2021-2031 LTP

Direction setting and Financial Parameters

Council Briefing: 5 August 2020

(plus 12 August if required)

Whangarei District Council

Overview

Part 1 – Recap and initial Councillor direction

- Process
- Key Issues raised, and feedback received
- Direction setting through to December
- Initial direction on key/cornerstone programmes/projects/LoS

Part 2 – Financial Parameters and Rating

- Rating issues
- Financial parameters

Whangarei District Council

LTP Process: Timeline

Vision and strategic drivers – May 2020

Phase 1: Information/ building blocks Infrastructure) – June 2020

Phase 1: Information building blocks (Revenue and finance) – July 2020

Phase 1: Information building blocks (non-infrastructure) – July 2020

Phase 2: Direction Setting (Financial Parameters) – August 2020

Phase 2: Direction Setting (Level of Service and Prioritization of Projects) – September 2020

Phase 3: Draft Plan and Supporting Docs for Audit NZ - October to December 2020

Phase 4: Consultation Document adopted – February 2021

Phase 4: Formal Consultation – March 2021

Phase 5: Hearings – April 2021

Phase 5: Issues and Options / Deliberations – May 2021

Phase 6: Audit NZ and Adopt LTP – June 2021

District Council

Recap: Feedback from Activity briefings

Focus on maintaining what we've got – maintenance and renewals

Need to ensure infrastructure investment is aligned with/keep pace with growth and development

Waste water investment needed in Ruakaka – avoid wastewater sea discharge

Underinvestment in Stormwater needs to be addressed along with preparing for future flood /climate change events

Understand our infrastructure risks and focus on them

Climate change key issues across multiple activities

Water – no changes to levels of service but need to think about long term resilience

Plan for future growth of sports and recreation – align with Active Recreation and Sports Strategy

Lots of central government changes and funding opportunities (e.g. three waters) – how to we cater for these

Link investment with key programmes such as Port expansion

Strategy/approach needed to respond to carry forwards in the capital programme

Focus on what we do well

How will levels service respond to the impacts of COVID-19 and sectors that could be hardest hit e.g. tourism

Need to provide amenity across the District

Investment for community property and pensioner housing – define our role and communities need, as well as looking toward Govt

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Direction setting through to December

From what we've heard through the LTP Activity briefings and the direction already set by elected members, key issues we need direction on include:

- Approach to rates and financial parameters
- Direction on key/cornerstone programmes/projects/LoS
- Council strategy for managing capex delivery and carryforwards
- What are Elected Members detailed capital projects / programmes (rural/urban split?)
- Planning for the 'known unknowns';
    - Port relocation?
    - The impact of Central Government funding?
    - NZTA subsidy levels going forward?
    - 3 waters?
    - Regulatory reform (and beyond?)

By Christmas we need to have a draft LTP and supporting documents for Audit

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The Plan . . . ?

- 05 & 12 Aug — Initial Councillor Direction
- 25 Aug — Councillor Projects / LOS
- 27 Aug — Staff Levels of Service and Key Requests
- 17 Sept — Councillor Prioritization (requests / discretionary)

