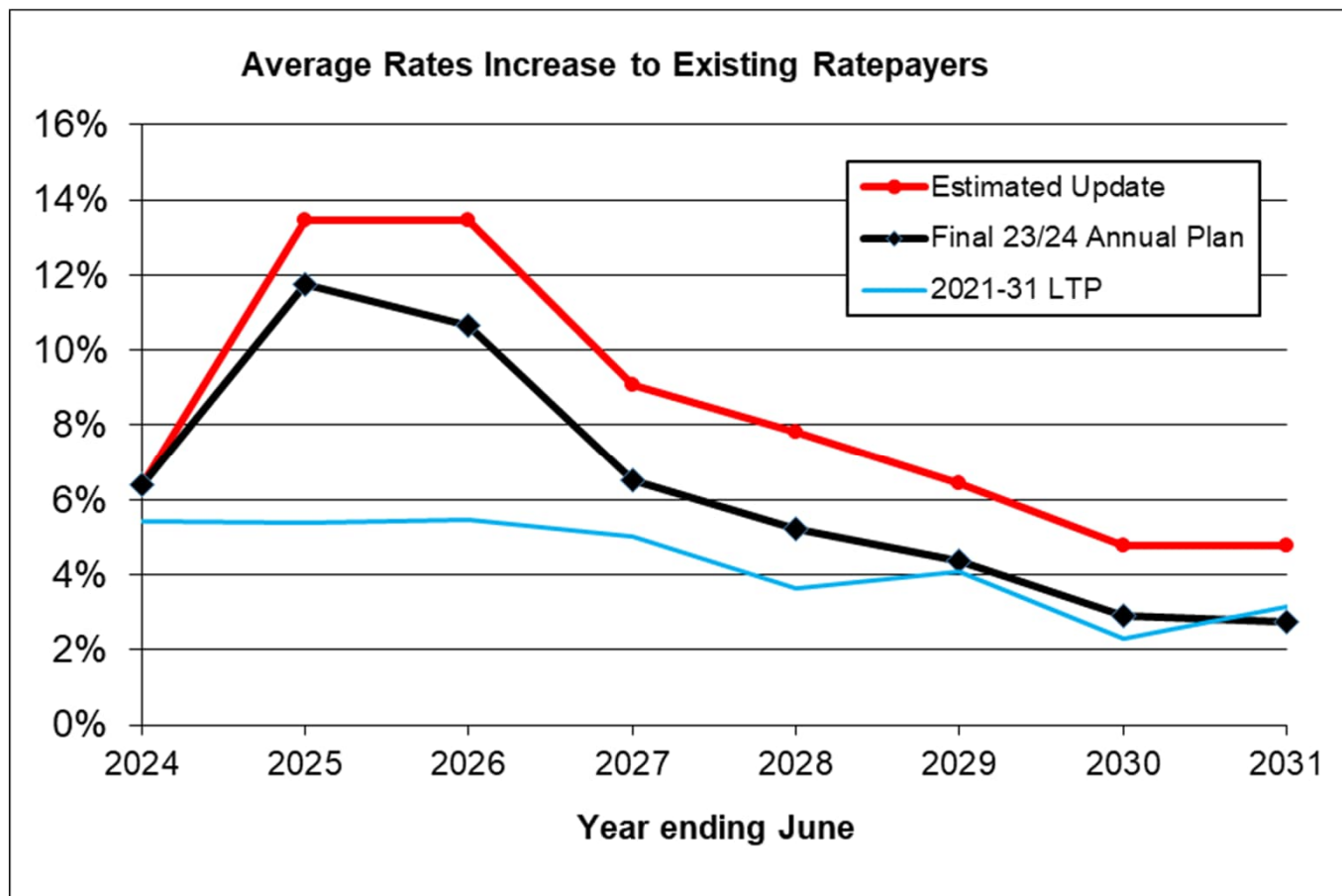
# Starting financial position

# Cost impact flow to Rates



In 2024/25 a 1% rates increase is Opex of \$6.9m, or Capex of \$95m (0.3% year 1, 0.7% year 2)

# First Draft Rates Workings



A/P (black line) assumes:

- OPP – existing cost only
- \$2m Eco Event grant not ongoing
- Opening dates
  - Parakiore Nov 2024
  - Te Kaha First quarter 2026
- Capex inflation updated only
- No new coastal hazards costs

Estimate (red line) adds in assumptions for above costs and requested capex. It does not include wider requests still to materialise.

# Base Rates 24/25 position increase will be higher

Rates Increase Driver	2024/25	
Opex/renewals inflation	4.4%	
Increase in rating for renewals per FS	2.1%	
Increase in opex / decrease in revenue	1.1%	BRRP closure 0.3%
Reversal of one-off subventions benefit	1.9%	
Debt servicing driven by 23/24 borrowing	3.5%	
Debt servicing driven by 24/25 borrowing	1.3%	
Repayment of debt benefit	(0.8)%	
Dividend growth	(0.9)%	
Rating base growth	(0.9)%	
Total Rates Increase	11.7%	

Key message: There is limited option around key drivers of the FY25 rates increase. Noting FY26 is also very high.

# Lessons learned from 2021 LTP

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Applying the learnings from formulating the 2021 – 2031 LTP, and subsequent Annual Plans.

- Focusing on Rates affordability, including:
  - Critically analyse and re-shape CAPEX programme
  - Significant decreases applied to Opex
  - Consideration of Levels of Service reductions.
  - Review Staffing proposals and Vacancy levels

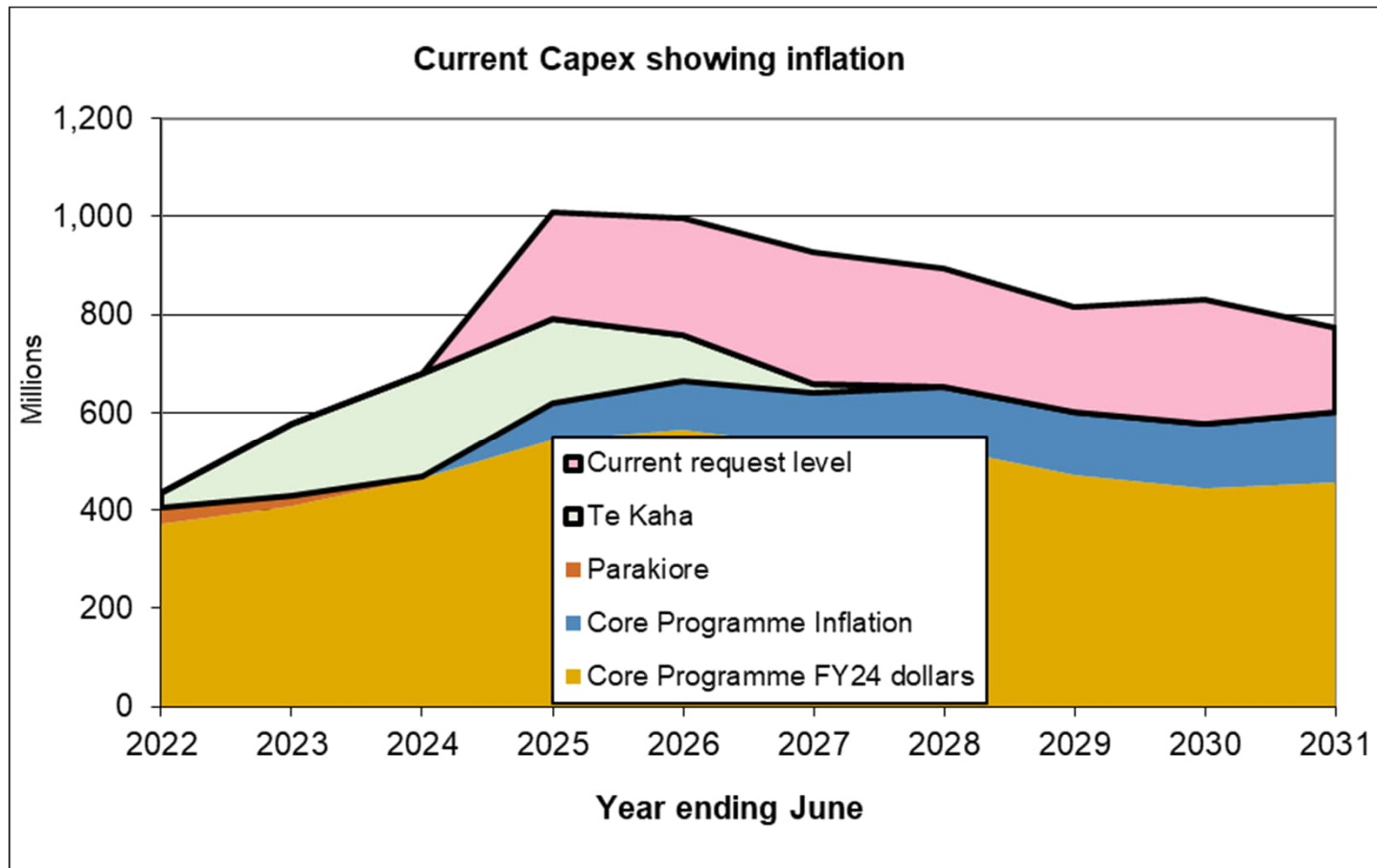
# Current capex assumptions

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- Existing plan 2025 -31
- Understated inflation incorporated in 2021 LTP figures updated for appropriate projects impacting 2024/25 onwards – around \$45m annual impact to update figures to 2024/25 dollars
- Future BERL Capex inflation assumed going forward (next update late Aug)
- 2022/23 Carry forwards of \$33m – where do they land?
  - (FY24 A/P assumes net nil in 2023/24)



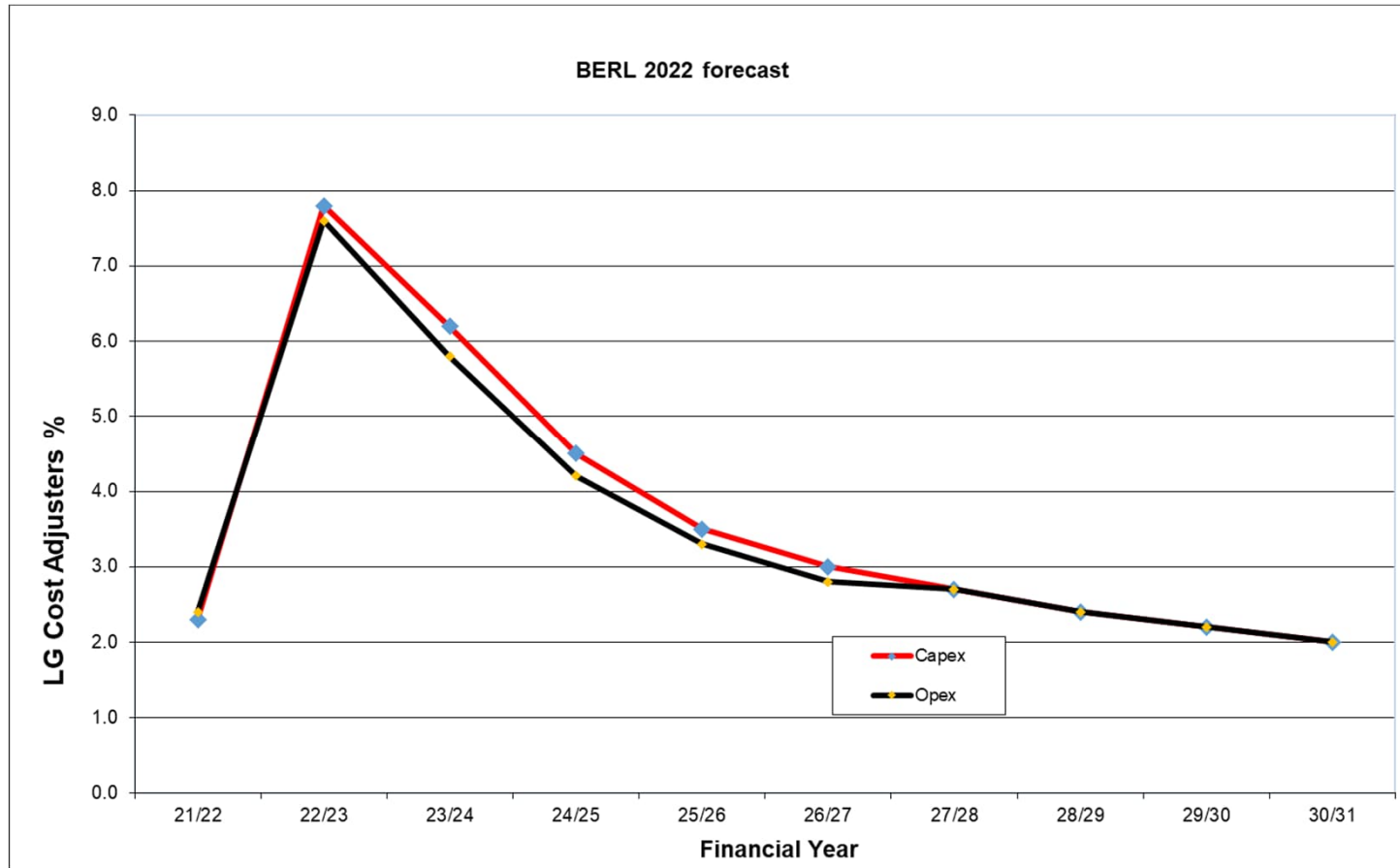
# Capex



- 2022 and 2023 reflect actual results including Te Kaha bring-back.
- Where will the 2023 Core \$31m carry forward go? 3W want \$11m in 2024.
- Blue shows the impact of updating the existing LTP capital programme to current dollars for post FY21 higher inflation, and current projected inflation from FY25.
- Pink shows estimate of current capex request level Units are working on

