

Draft Annual Plan 2023-24



Council briefing

17 November 2022

Decisions sought 22 November 2022

- Note the range of challenges and opportunities
- Note the wide range of inflationary cost pressures impacting Council opex and capex
- Agree high level plan and approach
- Endorse LTP Financial strategy principles
- Agree rates affordability continues to be key consideration
- Officers undertaking work on potential offsetting mechanisms such as non-rates revenue, rephasing and reprioritisation of work
- Notes the 20 December 2022 decisions required
 - Balanced budget projection: 2028-29 or later
 - Rates revenue increase: 5.9% or higher rates increase.
- Agrees to key assumptions
- **Considers any further direction and guidance to officers**

Purpose of the Annual Plan



To present the proposed annual budget and set 2023-24 rates



Identify and explain any variations in the financial statements from the LTP



Support the LTP in providing integrated decision-making and co-ordination of resources



Contribute to the accountability of council to the community

Approach to the Annual Plan 2023-24



Expect to be largely in line with the LTP – starting point for budgets will be LTP year 3, with updates from the Annual Plan 2022-23 process



Primarily updates to financial elements (such as unavoidable increases, approved changes to service levels, other justifiable changes, and funding sources). Reflect current economic context (high inflation etc)



Annual Plan consultation process

High level plan and timeline

Date	Activity	Status
3 & 4 Nov	Councillors hui	Complete
22 Nov	Council agrees high-level plan and approach, key assumptions	Today
20 Dec	Key decisions progressed by Council to inform DAP	Not started
22 Feb 2023	Initial DAP and draft consultation material reviewed by Council	
28 March	Council adopts DAP and consultation material ahead of public consultation	
31 Mar to 30 Apr	Public consultation	
17-19 May	Hearings of submissions and related advice	
6 June	Council meets to make final decisions	
28 June	Council adopts the Annual Plan 2023-24 and sets the rates	

Challenges and opportunities facing Lower Hutt

- Sharp increase in inflation
- Higher cost of borrowings
- Significant tightening of the labour market and record low employment
- Population growth and the need for investment in infrastructure,
- Need to improve city's resilience to climate change and more frequent and severe weather events,
- COVID-19 and global economy impacts (e.g., supply chain pressure),
- Uncertainties of government reform programme,
- A range of cost pressures across Council operations and capital investment programme,
- Funding constraints, with a particular focus on affordability of rates increases
- Capacity constraints and deliverability of work programmes

Challenges and opportunities facing Lower Hutt

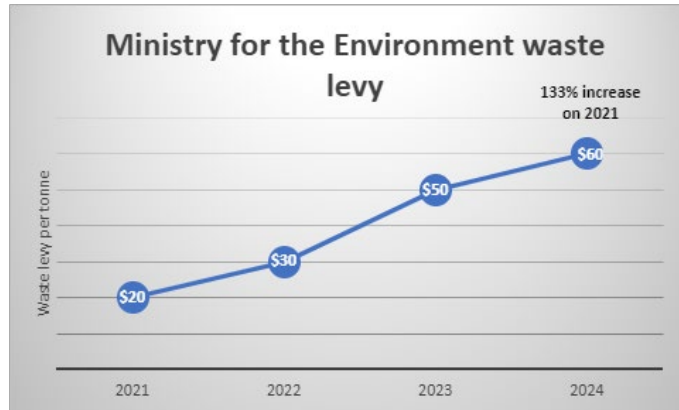
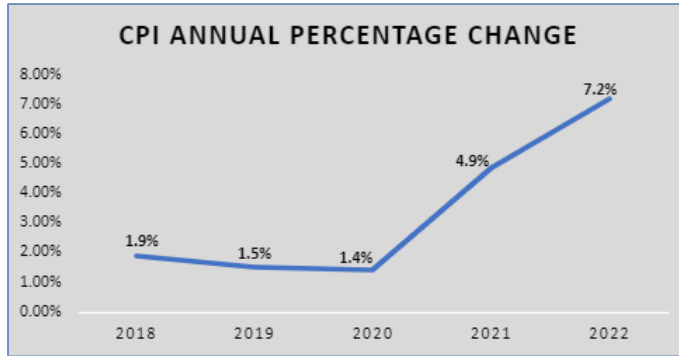
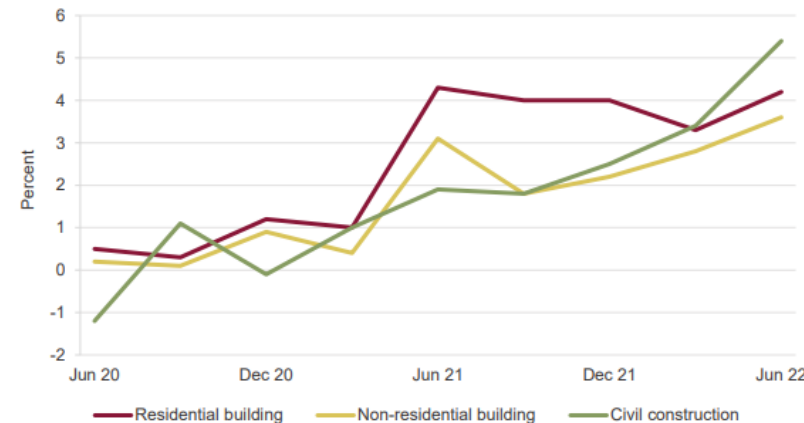


