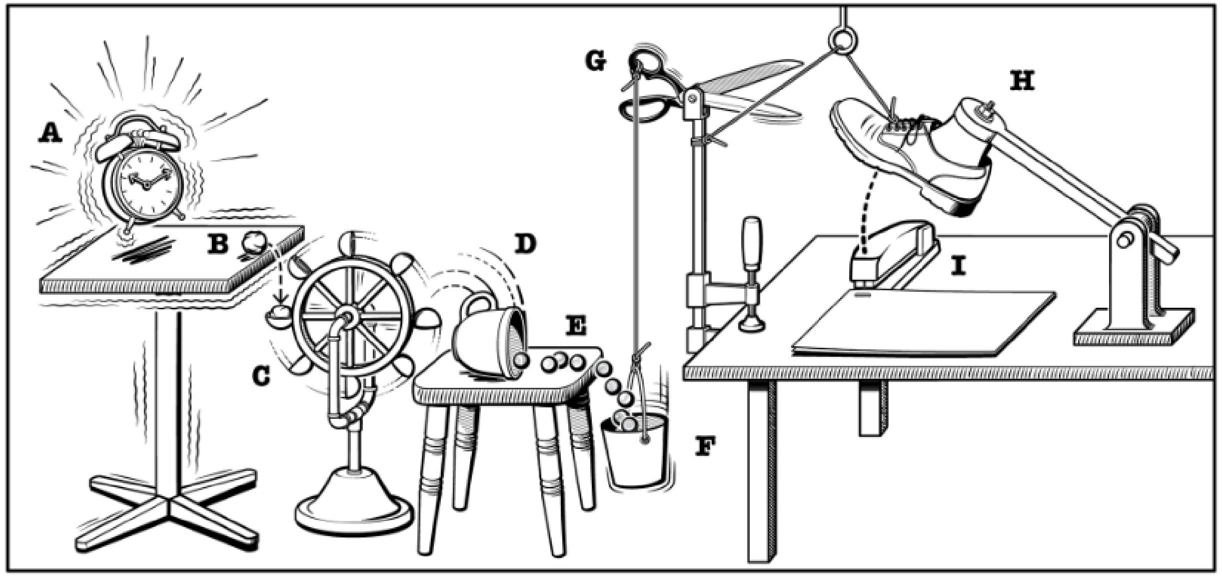
Elected Member and Rangitāne LTP Workshop

3 November 2023

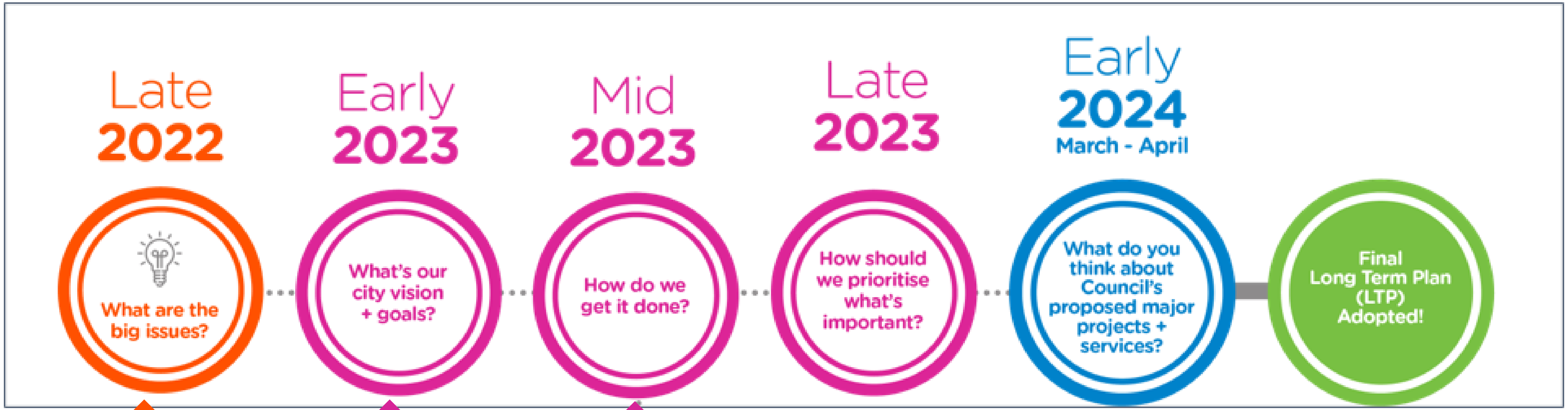
PALMY
PAPAIOEA PALMERSTON NORTH CITY

1. Purpose of today

- Recap where we are in the LTP process
- Provide a high-level picture of draft operational and capital budgets for 2024-2034
- Explain the levers you have to modify those budgets
- Understand what we have to do between now and Christmas