# Current underlying assumptions

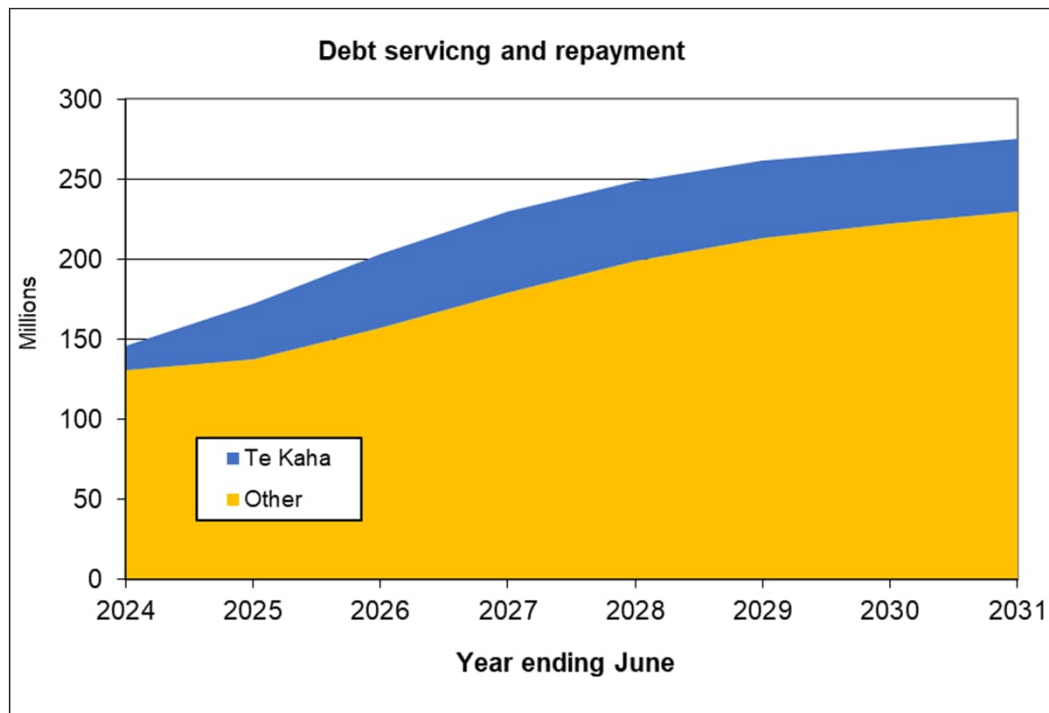
Inflation – current BERL figures (one year offset)



BERL produce LGCI (Local Govt cost index) forecasts for Taituara each year in mid Oct . Known as Local Govts CPI equivalent.

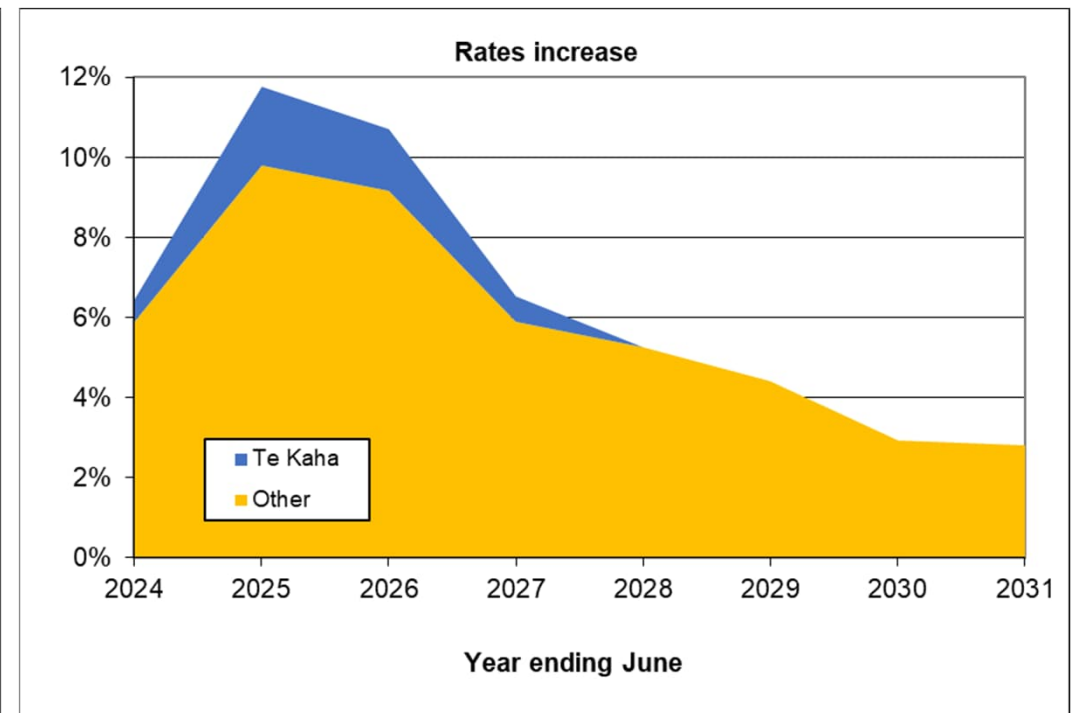
We assume that FY23 inflation impacts FY24 budgets. Hence 1 year delay in graph.

# Te Kaha impact



Debt funding currently 21.7% of Rates, expected to peak at 24.8% in FY28.

Key message – a quarter of your rates fund debt.



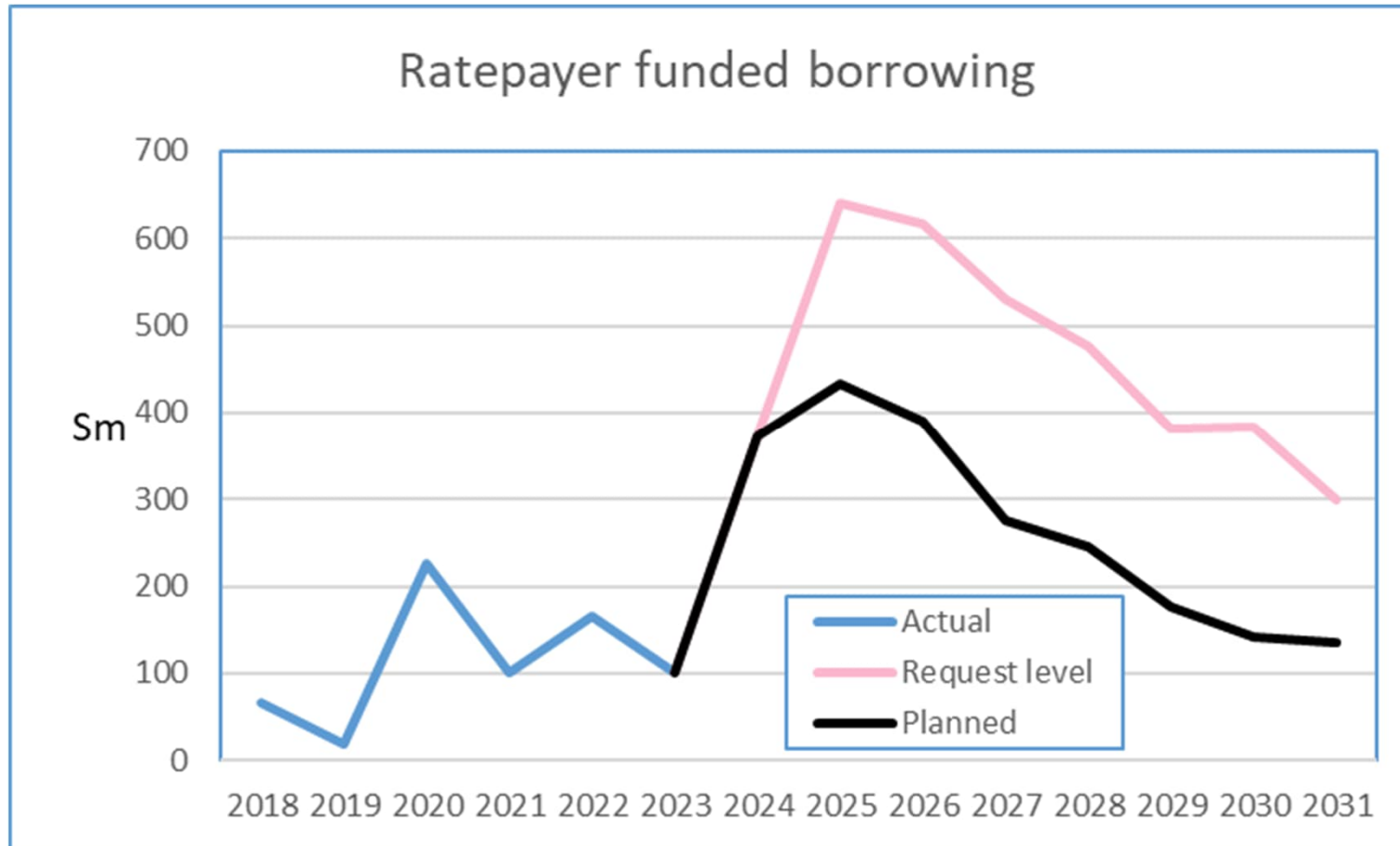
Total Te Kaha rates impact 4.7%.

FY25 2.0%

FY26 1.5%

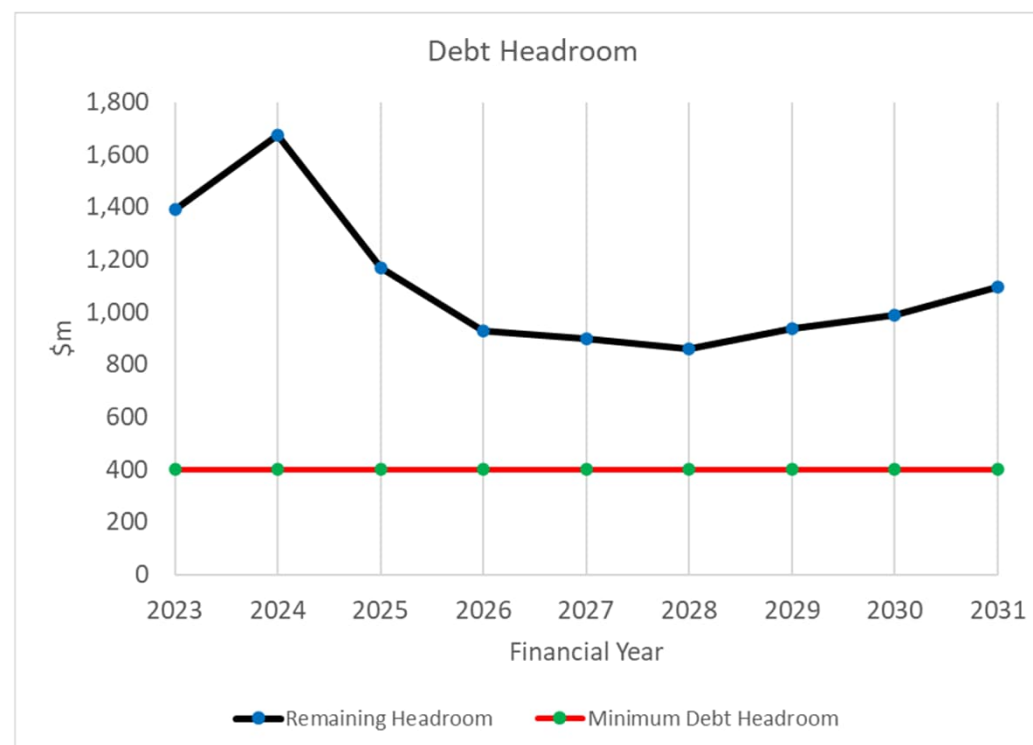
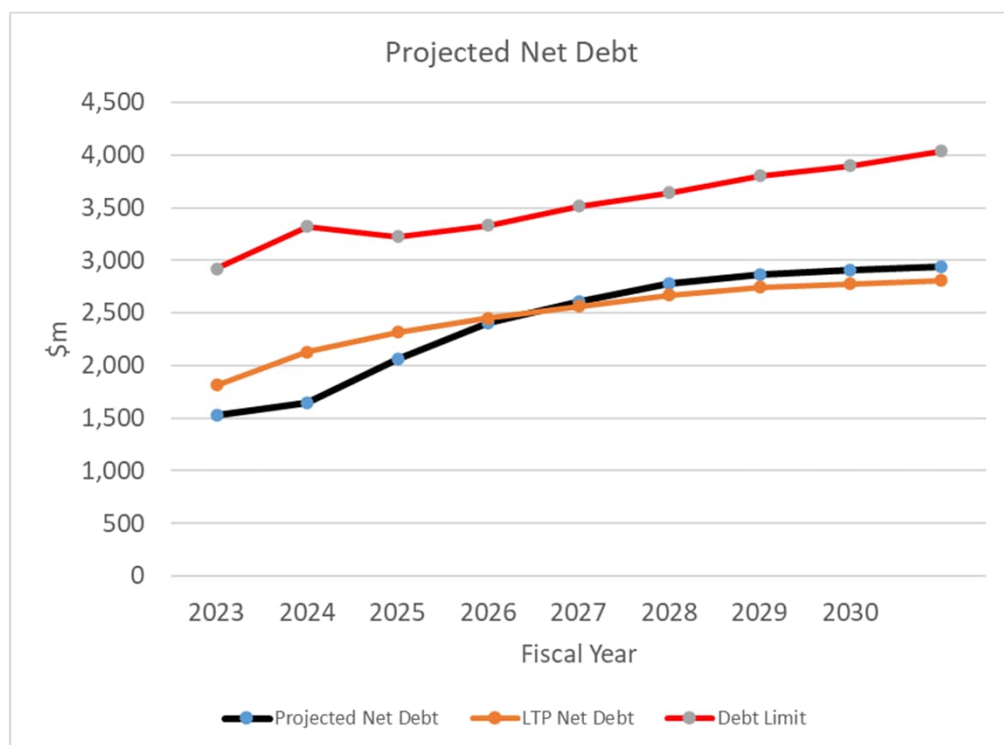
FY27 0.7%

# What does this mean for Debt?



- Additional borrowing planned is linked to high projected rates increases.
- Increasing to fund capex request level would add over 2% to rates every year.

