

# Final decisions on Annual Plan 2020/21

18 June 2020



# Sustainable financial management

## Community Outcomes

### Investment priorities

Growth pressure

Historical underinvestment

Demand for improved services

Maintaining assets and services levels

## Acceptable costs

Rates increases

Fee levels

Intergenerational equity

Sustainable borrowings

Balanced budget

Value for Money



Emergency Budget  
2020/21

Legislative requirement: Prudent financial management

# Overview of the process

Dates	Activity
10 December 2019	Council adopted key budget assumptions and provided guidance on a number of budget matters
11 February 2020	Council final decisions on budget and consultation matters for LTP amendment, ahead of external audit
18 March 2020	External audit completed and audit opinion issued. Council adopted the LTP amendment Consultation Document and underlying info.
9 April 2020	Council agrees Covid-19 response plan and emergency budget 2020/21
7 May 2020	Council adopts “emergency budget” DAP 2020/21 to enable public engagement process to progress
8 - 22 May 2020	Public engagement
29 May 2020	Council meet to consider feedback from public
<b>18 June 2020</b>	<b>Council final decisions ahead setting the rates</b>
<b>30 June 2020</b>	<b>Council adopt Annual Plan and set rates</b>

# Three waters investment



Early Investment  
Signals for HCC  
2021/31 LTP

January 2020

Mark Kinvig, Group Manager, Network Strategy and Planning



Our water, our future.

Planning for renewal of ageing infrastructure and growing city

Wellington Water January 2020 report

~\$30M increase in opex over 10 years to improve maintenance of existing infrastructure & planning.

~\$240M increase in capex over 10 years for renewals and to meet new demands.

## AP 2020/21 includes range of Council decisions to increase budgets for Three Waters

- \$200k p.a. to fix water supply leaks
- \$250k p.a. infiltration issues with WW network
- \$200k for critical asset condition assessment
- \$410k for bulk water costs
- \$2M to enable fast tracking construction of key renewals for pipes in poor condition, as well as renewing a number of critical WW pumps
- \$1.2M for seismic upgrade of Seaview Wastewater plant.

### DAP 2020/21

Increases to targeted rates

Water supply	\$42.00	8.7%
Wastewater	\$41.50	9.3%



# Rates revenue

## LTP amendment

Rates increase of 7.9% in 2020/21,  
about 3% p.a. for future years

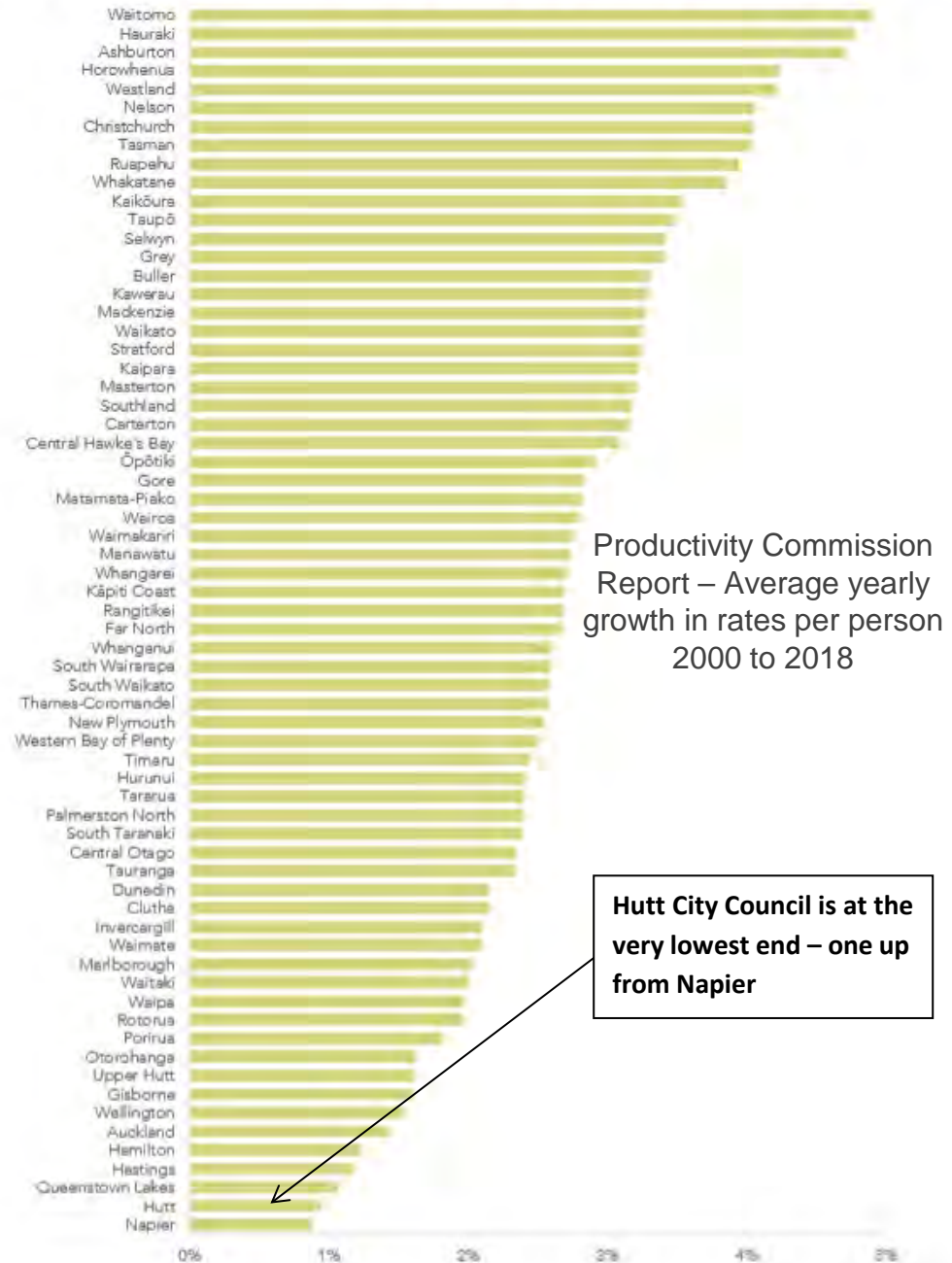
## DAP 2020/21 “emergency budget”

