

# **Council Joint Development**

## Long Term Plan 2024-2034

Tuesday 17<sup>th</sup> October 2023

# Process overview - 'We are here'

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- LTP Letter of Expectation agreed
- Strategic Priorities confirmed, foundation of LTP
- early input from Boards, Rūnanga, community surveys
- LTP early engagement - *What Matters Most*
- draft Infrastructure Strategy
- Draft Activity and Asset plans developed
- 2 x major Capital Programme briefings

# Process overview - 'We are here'

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## Purpose of 17 October briefing:

1. To seek specific guidance on targets and levers
2. To review options and seek specific guidance on **scale of a deliverable and affordable capital programme**
3. To begin reviewing options - **property disposal**
4. To begin reviewing approach to - **operational savings**

# Long Term Plan 2024-34: seeking guidance

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- This joint development briefing is one of a series held as part of the development of the LTP 2024-34
- **All discussions involve draft material and reflect a position on the day**
- Decisions will be set out in the draft Long-Term Plan, which will be adopted for consultation in February 2024
- **This joint development briefing will cover options that (potentially) affect staff employment and commercial matters**
- It must be held in PX for those reasons

# Process overview: proposed next steps

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## Purpose of each future briefing:

- **24 October** – CCHL Strategic Review options
- **31 Oct** - (3 hours) further property, opex options. Draft Financial Strategy
- **7 & 14 Nov (full day sessions)** - specific guidance on capital substitutions, property disposal, operational savings to be built into draft LTP
- **21 Nov** (2.5 hrs) - overview internal activity plans
- **25 November** (Saturday) - emergency backup only
- **5 Dec (3-4 hours)** consensus on overall LTP options as basis of draft

# Framing the Issues

# Council's Letter of Expectation – key themes

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- Joint development was successful in 2021 - build on that approach
- Balance needs of today's residents with needs of future generations
- Authentic partnership with mana whenua, Community Boards
- Early engagement with community
- Must reduce vulnerability to the impacts of climate change
- Capital programme responds to actual need and is demonstrably deliverable and affordable in each year of the LTP

# Council's Letter of Expectation

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- 30-year IS allows deferral to later years, if required by deliverability
- Focus on keeping rates affordable over time, while balancing need for fit-for-purpose services and residents' quality of life
- Long-term strategic approach to debt ensuring we are taking a whole life costing and intergenerational approach
- Adjustments to capital projects or LOS must be transparent in LTP



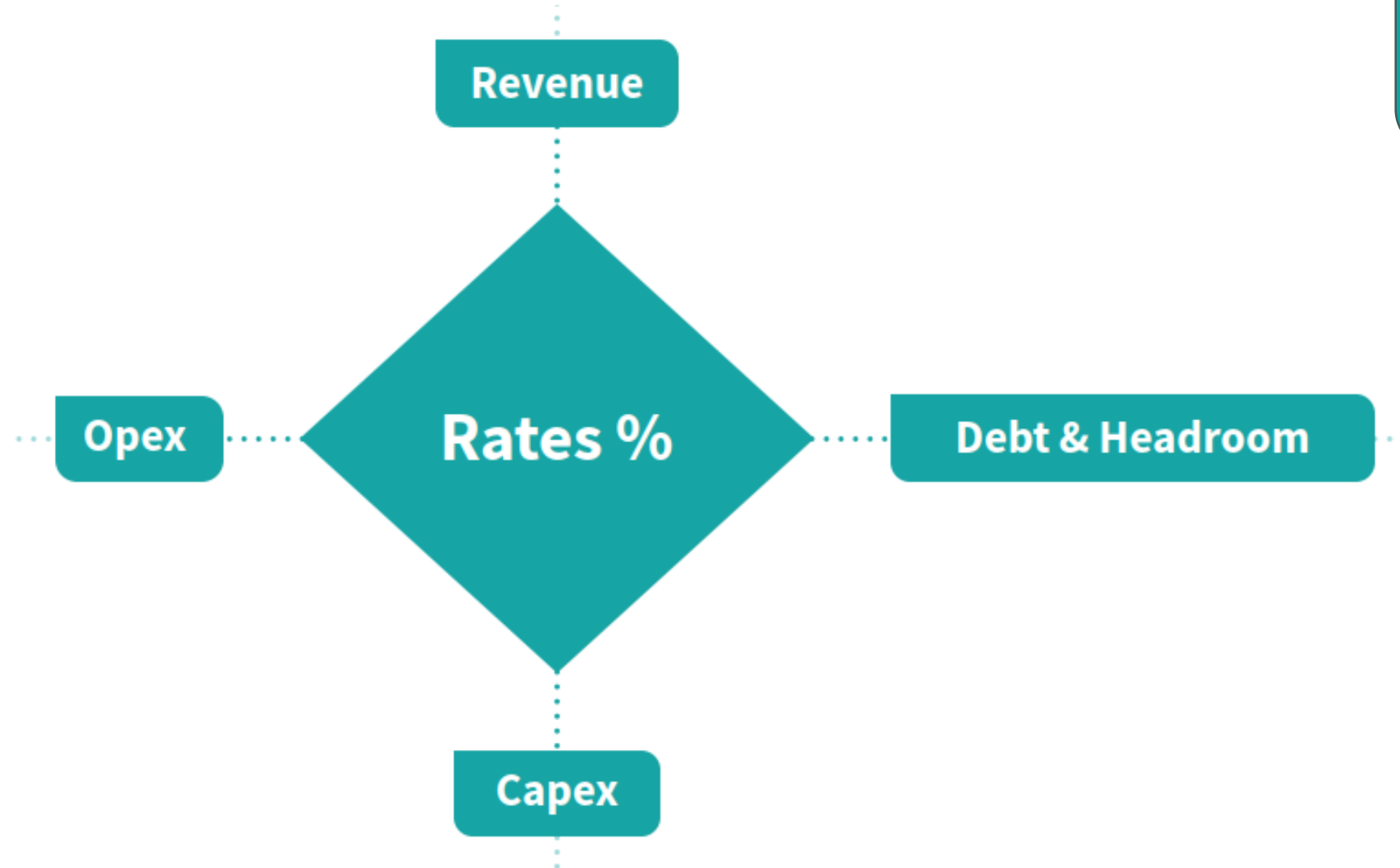
# Modelling the challenge

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- Like solving Rubik's Cube
- Can't focus on just one corner
- Need to look for overall cause and effect...



