

Long Term Plan Update:

Financial modelling review

20 October 2020

The plan . . .

Agenda for 20 October:

- Recap
- Overview of what we modelled, and what we didn't
- Outcomes of financial modelling
- Projects overview, options and recommendations
- Opex overview, options and recommendations

Propose to adjourn and reconvene later this week (if possible) if necessary

Next steps..... 21st October – 17th December for LTP

The journey so far . . .

November/February/May: establishing, adopting and reconfirming councillor priorities

March/April/May: LTP 'building blocks', Covid reset, strategic drivers/vision

August:

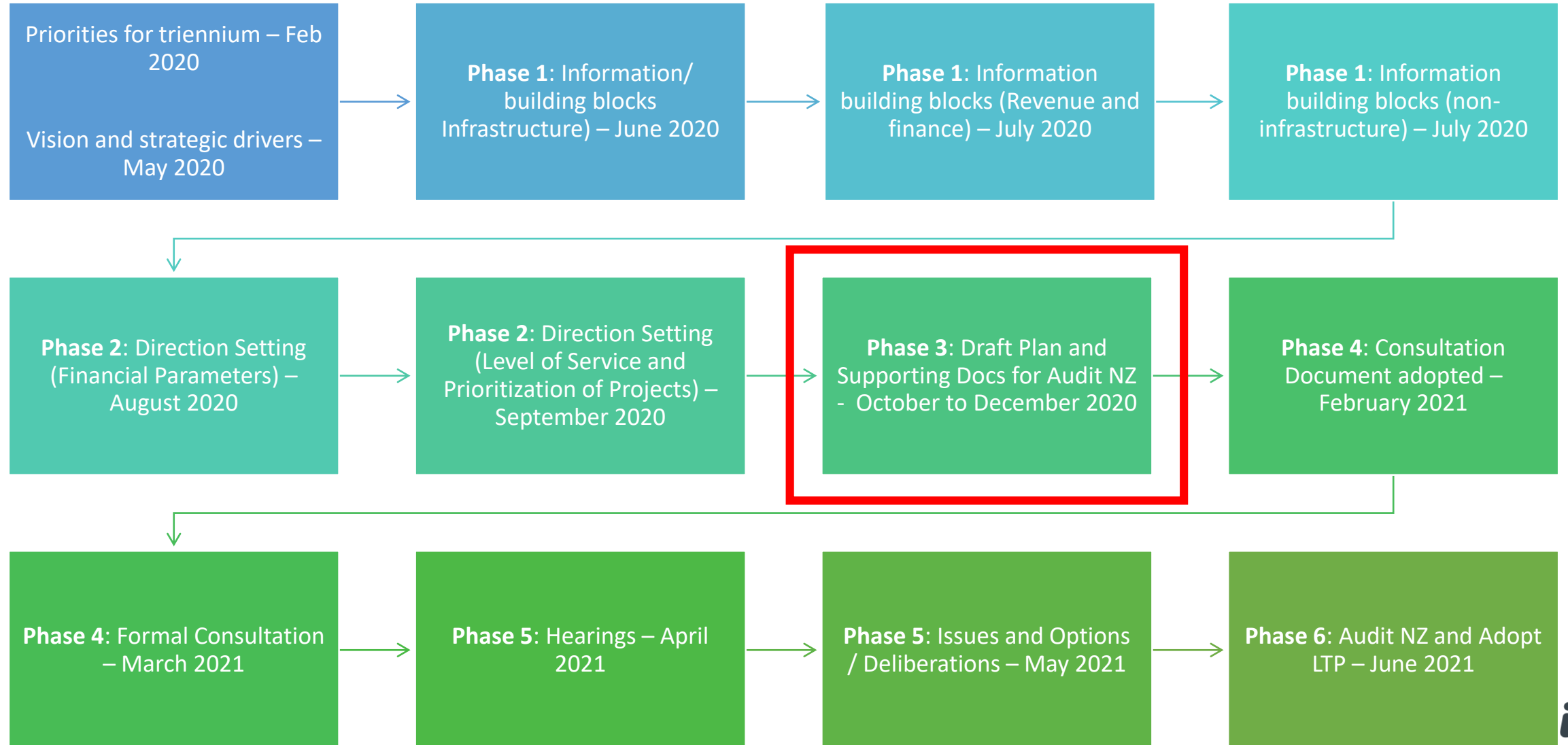
- Financial parameters, rating review, community outcomes, communications etc . . .
- Three sessions focused on identifying councillors 'big ticket item' for each priority and desired projects

17 September: prioritization approach/scoring matrix and **staff** approach to capex delivery

22 and 23 September: two days of elected member prioritisation, top 15 identified for modelling