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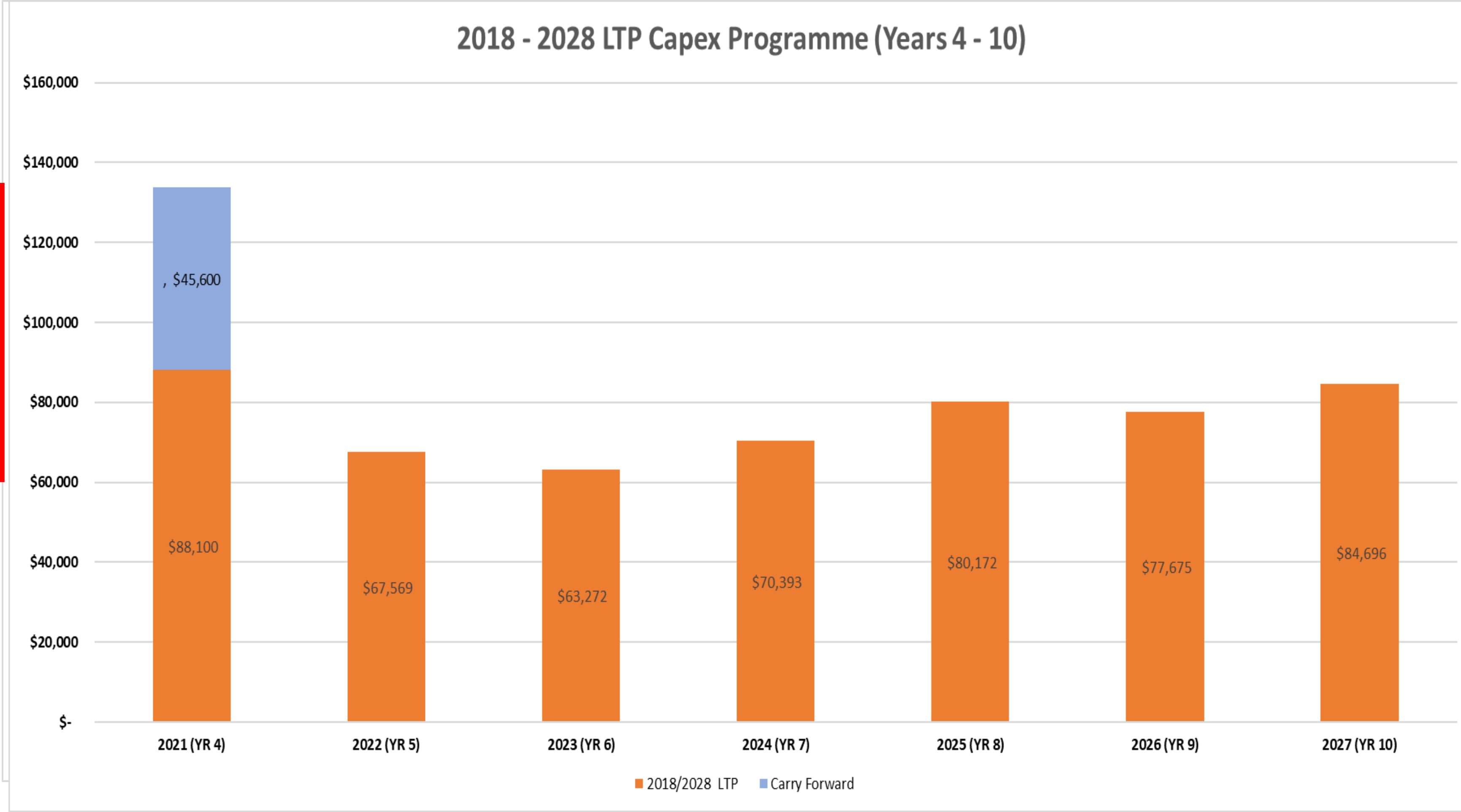
Delivery Constraints (Capex)

Capex delivery will need to be managed. Options could include:

- Staging projects (i.e. consents first year delivery next)
- Building internal capacity (limited success)
- Maintaining a consistent programme / supporting market capacity
- Flexible programmes/projects (with delegation)
- Capping and/or smoothing capex
- Prioritizing committed projects (particularly renewals) upfront



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Financial constraints (Opex)