2. Where we are in the LTP process?



Caccia Birch (2 Dec)

Makoura Lodge (9-10 Feb)

The Plans Workshop 16 May Drop-ins 11-12 Sept

We Are Here

3. What has informed the planning process?

- The environmental scan (city issues and information, economic conditions & outlook)
- Population and household projections and assumptions
- The Rangitāne o Manawatū Environmental Management Plan
- Community views (He aha rā ngā whāinga matua? What really matters?)
- Government policy and reforms, with an eye on possible changes from new government
- Updated information about our assets
- Information about our progress achieving our current plans
- Resolutions of Council (incl. items referred for consideration through the LTP)
- Workshops on vision/goals/priorities
- Feedback from elected members and Rangitāne representatives on the Draft 'Strategic' plans and Draft Asset Management Plans

4. Actions and progress

- Vision and goals adopted
- Drafting and review of single Community Wellbeing Strategy
- Development and review of plans for each activity
- Drop-ins held on Strategy and Plans
- Drafting of the Infrastructure and Financial Strategies
- Developing budgets to deliver the plans from a zero base – these are still being checked & peer reviewed

Vision

↓

4 Goals

(Economic, Cultural, Social, Environmental)

↓

Drafted Single Strategy (4 chapters / goals)

Previously 4 Strategies

All underpinned in LTP by a high performing and cost-effective Council

5. Treatment of 3 Waters in the LTP

Legislation in place would see 3 waters transferred to new entity from October 2025. New government has signalled it favours a CCO model and will repeal legislation. However the way forward & timing is unclear.

LTP material has been prepared to include 3 waters at this stage and to assume Nature Calls project would be funded externally through a Special Purpose Vehicle.

Taituarā, Auditor-General & DIA will be advising new gov't on practical options for assumptions for Councils during preparation of LTPs.

6. Operating budgets – what is driving increase?

Draft operating budgets are still being reviewed but at this stage the increases (especially in year one) are unacceptably high & reducing them is proving a real challenge

Some of the matters we are contending with include:

- Increased level of borrowing (to fund 2023/24 capex) & higher interest rates
- Inflation at levels much higher than previously assumed - for materials & services & remuneration
- Recognition that current funding is insufficient to meet levels of service - roading is a prime example of this

7. A glimpse at the draft operating budget

The present draft of the operating budgets result in an increase for the first year that is unacceptably high and is still being double checked to make sure we fully understand each of the components leading to this outcome

Some increases are unavoidable & examples are shown in the following table:

Indicative additional operating costs include	Impact on rates for 2024/25
Labour market movement	+3.6%
Interest cost on assumed debt at 30 June 2024	+2.6%
Utilities/insurance cost	+0.6%
Software licence costs	+0.8%
Debt repayment	+0.9%

These costs alone add approx. 8.5% to the rates requirement & there are many other unavoidable costs that are subject to inflationary pressures