29 September: elected member Project Delivery session and confirmation of comfort to model

Next Steps - LTP Process: Timeline



Debrief on councilor led capex delivery session

Get the costs/scope right – *‘never a cheaper time to deliver than at the start of a project, make sure we have good scope/costs’*

Resource additional capacity around planning, scoping and delivery (there will be a lead time)

Work with the sector to ensure no surprises and a clear pipeline

Look for additional project management capacity from the sector (i.e. for large one offs)

Bundle programmes – *‘design/consenting front loaded, Council set the prioritisation criteria, flexibility/delegations to adjust’*

Bundle programme once Council is ‘broadly comfortable’ (Transportation programme provides a good example)

Establish prioritisation processes/criteria for programme lines

Implement robust and regular reporting on project progress

Funding large one offs – *‘identify these by exception and increase debt to accommodate (differing levels of comfort)’*

Onerahi/Riverside, Poriti Water Source, Civic, Theatre Options, land purchases (non capacity)

Community led projects – *‘need to meet specification, leg/H&S and procurement requirements while having capability’*

There are good and bad examples, but there is no ‘silver bullet’ (particularly in turning opex into capex). Some key themes:

- Need good community governance/leadership (the community leader needs to have time and relationships)
- Need a strong entity and capability to deliver
- Need structures, programmes and resourcing (i.e. CLD programme and Active Rec position)

The good news . . .

There are some items that can be covered as BAU and/or through squeezing existing budgets

- Purchase of a digger – the 3 year hire cost is more than the \$50k capex purchase
- Sports park land acquisition was in both BAU and request due to it coming through from AMPs and as a councillor request.
- A number of small maintenance requests (Kamo shared path \$15k, OTP playground \$5k, Tiki path \$4.5k).
- Carpark feasibility study
- Delivery of Chinese language week (through support rather than funding)
- Northport advocacy and corridor plan

Others may be able to apply for a contestable grant (noting that any grant allocation will require approval):

- Quarry Gardens Trust
- Gomez Road support for outdoor activity development
- Ngunguru sandspit

Initial outcomes of prioritisation

	Capex	Opex
Transport	Seal Extensions, Port Kioreroa Intersection and Bridge 4 Lanning, Footpaths, Traffic Calming/Slow Streets, Bridge and Structure Renewals, Cycleways/Shared Paths (6)	Roadside cleanup (1) Increased maintenance spend
City centre revitalization	John St (early), James (later, with constraints), City Centre Cycleway Connections (3)	
Sustainability	Stormwater Treatment (1)	Weed/pest control and community support, climate change risk assessments, funding to support sustainability strategy, replanting of native trees/ETS credits (4)
Northport/Navy (treat separate)		Northport Advocacy/Corridor Plan (1)
Housing		Supporting conversion to innercity housing (1) Partnership with stakeholders (non cost)
Project/Grant funding	OTP Seawall, Public Toilets, Waipu Cycleway, FN H & S upgrade, Pohe Island lighting/CCTV (5)	Community Fund, Community Facilities Fund, Hihiaua, NECT Full Trust operating cost, Gomez Rd, match Govt Grants, Economic Development Initiatives, enhanced community development capacity (8) React to government reforms (non cost)

A painful but necessary part of the process . . .

In order to deliver a draft LTP by the end of the year, direction from Council was needed on the programme of the projects (capex and opex). Needed financial modelling of BAU and councilor priorities to determine our position and finalise:

- Levels of rating increases??
- Balanced budget benchmark result for each year??
- Opex cuts to get to a balanced position??
- A 'cap' to land on a sustainable/deliverable programme – noting that **capacity (not debt) is the key constraint for capex??**
- Appetite for carry forwards??
- How many of the 'priorities' can we factor into the programme??

What we agreed/modelled

Following the capex delivery session on 29th September direction was provided to:

- Undertake further review of key request programmes, consolidating smaller items where possible and bringing back recommendation
- Model the BAU capex programme and initial request priorities based on LGCI (2.5%) + 2% + catchup (2%) + growth Yr 1, followed by LGCI + 2% + growth
- Get an indication of debt from modelling (no cap at this stage) and provide staff recommendations / options (particularly around opex)
- Consider large one offs that didn't make the cut that could be debt funded (i.e. theatre options)
- Bring back any unfunded items where there are risks/impacts
- 'Play the issue/project'

Review and assumptions

In order to model the programme we had to:

- Review and Q/A BAU (including identifying) 'overs'
- Work with the Business to try to land on a balanced and deliverable BAU programme
- Get feedback from the business/SLT on the impact of not including funding (i.e. lower priority requests)
- Make assumptions around key areas, including carry forwards (forecast vs. accounting view)

Projects - what we didn't model . . .

