

Long Term Plan Update:

***Financial modelling and
draft supporting documentation***

19 November 2020

The plan . . .

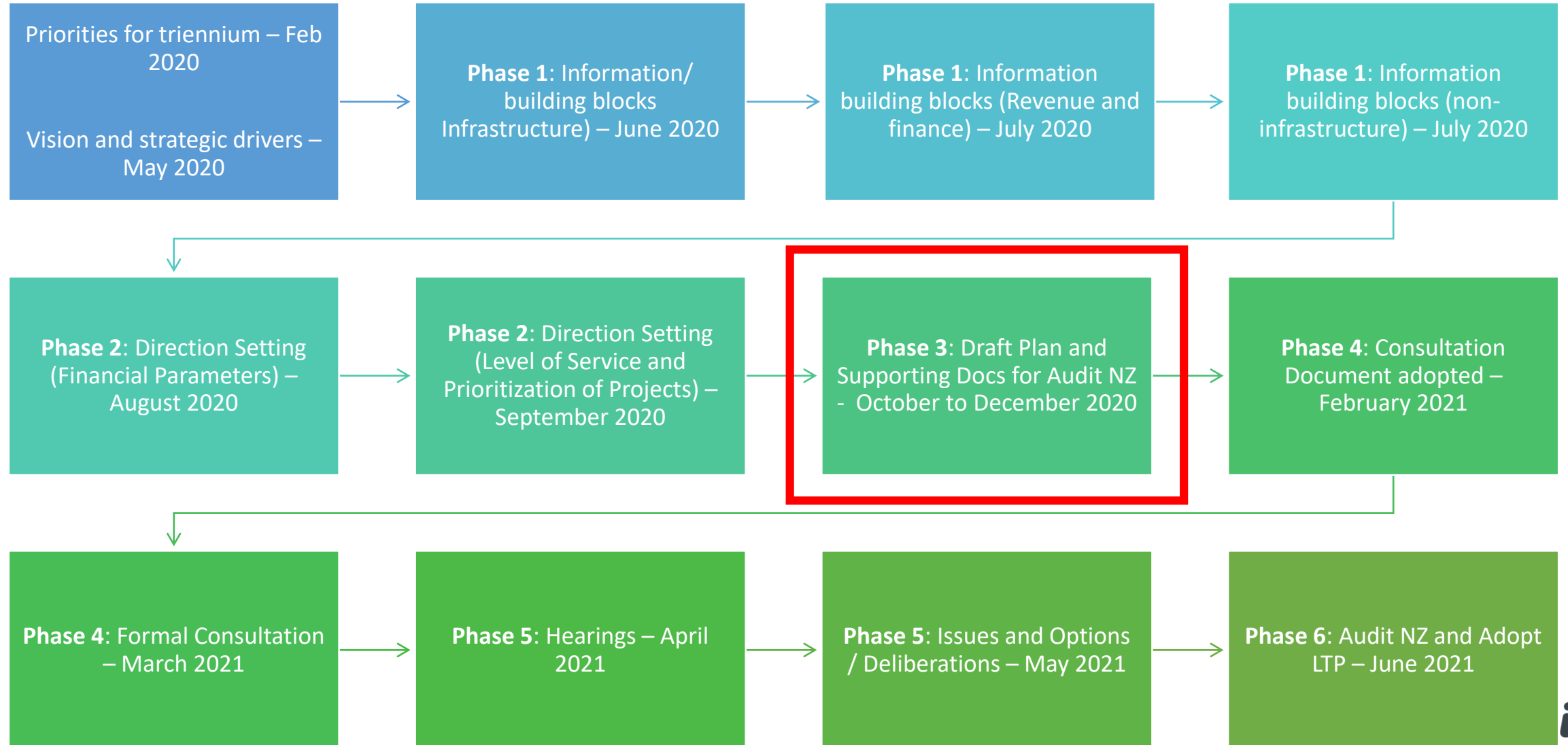
Agenda for 19 November:

- Review of LTP Timeline
- Recap
- Review of outcomes – financial modelling
- Review of draft supporting documents for the LTP

Next steps.....

- Briefing: 25th November – Key issues for Consultation
- Briefing: 8th December – Page turn of Draft Consultation Document (CD) & Supporting Docs
- Meeting: 17th December - Adoption of Draft CD & Supporting Docs

Next Steps - LTP Process: Timeline



20th October Recap – capex

- Covered how feedback from councilor led capex delivery session had been incorporated to programme
 - Get the costs/scope right
 - Bundle programmes
 - Funding large one offs
 - Community led projects
- Worked through modeling based on LGCI (2.5%) + 2% + catchup (2%) + growth Yr 1, followed by LGCI + 2% + growth
- Got direction to factor in recommendations (noting mixed response on Transportation), and direction from decisions/workshops

Staff observations/advice were that:

Projects

- Remain constant, \$173m over 2018 (\$332m, with additions)
- 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

Opex

- 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?