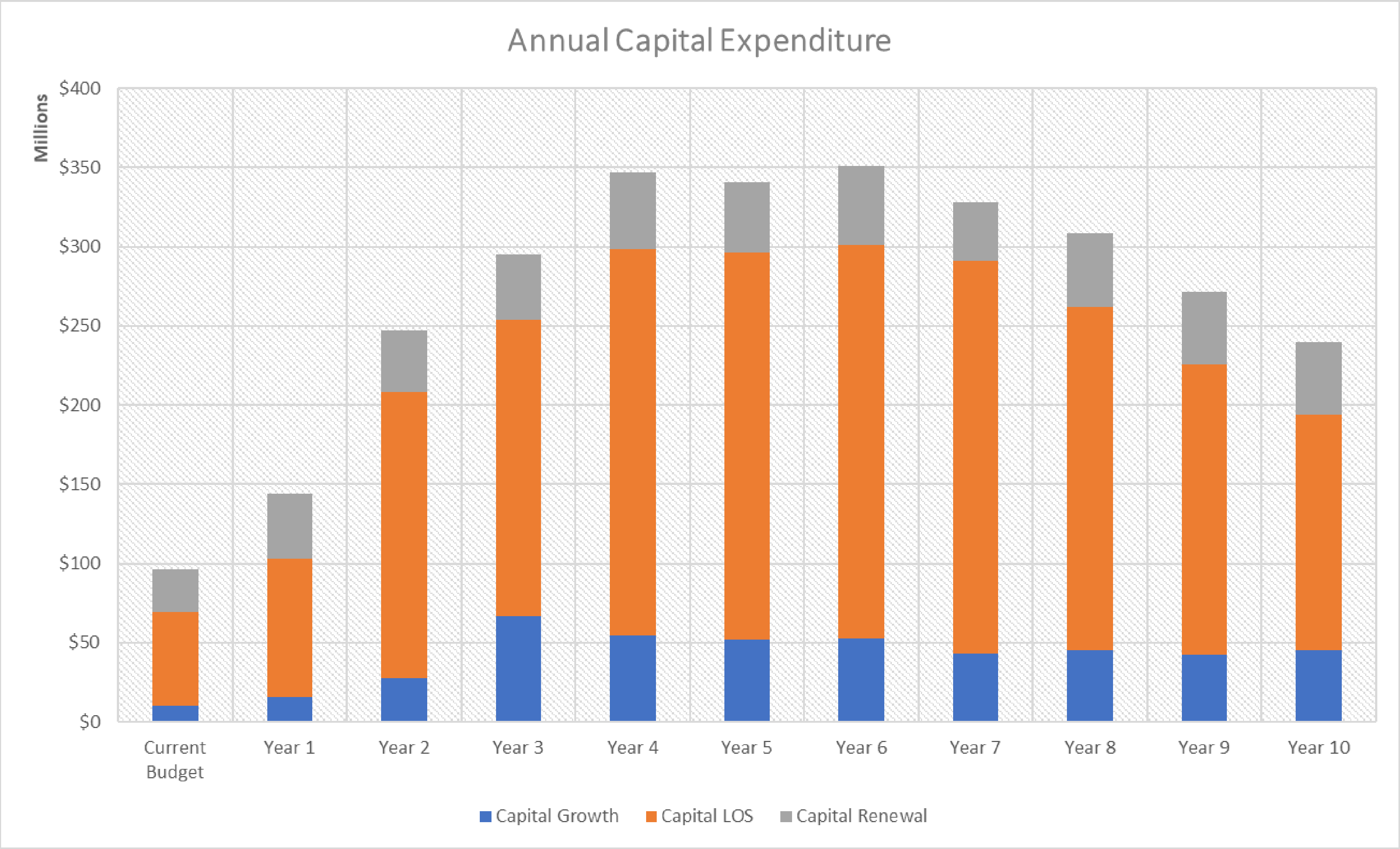
In addition to the above, Council funds renewals on a rolling three-year average, and the indicative budgets would add a further $7m to the proposed rates requirement. (5.8% rates increase)

These combined elements would lead to a minimum rates increase of 14.3%

8. Context for development of the capex budget

- High ambition / city improvement projects
- High inflation / increase in costs
- Increase in standards / levels of service
- Better information on asset condition & costs
- Nature Calls
- Growth assumption
- EQ Prone Buildings
- Roading deficits & key strategic projects (eg PNITI)

9. The initial capital budget excluding inflation (total $2.9b incl. Nature Calls)



Capital renewal – major upgrades to maintain asset condition – funded from rates

Capital Growth – capex to fund City growth funded from debt & development contributions

Capital LOS – capex to build new or improved assets – funded from debt & external grants/subsidies

10. Major components of draft capital budget

	10 Years (millions – excluding inflation)
Nature Calls (scope & $ sum under review)	$630
Renewals	$440
Capital Growth	$411
Transport Safety Improvements	$220
Three Waters Network Improvements	$217
Other (91 projects 2 an average of $2.2m)	$201
PNITI	$183
Seismic Strengthening	$163
Active Transport Improvements	$123
City Centre Revitalisation	$101
Arena Masterplan	$91
New Community Hubs	$42
New Social Housing Units	$32
Te Motu O Poutoa	$19