. . . and recommended for inclusion:

- Pohe Island Access Road upgrade
- EOC – statutory requirement, both opex and capex options available
- Dog pound – regulatory requirement
- NEC Roof – roof nearing end of life, potential to offset from other areas
- Biosolid diversion – required to offset disposal fee increases, recommend capex option but there is still an opex component

. . . that should be noted:

- Parihaka mast – current funding to remain with engagement undertaken before determining next steps
- Theatre options – Opex and Capex options, workshop on 03 Nov
- Commercial Property – workshopped Thursday, debt not capacity driven
- Rose St stage 2
- Neighbourhood Parks land purchase – enables Council to collect DCs and/or enter into a PDA
- Maunu Cemetery roading network
- New Ruakaka Recreation Centre car park – MBIE funding does not require WDC contribution but Lotteries are seeking one
- New carpark building – feasibility to be covered from BAU but no capex for delivery in this LTP

Projects - the bottom line(s)

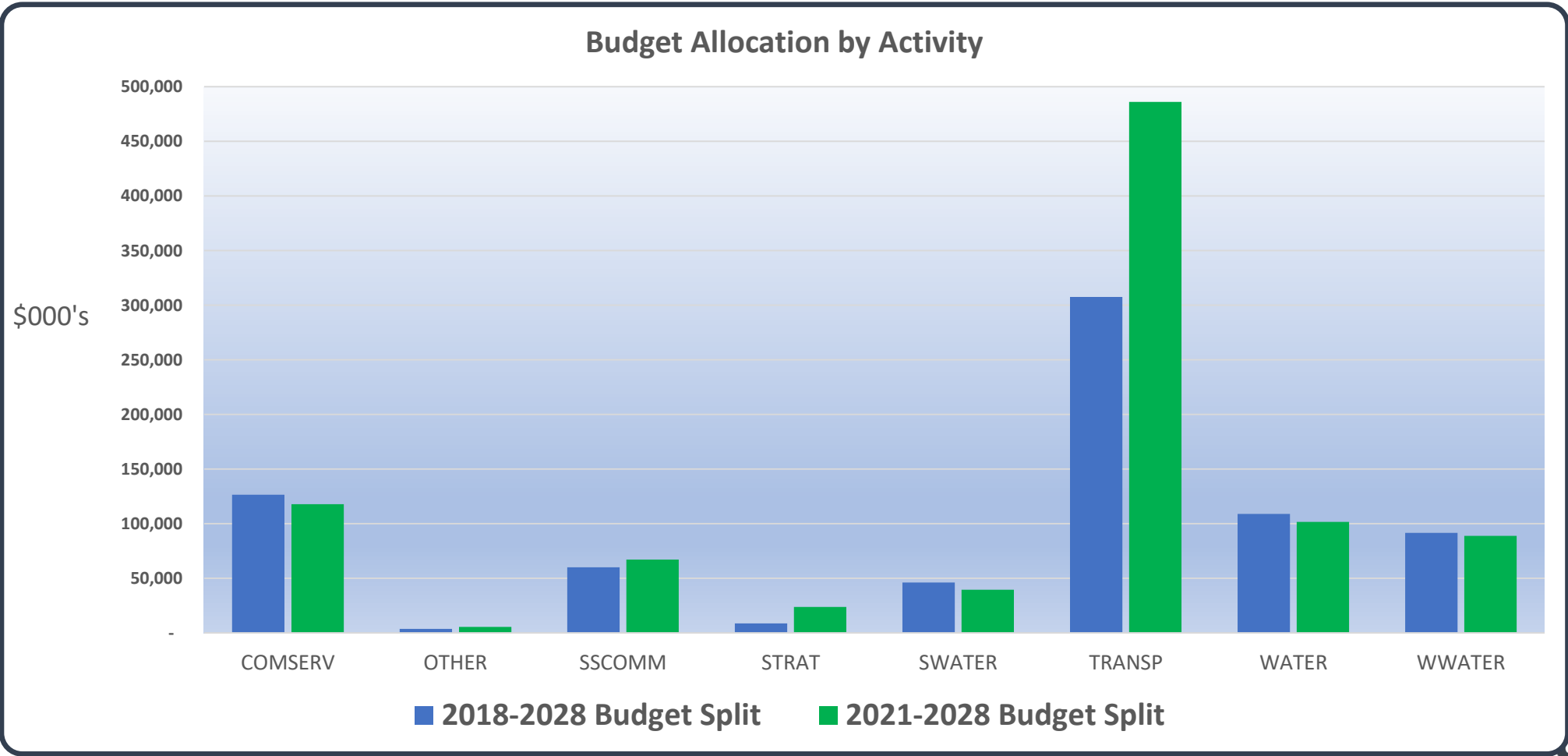
Once requests are factored in we have a very ambitious programme:

Total BAU	90,162,472	68,065,045	84,673,987	76,420,490	72,796,471	75,557,374	83,323,248	70,331,823	76,984,707	75,236,616
Total BAU excluding offs	56,192,111	54,518,641	59,067,427	64,168,310	67,139,471	66,279,774	67,454,103	63,082,343	70,740,207	75,236,616
Total Request	13,163,563	15,912,388	16,098,578	19,219,366	17,089,797	12,707,993	15,757,407	9,825,178	20,940,306	16,474,887
Total Projects excluding One-Offs	69,355,674	70,431,028	75,166,005	83,387,675	84,229,268	78,987,767	83,211,510	72,907,520	91,680,513	91,711,503
Grand Total	103,326,034	83,977,432	100,772,565	95,639,855	89,886,268	88,265,367	99,080,655	80,157,000	97,925,013	91,711,503

However, in budgeting for carryforwards debt looks manageable (note, lower carryforwards will result in higher debt):

	LTP year 1	LTP year 2	LTP year 3	LTP year 4	LTP year 5	LTP year 6	LTP year 7	LTP year 8	LTP year 9	LTP year 10
	2021 - 22	2022 - 23	2023 - 24	2024 - 25	2025 - 26	2026 - 27	2027 - 28	2028 - 29	2029 - 30	2030 - 31
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Net Debt	177,457	195,474	204,744	214,349	216,593	216,507	216,204	218,157	214,574	203,332
Net Debt movement from year to year	28,339	18,017	9,270	9,605	2,244	(86)	(302)	1,953	(3,583)	(11,242)

Comparison to 2018



A subsidy and three waters 'sugar hit'

The Transportation programme and three waters are driving significant grants and subsidies:

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
2021 - 22	2022 - 23	2023 - 24	2024 - 25	2025 - 26	2026 - 27	2027 - 28	2028 - 29	2029 - 30	2030 - 31
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
31,513	27,308	31,044	29,608	33,922	34,361	36,523	30,322	35,651	32,665

These and modelling based on a 'Covid catchup' up front are driving our ability to Balance, but as anticipated it is tight:

Council Summary	Annual Plan	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2020 - 21	2021 - 22	2022 - 23	2023 - 24	2024 - 25	2025 - 26	2026 - 27	2027 - 28	2028 - 29	2029 - 30	2030 - 31
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balanced benchmark %	98%	104%	102%	104%	103%	106%	107%	109%	106%	110%	109%
Balanced benchmark \$	-	2,918	6,566	3,728	6,242	5,140	11,181	13,672	17,168	12,813	20,137
											19,392

Projects – observations and options

Programme remains constant over the life of the plan. \$173m over 2018, including one offs but excluding any Theatre options (capacity to deliver these could be built into the project)

Some tweaks yet to be made, and we won't have a good handle on renewals to depreciation until the Infrastructure Strategy and AMPs are completed (chicken and egg), **further changes may be required to align renewals to depreciation**

Unlikely to get subsidy on all Transportation line items, if not debt funding required

Transportation a key Council priority, but we will struggle to deliver the current programme

Options:

1. Reducing large Transportation programme lines to ensure a balanced and sustainable programme starting with:
 - Any areas of BAU that are above 2018 funding levels
 - \$55.6m additional cycleway/shared path funding in requests (leave yr 1 BAU)
 - \$50m for road sealing

However, any subsidy reduction will impact on balanced budget. This will need to be managed

2. Accept/budget for carryforwards (expecting a robust discussion with Audit)
3. A hybrid approach – more moderate scale back of transportation, target capacity deliver, budget for carryforwards (**recommended**)

Projects – recommendation

Include projects where there is a critical risk or impact:

- Pohe Island Access Road upgrade – aligned to NRU building/resolution, swap for CCTV/lights?
- EOC – statutory requirement, both opex and capex options available
- Dog pound – regulatory requirement
- NEC Roof – roof nearing end of life, potential to offset from other areas
- Biosolid diversion – required to offset disposal fee increases, recommend capex option but there is still an opex component

Moderate scale back in Transportation:

- \$55.6m additional cycleway/shared path funding in requests (leave yr 1 BAU) - reduce and smooth, \$2 - 3m p.a.?
- \$50m for road sealing (\$40m additional) – reduce to a deliverable level, \$2-3m p.a.?
- Review impact on balanced budget and look at other lines if necessary (i.e. where there was a duplication with BAU)
- Maintain flexibility through NZTA budget bid process

Target capacity to deliver (opex), but budget for carryforwards (debt)

Opex - what isn't currently in the programme . . .