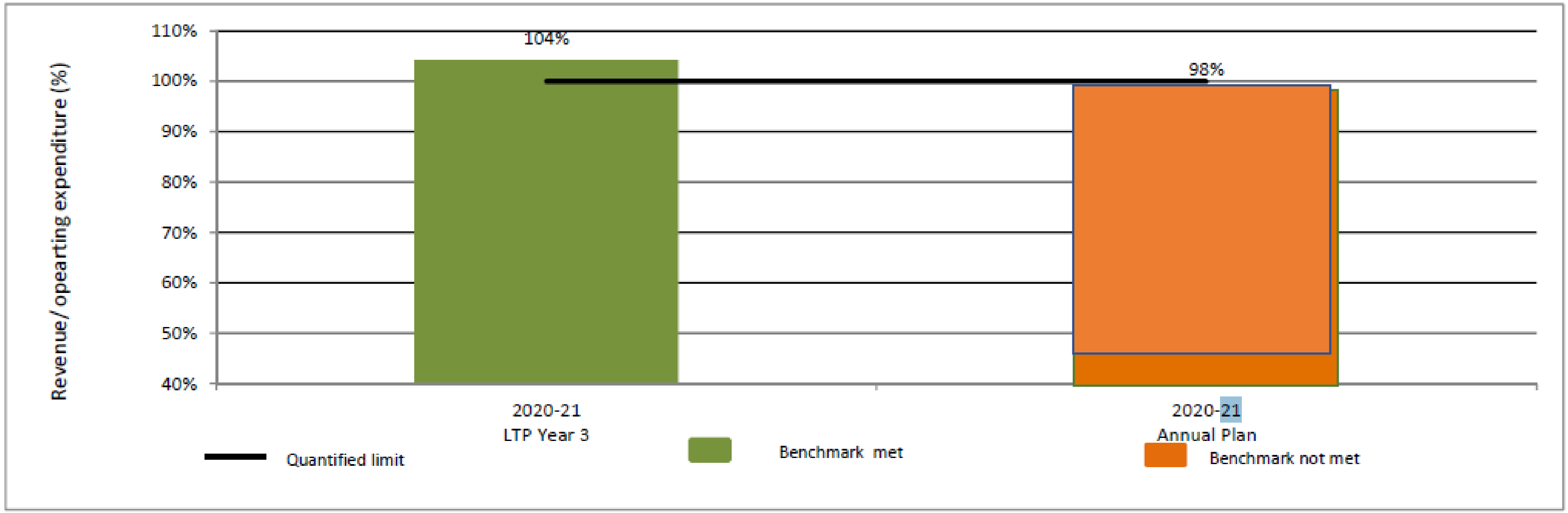
'Unbalanced' budget for 2020/21, we will need to consider:

- Rating levels/LoS?
- Sustainability of savings?
- 'Catchup'/lost revenue?
- Uncertainty around revenue streams?

Balanced budget benchmark

The following graph displays Council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant and equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant and equipment).

Council meets the balanced budget benchmark if its planned revenue equals or is greater than its planned operating expenses.



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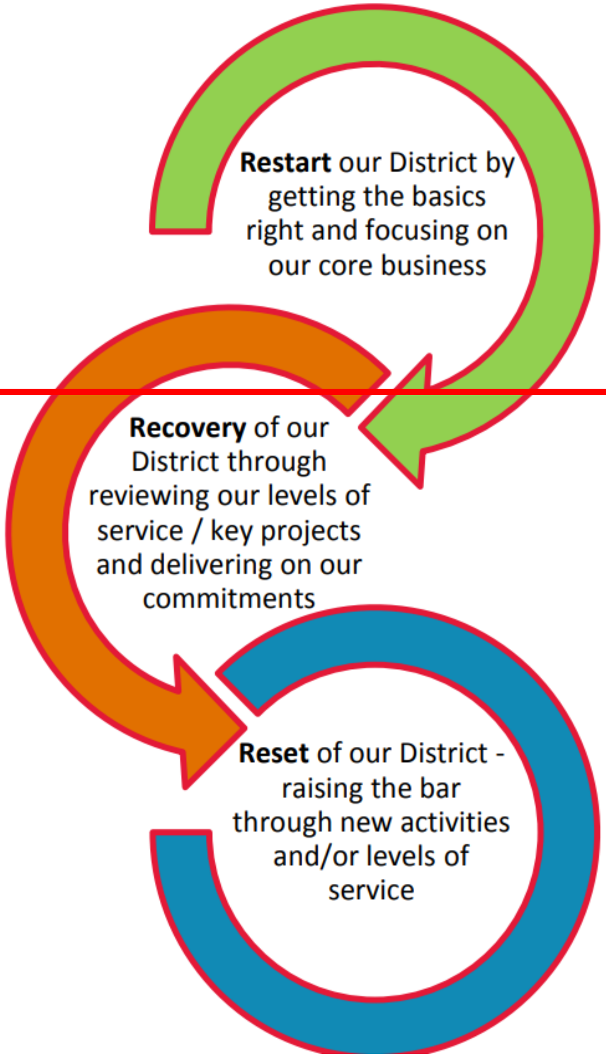
Strategic Drivers



- Focus on maintenance and renewals?
- Keeping up with growth?
- Funding to target essential services?