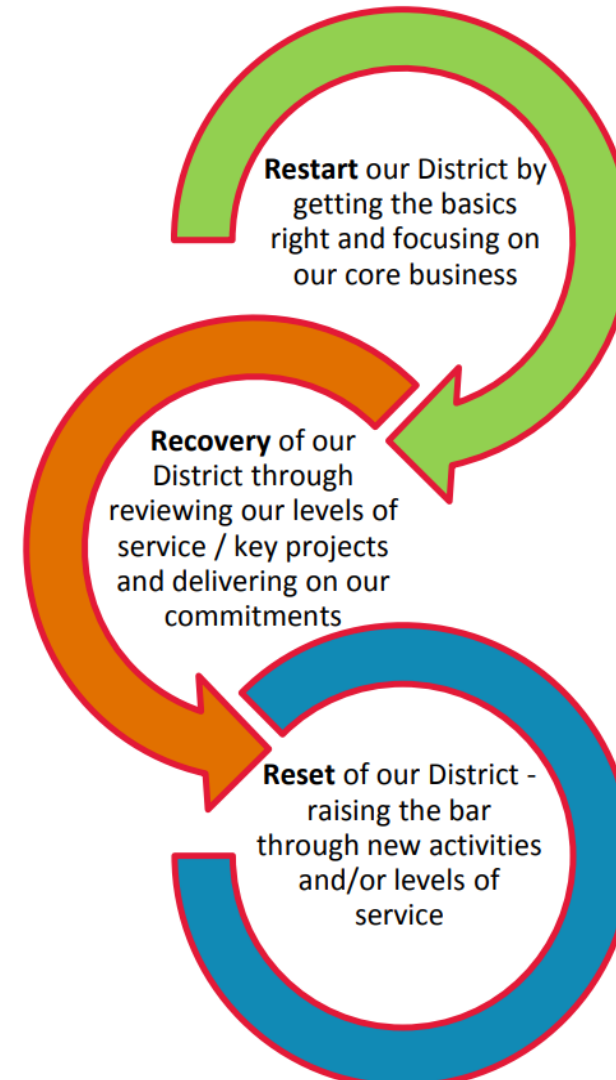
Flashback . . .



Whangarei
District Council

What we set out to achieve . . .

“An inclusive, resilient and sustainable District”



What we need to get a draft for Audit . . .

To be able to have draft documentation ready for review and Audit in December we need direction on:

- Comfort with debt levels
- Targeted rates for waste and water
- Recommendations for the Transportation programme
- Making tweaks to renewals in order to ensure a balanced/prudent programme

Off the back of today we need to be able to make changes necessary to bring back an Audit draft

Impact of additional capex

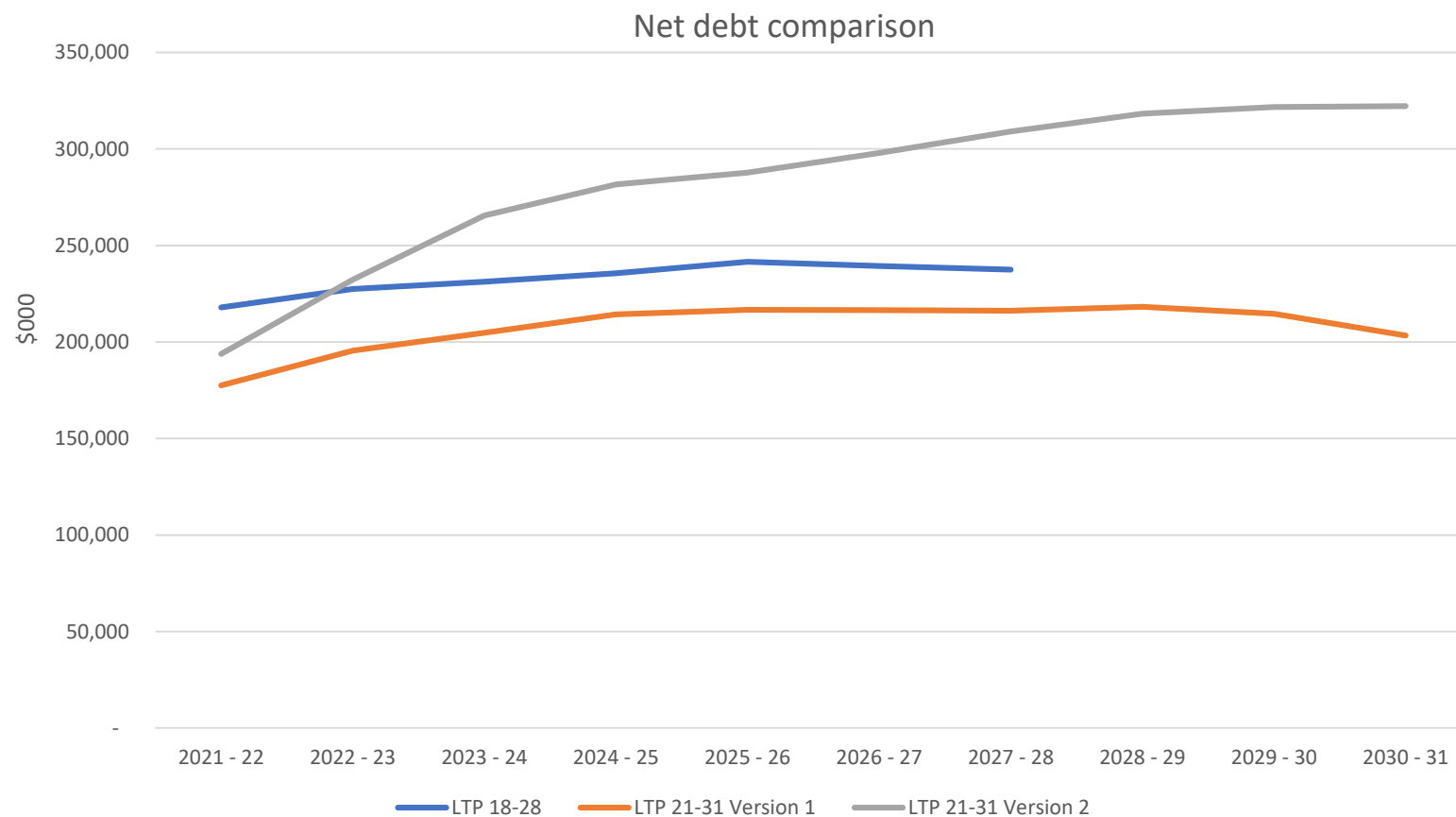
\$118.9m debt increase from previous draft, the main drivers (70.4%) being theatre options and property.