# Modelling the challenge – all levers

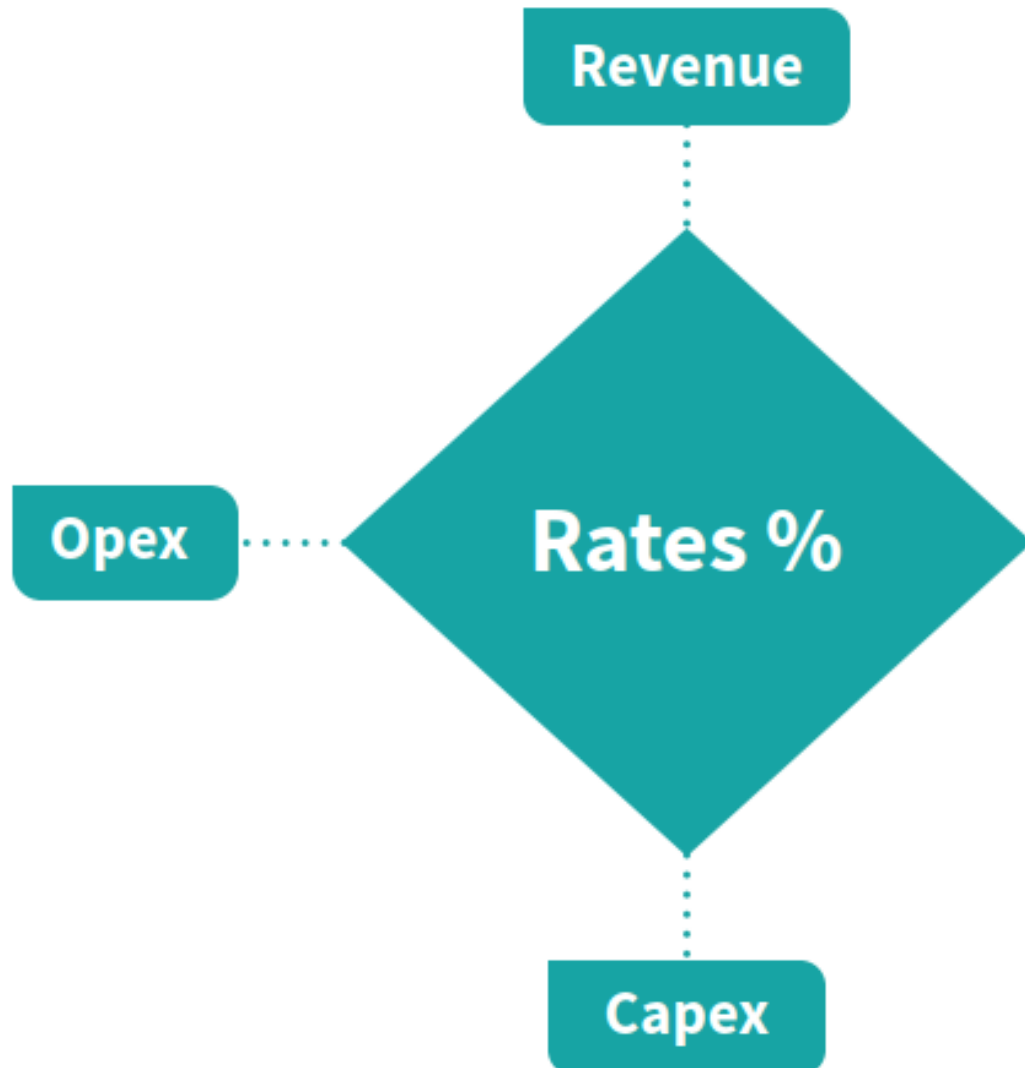


**Discussion  
Point**

# Current financial position

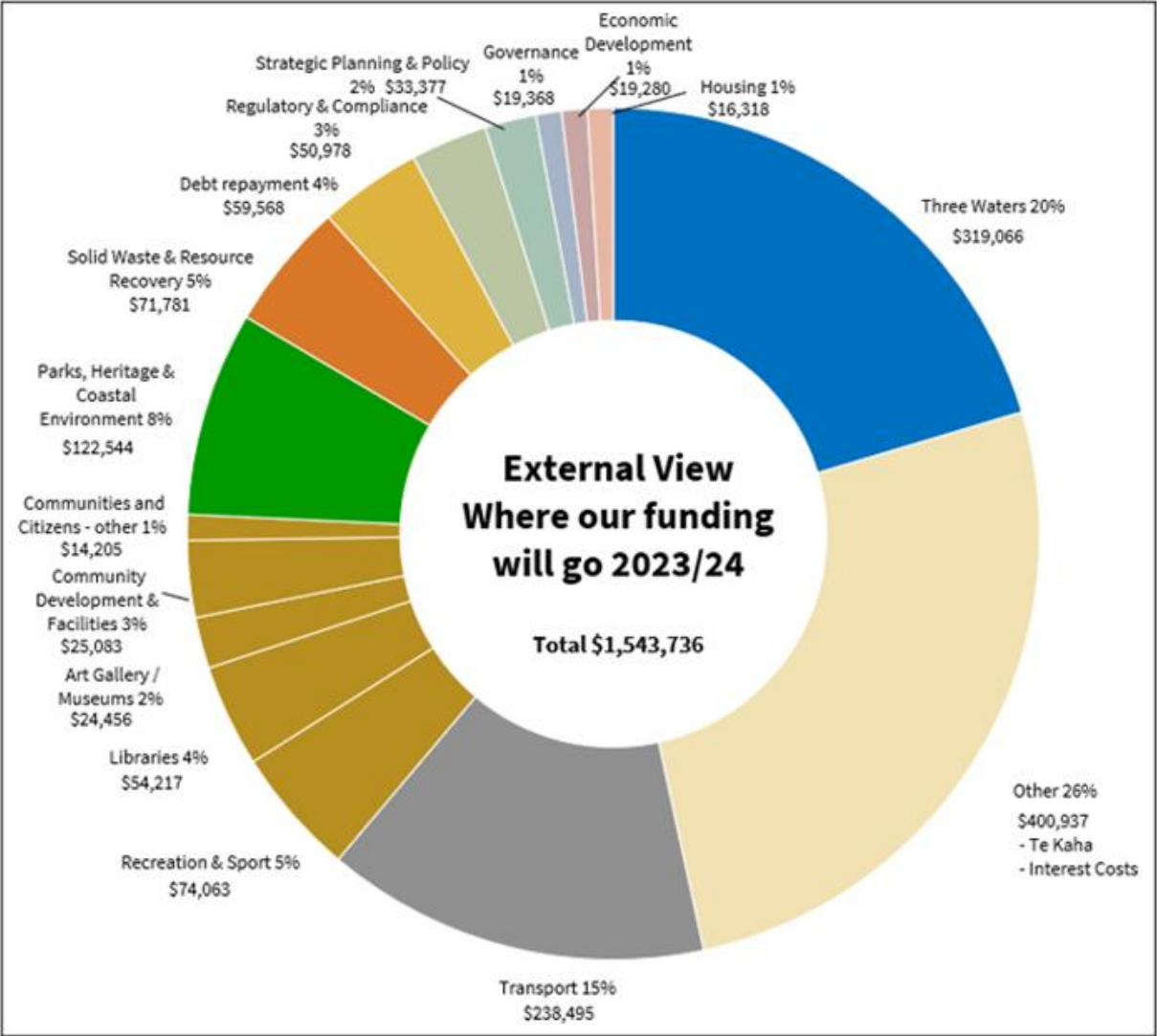
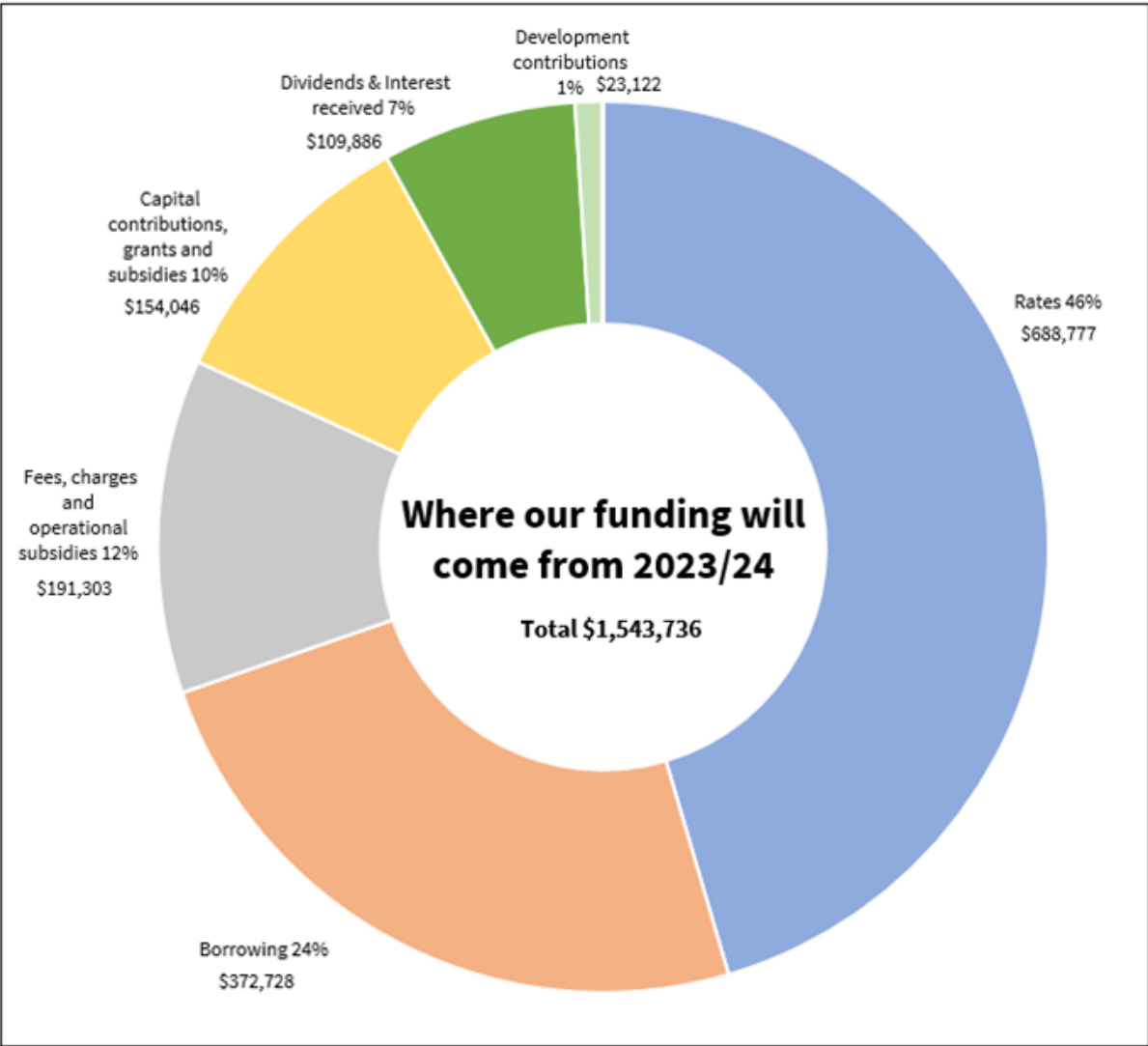
# Modelling the challenge – today's agenda