- Fund and complete programmes (i.e. stimulus)?
- Prioritise projects that support our economic recovery (i.e. tourism)?
- Adjust existing levels of service to align with priorities?

- Focus on new areas that crucial for the future of our District?
- New expanded/programmes in priority areas?
- New strategic partnerships for delivery?

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Getting basics right / focusing on Core Services

2018 – 2028 Long Term Plan had:

- A focus on the growth and LoS projects required to ‘get ready for the future’
- Essential Services Benchmark between 105 – 143%
- Renewals to Deprn at 83% with Waste (useful lives to be reviewed) and Transportation as outliers (Water was offset by Whau Valley)

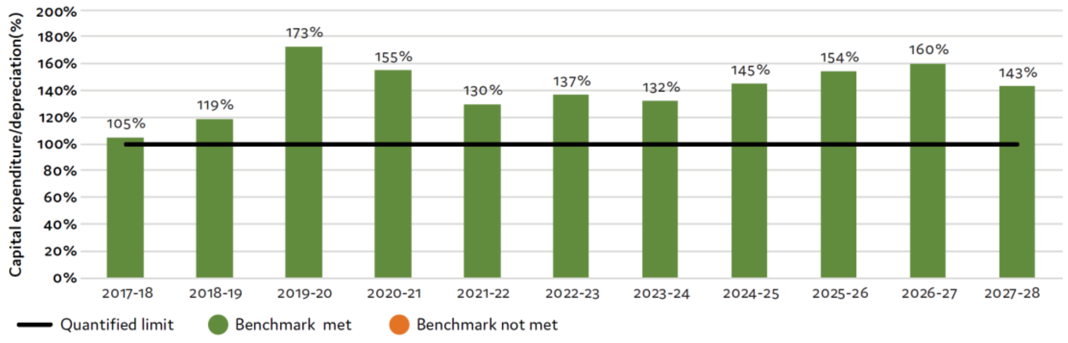
‘Getting the basics right’ will be a big component of the capex programme

Propose a councillor process to prioritise discretionary funding

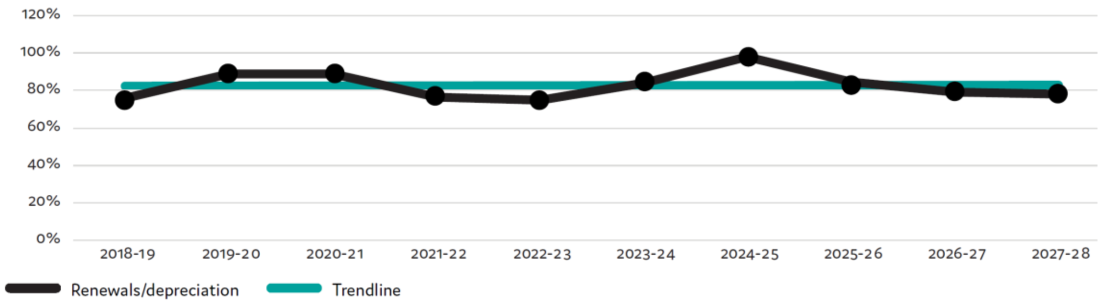
Essential services benchmark

The following graph displays Council’s planned capital expenditure on network services as a proportion of expected depreciation on those same network services.