# Net Debt / Headroom



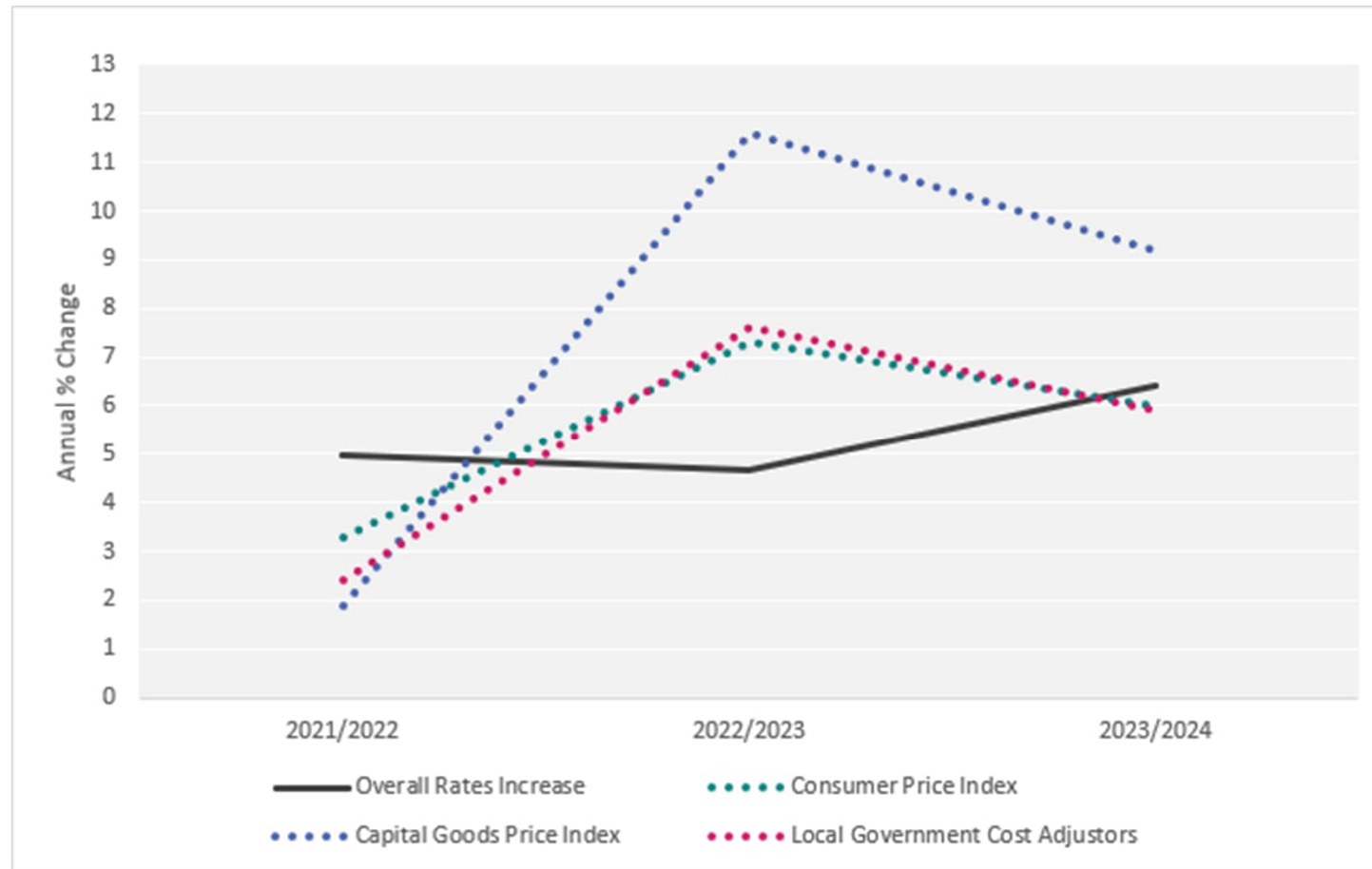
Warning - high rates revenue increases support the good headroom

# Debt headroom minimum

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- Set at \$400m in 2021 based on 2019 asset values after taking into account:
  - 1:5,000 year event funded at 40% overall by Crown
  - CCC estimated share \$436m after insurance
  - 1:10,000 year event at \$473m couldn't be provided for
- Update:
  - Asset reinstatement values have increased 32% from 2019 to 2022
  - As a 1:5,000 year event would now require headroom of \$600m any proposed change to the quantum will require further analysis and consideration.

# Financial challenges: local government costs



# Financial Challenges: Summary

Rates Increase in 24/25	4%	6%	8%	10%	12%	13.5%
Opex savings required Sm	57	44	31	18	4	0
+ Capex savings required Sm	n/a	n/a	n/a	n/a	300	0
2028 Debt Headroom	818	860	898	942	987	70

Legend	Savings reasonably achievable / Headroom satisfactory
	Challenging level of savings
	Extremely difficult level of savings / Headroom insufficient

## Notes:

- This only addresses 24/25 rates, not 25/26 onwards
- The ongoing requested level of capex p.a. (\$1b? in 24/25) causes a breach of Debt Headroom post 2028



# Financial Challenges: Summary

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- Reforms uncertainty
- Affordable Waters effective timing
- Ongoing inflation and labour market constraints (NI rebuild)
- Projected Rates too high
- Proposed Capex Programme needs to be deliverable and affordable (consider rate of new borrowing)
- Dividend streams flat to declining

# Questions

# Infrastructure Strategy

*First Draft*

# Recap

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- The Infrastructure Strategy is a direction-setting document that guides infrastructure priorities and investment for the LTP *and* over 30 years
- According to legislation, we must:
  - 1) Identify Significant Issues (challenges) that we face with infrastructure
  - 2) Consider principal options to address them and a 'most likely scenario' for investment
  - 3) Set out approach to how we will manage assets
- Late-March, we discussed the challenges facing our infrastructure planning and investment
- The Significant Issues identified form the basis of the draft Strategy
- The detail of this work is on page 20-27 of the draft you received

We need to look after what we've got, and  
**deliver what we say**

Deliverability  
Affordability  
Prioritisation  
Looking after existing assets  
Recognising constraints

We need to ensure our infrastructure is resilient  
to impacts of **climate change and** natural hazards

Anticipate, plan and prepare  
Community resilience  
Understand and reduce emissions  
Strategic decisions as adverse events increase

We need to plan and invest for growing and  
**changing demand**

Future-proofing  
Growing *and* changing population  
Factors outside our control  
Shapes our response to climate change, environmental  
issues and community resilience

We need to continue to improve our  
understanding of our infrastructure so we can  
make the **best decisions for our community**

Perform, plan and spend the best we can  
Understand our infrastructure  
Improve value for money  
Evidence-based conversations

# How can these inform our Long Term Planning?

*How do we improve deliverability and affordability, whilst still prioritising our existing assets?*

*What are the urgent actions we need to take to adapt and increase the resilience of our infrastructure and community?*

*What are the best ways for us to respond to growth while becoming a low-emission city?*

*How can we improve data collection and the way we use it in evidence-based decision making to best address the Significant Issues?*

- It won't be easy - responding to the issues can be contradictory and there are competing priorities
- Strategy covers 30 years, but we need to start making changes now
- The draft Infrastructure Strategy identifies Actions that could be taken to respond to the Significant Issues...

# Actions to address the Significant Issues (*Most Likely Scenario*)

We need to look after what we've got, and deliver what we say

- ✓ Scale the size of our Capital Programme
- ✓ Prioritise funding to the renewals and maintenance programmes
- ✓ Make systemic process changes to the planning and delivery of capital projects
- ✓ Budget for whole-of-life operating costs of assets in all projects
- ✓ Consider divestment of surplus and under-utilised land/facilities

We need to ensure our infrastructure is resilient to impacts of climate change and natural hazards

- ✓ Apply guiding principles to investment decisions
- ✓ Increase planning with climate-impacted communities, as well as engagement across the City
- ✓ Increase knowledge, data and capability in understanding climate risks and emission reduction, including pilot projects
- ✓ Consider options for lower emissions and enhanced resilience at project initiation stage

We need to plan and invest for growing and changing demand

- ✓ Prioritise integrated infrastructure planning
- ✓ Partner and collaborate with central government, developers, mana whenua and communities to identify and take opportunities
- ✓ Prioritise investment in infrastructure that promotes active travel, public transport usage and road safety
- ✓ Explore alternative funding options and models

*We need to continue to improve understanding of our infrastructure, so we make the best decisions for our community*

- ✓ Improve processes for collecting, collating and using asset data for integrated information
- ✓ Partner to share and improve data processes and systems; identify/trial forward facing technologies; maximise external funding opportunities
- ✓ Improve capture and understanding of social and cultural data

# Considerations

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This is still a first draft - actions should help inform thinking and guide investment decisions in Activity Plans

- Limited resources and funding available
- We can't do everything – what is the trade-off?
- Immediate versus future needs
- Current and future risks
- Balancing competing priorities
- What is affordable?
- What is deliverable?
- Is it a want, or a need?
- Taking a district-wide view
- Every capital cost has an impact on operating costs (opex)



# Capital Programme

# Purpose

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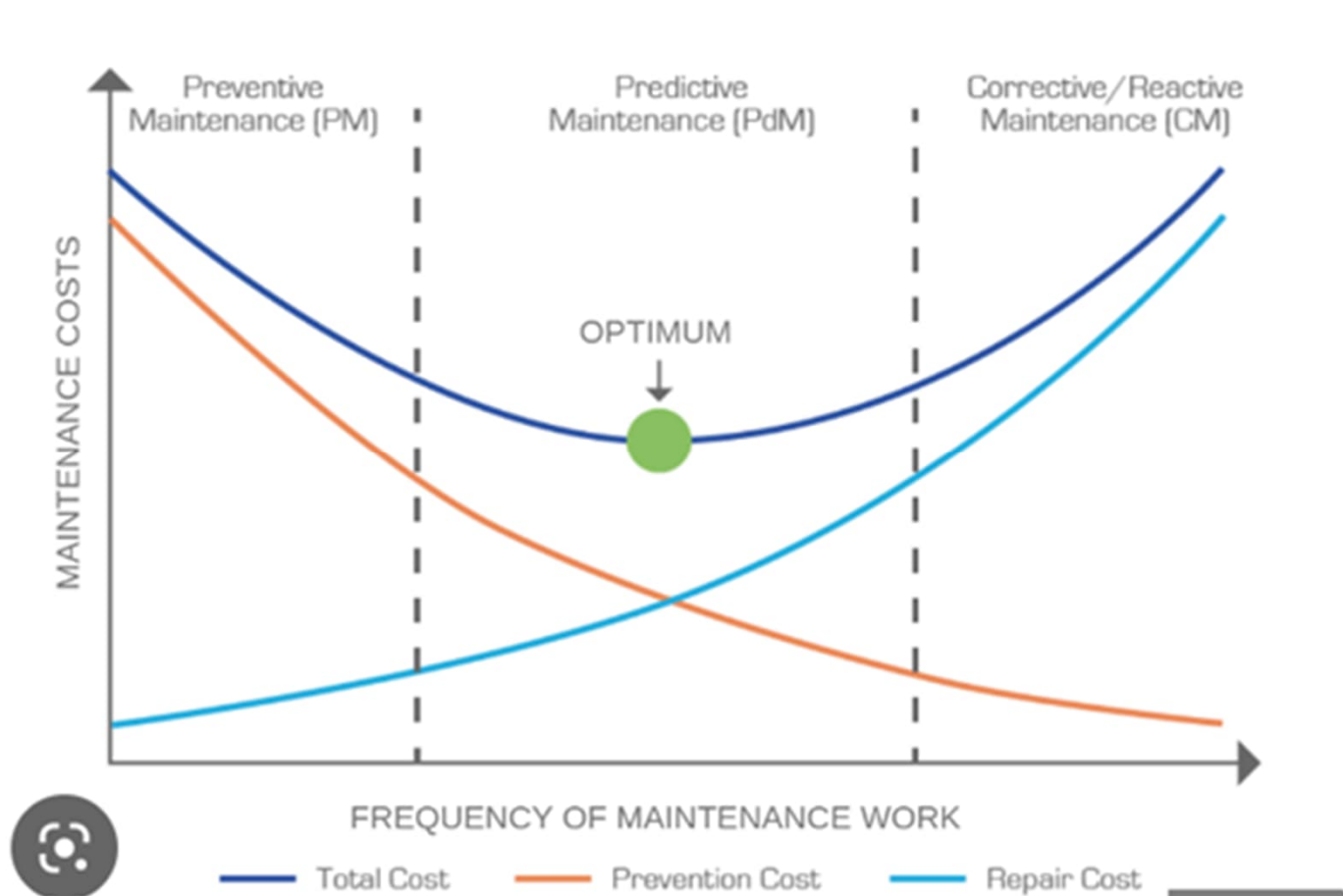
- The capital programme is being shared at this early stage in draft format. It currently shows an unconstrained capital programme.
- The Letter of Expectation clearly directs us towards a “deliverable capital programme across all years of the LTP”.
- The goal now of the joint development process is to refine the capital programme down, through feedback and understanding of the activity and asset management plans, and underpinned by the Infrastructure Strategy.