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Noting CCHL review options - 24 October

# Funding



# Current Financial pressures

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- Recent rapid increase in inflation / costs
- Insurance impacts – market change unknown at this point
- Recent rapid increase in interest rates at a time when we are borrowing significantly more than normal and already have material EQ related debt
- Impacts on CCO's impacting dividends
- Run down of tax credits available
- Ratepayer affordability in current economic environment
  - (Refer Northington graphs of historic rates increases v CPI and other Councils)

# Capex & Borrowing are major drivers over an LTP period

Not all capex is borrowed for – in 2023/24 total capex of c.\$700m will be funded by:

- c.\$195m of Rates (for renewals)
- c.\$135m of capital revenues (e.g., NZTA, DCs, remaining CMUA contributions, etc.)
- c.\$370m of borrowing
  - *This Annual Plan decision has increased Rates to some extent in 2023/24, but also committed a further 3.4% Rates increase in FY25*

**BUT**, capex increases pressure on Rates:

- Rating for renewals needs to increase (renewals are typically c.\$300m pa – the current Financial Strategy addresses this over the next 7 years)
- Each \$100m of borrowing requires c.\$180m to repay over 30 years (principal + interest) – increases Rates by c.1.2%
- 20% of Rates are currently used for debt servicing – rising to 25% once the stadium is completed in FY27

# Principles applied to options and advice

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## Discussion Point

1. Align with strategic priorities including climate
2. Avoid HSW risks
3. Maintain compliance
4. Preserve Levels of Service as far as possible
5. Focus on core services including What Matters Most feedback
6. Take into account previous reductions
7. Maintain capability and capacity where possible
8. Explore synergies where possible e.g., CCHL synergies, shared services, combine functions, community partnership
9. Focus as a priority on lowering our overall cost base e.g., space utilisation
10. Adopt cost effective approaches e.g., review vacancies before assessing potential redundancies
11. "Share the pain"
12. Other



# Overall BERL average with adjustments

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Base Inflation (BERL)	4.6%	3.4%	1.9%	1.9%	1.9%	1.9%	1.9%
Rating for renewals (FS)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Rates Cap	6.6%	5.4%	3.9%	3.9%	3.9%	3.9%	3.9%
Te Kaha	2.0%	1.5%	0.7%	0.0%	0.0%	0.0%	0.0%
Implied Funding Shortfall	(77,149,800)	(93,281,500)	(90,343,400)	(100,453,500)	(103,628,900)	(96,732,600)	(88,328,500)
Current Forecast Rates Increase	18.7%	8.2%	3.8%	4.5%	3.7%	2.8%	2.7%

# Current potential starting position

	FY25	FY26	FY27	Cumulative
• 2023/24 Annual Plan starting position	11.6%	10.2%	6.2%	30.6%
• Post Annual Plan potential changes:				
• Non controllable	1.2%	0.5%	-0.2%	
• Controllable	6.0%	-1.8%	-1.2%	
• Current estimate potential starting position	<b>18.8%</b>	<b>8.9%</b>	<b>4.8%</b>	<b>35.6%</b>
• Non controllable changes include:				
• Making a decision on OPP, Parakiore opening change, Transwaste dividend change				
• Temporary Stadium removal timing change, Opening debt update				
• Potential upward pressure still to come:				
• Insurance market conditions, interest rate update				

# Indicative Opex /Capex reductions required to achieve different rates scenarios: where should we be aiming?

Rates Increase in 24/25	6%	9%	12%	15%	18%
Opex savings required \$m	83	63	43	23	4
+ Capex savings required \$m	50	50	50	50	0

Legend	Savings reasonably achievable
	Challenging level of savings
	Extremely difficult level of savings

**Discussion  
Point**

- Rates increase appetite will guide level of savings required
- Opex savings or avoidance need to be permanent to avoid a bounce back
- Capex reduction has more impact on later years

# Opex Levers: we will need a package

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Discussion  
point

- Increase revenues
- Change policies e.g., rating for renewals
- Reduce overheads across the board
- Reduce discretionary costs e.g., grants
- Reduce LOS
- Savings through vacancies/staff freeze or reduction
- Opex cost reductions
- Change non-controllable costs over time

# Progress to Date

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- Extensive review of all operations by Heads of Services and ELT
- Examine what should Council deliver, and
- What could Council look like
- 120 cost reduction initiatives received
- Ranked in priority
  - Recommend to Council
  - Explore further
  - Not recommended
- HOS to examine each Unit to find operational savings of at least 10%
  - Examples of these follow later in the presentation

# Capital Programme Briefing 3

# Options and Advice: next steps

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- Confirm approach and provide options and advice
- Following guidance today staff will firm up opportunities
- Later in this session a sample of options for proposed savings to demo the approach and seek guidance/gauge appetite
- Nov 7th is scheduled for a full review of options

# Capital Programme (Capex)

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The capital programme as presented on 5th September has continued development to ensure a deliverable programme of work.

Different parts of the capital programme have varying levels of external funding. Transport in particular has a large amount of external funding via NZTA and central government.

We need to make decisions on whether we have the right level of capital spending, or if the decisions required to make significant reductions in the rates increase number should be explored further.

**What compromises should we make if we are to reduce the capital programme further?**



# Capital Programme (Capex)

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## **Deliverability**

As requested, we have been working to ensure a deliverable capital programme of work across all years.

