

Annual Budget 2023/24

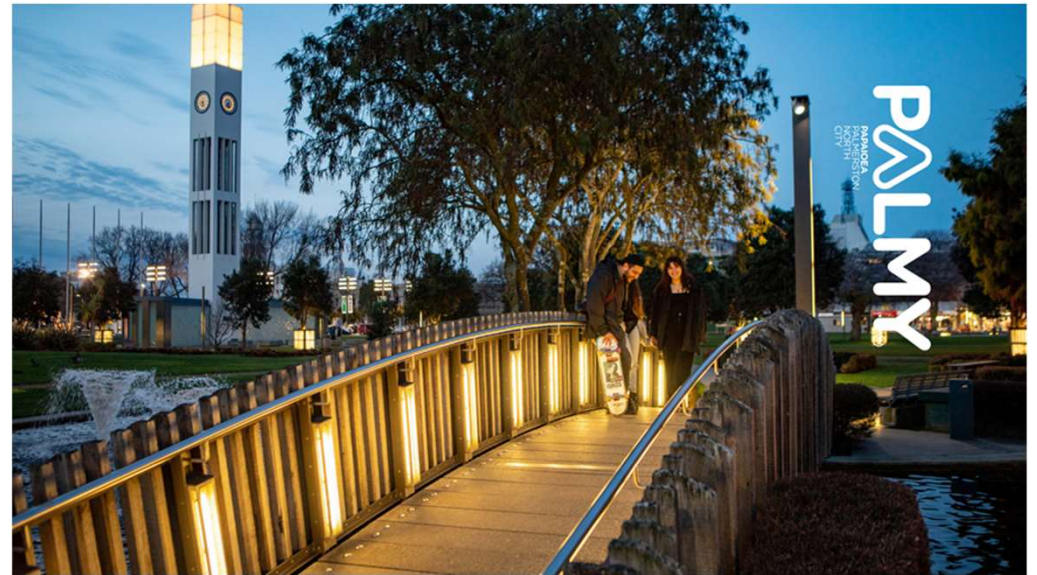
Elected member workshop

15 February 2023

As at 14 February 2023

TODAY

- Brief outline of issues impacting budget
- Highlighting issues & approaches
- Seeking guidance for finalising draft material for Council meeting on 1 March



BUDGET FOR 2023/24

LTP year 3

- The LTP is our commitment with the community so our models begin with year 3

Council decisions

- Council has made a no. of subsequent decisions incl. those through the process of adopting the 2022/23 budget

Updated assumptions

- Market conditions mean a change to key assumptions such as inflation, interest rates etc

We have needed to provisionally include many of these to develop a sensible starting point for your consideration. Our reports will highlight what is and is not included.

CONTEXT & ISSUES

- Changes in planning assumptions for debt, interest, inflation etc
- Determining deliverable and affordable levels of capital investment
- Understanding impact on revenue (incl. rates) requirements
- Considering options
 - What has already been done (provisionally)
 - What else might be possible

INFLATION

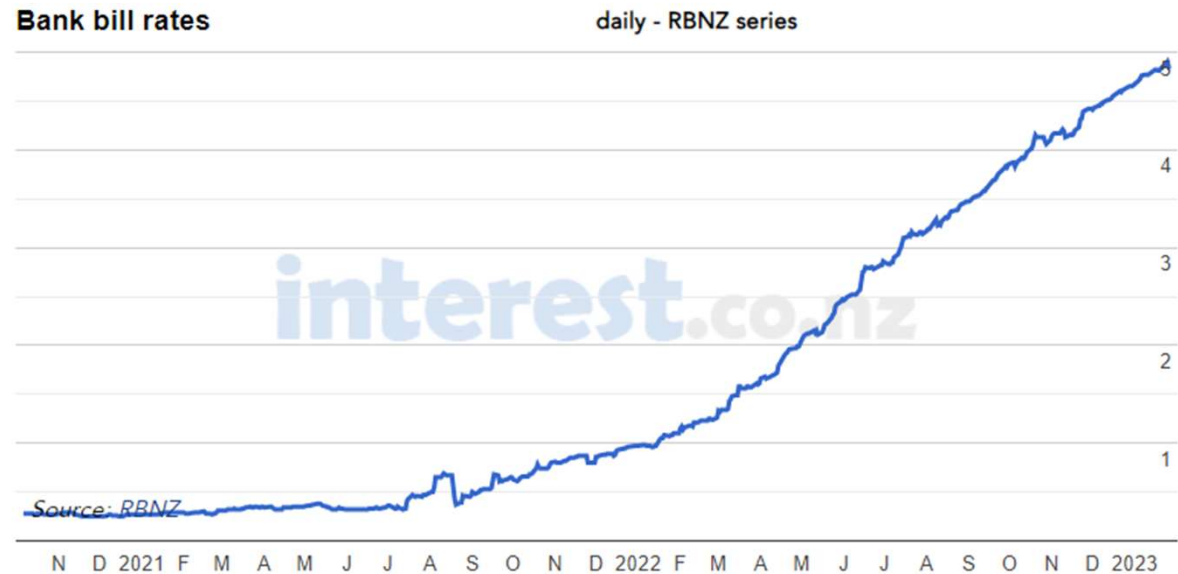
- Policy is to use BERL price level adjustors for budgets – Latest Oct 2022 indices for 2023/24 have been used. Ranges by activity from 3.5-5.1% compared with LTP assumption of 2.2-3%
- BERL %ages are less than recent increases in CPI & other indicies
- Risk is may not be able to deliver services within proposed budgets but recommend this risk be acknowledged & accepted