# Principles Proposed for the Capital Programme

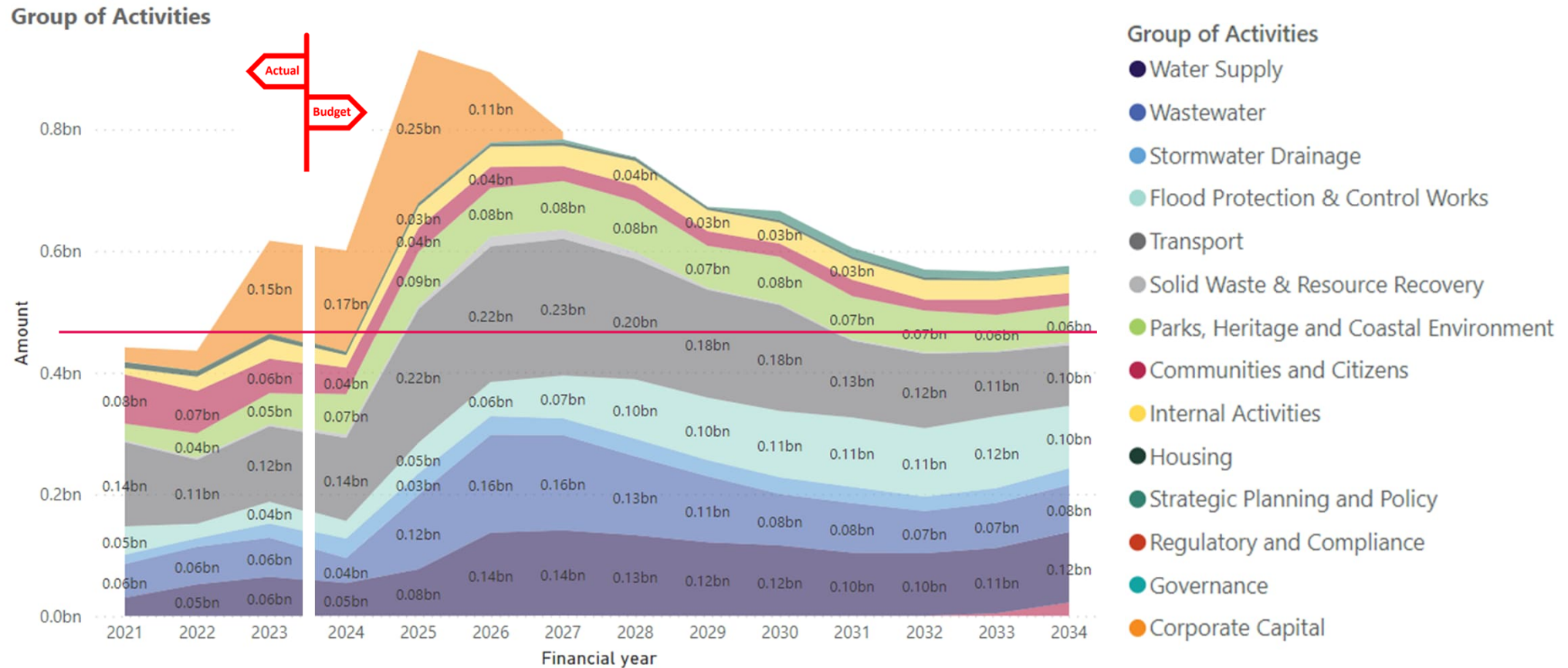
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- Affordability – not the borrowing limit, but the limit of per annum rates increases
- Deliverability – all forward plans will be judged on past performance, step change is not realistic
- Productivity – we have to aim to deliver to 100% going forward, improved procurement, more efficient delivery processes, value for money
- Predictability – budget certainty, scope control, sufficient contingency/inflation provisions, forecasting

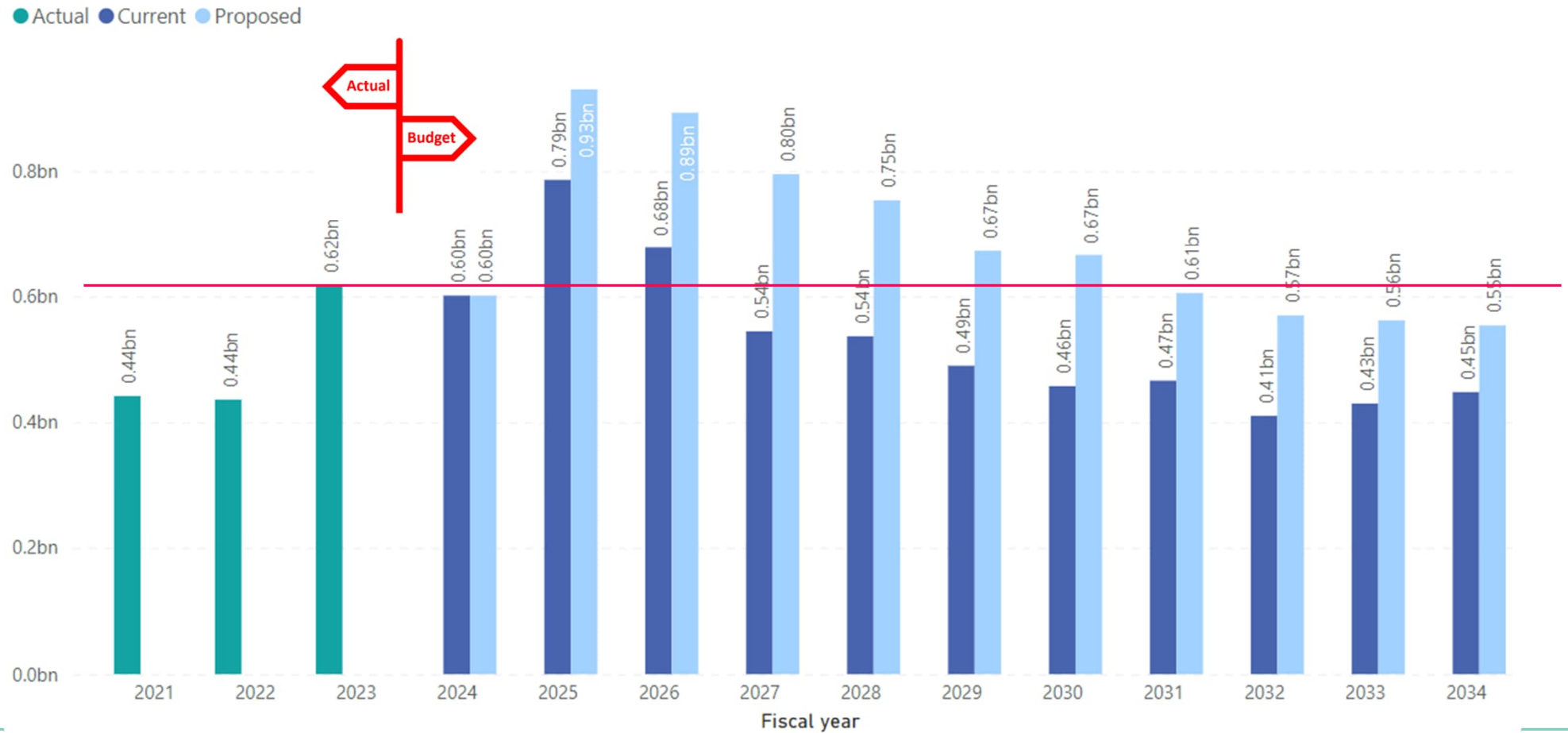
# Optimising spend and consequences of under-investment



# Overall Programme – Draft LTP Budgets



# Overall Programme – Current and Draft LTP Budgets



# Two Major LTP Impacts and Assumptions

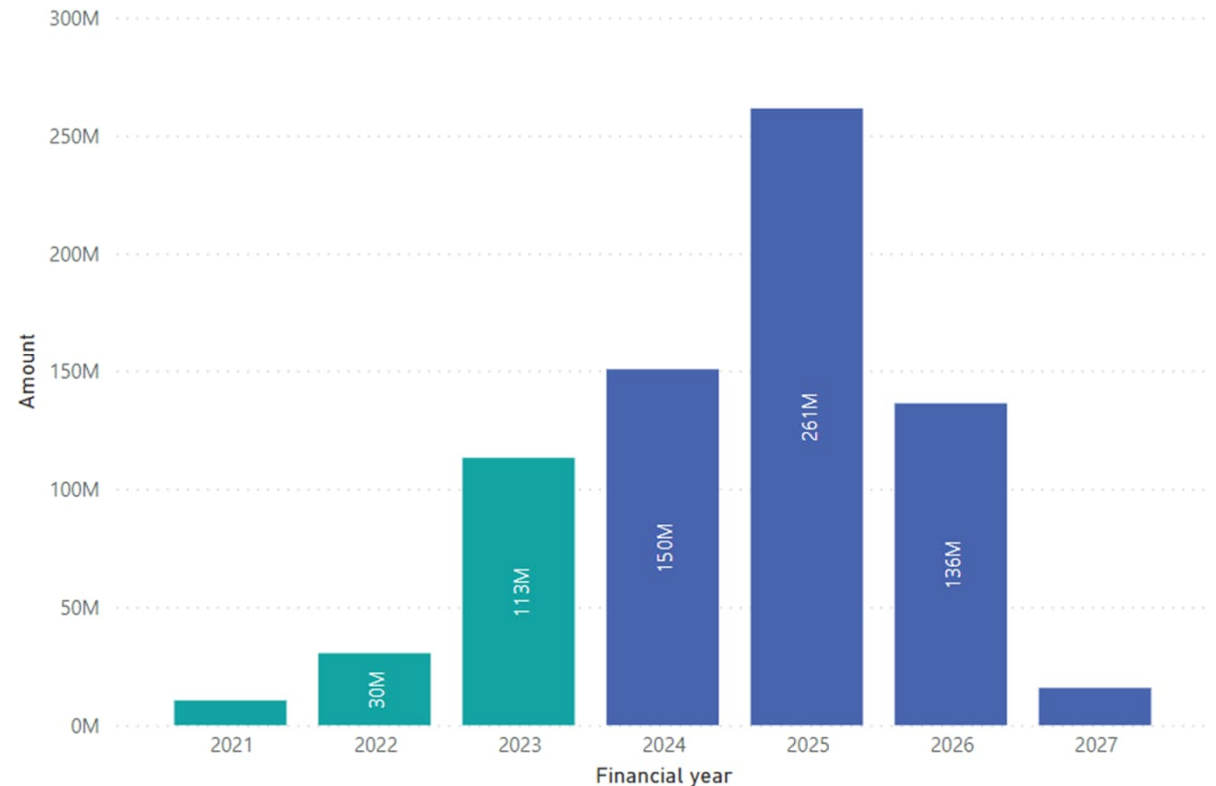
# Te Kaha Impact

The building of the new stadium is an extremely large project which is generally treated separately in the capital programme.

We frequently refer to the Core Capital Programme: this is the basic Council infrastructure assets and excludes Te Kaha which can rapidly skew statistics and performance.

Amount by Financial Year

Source ● Actual ● Current



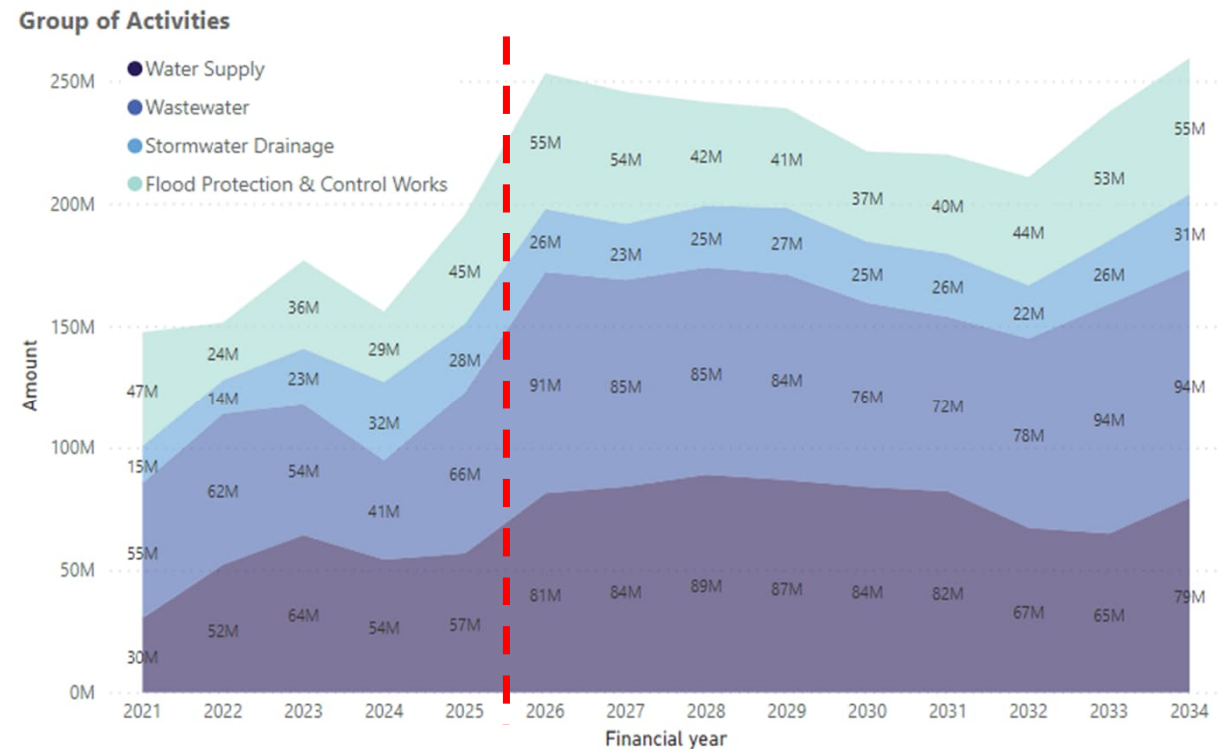


# Three Waters Assumption

The Affordable Waters reform programme is currently set for transition before mid-year 2026 (or earlier by agreement).

We need to continue to plan and deliver the three waters programme, before this is “lifted and shifted” to the new entity.

The LTP will reflect Councils best endeavours for 10 years of asset renewals and development in the knowledge it will be “lifted and shifted” – unless the General Election outcome determines otherwise?



2021 – 2023 shows the actual spend. 2024 onwards shows the budget.