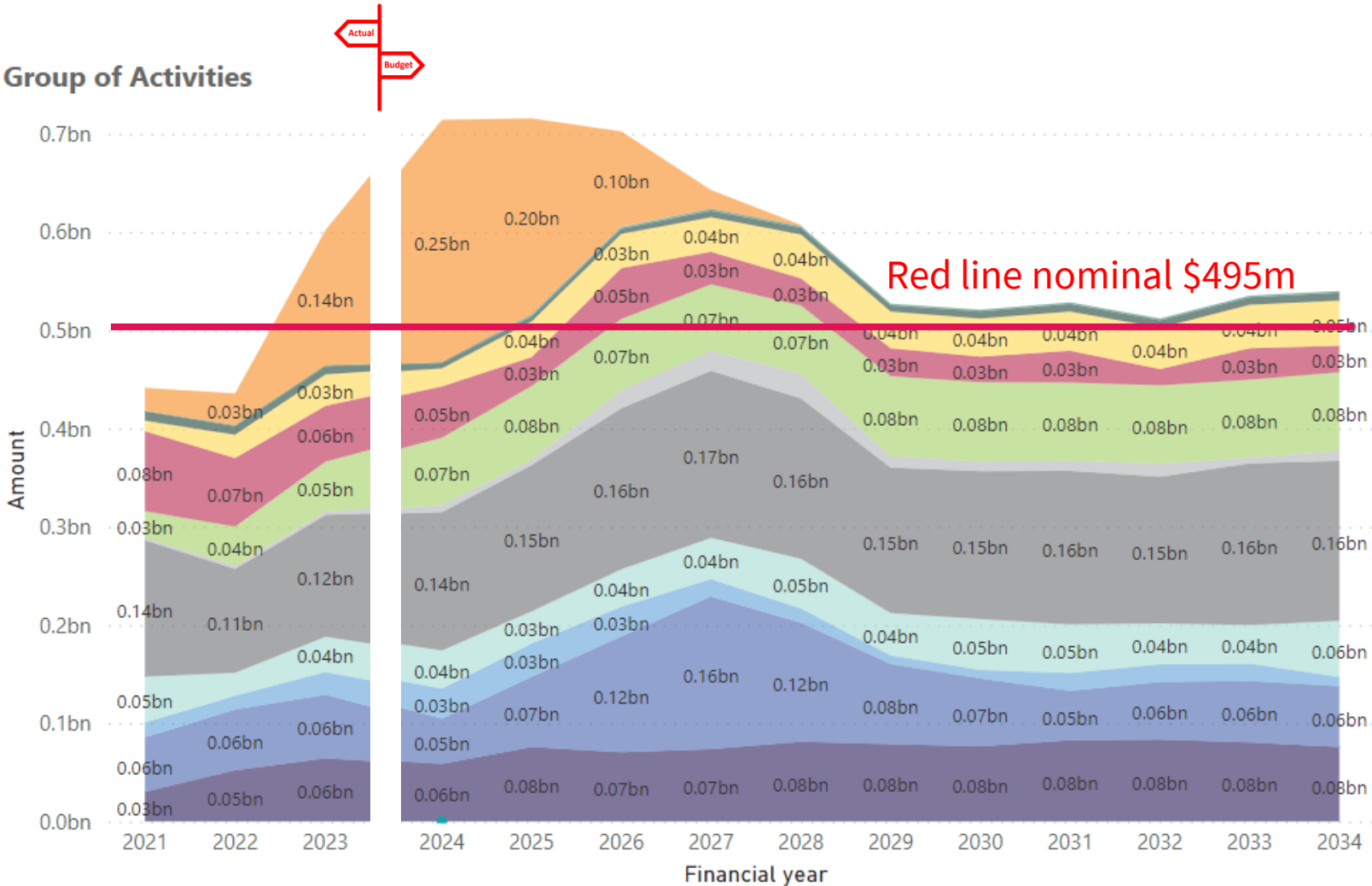
While there is still work to be done (particularly in Transport), most areas are now in the right ballpark.

## **Affordability**

This presentation will focus on options (compromises) that may be available to further reduce the capital programme, and their effect on rates increases.

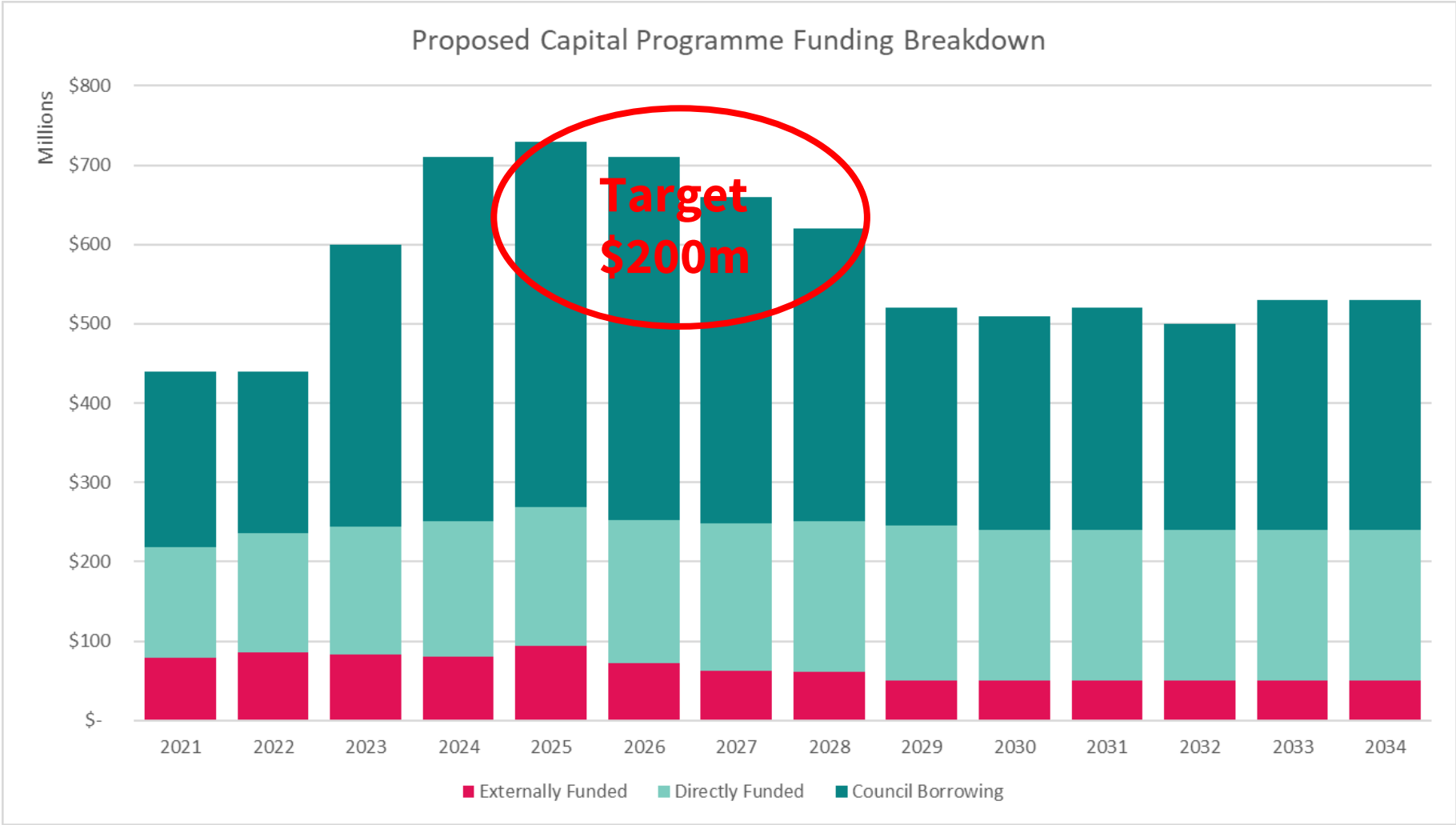
# Capital Programme Draft 3

Discussion Point



This programme is largely deliverable with several major projects in construction. This is still shown uninflated (FY25 year dollars) to give a clear indication of investment in the different activity areas.

# Capital Funding Split – approximate figures



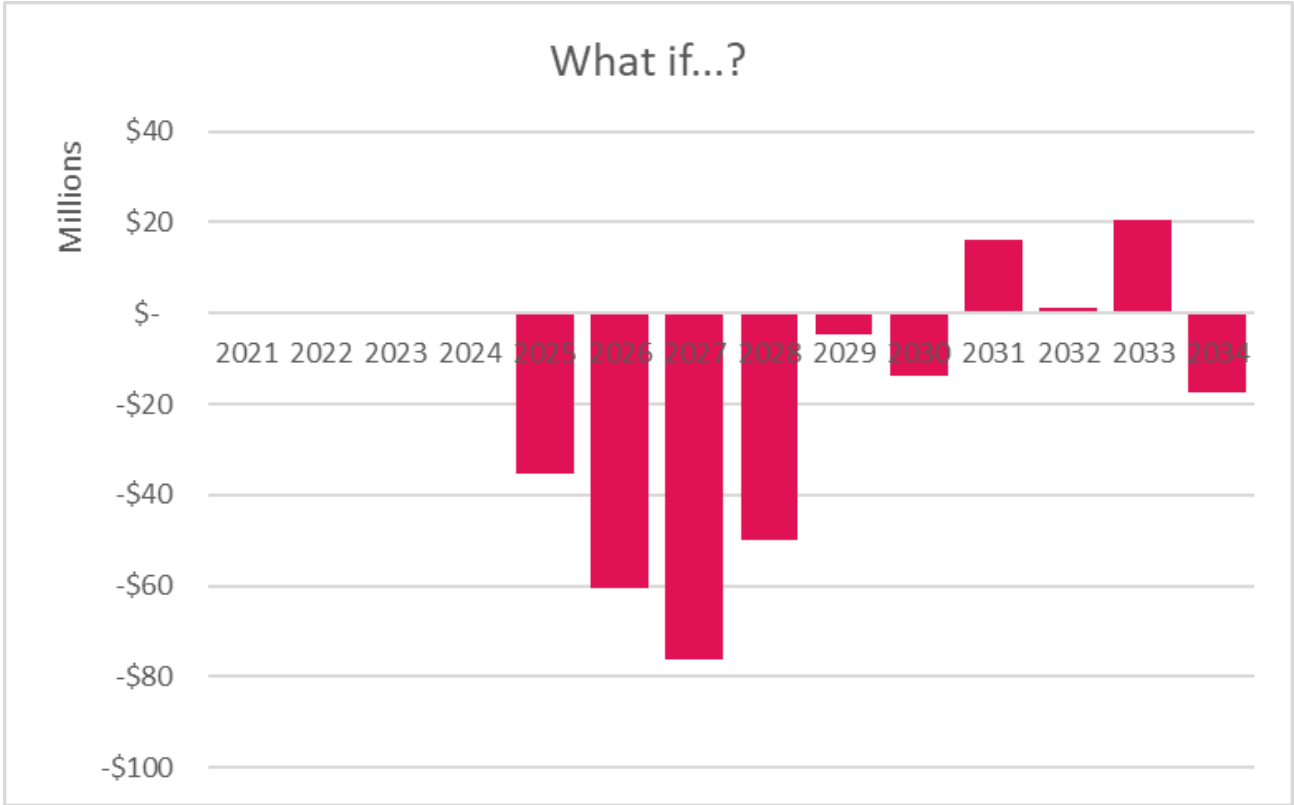
Funding for capital can be from three main sources:

- From external funding such as NZTA or central government.
- Directly via rates for renewal of assets
- From borrowing against existing assets

Construction of Te Kaha has an increased capital requirement in the first years of the LTP.

Explore the Target of circa \$200m reduced borrowing to measure impact.

# Summary of Potential Savings and Impact



If all of the following options/compromises below were taken it would result in an approx. **\$200m** raw saving in borrowing over the first four years of the plan.

This demonstrates the capital borrowing sensitivity impact on rates increases.

	FY25	FY26	FY27	FY28	FY29
Capex Reduction	-\$50.0m	-\$50.0m	-\$50.0m	-\$50.0m	\$0.0m
Rates Impact	-0.15%	-0.50%	-0.44%	-0.37%	-0.23%

# Now let's explore reduced borrowing by circa \$200m in Y1-Y4

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## Key Criteria would be:

### Discussion Point

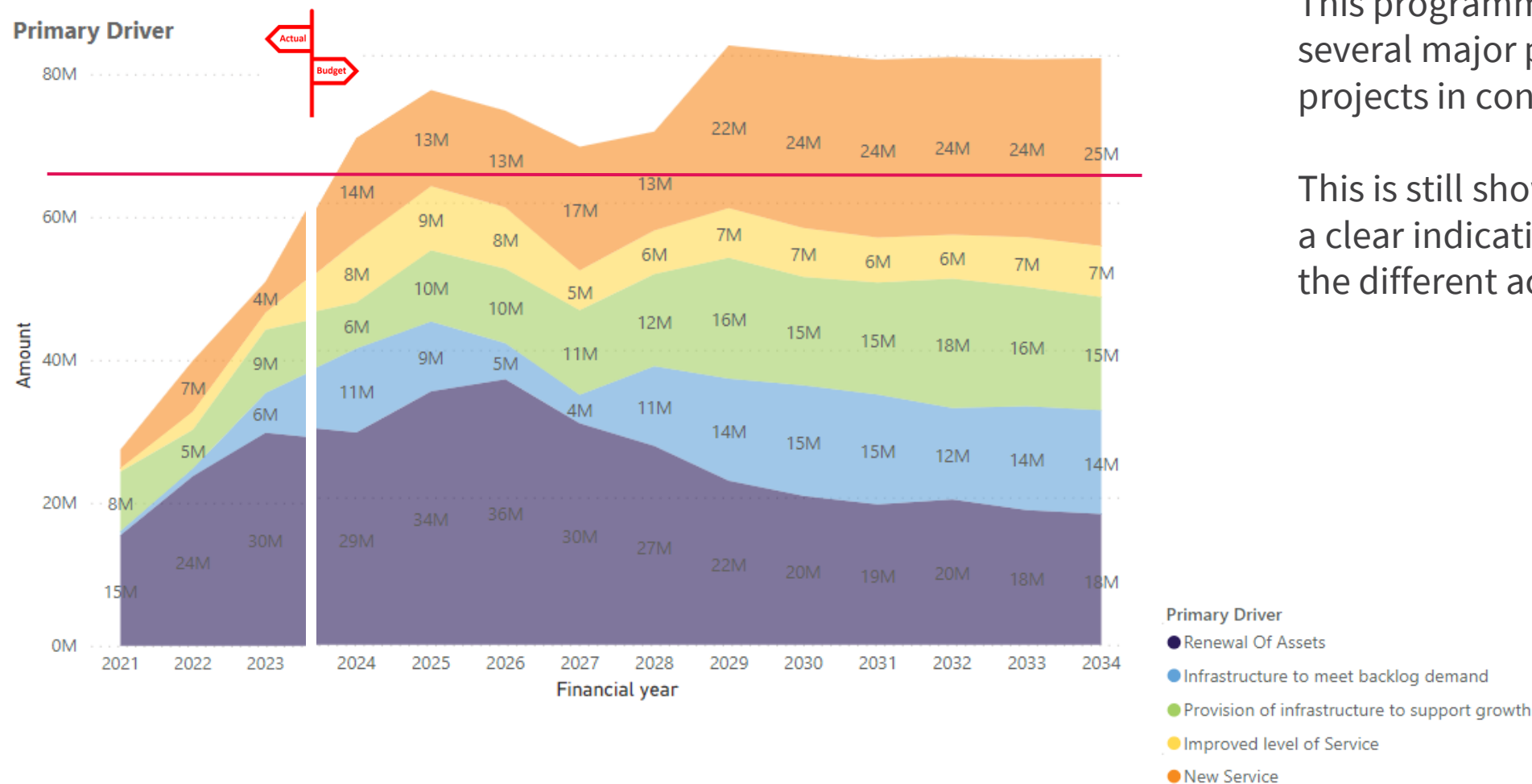
#### Objectives:

- Key goal is to improve affordability through reduced borrowing, even if they are considered deliverable.
- Must have a material financial value to reduce borrowing in Y1- Y4
- Not in Contract – no penalty for delaying
- Preserve Renewals where possible to support infrastructure strategy

#### General risks of deferral/deletion:

- Strategic misalignment
- Consent breaches (non-compliance)
- Community dissatisfaction and change in expectations
- Compromise associated external Funding agreement conditions
- Reductions in level of service
- Potential for higher Opex