Rates increase 3.8% in 2020/21  
comprising 2.8% inflation plus 1% to  
cover risks re. growth in rating base  
not being achieved

# Fees and charges

Proposed increased incl. in DAP

Figure 3-2 Average yearly growth in rates per person across territorial authorities, 2000-2018



Source: Stats NZ (2019e, 2019d).

# Council decisions to reduce budgets

## Opex

- Gymsports \$1.5M
- Hutt Valley Tennis \$850k
- Regional Amenities Fund \$200k
- Community funding \$100k
- International co-operating cities \$40k p.a.
- Biodiversity assistance \$65k p.a.
- Suburban Shopping Centre \$50k p.a.



## Capex

- Wainuiomata Sportsville \$2.7M
- Wainuiomata Hub \$3.7M



**WELLINGTON  
AMENITIES FUND**

# Further budget savings included in “emergency budget” 2020/21

- Libraries \$0.1M – includes closing WML on Sundays and earlier on weeknights when there is reduced demand for onsite services, more online offerings.
- Pools \$0.1M – Season for three summer pools shortened by three weeks, aligned to lowest use.
- Parks \$0.1M – reduce service specs for upkeep of some parks and reserves with focus on areas that are least-used, or where lower quality is acceptable for planned activities.
- Community engagement \$0.25M – Delay implementation of planned approach. Focus on increasing capability in existing roles to fulfil function in the interim.
- Museums \$50k – includes slowing the exhibition programme and reducing non-essential works.
- Library stock replacement \$0.17M - 20% reduction in the number of new and replacement books and e-books.



# Further budget savings included in “emergency budget” 2020/21

- Accommodation \$0.26M - plan to rationalise office space and transition more staff to hot-desking and remote working. Initial focus on Market Grove & Ricoh Sports Centre tenancies.
- Staffing costs net saving of \$1.2M – removed assumed annual salary increase, reduced overtime budget, reduced training, added vacancy assumption. Updated to reflect latest staffing information, includes increased regulatory staff and reductions for vacant roles.
- Roading \$0.2M – Slightly reduced service provision across a number of areas without compromising safety incl. road reconstruction, minor safety improvements (speed calming, mid-carriageway pedestrian refuges, street and intersection realignments) etc.
- Fleet costs \$0.15M - reduced fleet size and FBT costs.
- Major event \$0.18M – budget removed for Highlight.
- Technology Valley \$45k – budget reduced from \$90k due to change in operating model.