Consumers price index, annual percentage change, June 1990–December 2022



INTEREST RATE INCREASE

- LTP assumption was 2.8% pa
- Increased to 3.4% for 2022/23 budget
- Although latest assessment of interest rate for new 5 year debt is 5.5% current recommendation is that we assume an average of 4.2% for 2023/24 due to fixed portion of debt locked in at lower swap rates
- Interest & Debt Repayment is contributing 2.6% of the rates increase (assumes no debt repayment for 3 waters otherwise would be 3.6%)



WHAT HAVE WE DONE TO DATE

- The initial schedule of capex new programmes (LTP + carry forwards + subsequent Council decisions) amounted to over \$117m
- Staff have categorised these as outlined on following slides in an effort to determine a realistic deliverable programme
- The total draft programme, based on past performance, is still too high
- Your assistance is sought to help prioritise this

REMUNERATION

- Focus on looking after current staff and remunerating them fairly rather than increasing staff numbers. Remuneration review completed in 2022/23.
- Budget Assumptions:
 - Fund same staff level as provided for in 2022/23 budget
 - Adding a an allowance for possible salary & wage movements including performance pay for 2023/24
 - Deducting a vacancy allowance (10% for 10 weeks)
 - Making an additional provision of \$0.2m for overtime to better reflect the reality of the present position
- The outcome of this is a budget provision requirement of \$59.8m compared with the 2022/23 budget of \$57.2m or 4.7% increase year to year – not all of this is funded from rates

CAPEX PROGRAMME

\$million	Actual 2020/21	Actual 2021/22	Annual Budget 2022/23	Annual Budget 2022/23 + updated carry forwards & Council approvals	Long Term Plan 2023/24	Current Draft Position 2023/24
Capital New	39.0	26.6	64.1	77.9	95.4	69.1#
Capital Renewals	24.3	21.4	32.7	34.6	30.1	33.2
Total	63.3	48.0	96.8	112.5	125.5	102.3

Assumptions for 2023/24:

- Includes indicative carry forwards as at January 23
- Draft programme reflects the current assessment of what is deliverable (though we are continuing to review this)
- Further reductions will follow direction from Council as a result of a prioritisation process planned to occur at today's workshop
- Programmes that have not been included in the draft budget to be revisited in year 1 of the LTP

Note

Includes:

- Indicative c/fwd from 2022/23 (\$22.6m)
- growth related programmes (\$12m)
- \$7m for WWTP consent
- \$5.5m of programmes previously called renewals

DRAFT RATE REQUIREMENT - AB 2023/24

Item	\$m	% increase in Total Rates
Annual Budget 2022/23 Rates Revenue	115.37	
Interest – increase due to interest rate rise & higher debt levels	3.46	3.0%
Debt repayment - decrease	(0.42)	(0.4%)
Other Operational Increases (predominantly inflation)	2.10	1.8%
Remuneration – increase (gross partially funded by revenue increases below)	2.64	2.3%
Net rating impact of operating programmes	2.85	2.5%
Net rating impact of capital new programmes	1.02	0.9%
Insurance & Electricity increases (\$0.52m & \$0.32m)	0.84	0.7%
Net impact of funding rolling average Renewal programmes	0.31	0.3%
Total Other Revenue Changes (incl. regulatory fees & charges that will be reviewed in March)	(1.80)	(1.6%)
Total Rates for 2023/24 Financial Year	126.37	9.5%

RATES REQUIREMENT

Changes incorporated so far – **9.5% increase in total rates**
(8.3% assumed in 10YP)