# Parks, Heritage & Coastal Environment

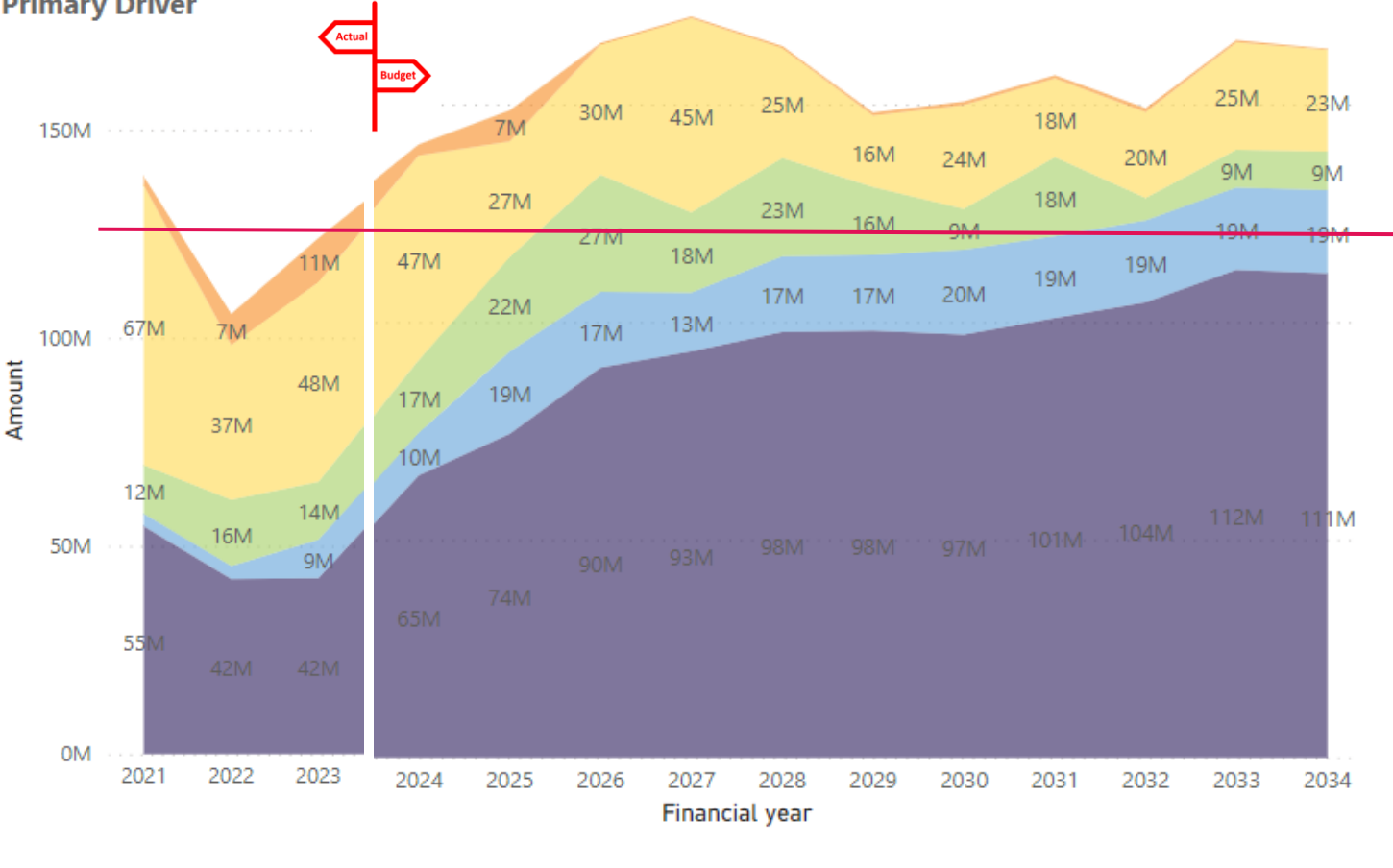


This programme is deliverable with several major programmes and projects in construction.

This is still shown uninflated to give a clear indication of investment in the different activity areas.

# Transport

## Primary Driver

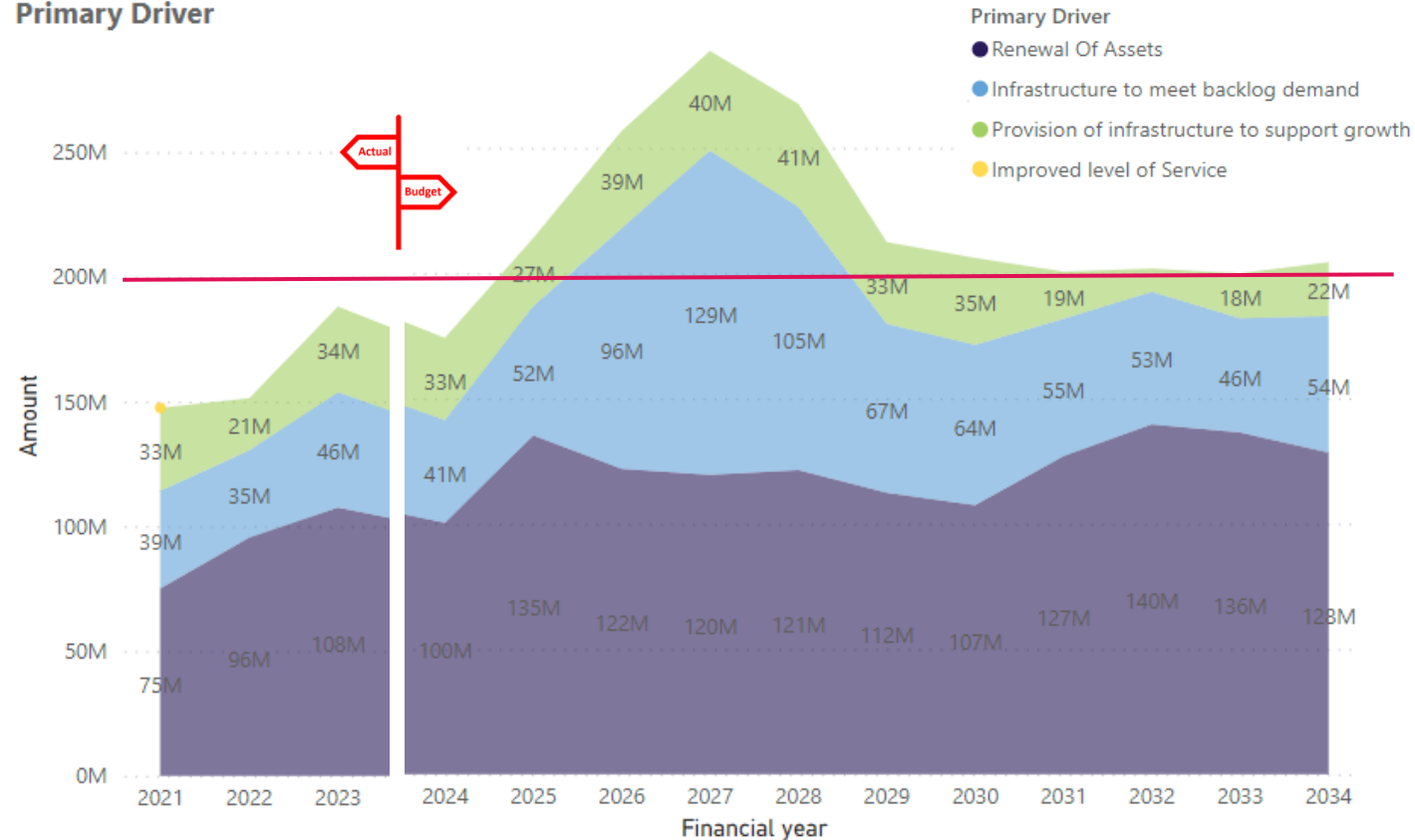


This programme is still **not** deliverable with several major programmes and projects currently in construction. Further discussion on this to come.

This is still shown uninflated to give a clear indication of investment in the different activity areas.

# Three Waters

## Primary Driver



This programme is deliverable with several major programmes and projects in construction.