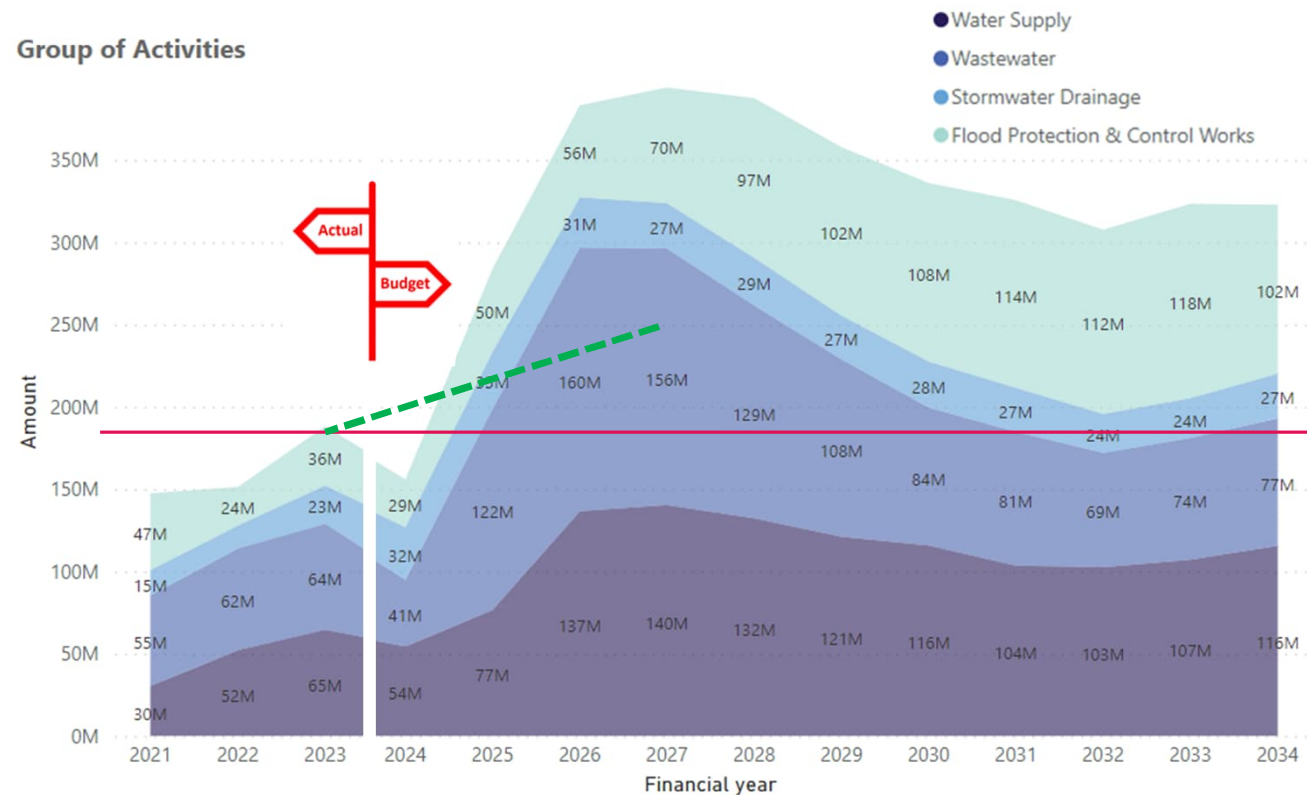
# Major Activity Areas Initial of Summary of Draft Capital Programmes

# Three Waters – first working draft

The three waters area of the capital programme makes up a large part of the planned core capital budget.

There are a number of competing priorities in the three waters area.

Figures here are uninflated.



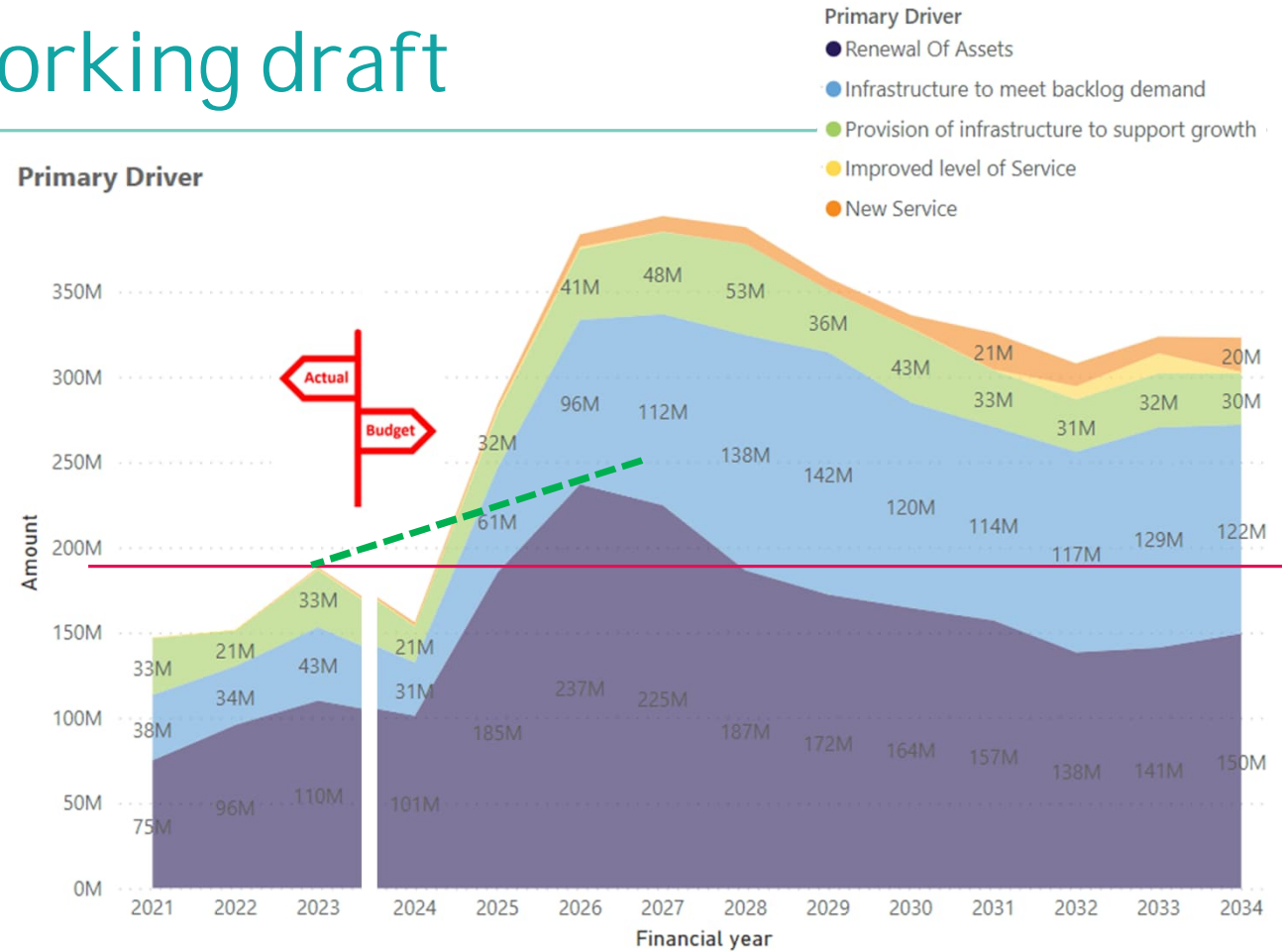
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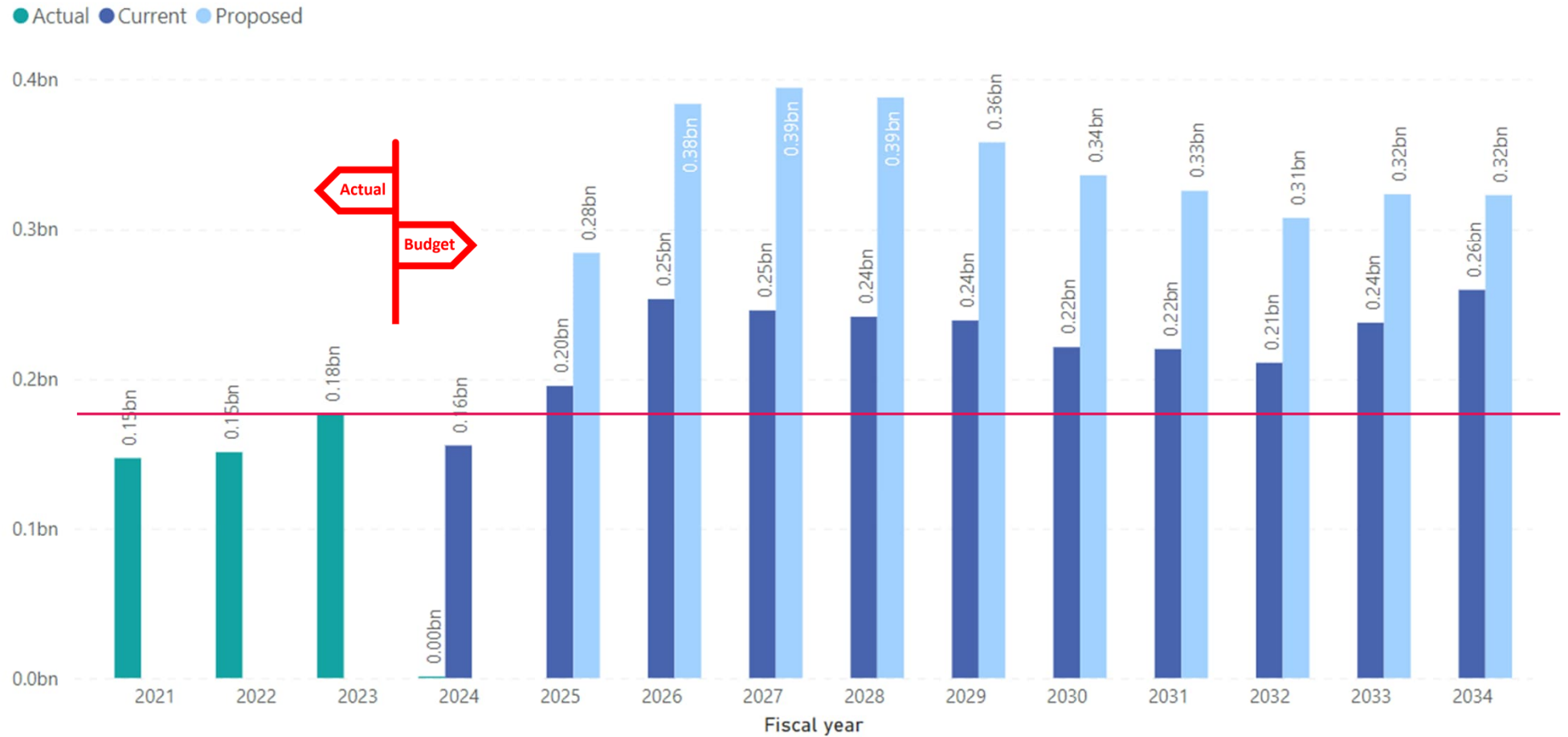
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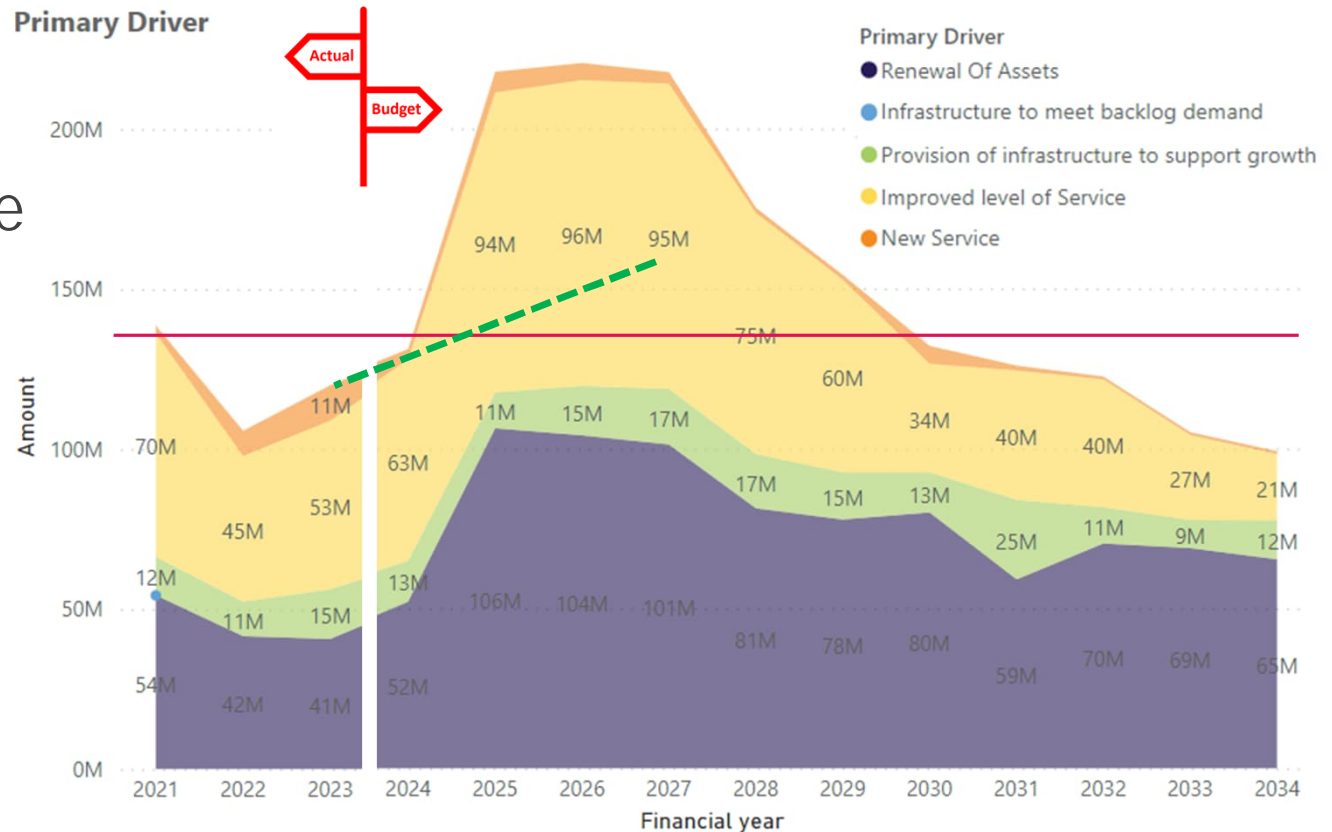
# Three Waters – first working draft