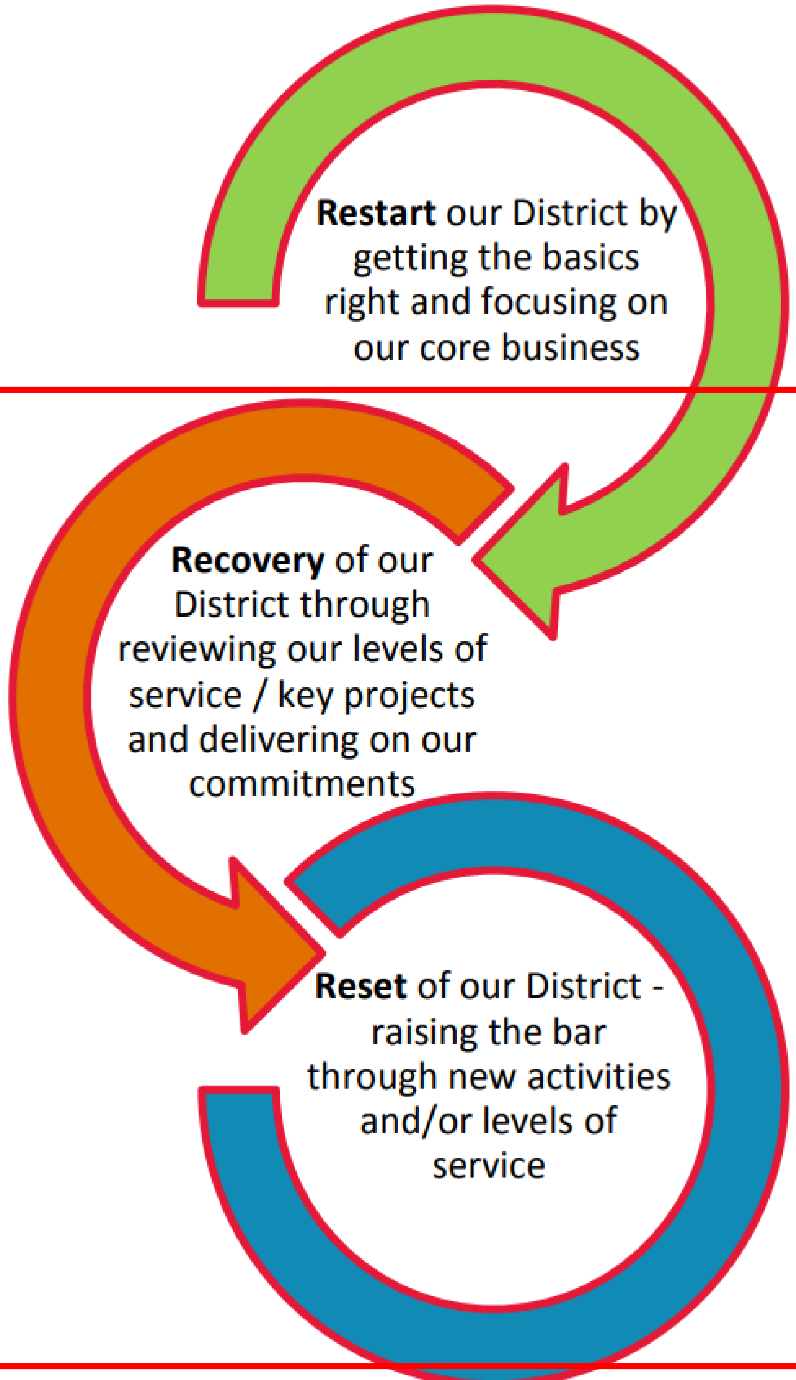
Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.



Renewals to depreciation



A framework . . . ?



Priorities for the LTP

1. Transport (Roading and Public Access)
2. Revitalising the City Core
3. Potential Northport expansion/Navy relocation
4. Sustainability (including waste minimisation)
5. Housing

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Rating issues from previous briefing

- Is it appropriate to conduct a full rates review this LTP or should we continue with the same rating system?
- Sector splits – do these need to be revisited?
- SUIP's – does our current definition need changing? Or should rating units be used?
- The District-Wide Refuse Rate and Uniform Annual General Charge are rated on the same basis. Would it be simpler for us and our ratepayers to combine these?
- Targeted rates for Water and Waste Water – are these appropriate? Are we spending enough on renewals?
- Seal extension targeted rates?
- Target rate for funding CBD activities – if there is any demand for more services for the CBD how should these be funded?

