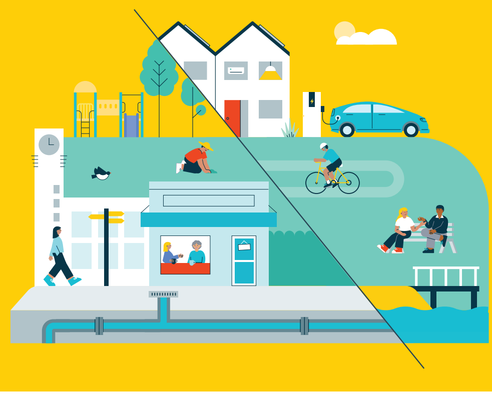
Striking the right balance

Our financial strategy



In this year's draft Annual Plan, we're continuing to focus on getting the basics right for our city, but the cost of delivering the basics has gone up substantially. This means it's just not possible for us to do everything we planned to do within the budget we set previously.

It's important for us to strike the right balance as we plan for the year ahead – we need to continue to invest in our infrastructure and community, but we have to manage our finances responsibly.

We have a financial strategy that we set during our last 10 Year Plan. This is a guide for decision-making and helps us ensure that we make good financial choices – now and into the future.

This information sheet is designed to give you some more detail around some of these measures, so you can understand the information elected members rely on to make decisions about our Annual Plan. This document doesn't cover everything, and there's a lot of information councillors need to consider.

Projected capital investment and increased cost of borrowing

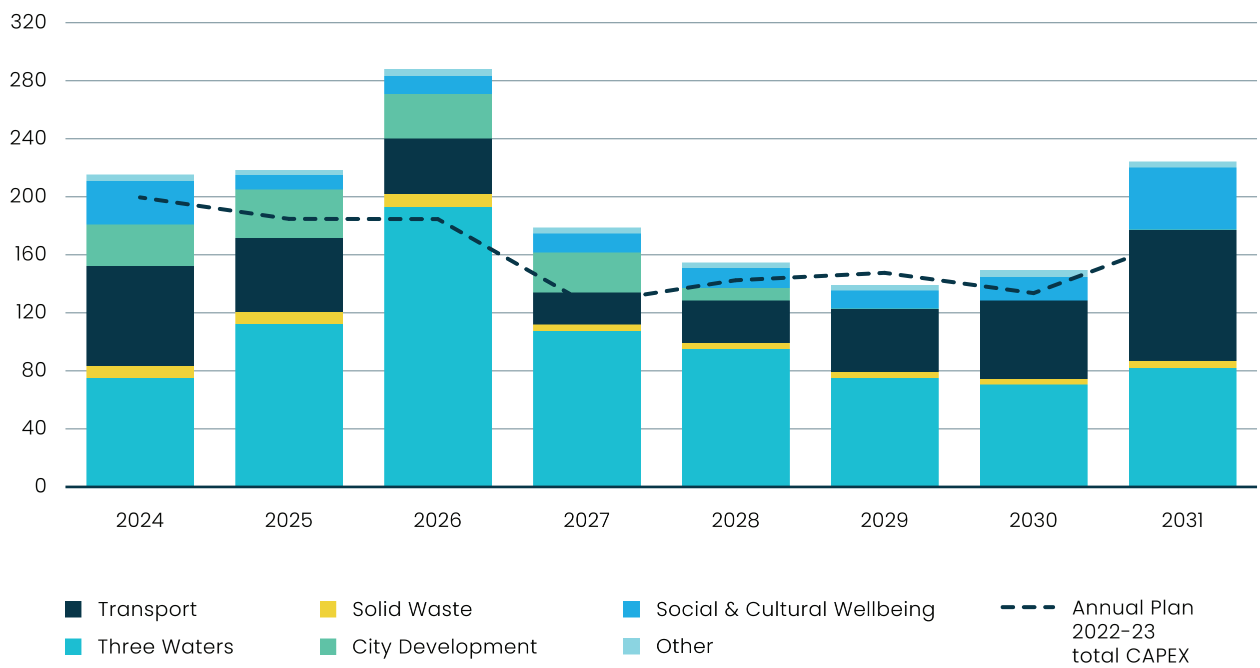
Capital investment means spending money on infrastructure, or important assets for our city. This includes things like local roads, shared and cycling paths, water pipes, and our landfill.

For the remaining eight years of our 10 Year Plan, we're planning to spend $1.6 billion on capital investment. This is $277 million more than we previously budgeted for.

While there are a couple of new or expanded projects in our plan – things like funding for Eastern Hutt Rd resilience and Valley floor wastewater and stormwater infrastructure – this increase mainly reflects increased costs for projects we've already planned for.

This puts pressure on our debt levels and increases the cost of borrowing this money (e.g. by increasing the amount of interest we have to pay).