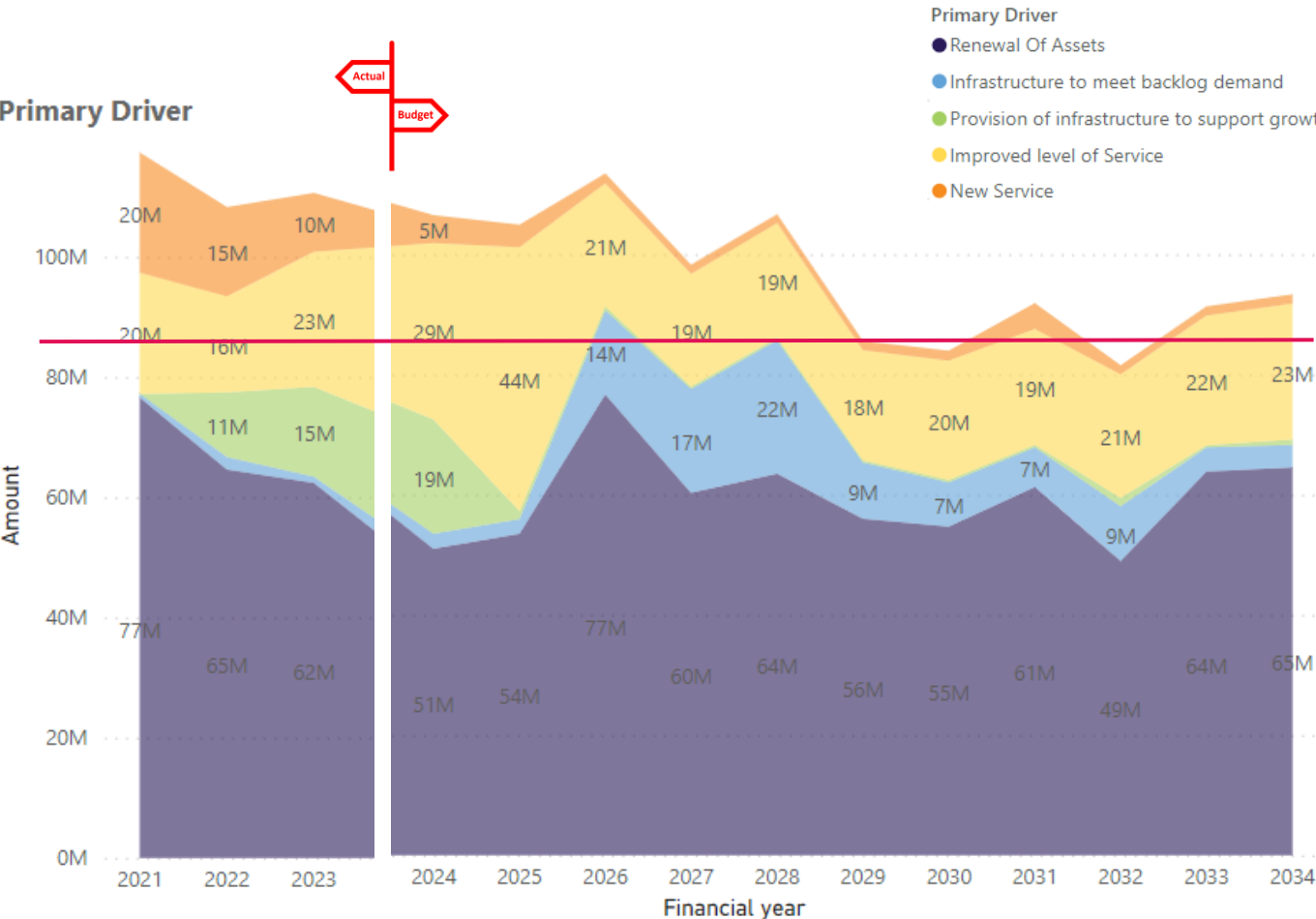
The bulge is in the wastewater programme and is driven by:

- CWTP Fire Recovery
- Akaroa Reclaimed Water Treatment & Reuse Scheme

This is still shown uninflated to give a clear indication of investment in the different activity areas.



# Community and Other (excluding Te Kaha)



This programme is deliverable with several major projects causing the bulge in the earlier years:

- Performing Arts Precinct
- South Library
- Organics Processing Plant

This is still shown uninflated to give a clear indication of investment in the different activity areas.

# Property Disposal

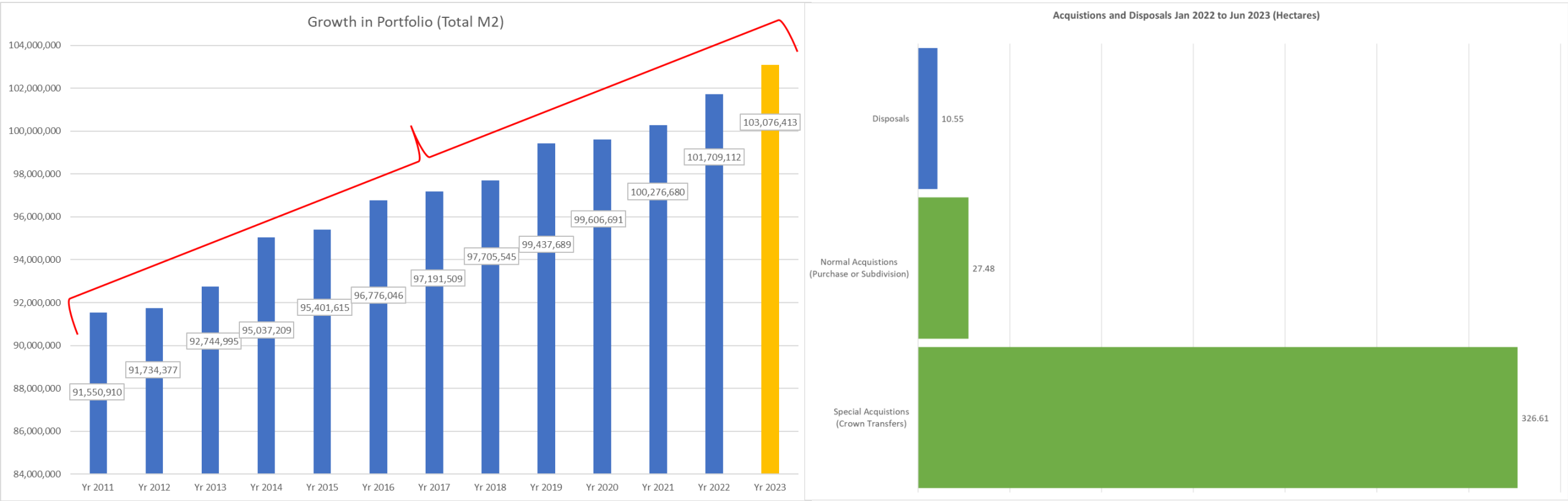
# Property Disposal

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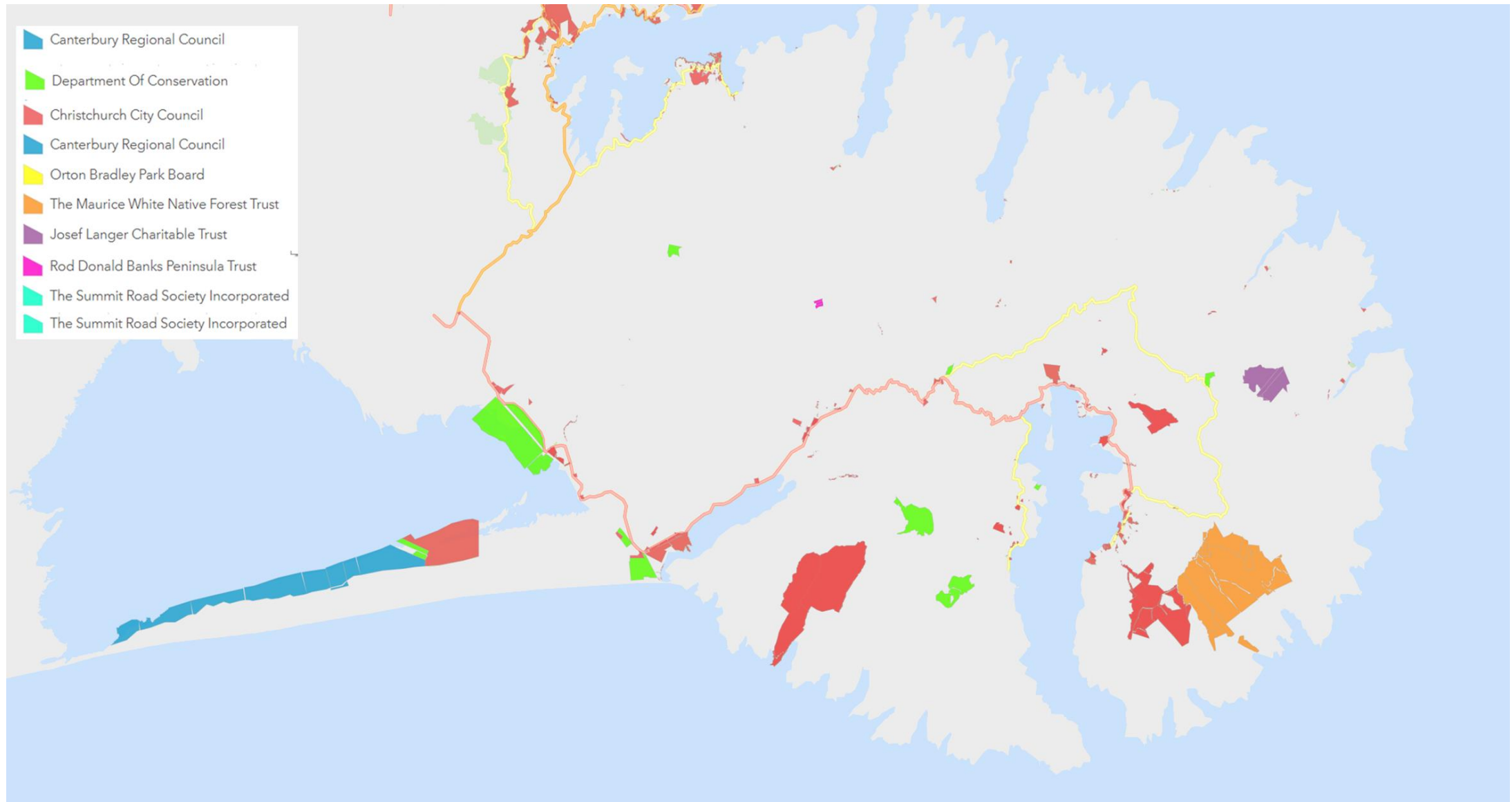
Revenue