# Transport - first working draft

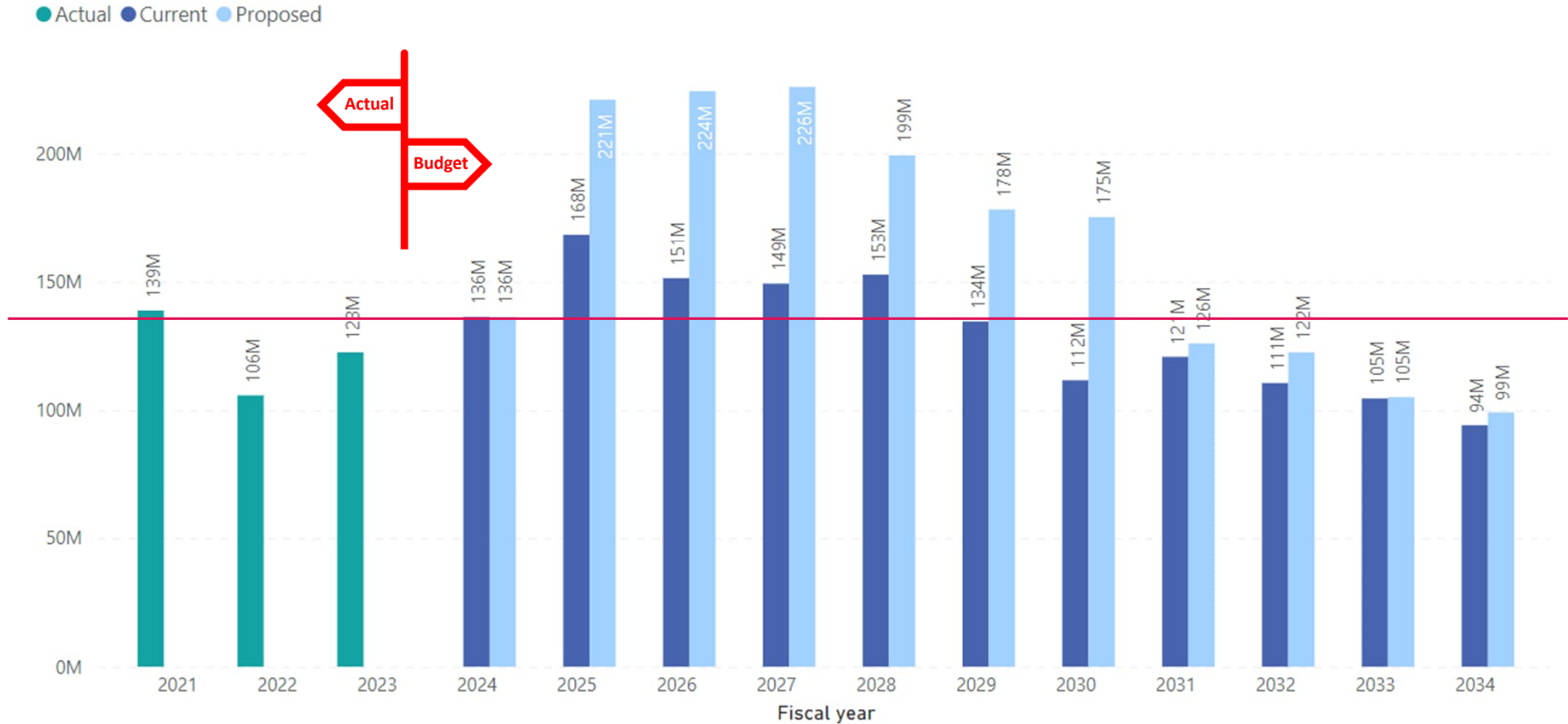
The transport programme makes up between \$100m to \$150m or around a third of the total capital LTP budget.

Deliverability (shown as the green dashed line) is a major challenge when looking forward to the first three LTP years.



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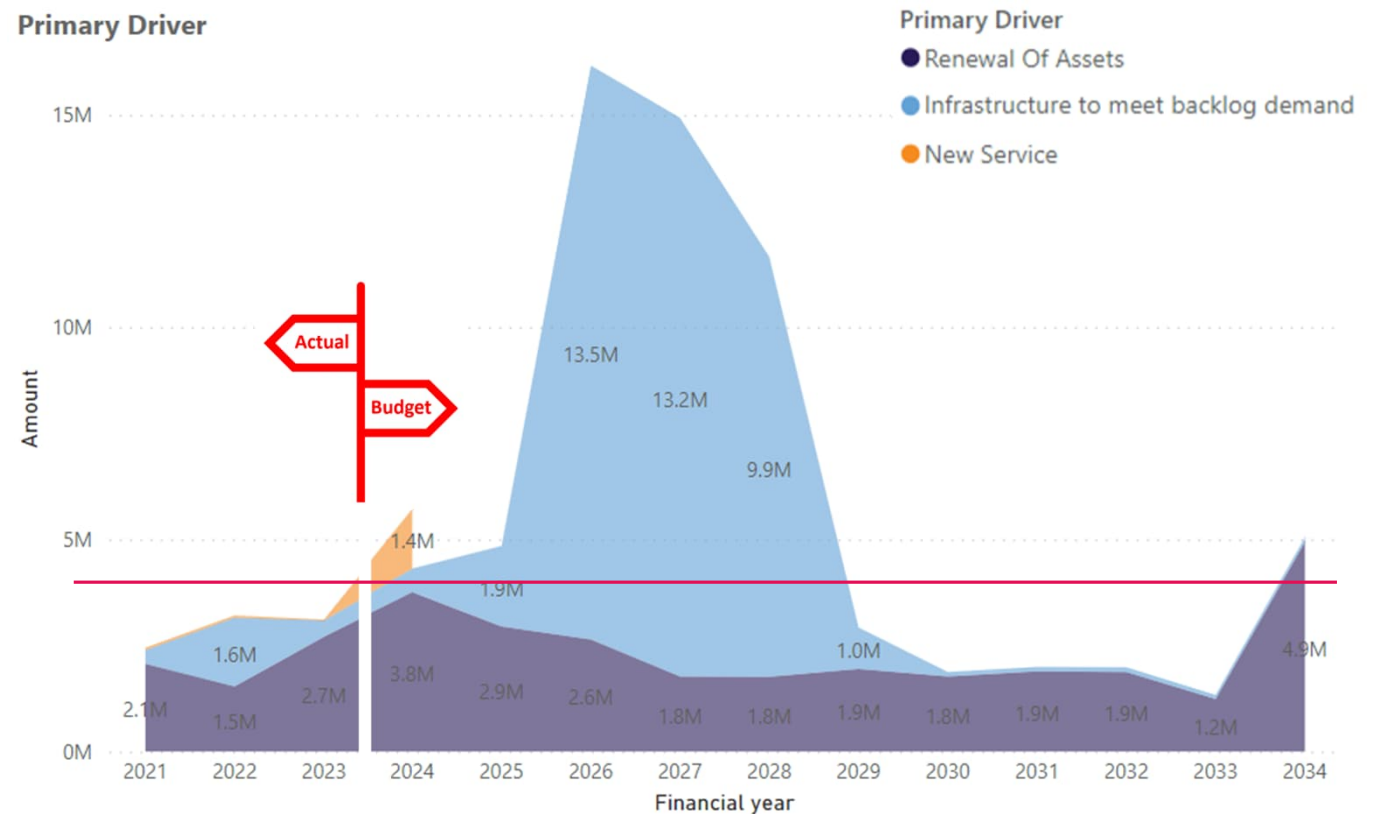
# Transport - first working draft





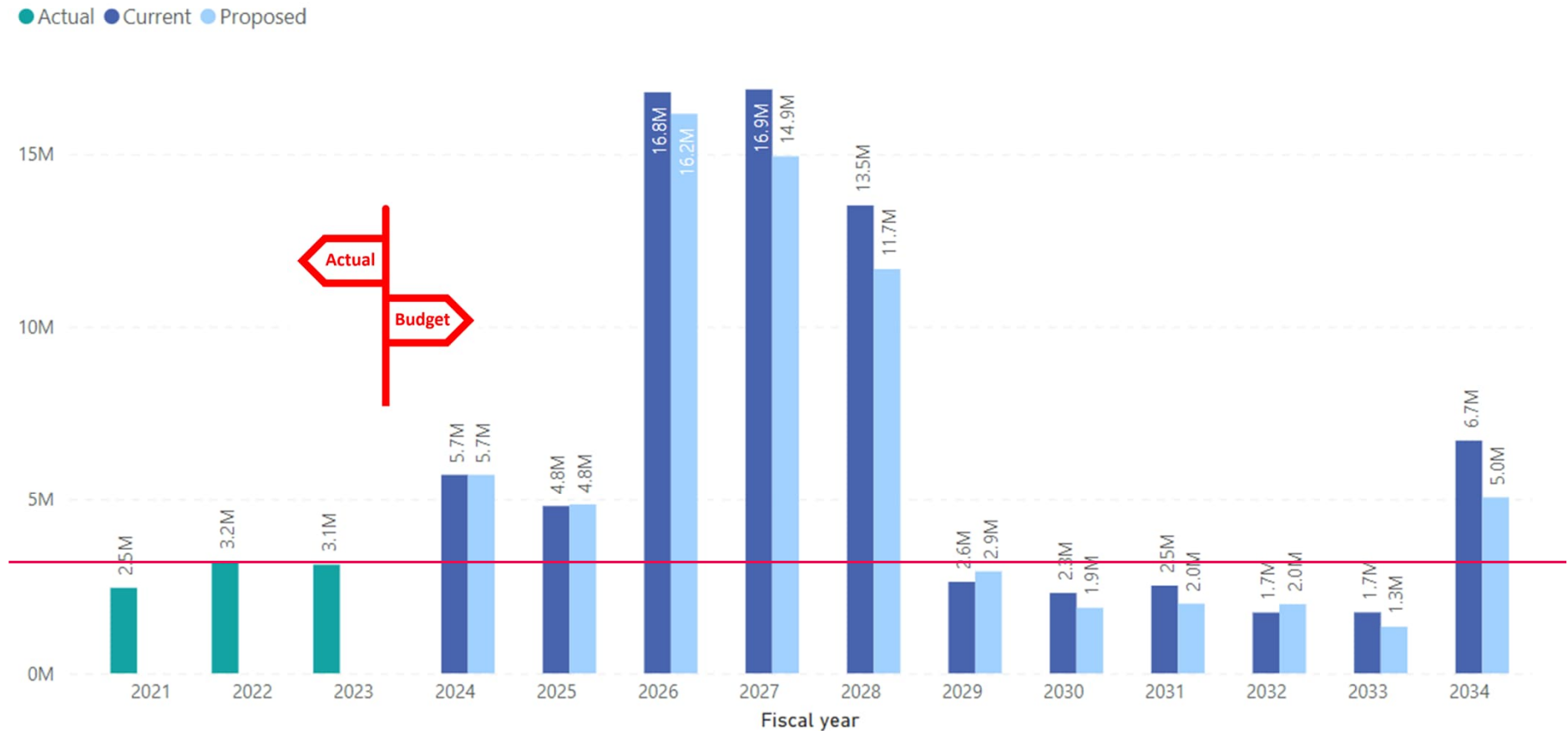
# Waste Management - first working draft

The Organics Processing Plant question dominates the Resource Recovery budgets.