The figures shown here are gross & draft assumptions have been made about how each of them would be funded – see next slide

11. Draft capital budget - potential funding gap

The Council would not be capable of funding a capex programme at this level and the scale of the shortfall is shown in the following table:

	Movement	Running balance
	$millions	
Total Capital Expenditure (excluding inflation)		$2,873
Renewal programme (funded from rates)	-$440	$2,433
Waka Kotahi Co-Funding	-$378	$2,055
Nature Calls (assume funded by IFF Levy)	-$630	$1,426
Other Co-Funded Programmes	-$3.2	$1,422
Development Contributions (provisional assessment – say)	-$50	$1,372
Debt Funding Headroom at 250% LGFA debt/revenue		$500
Potential Funding Gap		**-$872**

12. Levers to Help EMs Make Trade-offs

- Levers are broad methods or tools Council could use to find an acceptable balance between what it wants to achieve and what it will cost.

- Use of the levers must be based on sound assumptions (not wishes).

- The proposed use of any of these levers will be part of the LTP consultation.

13. Potential levers to help make trade-offs

Levers	
Increase debt limit	Increase debt/revenue ratio from 200% to 250% is being proposed – still need to leave headroom to be able to cover future unforeseen capex
Increase rates	Rates increases at levels more than previously assumed will likely be necessary – will need to capture this in an updated rates increase formula
Fund though IFF levy	Currently assume Nature Calls will be funded this way – although this may enable work to be funded ratepayers still bear the cost of the levy – through rates bill
Seek more co-funding	Advocate for more funding from partners – be prepared to say programmes will not proceed if co-funding is not available
Increase fees and charges	Fees & charges will be increased to cover increased costs but need to consider whether other services need to be subject to fees & charges

14. Potential levers to help make trade-offs

Levers	
Decrease levels of service	Consider options for lowering levels of service or even stopping some services
Slow down new projects or improvements	Some reduction of the proposed capex programme will be necessary as the other levers will not provide sufficient additional funding capacity
Stage timing of renewals	Funding renewals is an essential element of the financial strategy but to meet rates increase expectations some staging may be required & the additional risk of failure accepted
Reprioritise growth spending	This may be necessary & the consequences (not meeting current government requirements) accepted
Leverage strategic assets for return	This is more of a longer-term option, other than potentially some short-term asset sales

15. Next steps –

Officers continue to refine capital and operational budgets

EMs give feedback on the levers (through a survey – results to be confirmed formally)

Officers refine potential use of the levers based on EM feedback

EMs make trade-offs and prioritisation decisions

Appendices

Details on the levers

Lever: Increase debt limit

What it involves:	Increasing the amount Council is prepared to fund through debt (currently net external debt has to be less than 200% of total revenue).
Service and financial implications:	Council can achieve more of its capital works programme (new projects) and hence improve its services. However, annual interest costs and debt repayments will increase.
Potential impact $$:	Large. If assume total revenue increases by 5% pa then able to borrow additional $290m over 10 years with current 200% limit; $350m with 225% limit & $420m with 250% limit
Major Risks:	There is less financial headroom for future Councils to fund future emergency work (incl uninsured renewals) or pick up future opportunities. Interest rates increase, meaning debt servicing costs increase.
Note:	EMs briefly discussed this at a workshop on Oct 6 and indicated it could have some benefits but needs further consideration. LGFA limit is 280% of total revenue but this limit is not being recommended as having headroom is prudent.

Lever: Increase rates limit

What it involves:	Increasing the amount Council can increase rates by each year.
Service and financial implications:	Council can collect more in rates and therefore fund services at expected service levels.
Potential impact $$:	Medium
Major Risks:	The cost of living crisis will make this difficult.
Note:	This could mean keeping the "increase in funding required for asset renewals" component of the 2021 rates limits.