Graph 1: Projected capital investment in the draft Annual Plan 2023-24 with comparison to the Annual Plan 2022-23



Balanced budget

An important part of our financial strategy is our balanced budget target.

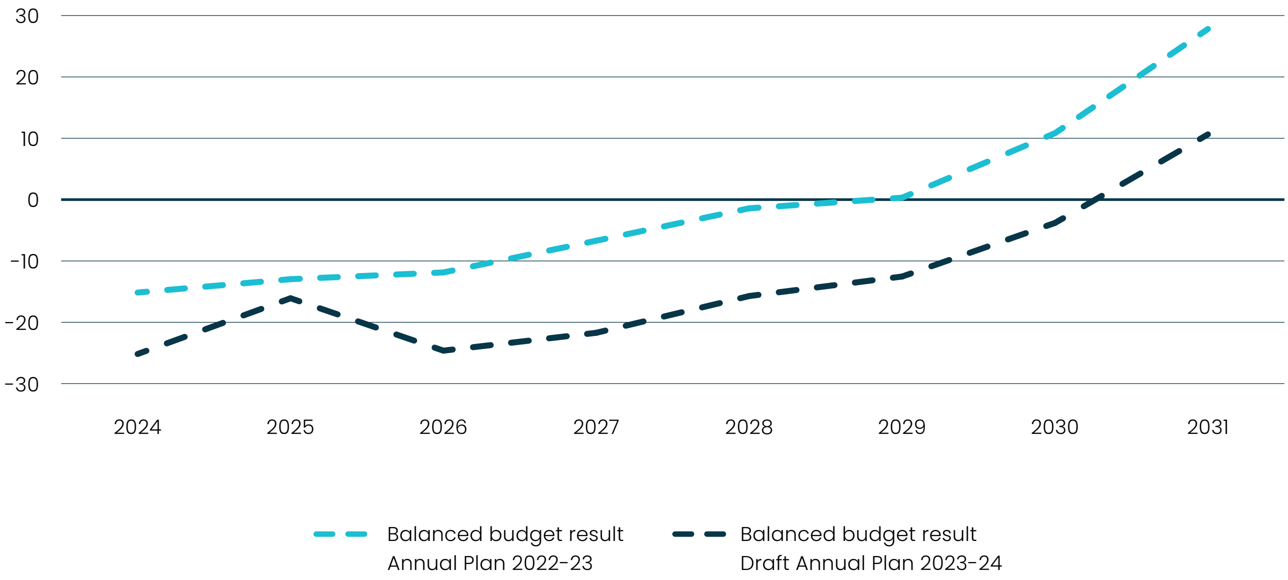
A balanced budget is one where everyday costs are paid for by everyday income. We don't want to be taking on debt to pay for everyday expenses, but it's reasonable (and in fact a good idea) to take on debt for big investments.

Think about council's balanced budget like your household budget. You might take out a loan to buy a house or a car – a big investment that you will use for years. However, you wouldn't want to take out a loan to buy your groceries or fill the petrol tank in that car – those are everyday costs for things that get used up, and you don't want to be paying off debt for something that you no longer have.
This is the same principle we use for taking on debt, and our balanced budget target is the year we're aiming to pay for everyday expenses from everyday income. It means from that point, we don't want to be taking on or paying off debt for everyday costs.

In our 10 Year Plan, we set a target of returning to a balanced budget by 2028-29. Because of the cost pressures we're facing this year due to inflation and other causes, we've had to take on more debt this year than we originally planned. Our new target for returning to a balanced budget is 2030-31. This also takes into account the savings, budget reductions and deferrals we have proposed.

Although we've planned to take on some more debt, it's important to note the consequences of taking on a lot of unplanned debt. Every year our credit rating is assessed by Standard and Poor's Global Ratings, and they take into account things like how well we're sticking to our financial strategy (which has a few measures around debt, including the balanced budget target). We currently have a strong AA credit rating. If we don't stick to our financial strategy, we risk receiving a lower credit rating, which will mean it costs us more to borrow money (e.g. our interest rates will be higher).

Graph 2: Projected balanced budget outlook, with comparison to the Annual Plan 2022-23



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.

Debt to revenue limit

Another one of our measures in our financial strategy is our debt to revenue limit, which protects us from taking on too much debt. This measure calculates a debt limit based on how much income we earn.

Our debt limit is 250% of our revenue (or income), so we are allowed to borrow up to that limit. This means the debt we take on remains affordable for us to repay.

We also make sure we don't borrow right up to this limit, because we need to leave some financial capacity to respond to emergency events.

Our total debt has increased in this draft Annual Plan, and the graph below shows how this compares to our debt limit and our projections from the most recent Annual Plan.

Graph 3 : Projected net debt compared to debt to revenue limit of 250 per cent, with comparison to the Annual Plan 2022-23