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Recommendation – minimal changes to Rating policies

- Any change leads to transition issues – every positive impact has an equivalent negative one
- Water reform would lead to complete overhaul of funding – better to do it when we understand what the role of sector will be so we can match funding to impact footprint
- No new issues have emerged that we are aware of

- Suggested things that could be addressed without adding complexity or workload
  - Review of sector splits
  - Combine Refuse Mgmt and UAGC
  - Targeted consultation on Seal Extensions (requirement)

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Our 2018-28 Financial Strategy

- *Have a **balanced budget (financial prudence benchmark)** in every year, where revenue exceeds expenditure (including depreciation)*
- ***Annual rates increase** (exc water and flood) **of 2% + LGCI***
- *Limit overall rates revenue (excluding Water) to a maximum of 70% of total revenue*
- *Total debt as a percentage of revenue less than 175%*
- *Maintaining interest costs at less than 25% of rates revenue and have a **debt per capita level below $2,150 (+ LGCI)***
- *Provide sufficient cash surpluses to fund the planned capital expenditure programme without reliance on asset sales.*

What should our next Financial Strategy be?

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Let’s start by putting things into perspective….

How much do you think a

“day of WDC services”

costs each resident on average?

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From the 2020-21 Annual Plan

Total Operating Expenditure	$149,818,000
Less Subsidies	$ 21,732,000
Net Operating Expenditure	$128,086,000
Divided by estimated residents	96,000
Average Cost per Resident (Annual)	$1,334
	$3.65 per day

Pre-Covid plan Average Cost per Resident (Annual) $1,386*

or $3.80 per day

** Additional $5m of operational expenses ($3m opex savings + $2m personnel costs)*

Whangarei District Council


McCain
SUPERFRIES
CRINKLE
Cooked in Canola Oil · Low in Cholesterol
900 g NET
MADE WITH NATURAL REAL AUSTRALIAN POTATOES INGREDIENTS


LION RED
BEER
LION RED
BEER

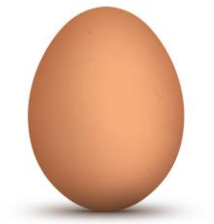

NO SUGAR
Coca-Cola


fresh
blue


Wattie's
ESTD. 1934
Pick of the Crop™
NZ GROWN PEAS
750g NET
minted
baby peas
7


FREYA'S
TUSCAN
MIXED GRAIN


Griffin's
MallowPuffs
Original
FIND A GOLD MEDAL
WIN
$10K
+10,000
INSTANT PRIZES TO BE WON
BISCUITS 200G NET

or the  ?

Option 1: First decide what level of rates increase Council is comfortable with, then we cut our cloth to fit	Option 2: First decide on LOS and what Council wants to deliver, then determine what the resulting rates increase would be
+ Councils ‘normal’ approach	+ Allows for LOS and priorities to be set upfront
+ Saves time by providing clear budget constraints upfront	-May result in higher than desired rates increases, requiring budget reworks
+Avoids repetitive budget review/cuts process	- May result in additional LOS and budget reviews to come back to acceptable rates increase
-May not result in desired level of service – eg beer budget with champagne taste	