# Financial outlook 2019/20

## Revenue and expenditure

Forecast net operating deficit **\$7M unfavourable** to budget

With about \$3M related to COVID-19

Reduced revenue in Community Facilities \$1.1M, reduced Parking revenue \$0.8M, Three Waters \$0.6M (duplication of running essential services), IT costs \$0.7M (includes costs brought forward)

## Capital investment

Forecast spend of \$41M vs budget \$57M (AP \$68M)

**\$16M deferral**

Delays mainly in Transport \$6M, Three Waters \$4M

Associated NZTA subsidy revenue reduced by \$2M



# Proposed carry over of budgets from 2019/20

Refer appendix 2

Operating budgets	2020/21	
Includes roading maintenance \$1M, Mahia Atu funds \$170k, District Plan work \$150k, Riverlink specialist services \$0.3M.	2.4M	
Capital budgets	2020/21	Later
Includes Three Waters \$3.5M, Transport \$10.6M, Wharves Refurbishment \$1.5M, Riverlink \$1.4M, Huia Pool \$530k.	\$15.3M	\$7.2M
NZTA Revenue	2020/21	Later
Relates to roading programme changes	\$2.7M	\$2.4M



# Known budget changes proposed to be updated in FAP Refer Table 2

## Officers recommend these budget changes

### Capex

- Cycleways programme, increase of \$4.2M Beltway
- Eastern Hutt Road Retaining Wall strengthening project \$3M defer to 2021/22
- Barber Grove to Seaview WWTP main collecting sewer duplication \$10.8M increased costs in 2021/22
- Days Bay Wharf \$0.7M increased costs in 2020/21

### Opex

- Interest cost savings \$0.4M
- Other minor updates

# Financial strategy – debt management

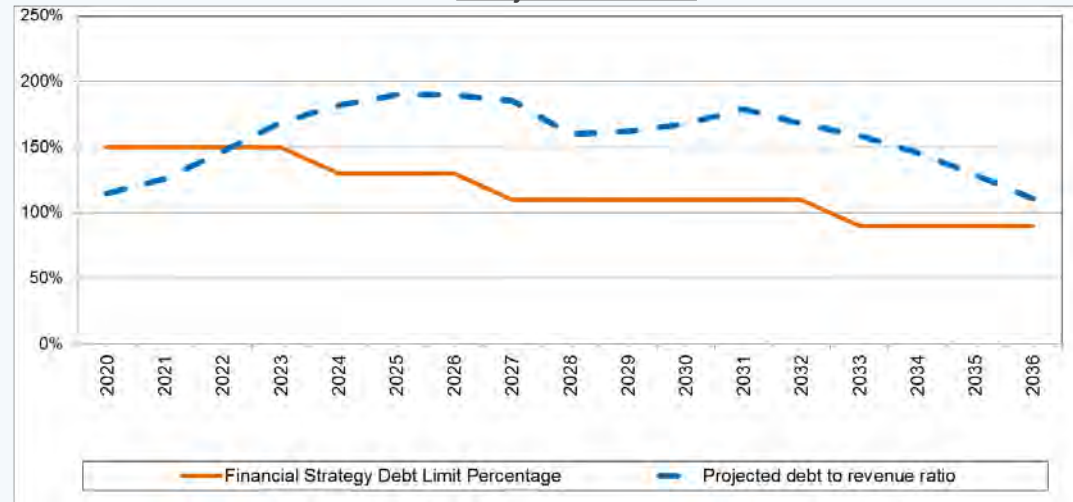
LTP had net debt peaking at \$233M and remaining within debt limits

FAP projected debt to increase to peak of \$418M in 2030/31, \$185M higher than LTP max.