Figure 2.4 Unemployment rate



Source: Statistics New Zealand

Figure 3.6 Capital goods price index, percentage change from previous quarter



Source: Statistics New Zealand

Table 6.7 Local Government Aggregated Cost Adjuster pa % changes

Year	Pa % changes		
	OPEX	CAPEX	Total
2019		2.7	2.7
2020	1.6	1.7	1.6
2021	2.4	2.3	2.4
2022	7.6	7.8	7.6
2023	5.8	6.2	5.9
2024	4.2	4.5	4.3
2025	3.3	3.5	3.4
2026	2.8	3.0	2.9
2027	2.7	2.7	2.7
2028	2.4	2.4	2.4
2029	2.2	2.2	2.2
2030	2.0	2.0	2.0
2031	1.9	1.8	1.8
2032	1.7	1.6	1.7
2033	1.6	1.5	1.6
20 year average % pa	4.4	4.5	4.5

Matters in scope

- Implementation of strategies and policies agreed by Council, effectively a realignment opportunity,
- Review of capital investment plans and priorities, including asset planning for critical assets,
- Review of cost pressures and priorities (in light of inflation impacting services, rising costs of borrowing, labour market impacts etc),
- Review of funding solutions and financial strategy, including fees and charges, central government funding , development contributions charges (e.g., to offset cost pressures on growth related projects),
- Review rating policy and affordability, including the impact of the three yearly property revaluation change

Matters out of scope

- Further reviews of strategies and policies to be included in LTP(e.g., City Strategy, Infrastructure Strategy, Financial Strategy, Reserves Investment Strategy etc.),
- Any significant change in direction or priorities,
- Three Waters Reform impacts
- Council Controlled Organisations changes, apart from minor changes

Financial Strategy

Includes key principles that provide the foundation for prudent sustainable financial management, which includes

- Achieving intergenerational equity by spreading the costs between both present and future ratepayers
- Achieving a balanced budget and ensuring that everyday costs are paid for from everyday income
- Considers affordability of rates
- Maintaining prudent borrowing levels
- Growth pays for growth
- Considers our environment and sustainability
- Strengthening council's financial position
- Delivering services effectively and efficiently

Key assumptions

- Revenue sources
- Inflation rates
- Cost of borrowings
- Employee costs

Table 4: Inflation adjustors

	2023-24	2024-25	2025-26	2026-27	2027-2031
Inflation increases in AP 22-23 (BERL LGCI 2021)	2.3%	2.4%	2.6%	2.7%	2.1%
Inflation increases per DAP (BERL LGCI 2022)	2.3%	3.4%	2.9%	2.7%	2.4%

70.

Whilst these would be the defaults applied across budgets, where budget managers have actual known inflation cost adjustors different to this (for example in contractual arrangements with higher rates) then the base budgets would be updated accordingly.