Significant changes	Inflated amount (\$000)
	Total impact ¹
Theatre options	57,386
Commercial property and other property matters	15,034
Animal shelter	6,002
NEC roof canopy	5,718
Emergency Operations centre	6,621
NEC Full Trust Ongoing Cost	4,191
Climate change/sustainability and waste minimisation	3,702
Other	4,244
Changes excluding interest	102,899
Interest increase due to increased debt	15,987
	118,886

¹ Depreciation is excluded as it is a non-cash item

Relative debt levels . . .

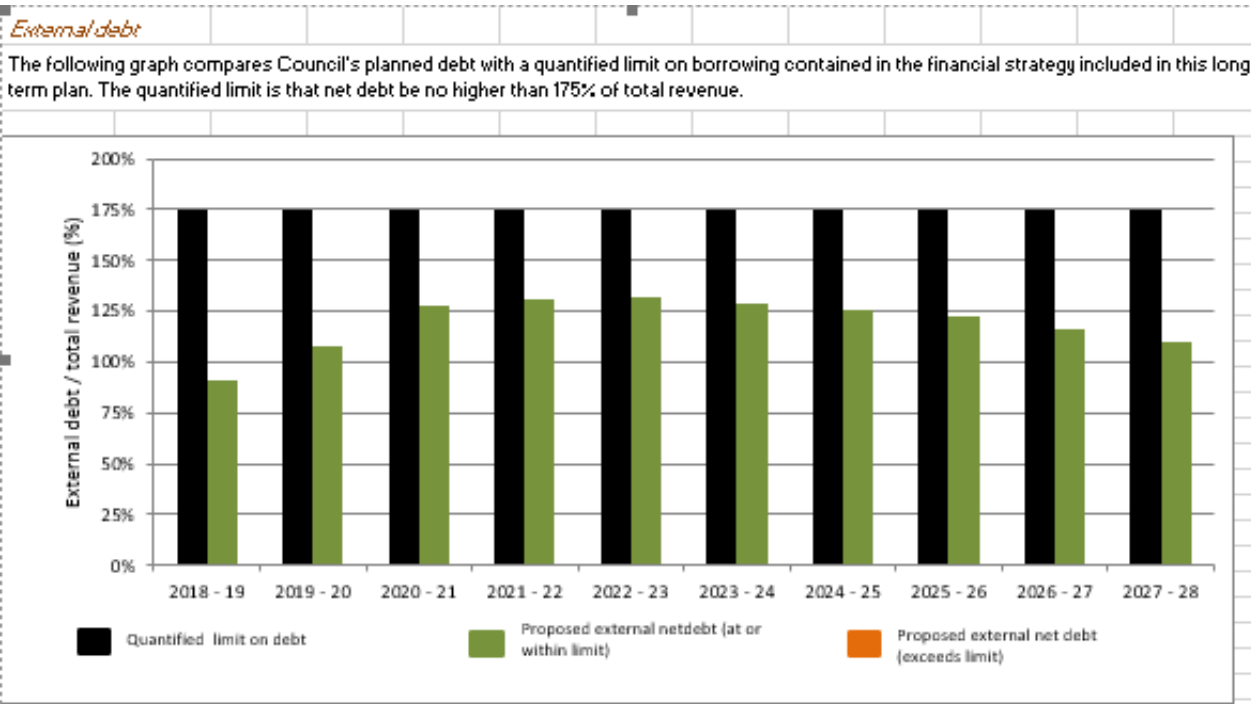
- 2018 LTP had indicative debt peaking at \$242m in yr 7
- Lower level of debt in the first cut of financials peaking at 218m yr 8
- Additions have indicative net debt peaking at \$322m in year 10