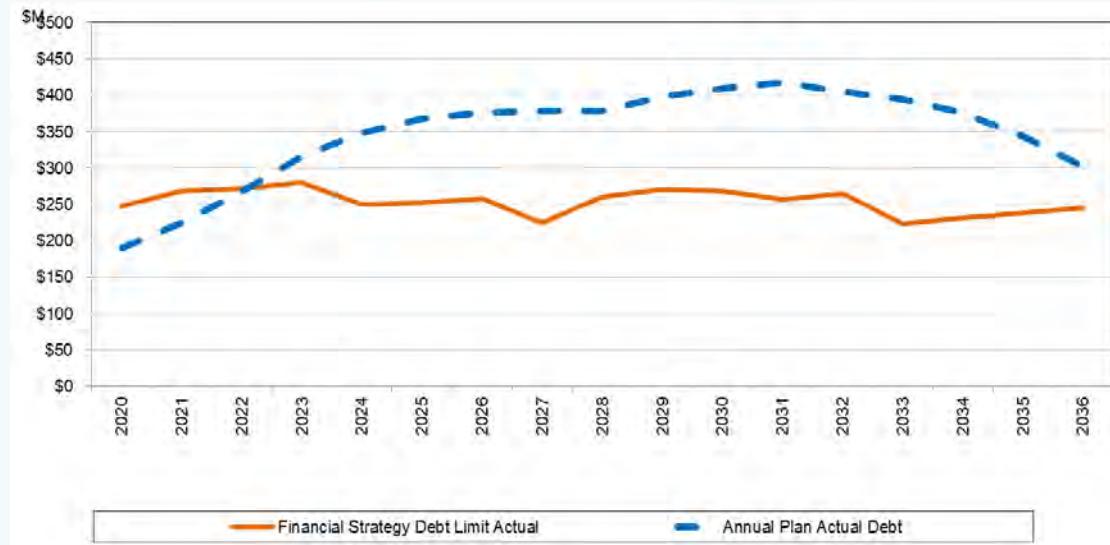
Debt to revenue limit exceeded from year 4 onwards with peak at 190% in 2025/26