Lever: Fund through IFF Levy

What it involves:	Seek funding for major infrastructure projects through Central Government's Infrastructure Funding and Financing Special Purpose Vehicle.
Service and financial implications:	Council can provide extra infrastructure / facilities / services without having them on our balance sheet and hence without impacting on our rates and debt limits. Note: Residents still have to pay for IFF projects. This is not directly part of rates, but would show on individual rates accounts as a levy.
Potential impact $$:	High.
Major Risks:	Ratepayer affordability.
Note:	We have provisionally assumed that Nature Calls will be funded this way.

Lever: Seek co-funding

What it involves:	Other organisations pay part of the cost to provide some infrastructure, a facility, or a service. Eg: roading with Waka Kotahi, CET Wildbase with CET and Massey, CEDA with MDC. Or it could mean public-private partnerships.
Service and financial implications:	Council can provide extra infrastructure / facilities / services without having to fully fund them.
Potential impact $$:	Low – Medium Any new co-funding is most likely to be for new capital projects.
Major Risks:	Co-funds might not eventuate but we have spent considerable lead-in funds and / or created a public expectation that the project will go ahead. Council has to run the infrastructure / facilities / services in conjunction with another organisation. This can lead to mixed expectations and tensions.
Note:	We are putting more emphasis on preparing business cases to maximise our chance of getting Waka Kotahi funds. These require upfront expenditure.

Lever: Increase fees and charges

What it involves:	Increase the fees Council charges for its services and/or charge users for a greater share of service costs.
Service and financial implications:	Current revenue projections are based on the present policy settings about the extent of user pay v. funding as a public good. Charging more by way of fees & charges reduces the demand on general rates.
Potential impact $$:	Low
Major Risks:	
Note:	The Revenue & Financing Policy requires a broad match between "who pays" and "who benefits".

Lever: Decrease or stop levels of service

What it involves:	Reducing Council's operating spending by reducing the day-to-day services that Council provides.
Service and financial implications:	Residents, organisations and businesses see a reduction in the services they get from Council but Council's operating expenditure decreases.
Potential impact $$:	Low to Medium. Reducing operating spending by $1.2m reduces rates by about 1%.
Major Risks:	Residents do not understand / accept the trade-off behind any proposed reductions.
Note:	The rationale for any proposed reduction in levels of service would need to be clearly outlined

Lever: Slow down new projects and improvements

What it involves:	Delaying or not building "new things" and improvements.
Service and financial implications:	Council builds fewer new things – and provides fewer new services - but reduces its capital new expenditure (and subsequent operating expenditure).
Potential impact $$:	Low – High. Reducing new capital spending has a direct impact on debt requirements & a subsequent reduction in revenue/rates. A $20m reduction in new capital reduces rates by about 1% (for interest alone).
Major Risks:	The City does not develop as residents expect. The achievement of Council's Vision and Goals is slowed.
Note:	

Lever: Stage timing of renewals

What it involves:	Delaying renewal expenditure and hence reducing short term rates requirement.
Service and financial implications:	Renewals are rate funded so this reduces the demand on rates. Renewals keep infrastructure up to a “reliable standard” so that it can provide the services residents expect, so there are limits to how far renewals can be delayed without affecting services.
Potential impact $$:	Medium – High.
Major Risks:	There are more infrastructure and service failures, leading to increased maintenance and urgent repair costs.
Note:	Even if some renewals are delayed there will still need to be an overall increase in renewal spending.

Lever: Reprioritise growth spending

What it involves:	Focus growth – and hence new infrastructure provision - on fewer greenfield areas.
Service and financial implications:	There will be fewer options for new housing locations but Council's capital expenditure will decrease.
Potential impact $$:	Medium. Capital expenditure is debt funded (and then repaid by development contributions over several years).
Major Risks:	New growth is slowed to the extent that NPS (central government) requirements for "housing ready" land are not met. If greenfield developments are delayed, there will be more pressure on infill.
Note:	Council's development contribution policy (and therefore levels of DC charges) need to be updated to reflect planned growth expenditure

Lever: Leverage strategic assets for return

What it involves:	Look at how we use our assets and investments to generate funds without increasing rates and debt Other than asset sales this is a medium to long-term lever that Council can develop and look at for the next LTP.
Service and financial implications:	
Potential impact $$:	
Major Risks:	
Note:	There is some funding in the proposed 2024 budget to investigate how Council could use this lever.