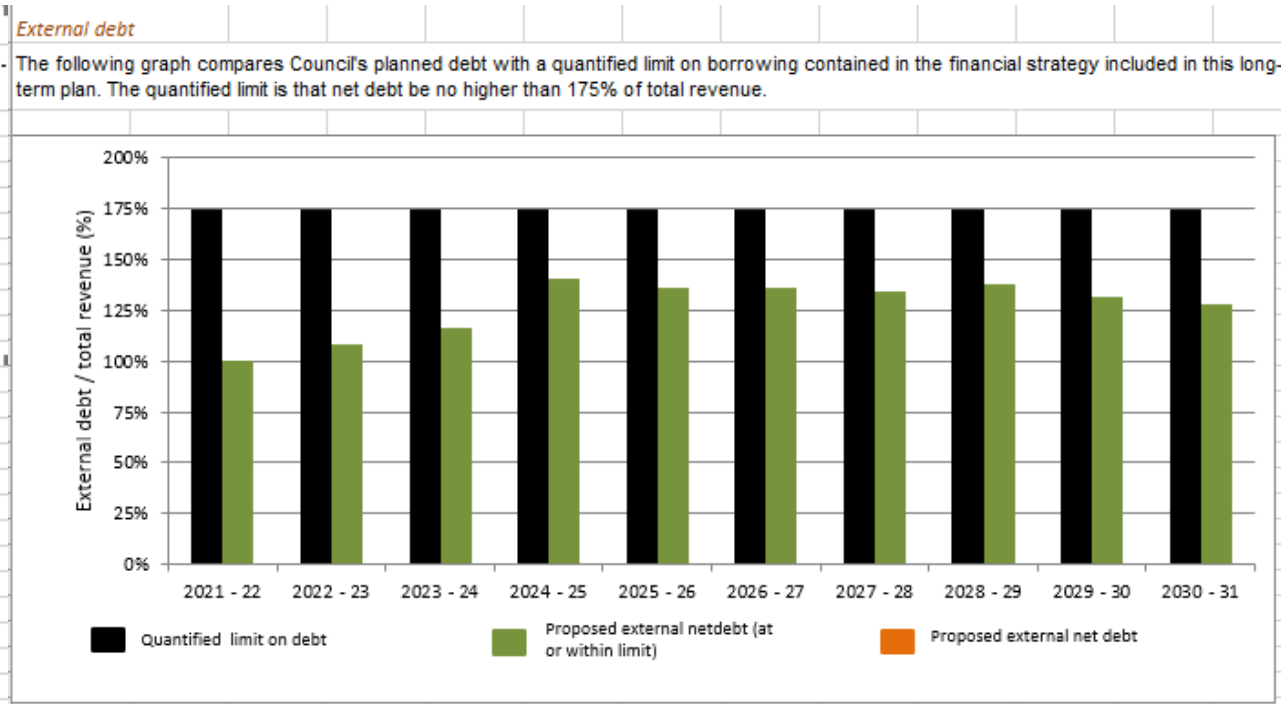
Debt limits – existing financial parameter

With this level of debt, we still easily satisfy our external net debt parameter set as part of the 2018-28 Finance Strategy. The quantified limit is that net debt be no higher than 175% of total revenue.

2018 – 2028: peaks at 132% in yr 5



2021 (draft): peaks at 141% in yr 4



By comparison the long term LGFA limit is 280%, but will be 300% temporarily due to COVID19

Targeted rates

- Draft calculations indicate:

ACTIVITY	ESTIMATED RESERVE	INCREASE CURRENTLY APPLIED
Water	A debit reserve of \$25m	No increase to metered water rate
Wastewater	Reserve of approx. \$130m	2% covid catchup Y1, + 2% each year + LGCI + growth
Flood protection	Reserve of \$3m	LGCI only

- This indicates:
 - that we are not collecting enough revenue from water rates to fund opex and capex over the plan for the Water activity.
 - We are collecting excess revenue from wastewater rates to fund existing opex and capex spend over the plan.....BUT
 - This revenue needs to come from somewhere to ensure we achieve a balanced budget and set a prudent budget.