NB – LTP 2021-2031 will include a review of Financial Strategy

Projected debt



Projected debt to revenue limit



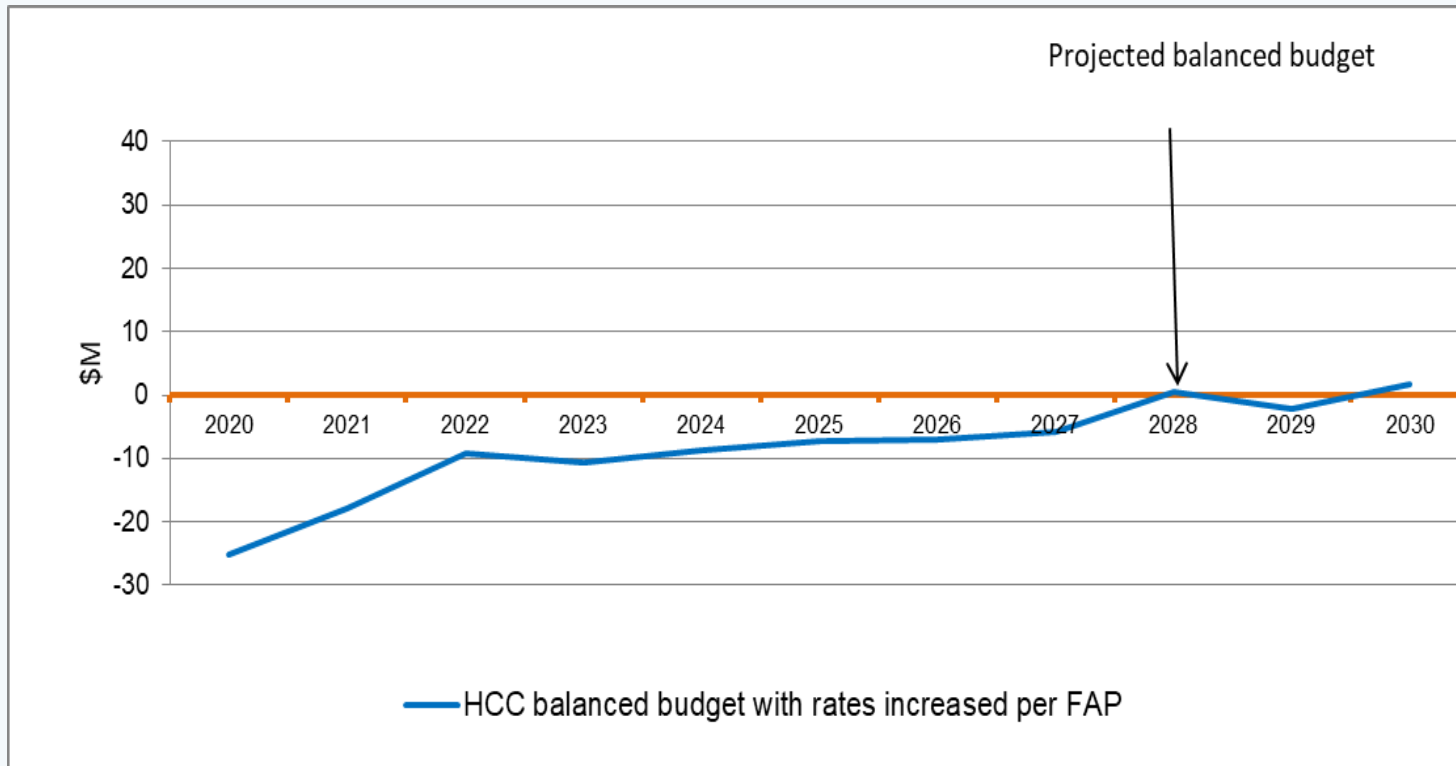


# Financial strategy – balanced budget

Checking whether operating revenues are sufficient to meet operating expenditure.

Projected deficit until 2027/28

HCC projected balanced budget



HCC Balanced Budget definition which is the Local Government (Financial Reporting and Prudence) Regulations 2014 definition for the balanced budget benchmark (Clause 19) *[Council Revenue excluding development contributions, vested assets, gains on derivatives and revaluations of property, plant and equipment...and operating expenses excluding losses on derivatives and revaluations of property, plant and equipment]* modified to exclude the NZTA “ring fenced” capital subsidies for capital improvement works from revenue.

# Details on our operating budgets 2020/21

After adjusting for proposed budget changes in table 2

<b>Revenue and expenditure summary</b>	<b>\$M</b>
Rates income	113
Other revenue	66
<b>Total revenue</b>	<b>179</b>
Operating expenditure	
Service delivery:	
- Employee costs \$37M	
- Operating costs \$99M	
Funding borrowings	188
- Interest costs \$8M	
Consumption of assets today, and funding assets renewals/replacements	
- Depreciation \$44M	
<b>Net deficit</b>	<b>(9)</b>

# Council decisions required Refer Tables 3 and 4

## Officers recommend these budget changes

### Additional funding opex, total \$1.1M

- Technology Valley \$45k (total \$130k including carry over)
- Stokes Valley Community Hub \$115k (via CFT) (urgent water egress issues)
- Changes in Building Act impacting revenue \$0.2M
- Reduced parking/infringement revenue \$0.7M (no rego. & WOFs fines until Oct)
- Reduced Museum revenue \$75k (mainly venue hire for Dowse and Little Theatre)

### Additional funding capex

- Te Whiti Park \$0.6M capex (reduction in some carry forwards found to largely offset this)

# Council decisions required Refer Tables 3 and 4

## Officers recommend these

1. Integrated Transport Plan \$0.2M funded from base budget
2. Proposed changes to fees and charges detailed in DAP
3. Range of submissions seeking funding for community initiatives (e.g. Chinese Language week, Naenae Boxing, Youth Inspire)  
**Officer advice to direct these organisations to community funding rounds that open in July 2020**

Wainuiomata Sportsville funding sought to undertake the investigation and preliminary design work \$50k **Officer advice not to approve budget as this facility is not an immediate priority**



# Financial risks identified - Officer advice not to change budgets

- Fraser Park Sportsville
- COVID-19 recovery response
- Events Centre and hotel development
- Living Wage for staff and contractors
- Climate change
- Swimming pools, gym memberships revenue risks \$0.5M,
- Parks revenue risks \$0.1M

**NB – Base budget review to be undertaken in 2020/21 as part of LTP, will inform reprioritisation decisions**

# Rates increase

## Latest updates of rating database results

- Minor reduction in targeted rate charges \$1 WW, \$1.50 WS
- Growth in rating base expected to be largely achieved by 30 June 2020 of 1%

## Components of rates increase

- 2.8% being inflation (BERL LGCI)
- 1% extra

Total 3.8%

Plus assumed 1% growth in rating base

Officers advice to retain 3.8% rates revenue increase

Plus 1% growth in rating base

Reasons: COVID-19 impacts in 2019/20 and 2020/21, funding for cost pressures, help mitigate financial risks

# Property rating impacts

Property category	DAP	FAP Option 1C
Average residential property	\$122 p.a. \$2.35 p.w.	\$127 p.a. \$2.44 p.w.
Average business central	\$13,724	\$13,626
Average business suburban	\$11,863	\$11,831
Average business accommodation	\$23,095	\$23,815
Business Queensgate	\$2,233,588	\$1,906,376
Average rural	\$1,570	\$1,602
Utilities	\$17,923	\$18,294