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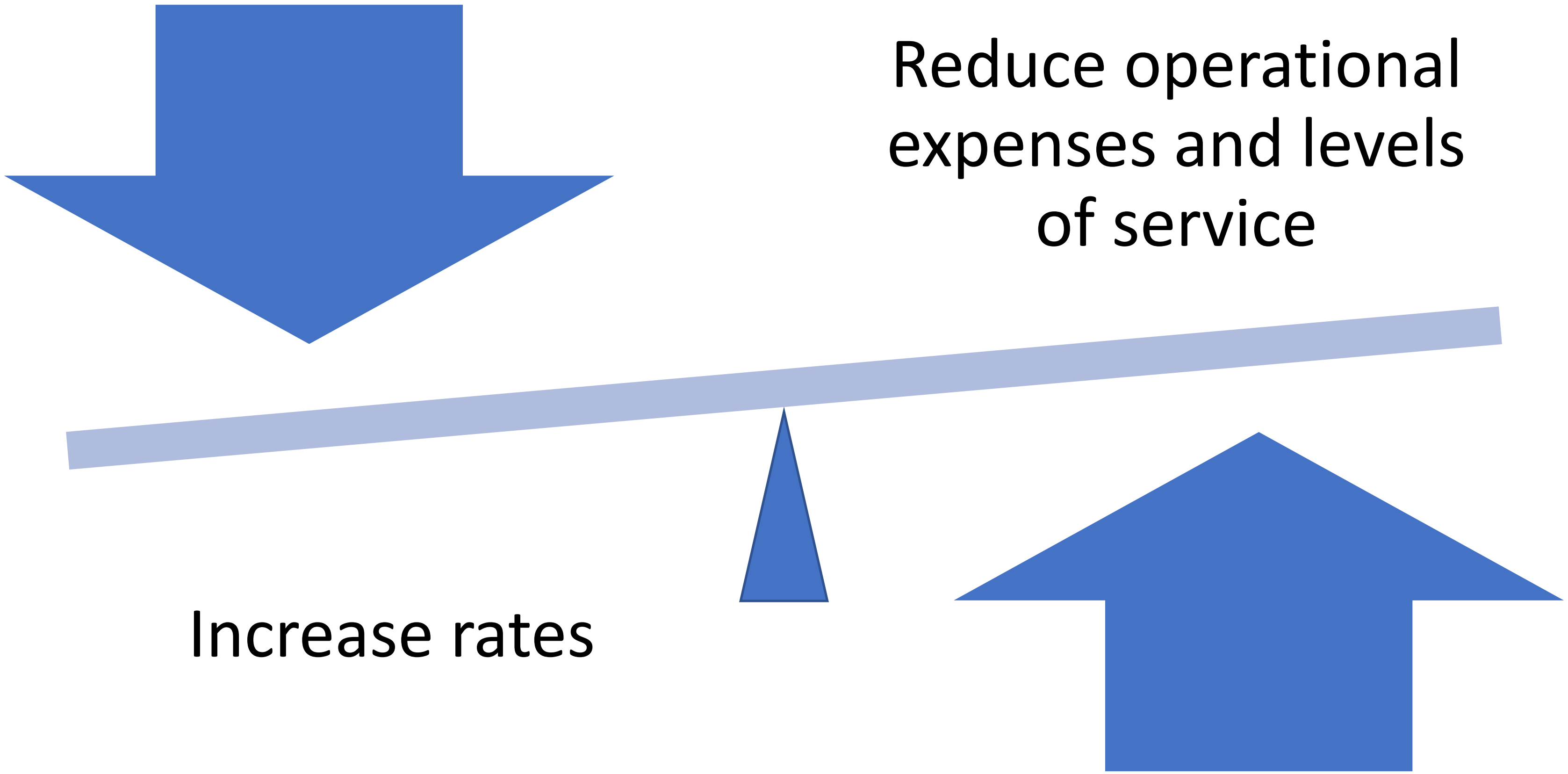
Biggest pressure point …Balanced budget



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Prudence…something to keep in mind

- Is a local authority wide test, and applies across all financial decisions and actions
- Financial prudence regulations set seven benchmarks of fiscal prudence that Council must report against
- The Act creates a rebuttable presumption that a balanced budget is prudent.
- An unbalanced budget is lawful, but the onus is on Council to demonstrate that an unbalanced budget is prudent.
- The balance budget test applies across each year of the LTP.

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Do we need a Covid catch-up?

The adjustments we made in response to COVID-19 will have long term consequences unless we take action.

	DRAFT Annual Plan 2020 - 21 $000	ADOPTED 2020 - 21 $000	Variance to AP
Revenue			
Rates	106,462	103,784	(2,678)
Development and other contributions	6,100	2,990	(3,110)
Fees and charges	16,155	12,953	(3,202)
Interest revenue	781	41	(740)
Other revenue	13,037	11,026	(2,011)
Total revenue	**142,535**	**130,794**	**(11,741)**
Expenses			
Other expenditure	68,855	66,132	(2,723)
Depreciation and amortisation	45,991	46,564	573
Finance costs	7,618	7,687	69
Personnel costs	31,443	29,435	(2,008)
Total expenses	**153,906**	**149,818**	**(4,088)**
Surplus / (deficit) before taxation	**(11,372)**	**(19,024)**	**(7,652)**

Note: NZTA Subsidies have been removed from this analysis as they distort the position

Whangarei District Council

Should a 'reset' reinstate the net $7.6 million of lost buying power?