Suggested recommendation

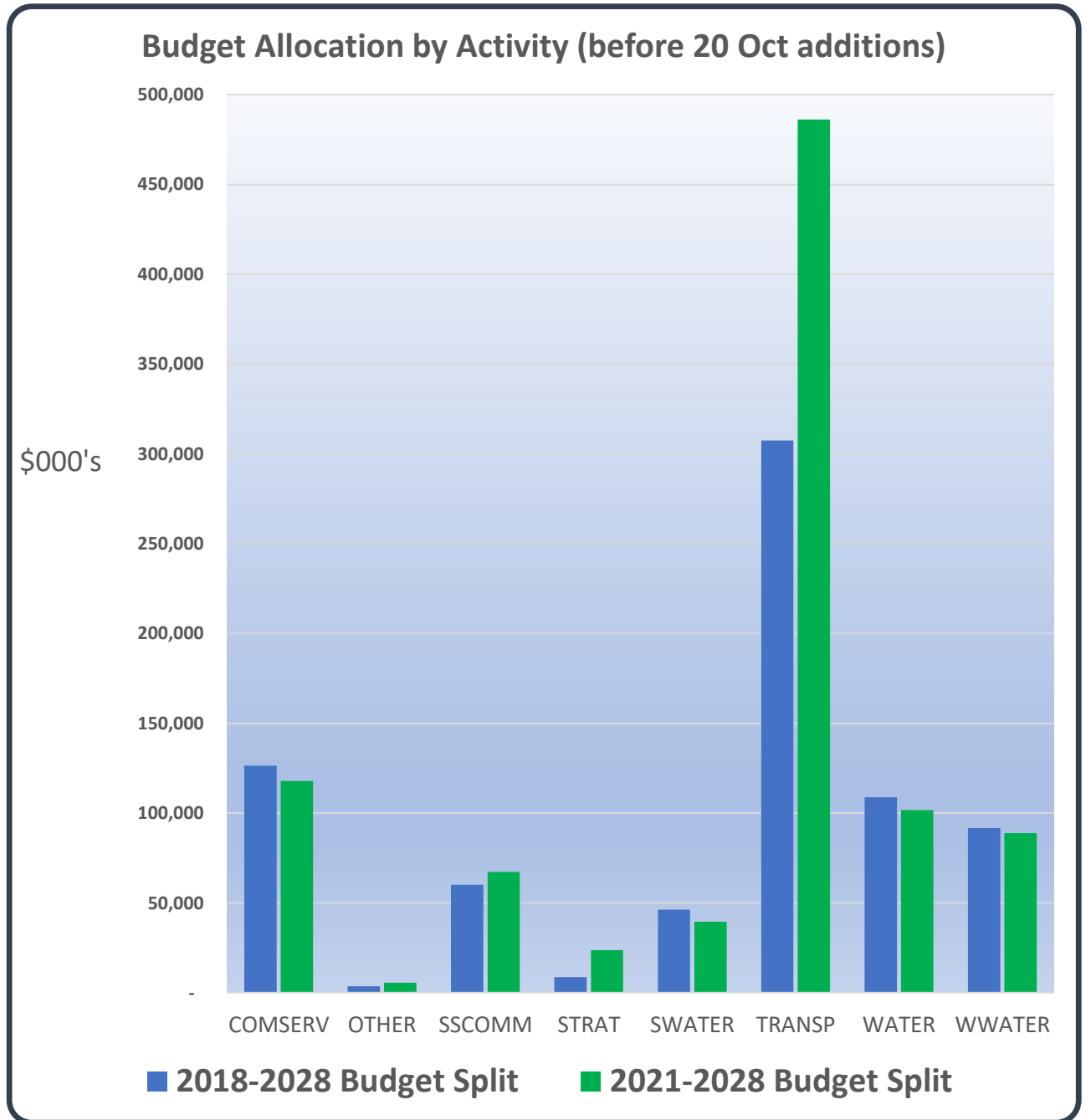
ACTIVITY	SUGGESTED INCREASE	IMPACT
Water	LGCI increase	<ul style="list-style-type: none">• Charge an appropriate amount to fund water activity• Reduce debit reserve balance• Partially offset reduced revenue from Wastewater
Wastewater	Hold rate (growth only)	<ul style="list-style-type: none">• Adjust funding sources to ensure we are not rating too much for the wastewater activity• Reduce increasing reserve balance over the 10 years

- Balanced budget – this means if we reduce one rate, we need to increase somewhere else. Not a lot of wriggle room. Pressure points in Y2, 6 & 8 but flexibility.
- The Infrastructure Strategy has a 30 year horizon. Activities may require significant capex in later years that we need to save for (eg, WWTP).
- Keep in mind Three Waters Reform...
- Reassess rates in next LTP when we have more certainty

Capex deliverability – Transportation

Recap, we worked through:

- A need to land on a sustainable/deliverable programme – noting that **capacity (not debt) is the key constraint**
- targeting capacity to deliver (opex), but budget for carryforwards (debt)
- Audit's focus on the deliverability capex programme
- Concerns (and recommendations) regarding the size and deliverability of the Transportation programme



Transportation – recommendation

Targeted 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 tweak if necessary (**i.e. timing and/or removing duplications with BAU**)
- Maintain flexibility/manage risk through NZTA budget bid process (**i.e. adjust to the areas where we achieve subsidy**)

We will still be looking at a significantly increased Transportation programme which targets key councillor priorities (i.e. a 100 – 200% increase in road sealing)

This will also provide capacity to address any issues identified with renewals to depreciation in other activities

Depreciation to renewals

- Depreciation one of our largest expenses, non-cash but impacts balanced budget calculation
- Depreciation to renewals a crude measure of whether we are 'looking after what we have'
- Still working through the impact of a larger capex programme and new depreciating assets (e.g. theatres, civic centre, EOC etc . . .)
- However, red flag if the ratio is materially out in an activity and/or there is a 'bow wave' beyond year 10
- Working through issues, additional renewal funding may be required (particularly in WW & SW) in order to ensure a balanced/prudent plan
- Need to critically review depreciation going forward (i.e. rates, useful lives and actual deprn)