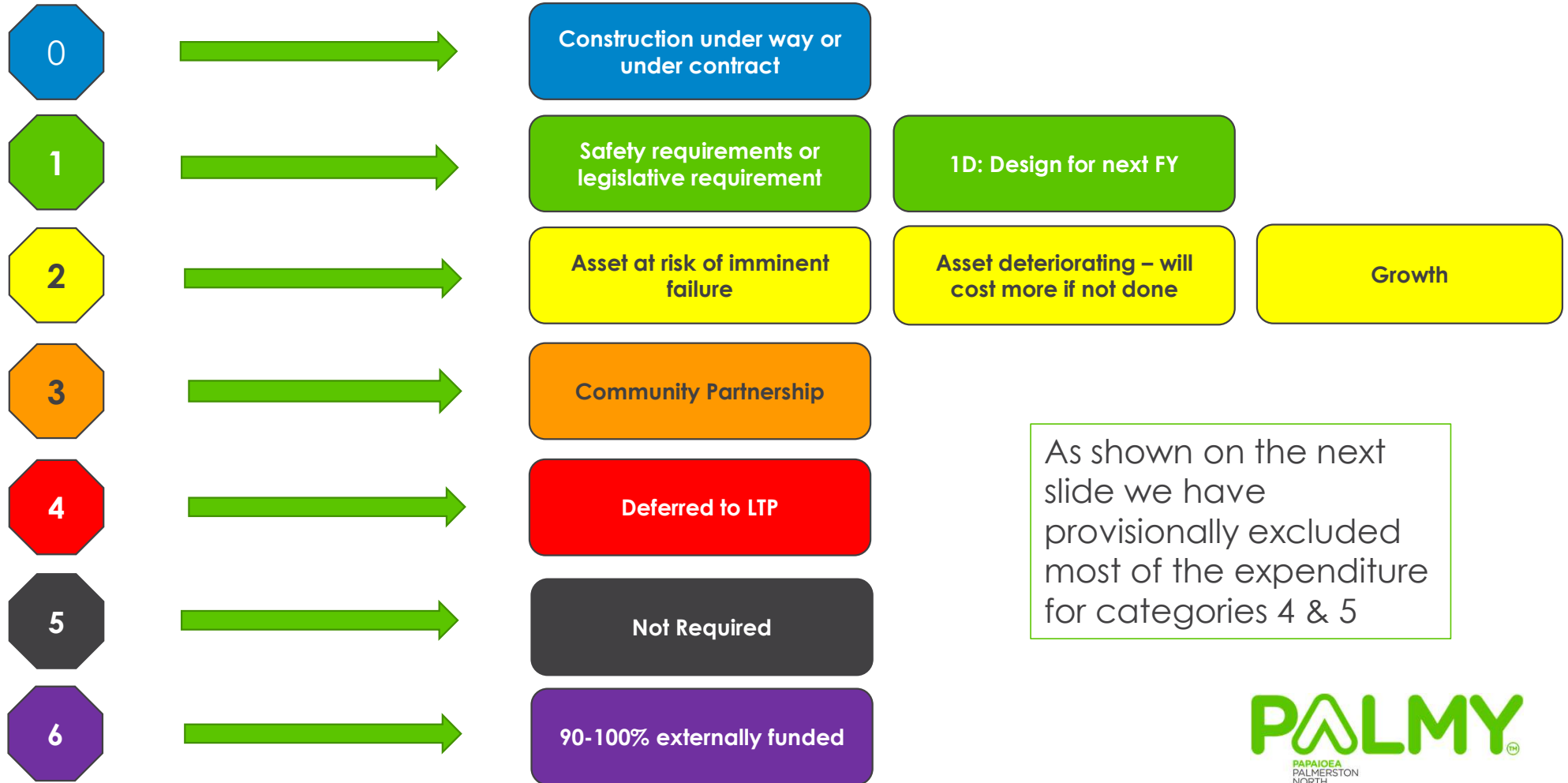
Financial Strategy policy limit
for rates increase equates 8%

Calculated as follows.....