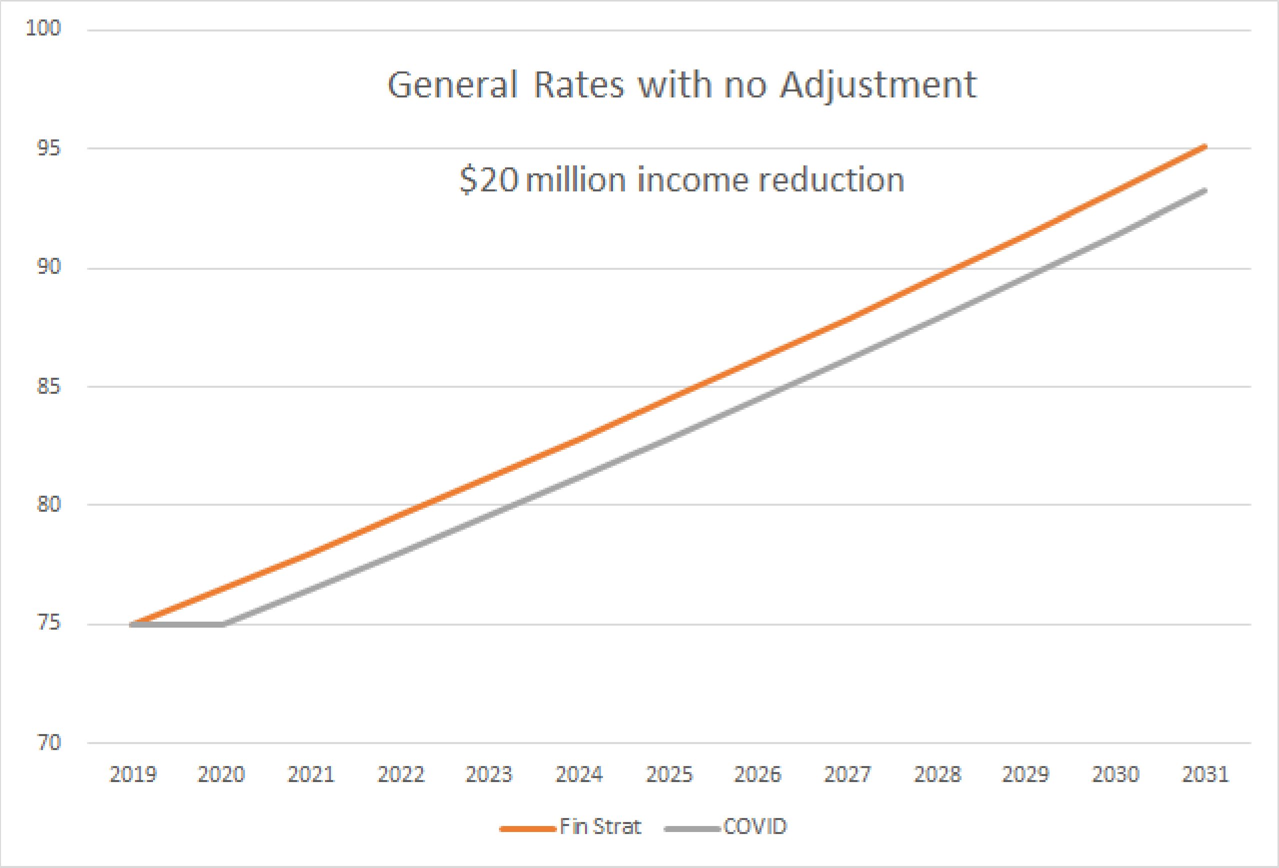
Reallocate COVID-19 Relief package $3.x m

General Rates rise (1% ~ $750k) ??

'Lost' 2% General Rates from 2021/21 $1.5m

Revenue Recovery (17 % drop) ??

- Fees & Charges $3.2m
- Other Revenue $2.0m



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Where to next...?

WHERE TO NEXT....?

Indicate your preference

Net Debt $m	Debt per Capita	Covid Catch-up Y1 Yes/No	Rates increase LGCI	Rates increase LGCI + 1%	Rates increase LGCI + 2%	Rates increase LGCI + 3%	Rates increase LGCI + 4%
200	2,084						
190	1,980						
180	1,875						
170	1,771						
160	1,667						
150	1,554		*Annual Plan 2020-21*				
140	1,459						
130	1,354						
120	1,250						
116	1,209				*Annual Report 2019-20*		
100	1,042						

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Questions

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