. . . and recommended for inclusion:

- NAGST (Y1 & 2) and Kensington Hockey (Yr4) capital grants
- Digitisation
- Active Recreation Strategy funding - Navigator position and Facility Plans critical to deliver on the strategy
- Waste Minimisation – funding required to meet performance measures (alternately reduce measures)

. . . and should be noted:

- Additional WAMT Funding – recommend existing funding be removed from grant pool (no cost but results in a lower 'contestable pool') and put in Community annual operating budget
- Regulatory contract – recommendation to be provided to Council separately (cost neutral)

Opex – observations and options

Remains the key financial constraint

Balanced budget position is being driven by Covid catchup, subsidy and grants

Headroom to respond to community requests?

Further impacts from COVID?

Options (not linear/mutually exclusive):

1. Maintain headroom/conservative position
2. Further rates increases and/or an unbalanced budget in some years
3. Target funding to key priorities, strategies and things we 'just have to do'

Opex - recommendations

	Opex	Recommendations
Transport	Roadside cleanup (1) Increased maintenance spend (12%)	<ul style="list-style-type: none"> Increased maintenance spend (12%) \$300k p.a. for Entranceway Maintenance in BAU starting next yr, could look to split this between entranceways and cleanup
City centre revitalization		Covered under capex requests and partnering with stakeholders (below)
Sustainability	Weed/pest control and community support, climate change risk assessments, funding to support sustainability strategy, replanting of native trees/ETS credits (4)	<ul style="list-style-type: none"> Climate change risk assessments Combined funding to support sustainability strategy (internal focus) and Waste Minimisation (external focus)
Northport/Navy (treat separate)	Northport Advocacy/Corridor Plan (1)	Northport Advocacy/Corridor Plan - from existing budgets
Housing	Supporting conversion to innercity housing (1) Partnership with stakeholders (non cost)	Partnership with stakeholders (non cost)
Project/Grant funding	Community Fund, Community Facilities Fund, Hihiaua, NECT Full Trust operating cost, Gomez Rd, match Govt Grants, Economic Development Initiatives, enhanced community development capacity (8) React to government reforms (non cost)	NECT Full Trust operating cost Community Fund/Community Facilities Fund (if possible) React to government reforms (non cost) Gomez Rd – direct to contestable grants process

Summary of recommendations (cost impact only)

Recommendations centred around targeting funding to adopted strategies, councillor priorities and things we ‘just have to do:

Opex	Capex
<ul style="list-style-type: none"> • Rationalise Entranceway/Cleanup funding (cost neutral?) • Climate change risk assessments (\$745k over Years 1 -4) • Combined funding to support sustainability strategy (internal focus) and Waste Minimisation (external focus) (\$160k per year) • NECT Full Trust operating cost (estimated at \$365k per year) • Community Fund/Community Facilities Fund (\$100k per year) • Active Recreation Strategy funding - Navigator position and Facility Plans (\$180k per year) • NAGST (\$300k Years 1 & 2) and Kensington Hockey (\$800k Yr4) capital grants • Digitisation (\$700k over two years) 	<ul style="list-style-type: none"> • Pohe Island Access Road upgrade (\$600k) • EOC – statutory requirement, both opex and capex options available (\$9.5m) • Dog pound – regulatory requirement (\$5.5m) • NEC Roof – roof nearing end of life, potential to offset from other areas (\$5m) • Biosolid diversion – capex + opex (\$2.4m) <p>Moderate scale back in Transportation:</p> <ul style="list-style-type: none"> • \$55.6m additional cycleway/shared path funding in requests (leave yr 1 BAU) - reduce and smooth, \$2-3m p.a.? • \$50m for road sealing (\$40m additional) – \$2-3m p.a.? • Review impact on balanced budget and look at other lines if necessary (i.e. where there was a duplication with BAU) • Maintain flexibility through NZTA budget bid process <p>Target capacity to deliver (opex), but budget for carryforwards (debt)</p>

Next steps: 21st October – 17th December:

- Council briefings to ensure Draft LTP can be delivered by 17th December:
 - Council direction and agreement on:
 - Development Contribution Policy
 - Revenue and Financing Policy
 - Performance measures/targets
 - Finance and Infrastructure Strategies
 - Consultation Document
- Workshop with Councillors to review rates & revenue and financing policy (17th November)
- **Council Meeting - Adoption of Draft LTP for Audit NZ (17th December)**