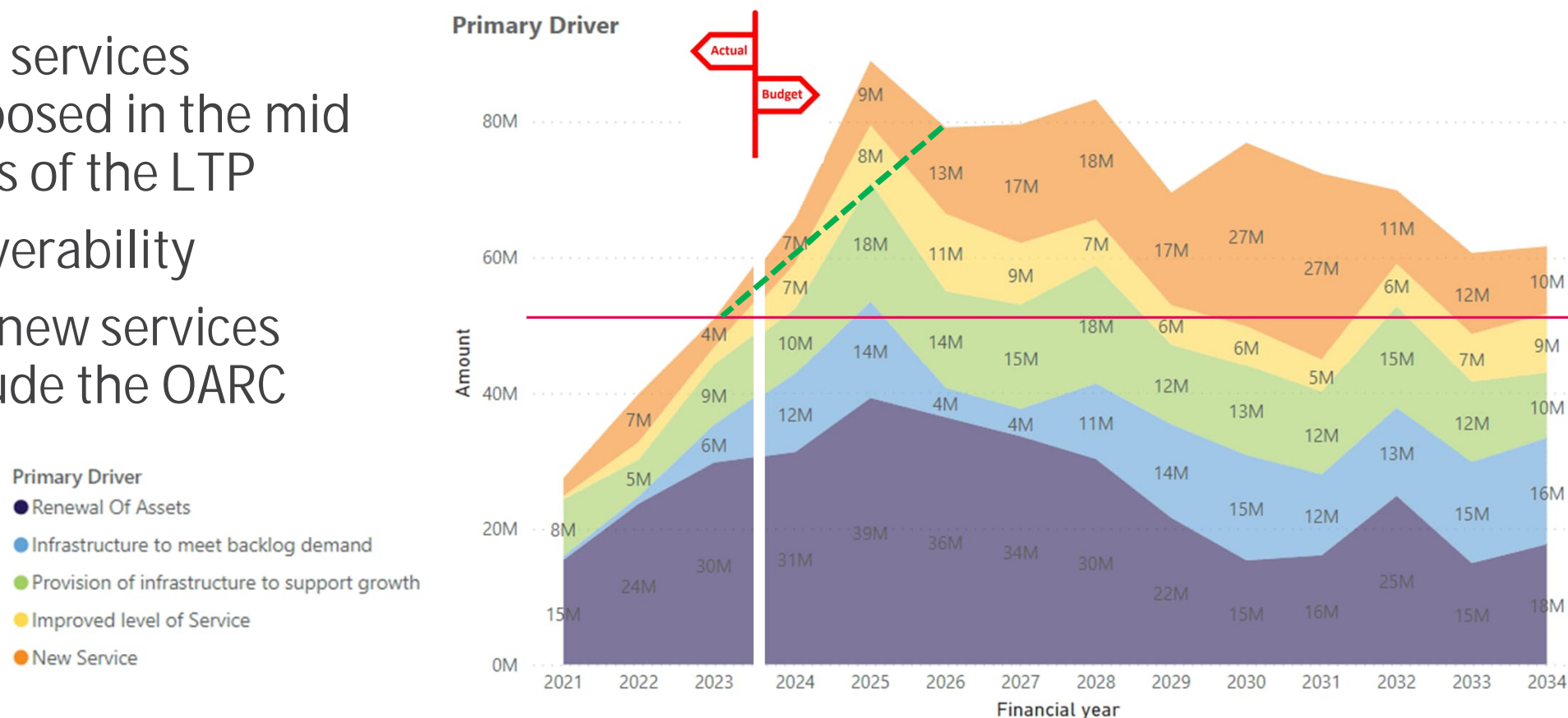


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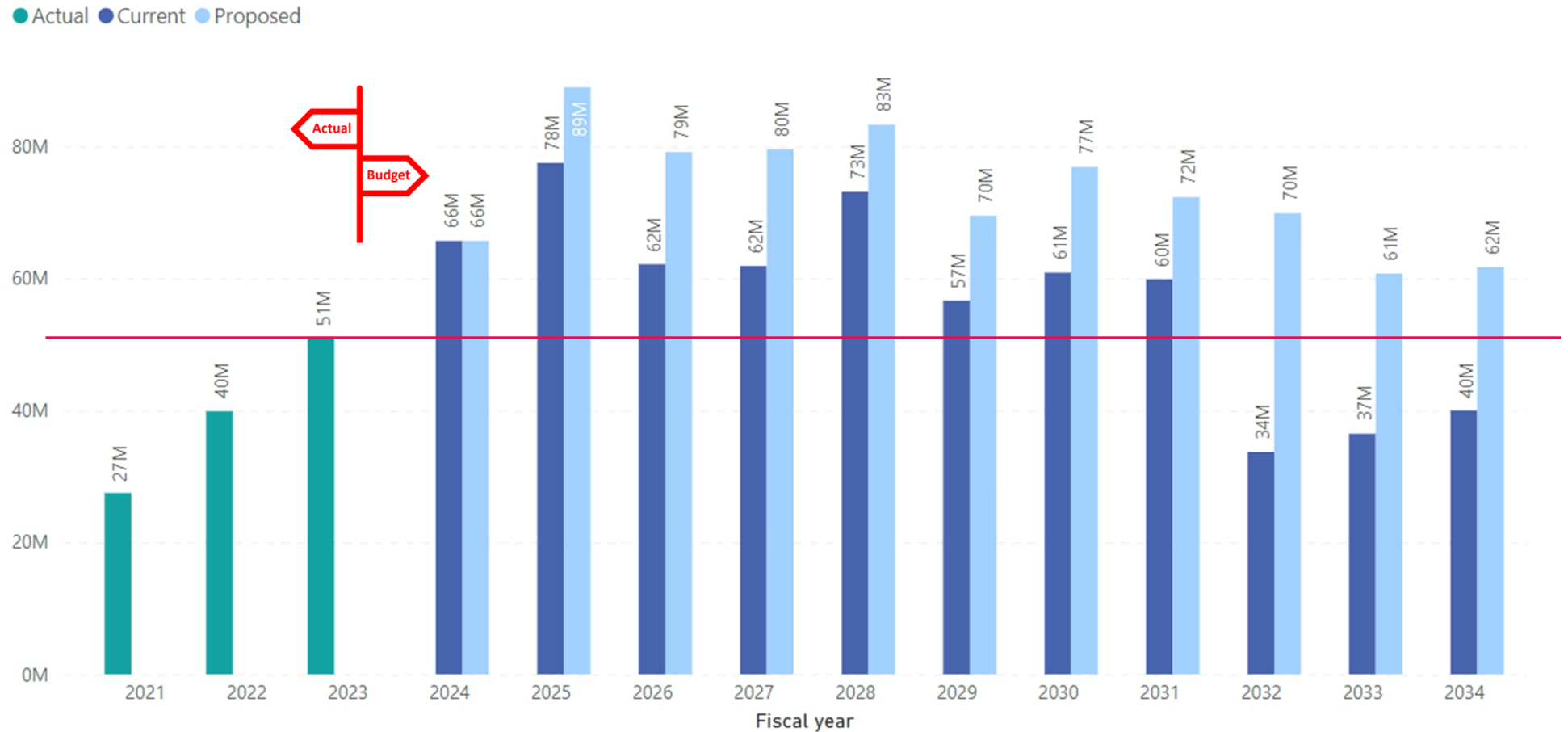
# Parks, Heritage and Coastal - first working draft

- New services proposed in the mid years of the LTP
- Deliverability
- The new services include the OARC



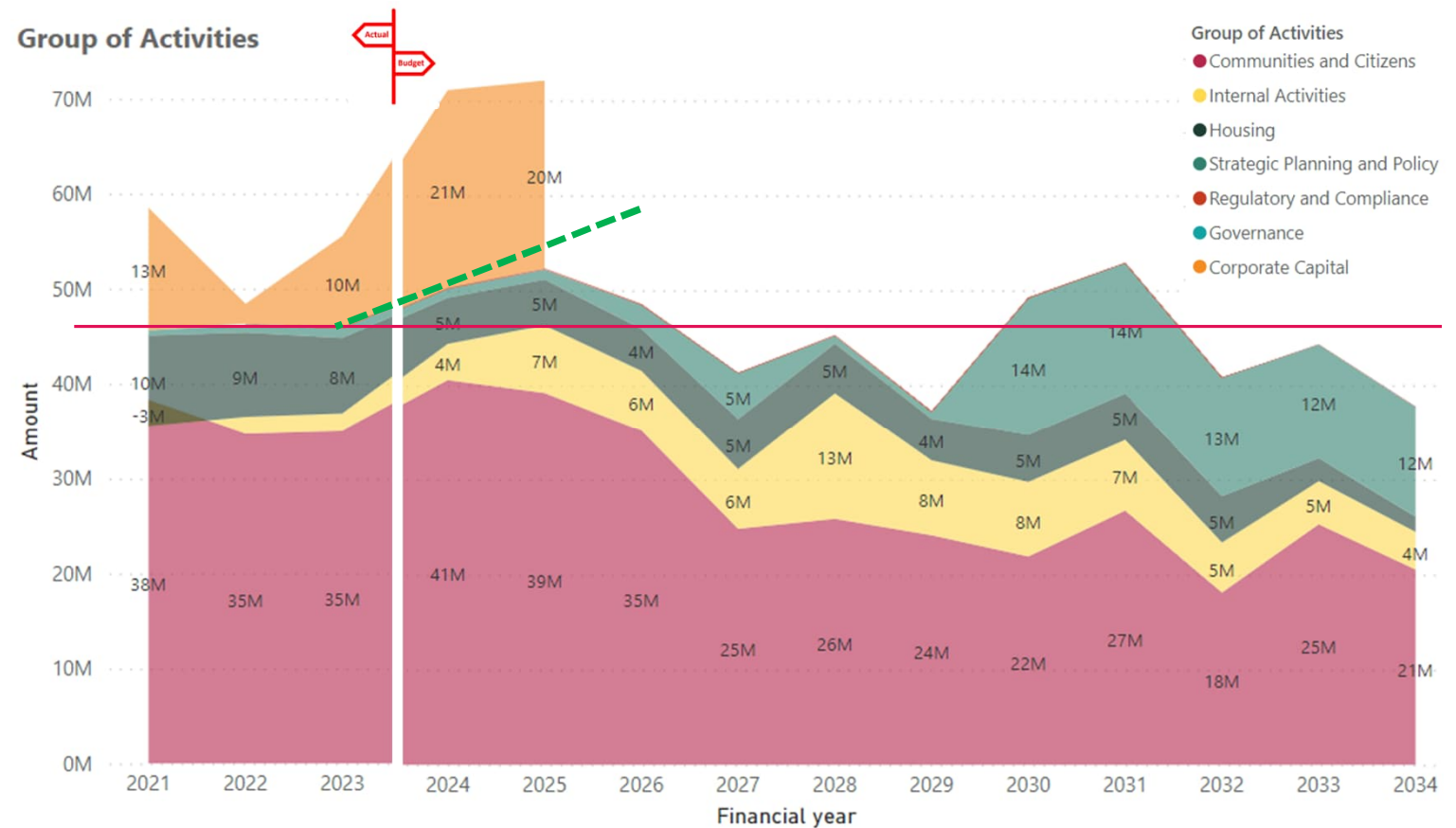
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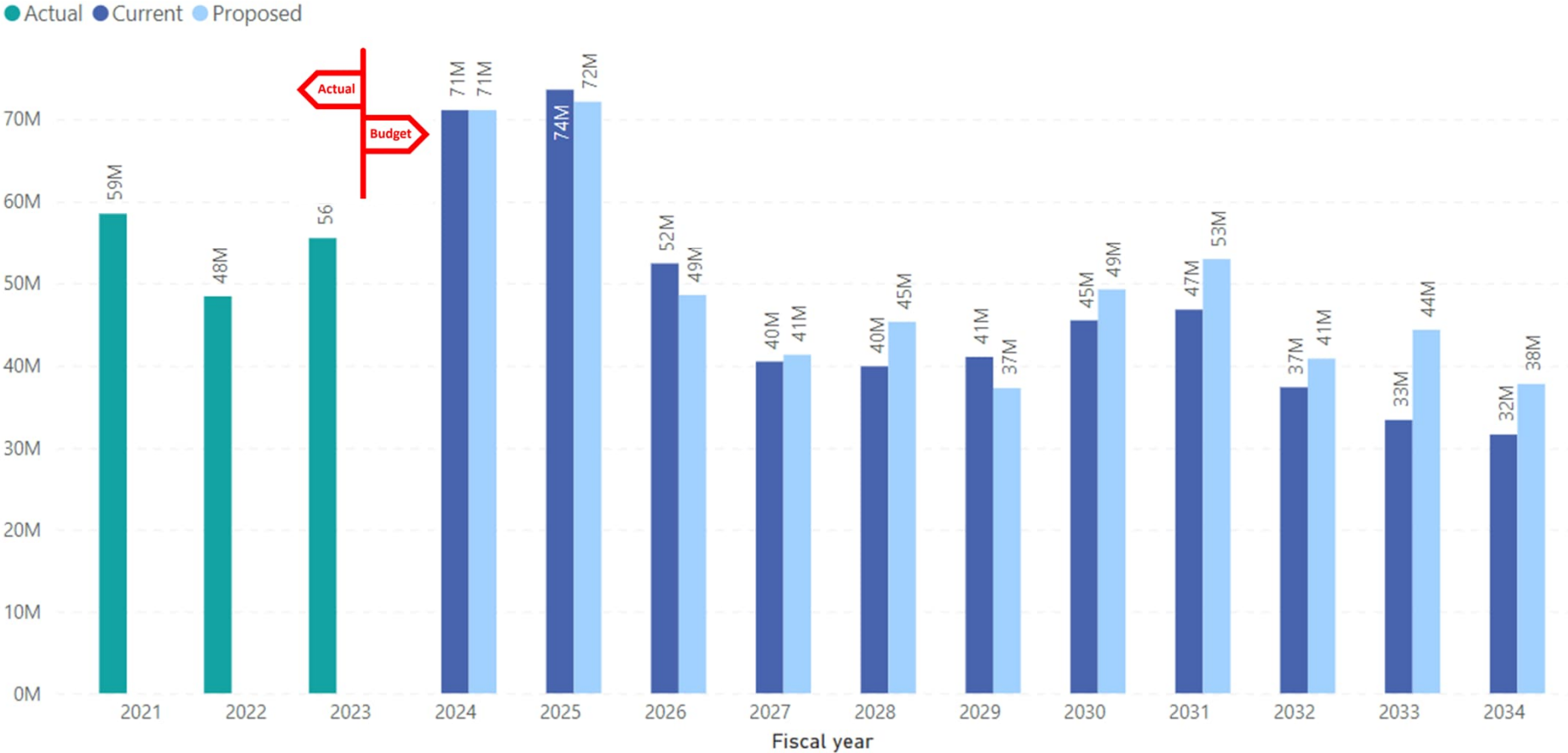


# Community (excl Te Kaha) - first working draft

The other areas of council capital expenditure are dominated by recreation and sport, libraries, art gallery and museums, housing and internal activities.