Issue and recommendation summary

Issue	Mitigant	Consequences	Comment	Recommendation
Debt level increase	Remove additions	Unable to include in plan and/or consult on items. Potential loss of funding	Projected debt well within benchmark & LGFA limit	Continue with additions and accept debt?
Targeted rates	Adjust funding sources – increase water, hold wastewater.	Impact on balanced budget headroom but achievable		Water – inc LGCI+growth Wastewater – growth only
Capex deliverability (Transportation)	Moderate/targeted reduction in transportation	Potential impacts on balanced budget. Risk of losing subsidy	Manage balanced budget/risk through flexibility	Target reduction but maintain flexibility
Renewals to Deprn	Increased funding where issues are identified	Increased programme in some areas but a risk of not doing	Increased programme offset by reductions in Transportation	Increase renewal funding where required to address issues

Draft Supporting documents - summary

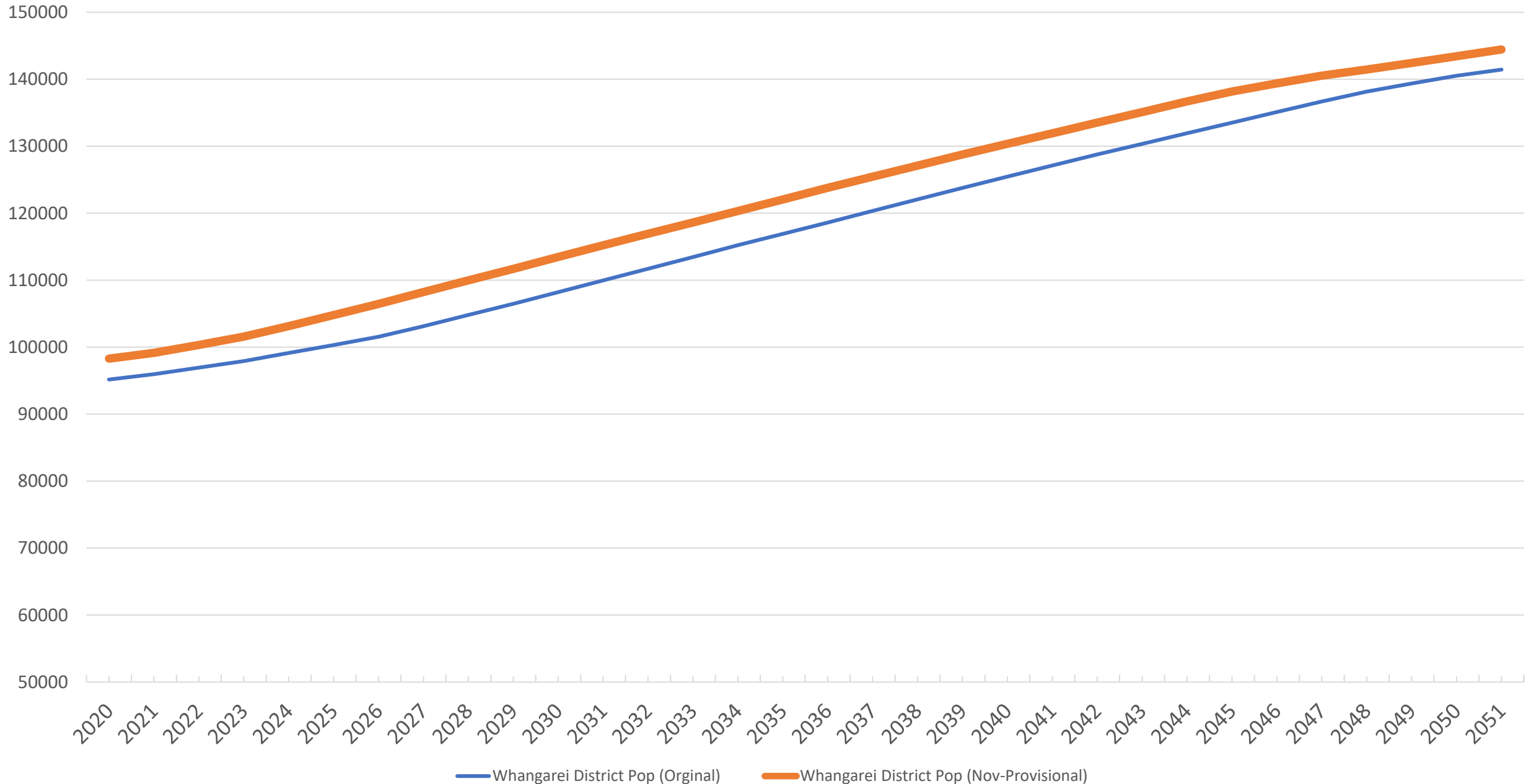
The following slides will cover a summary of the information that will inform the draft policies as noted below:

- Growth Model / Activity profiles / Levels of Service
- DC Policy/Charges
- Rates, Remission and Postponement Policies and the Revenue & Finance Policy (**covered 17 Nov**)
- Infrastructure Strategy (**to be covered 25th Nov**)
- Finance Strategy (**to be covered 25th Nov**)

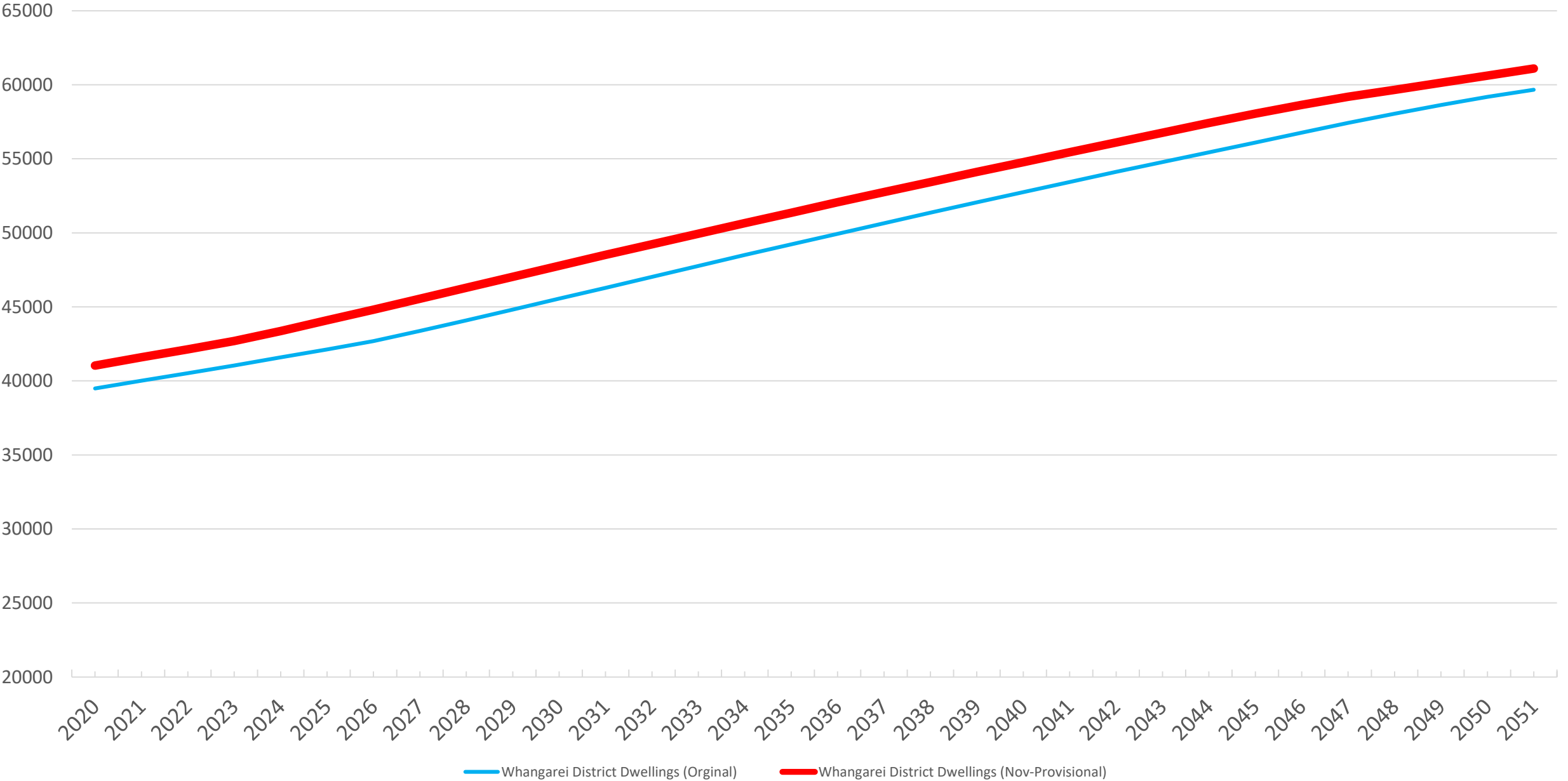
Growth Model

- Usually rely solely on Stats NZ population forecast. Change of approach this LTP.
- The new growth Model will use Stats NZ plus our own data on building consent, planning provisions and subdivision
- Staff shared the figures with Council at a Briefing in 20 August
- Since then we have undertaken a further update to incorporate latest Estimated Residential Pop figures from this year
- Currently working through integrating the new updates back into the LTP
- Trend is for sustained growth over the next 10 and 30 years.
- Hitting 100,000 residents in Year 1 of the LTP

Whangarei District Population Forecast (Original and November Provisional)



Whangarei District Dwelling Forecast (Original and November Provisional)



Activity profiles and Levels of Service

Council briefing on the 3 September provided an overview of the approach to the levels of service:

- Removal of measures that are no longer needed
- New measures that better represent our strategic outcomes / adopted strategies such as Active Recreation and Sports Strategy / Whangarei Events Strategy 2019 – 2024
- Minor wording changes to make a level of service easier to understand and measure.