Interest rates

71. Specialist treasury advice is being provided to inform the DAP. Initial base interest rate assumptions for borrowings are proposed in table 5. This is based on information from Council’s treasury portfolio and market conditions.

Table 5: Proposed assumption for interest costs of borrowings

	2023-24	2024-25	2025-26	2026-27	2027-2031
AP22-23 cost of borrowings	3.48%	3.72%	3.68%	3.58%	3.54%
DAP Cost of borrowings	3.96%	4.47%	4.59%	4.66%	4.94%

74. Officers propose to prepare budgets based on an annual 5% assumed budget increase to employee costs for the DAP, which is above the 2.5% current assumption. This is for 2023-24 only and the assumption is retained at 2.5% for future years. This is expected to enable Council to retain staff and meet market increases as well as our obligations as a living wage employer. The living wage increased 4% in 2022 and 4.5% in 2021 and these increases for certain roles continue to create compression and relativity issues with roles that require a higher level of skills and experience.

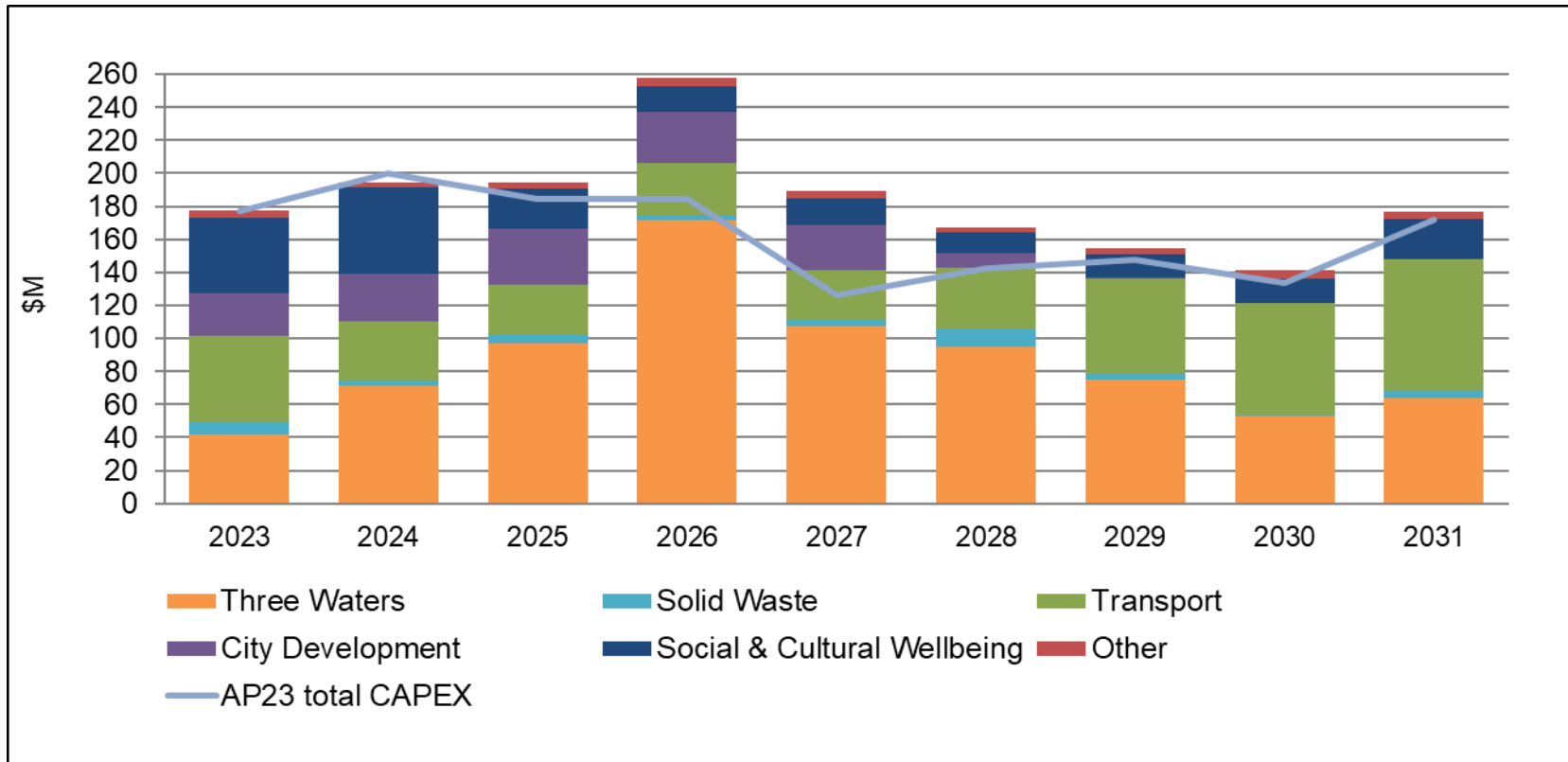
Capital Investment Plans

Total capital investment programme of \$1.7B over 9 years of the DAP

- renewals 38% \$623M, improvements 46% \$758M, growth 16% \$272M



Three waters



RiverLink



Tupua Horo Nuku

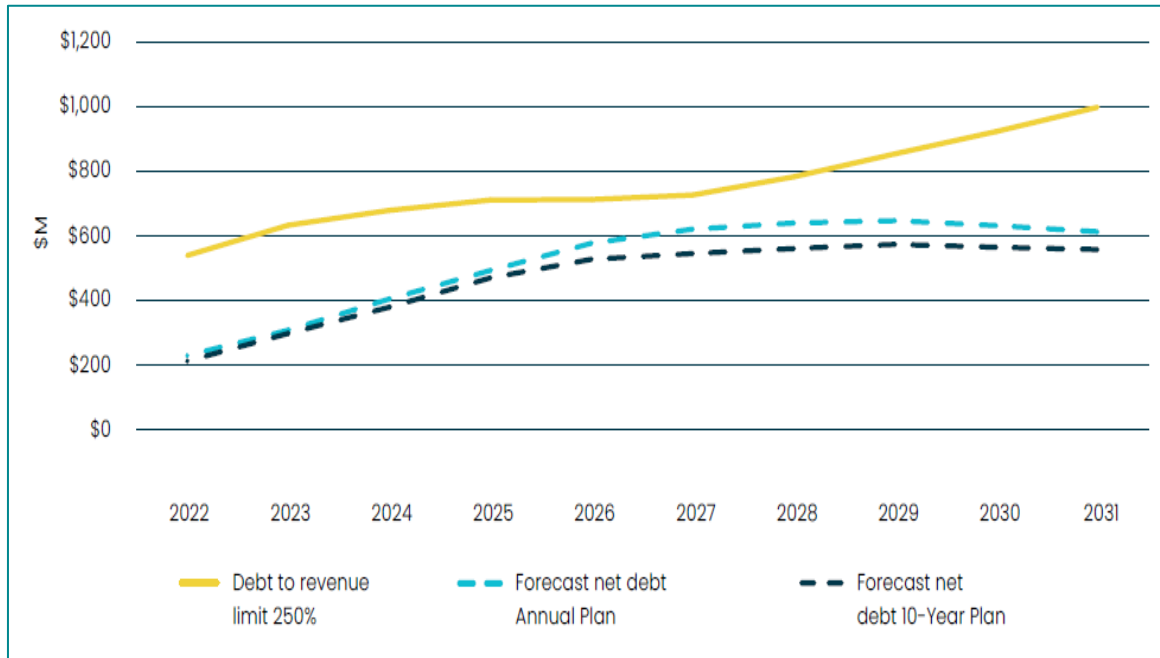


Naenae

Includes IAF but does not include majority of other proposed budget changes such as Tupua Horo Nuku, Three Waters increases, landfill etc.