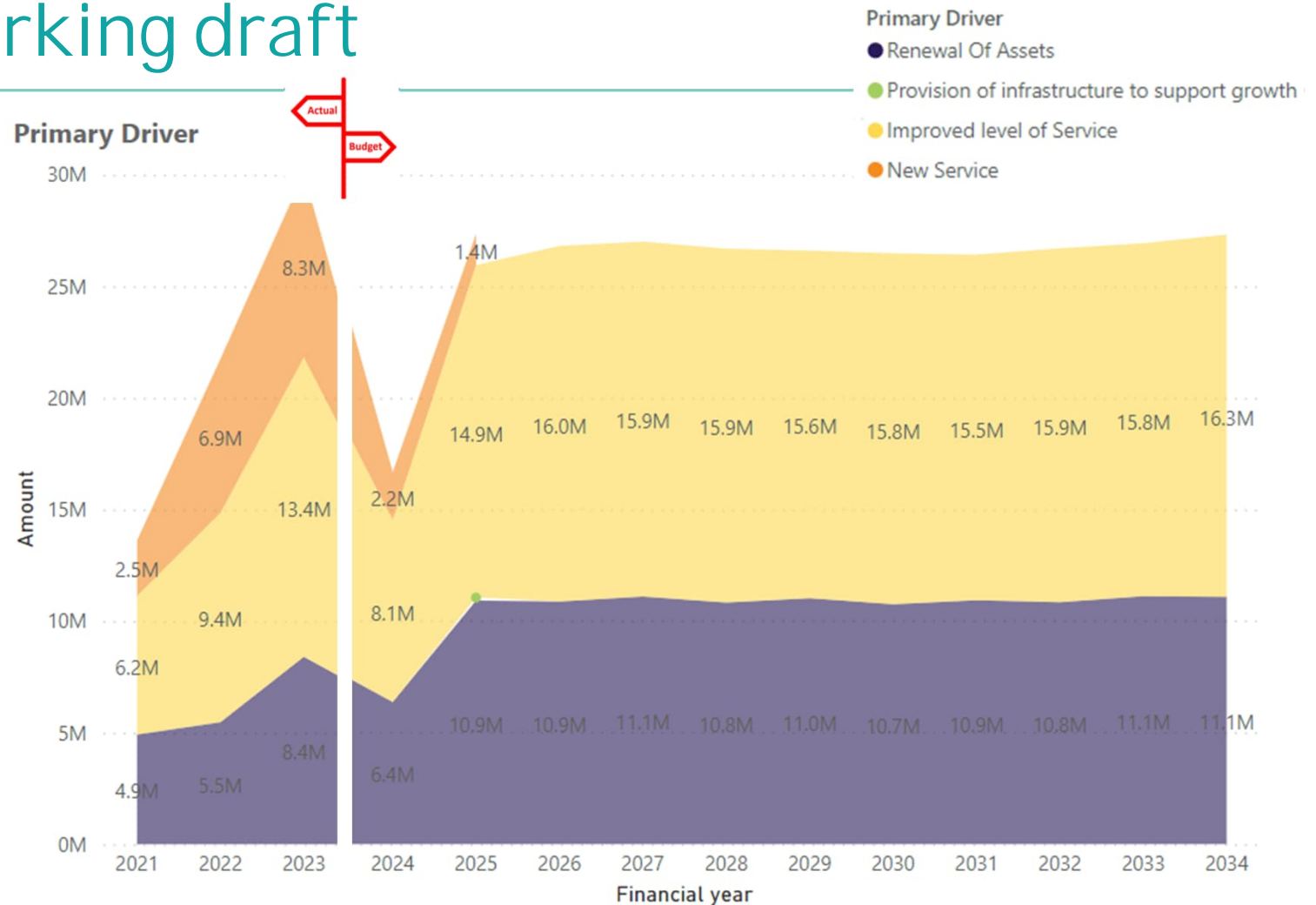


# Community - first working draft



# Digital - first working draft

- What is the ongoing investment level required?
- Initial numbers submitted to PMO indicate moving from the current \$16m p.a. to \$27m p.a.

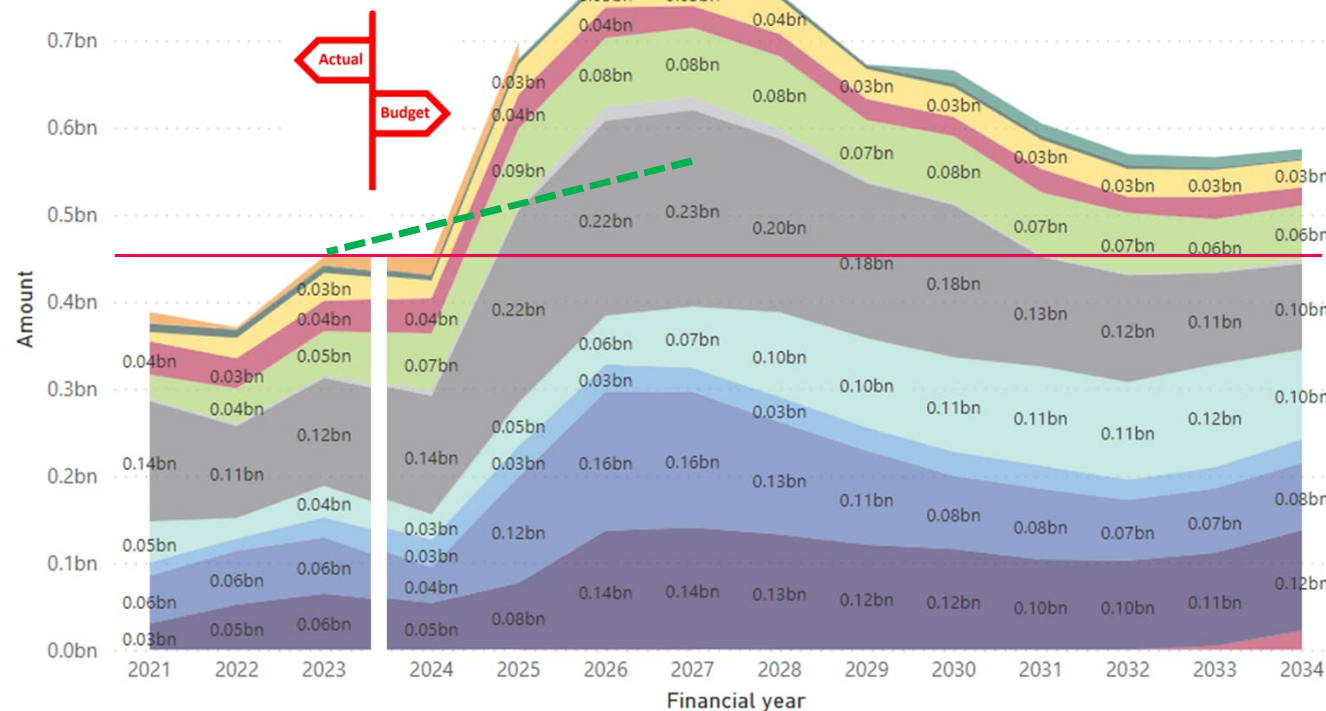


# Digital - first working draft



# Overall Programme (excl Te Kaha) - first working draft

Group of Activities

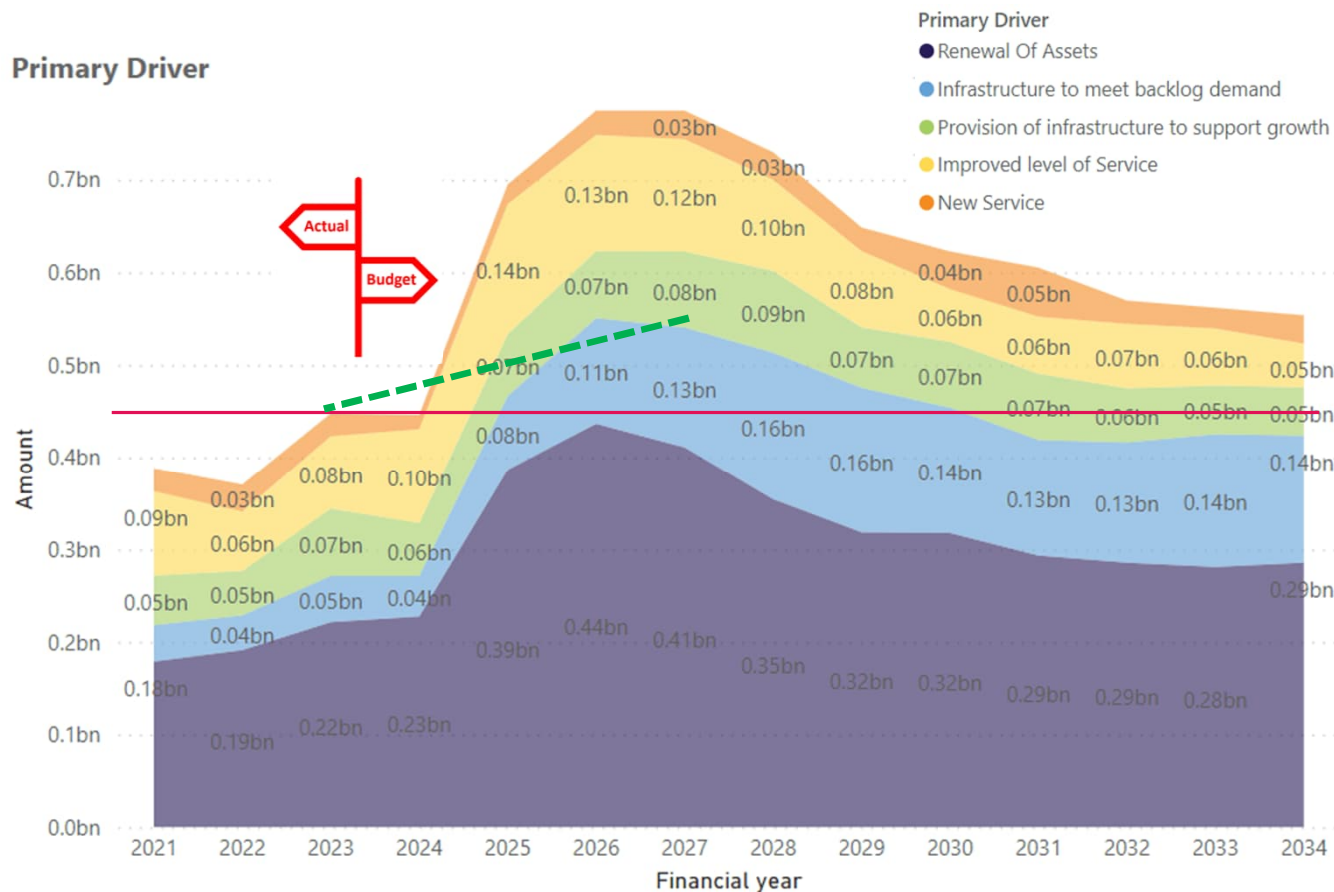


## Challenges:

- How can we right size the programme for delivery?
- How do we get the right balance between reactive maintenance/renewals and a planned renewals programme?
- Are we getting value for money from our capital spend?
- What process improvement/s would have the biggest impact on delivery of the capital programme?



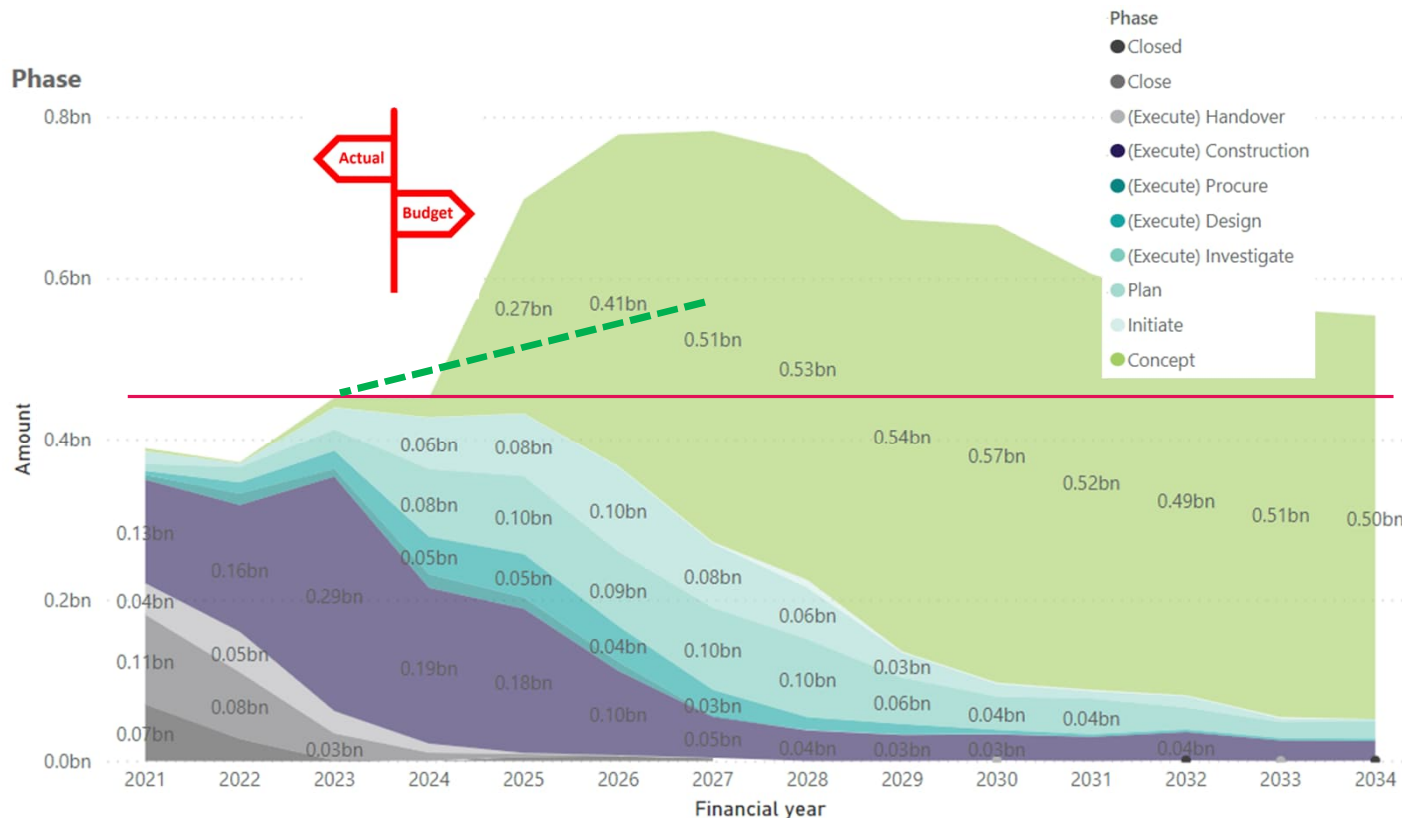
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# Questions

## Next Steps

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- Activity plans presented to Council in workshops starting 1 August (Libraries Nga Kete Wananga o Ōtautahi, and Community Housing)
- Important to keep Letter of Expectation requirement – these are first drafts only, subject to joint development process and consultation.
- Per LoE, LTP workshops will be recorded and made available online with draft strategies and activity plans following the workshop

# Likely Discussion Points

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1. How will we balance competing demands for resources? What trade-offs will we make and how?
2. How can we best progress the Council's strategic priorities?
  - What key actions or initiatives will bring about the shifts Council is looking for?
  - What things do we need to keep doing? do more of, do better, do less or simply stop
  - How can we be more productive in what we do?
3. How can we balance residents' expectations with ability to pay?
4. How can we shift our thinking to consider climate impacts?

# Next Steps

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- Early engagement: August
- LTP workshops: August-December
- Budget setting: Aug-early Oct
- Council consensus on key LTP elements: mid-December 2023
- Consultation: Feb-March 2024
- Adoption: June 2024