Rates %

# Context



# Context



# Context

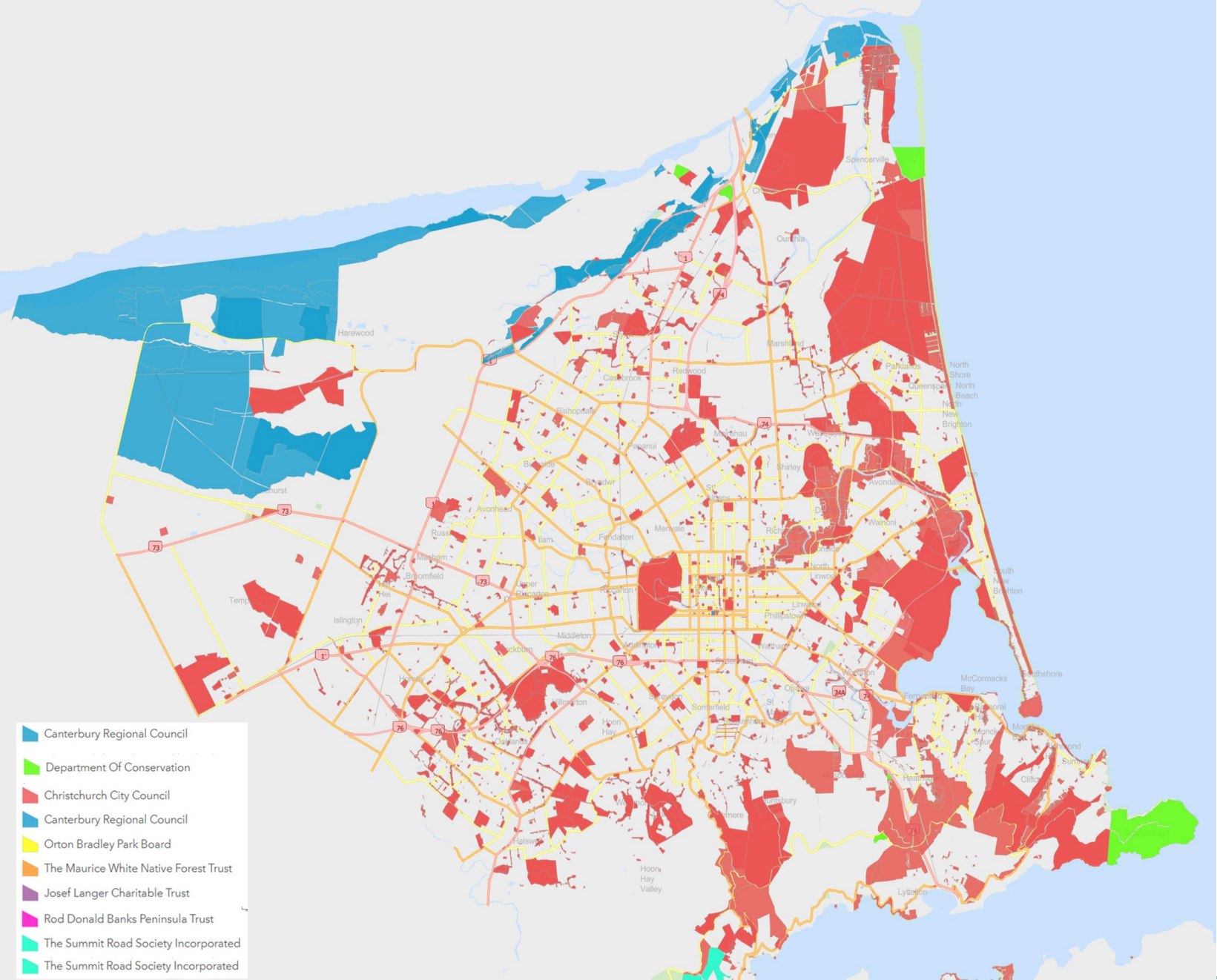
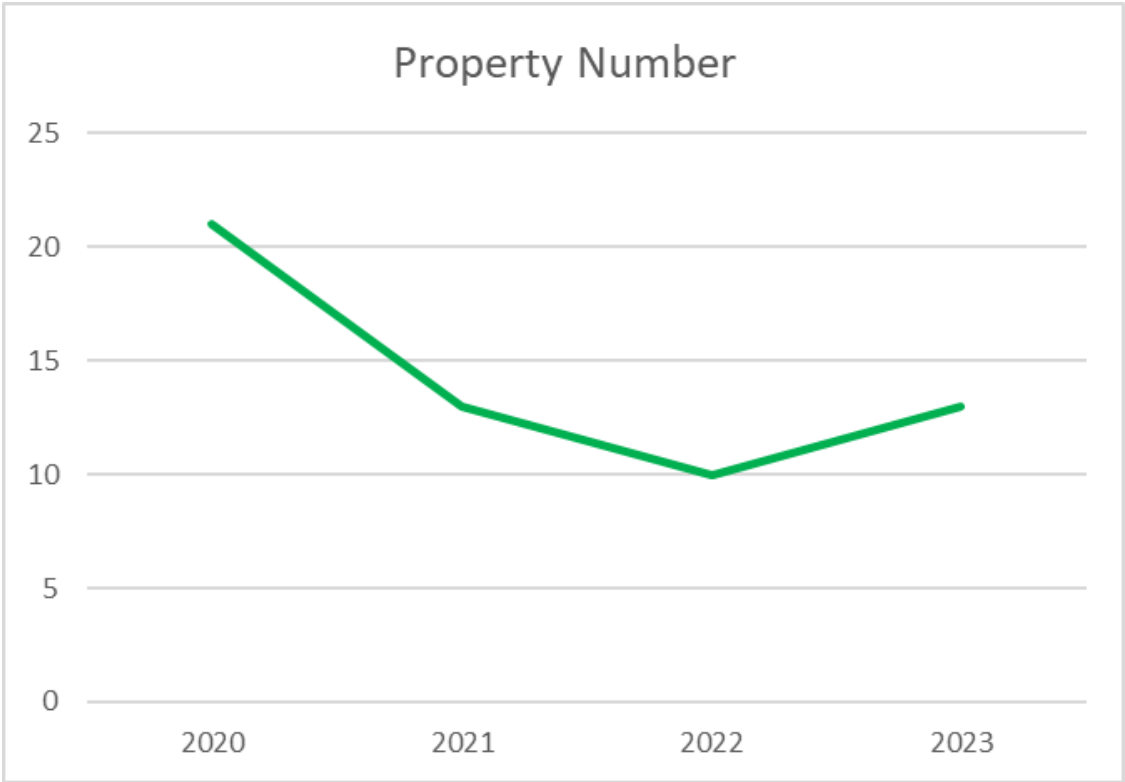


Table 2.3: Self-reported council green space inventories.<sup>19,20</sup>

Council	Year	Public green space (ha)	Public green space (% administrative area)	Public green space (m <sup>2</sup> /person)
Auckland Council	2015	13,438	2.7%	87
Hamilton City Council	2020	1,142	10.3%	65
Tauranga City Council	2018	1,549	11.3%	109
Upper Hutt City Council	2018	421	0.8%	93
Hutt City Council	2021	2,781	7.4%	248
Porirua City Council	2018	998	5.7%	169
Wellington City Council	2021	4,146	14.3%	191
Christchurch City Council	2020	10,177	7.2%	260

# Context



# Questions & Discussion