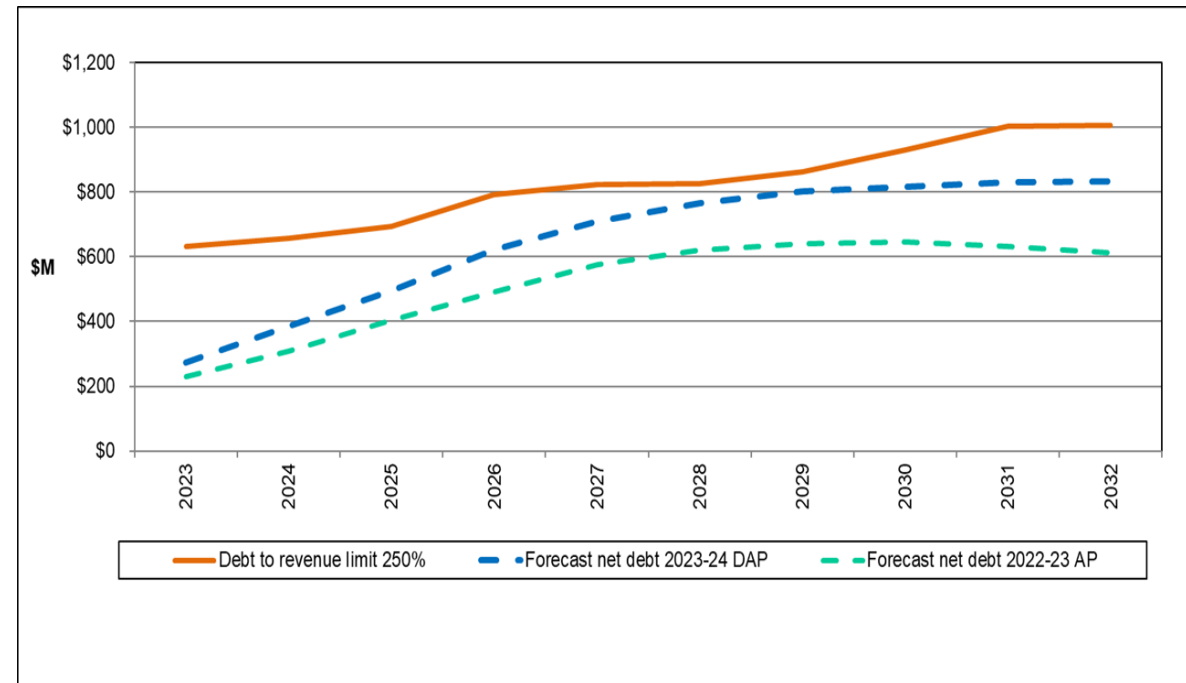
Debt Projections – includes debt to revenue limit

Per Annual Plan 2022-23



Initial DRAFT Annual Plan 2023-24

- After adjusting for IAF and base budget review, excluding Tupua Horo Nuku and reprioritisation etc.



- Annual Plan 2022-23 has net debt peaking at \$647M in 2028-29 and remaining within debt limits
- Debt is maintained within debt to revenue limit with peak at 214% in 2026-27
- 2026-27 – debt at \$620M with limit at \$726M, so margin of \$106M
- Assumes 25% under delivery of capital programme each year

Annual Plan 2022-23 included bringing forward of Petone Collecting Sewer from 2031-2034 to 2024-2026, increase in Seaview storage tank budget \$20M to \$32M, assumed IAF project \$57M.