Further changes have been made to include the following:

- Statement to link to the four wellbeings (LGA)
- Amended measures so they are recorded and reported more accurately (E.g. use data we hold rather than relying on third party information)
- Changes to the profiles to update functions. (E.g. Public toilets now under Parks department / Section for Maori Relationships department)
- Check to make sure Levels of services align with current funding / budget lines

Work still to be done:

- Incorporate the Funding Impact Statements and Project Lists for each profile
- Integrate key strategic issues into the profiles and levels of service such as Climate Change

Development Contributions Policy

We have previously talked about:

- Legislative requirements
- Transparency about how we calculate charges, inputs and methodology
- What, when and how we assess development contributions
- Our numbers will be different to any other Councils

We are looking at minor:

- Changes to policy wording (i.e. to align to legislation)
- Adjustments to catchment boundaries (i.e. to reflect new zoning and/or extended reticulation)

It is important to note that:

- This is the first cut, small changes to the inputs can have a major bearing on the output
- Legislation provides for a 'stand back/sanity test' at the end of the process

Comparison of Proposed 2021 Charges and 2018 Policy Charges V2.2

Activity and Catchment	Catchment Charges	Community Wide	V2.2	Proposed Capping	V2.2 - 2018 % Change	2018 Policy Charges	Comments
Libraries	Catchment	Community Wide	Total Charges	Capped charge			
Citywide	\$ 139.47	\$ 100.63	\$ 240.10		-29%	\$ 338	
Rural	\$ -	\$ 100.63	100.6336		-30%	\$ 144	
Parks and Reserves	Catchment	Community Wide	Total Charges				
Coastal Villages	\$ 272.62	\$ 1,603.02	\$ 1,875.64		-2%	\$ 1,915	
Countryside	\$ -	\$ 1,603.02	\$ 1,603.02		-12%	\$ 1,831	
Growth Nodes	\$ -	\$ 1,603.02	\$ 1,603.02		-12%	\$ 1,831	
Rural Villages	\$ -	\$ 1,603.02	\$ 1,603.02		-12%	\$ 1,831	
Satellite Towns	\$ -	\$ 1,603.02	\$ 1,603.02		-12%	\$ 1,831	
Urban Villages	\$ 119.95	\$ 1,603.02	\$ 1,722.97		-13%	\$ 1,972	
Whangarei City	\$ 116.59	\$ 1,603.02	\$ 1,719.61		-12%	\$ 1,964	
Transport and Roothing	Catchment	Community Wide	Total Charges				
North Coastal	\$ 822.80	\$ 3,507.22	\$ 4,330.01		-53%	\$ 9,297	
North Rural	\$ 2,065.77	\$ 3,507.22	\$ 5,572.99		-57%	\$ 12,950	
Ruakaka	\$ 367.32	\$ 3,507.22	\$ 3,874.54		-52%	\$ 8,032	
South	\$ 1,542.19	\$ 3,507.22	\$ 5,049.41		-57%	\$ 11,864	
Whangarei City	\$ 2,013.13	\$ 3,507.22	\$ 5,520.35		-29%	\$ 7,768	
Wastewater	Catchment	Community Wide	Total Charges				Still working through for wastewater
WW Hikurangi		\$ -			-100%	\$ 291	
WW Marsden Point-Ruakaka		\$ -			-100%	\$ 10,724	
WW Ngunguru		\$ -			-100%	\$ 5,487	
WW Oakura		\$ -			-100%	\$ 18,593	
WW Portland		\$ -			-100%	\$ 232	
WW Tutukaka		\$ -			#DIV/0!	\$ -	No charges
WW Waiotira		\$ -			-100%	\$ 13,543	
WW Waipu		\$ -			-100%	\$ 2,996	
WW Waipu Cove_Langs Beach		\$ -			-100%	\$ 11,563	
WW Whangarei		\$ -			-100%	\$ 3,175	
WW Whangarei Heads		\$ -			-100%	\$ 36,827	Capped in 2018
Water	Catchment Charges	Community Wide Charges	Total Charges				
Bream Bay North		\$ -	\$ 2,976.70		-47%	\$ 5,591	
Bream Bay South		\$ -	\$ 3,045.29		-50%	\$ 6,120	
Mangapai		\$ -	\$ 11,858.05		-1%	\$ 11,948	
Maungakaramea		\$ -	\$ 22,493.53		237%	\$ 6,684	Needs investigation
Whangarei City		\$ -	\$ 4,393.68		-34%	\$ 6,649	
Whangarei Heads		\$ -	\$ 8,933.94		16%	\$ 7,732	
Whangarei North		\$ -	\$ 3,070.28		-47%	\$ 5,774	

First draft and subject to change!

The general trend is that higher growth lowering the **per HUE** charge. This does not mean less cost recovery.

Wastewater still being worked through

Next steps:

25th November – Key issues for Consultation

- Council direction and agreement on the LTP Consultation Document

Plus

- Infrastructure Strategy: Update & Review
- Finance Strategy: Update & Review