BERL 4.3% + 3% + growth 0.4% +
avg renewals increase 0.3% =
8%

Note – although we have used
BERL inflation factors of
between 3.5% & 5.1% for
2023/24 we have not taken into
account that BERL's index for
the 2022/23 year is 5.9%
compared with our budgetary
assumption of 2.3% - some of
our costs will be increasing at
these higher levels

Capital Programme Categorisation



CAPITAL NEW PROGRAMMES

Category	Indicative* Total \$m	(Deferred#) / increases \$m	Draft AB \$m
Not categorised	1.279	1.926	3.205
0 Already under contract	23.238	(5.850)	17.398
1 Safety or legislative requirement	12.286	3.124	15.410
1D Design for future years	20.860	(15.660)	5.200
2 Growth	32.530	(20.568)	11.962
2 Imminent failure is likely	2.131	1.861	3.992
2 Will cost more if not done	1.945	(1)	1.944
3 Community partnership	3.752	680	4.432
4 Deferred to LTP (some portions remain)	17.608	(14.848)	2.760
5 Not required	140	(140)	0
6 90-100% externally funded	1.682	1.106	2.788
Total	117.452	(48.361)	69.091

See schedule A

- * Represents LTP + carry forwards + subsequent Council approvals
- # In some cases only partial deferral

CAPITAL RENEWAL PROGRAMMES

- Draft shows total proposed of \$33.2m
- Recommendation is to retain commitment to structured renewal programme as outlined in financial strategy

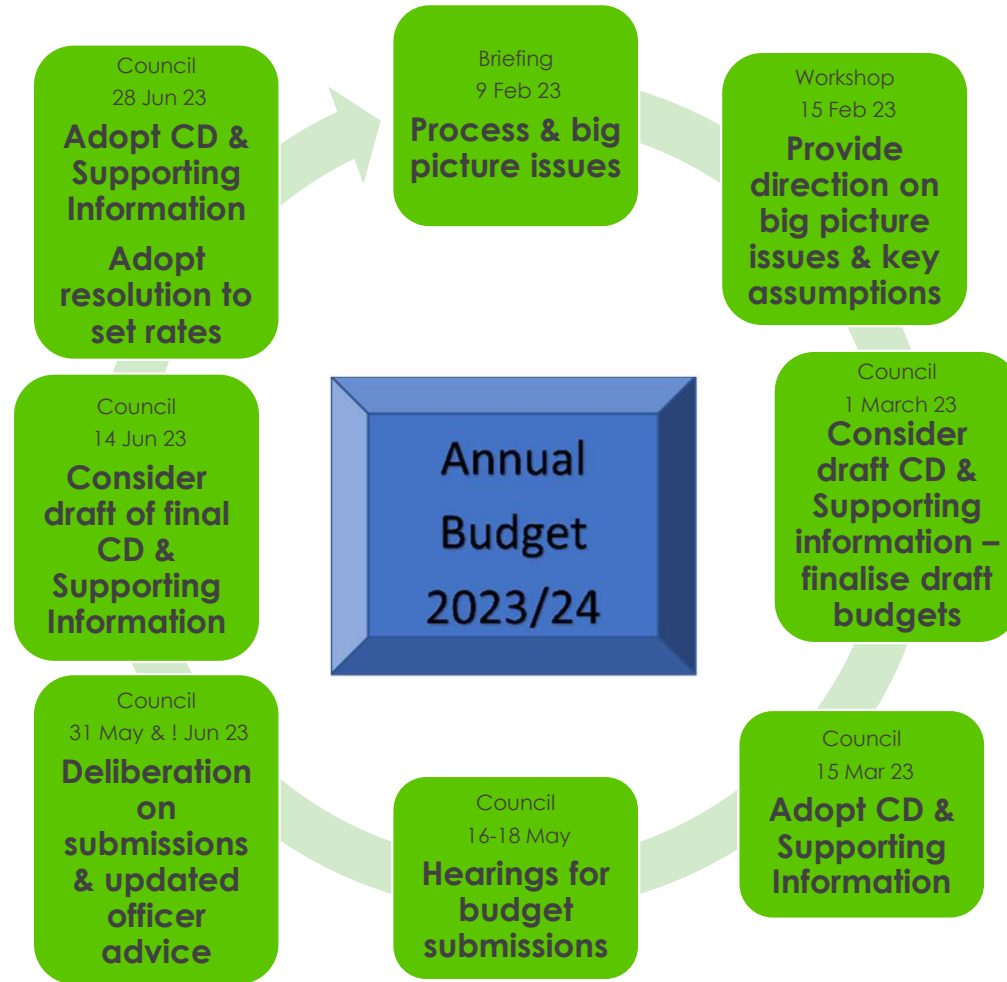
See schedule B

PROPOSED CHANGES TO OPERATING PROGRAMME BUDGETS

- Some operating programmes have been increased for 2023/24 to reflect decisions made during adoption of 2022/23 AB eg prog #1506 for community events
- There are some instance where staff have incorporated possible reductions or deferrals as a means of moderating the rates increase or to reflect changed circumstances

See schedule C

WHERE ARE WE NOW AND PROCESS FROM HERE



We may need extra time with you to assist with the prioritisation process

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