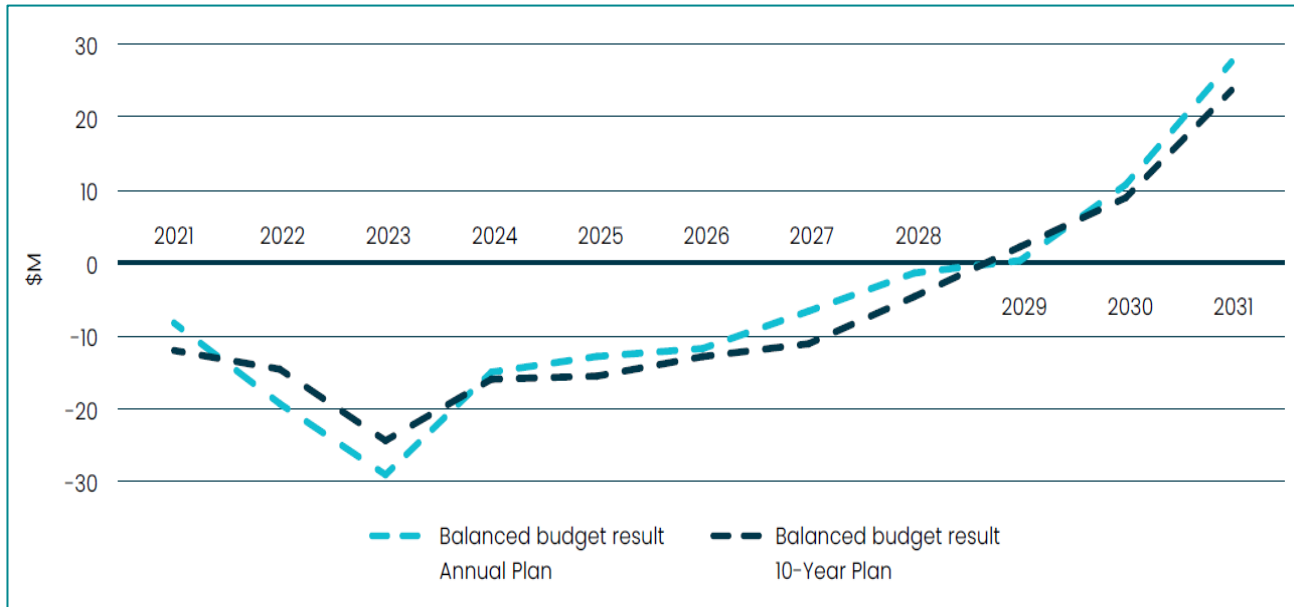
- Debt is maintained within debt to revenue limit with peak at 232% in 2028-29
- 2028-29 : debt at \$802M with limit at \$864M, so margin of \$62M
- Assumes 25% under delivery of capital programme each year

Balanced budget projection

Checking whether operating revenues are sufficient to meet operating expenditure.

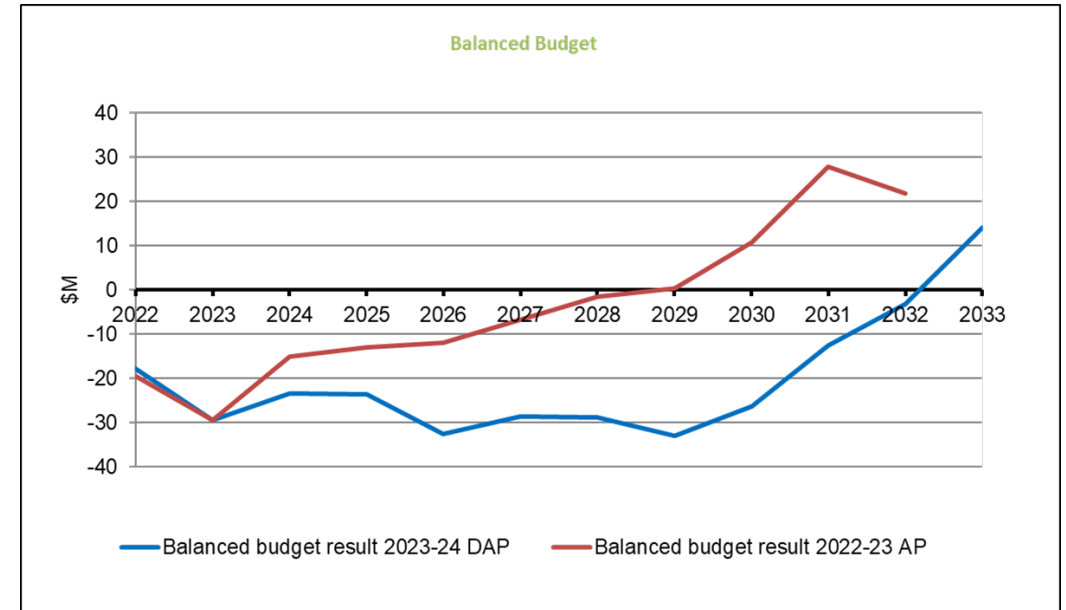
Projected balanced budget deficit until 2028/29

Per Annual Plan 2022-23



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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 (Eastern Bays Shared Path).

LTP - Rates Revenue Increase per annum

- Note: Increases include growth of 1%-1.1% per annum.
- 2021-22 includes the introduction of the new waste services. This equates to 7.3% of the rates increase in that year.

