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Annual Plan 2020/21 Update

Council Workshop, 7 April 2020

Background / Context

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Average rates increase as per planned expenditure in year three of the 2018-28 LTP was 6.3%

Council decisions in 2018/19 pushed this rate up to 10.1%

Additional significant cost pressures added to the projected 2020/21 rates increase by approx. 8%

An Activity Review was undertaken during late 2019 to find cost savings and efficiency improvements.

A prospective rates increase of 9.8% was endorsed in Dec 2019.



Drivers of the prospective 9.8% (\$13m) rates increase

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Public transport costs	5.8%
Reduction in reserves usage	2.7%
Accommodation	2.0%
Debt servicing costs	0.8%
Wages movements	0.8%
Natural resource plan	0.4%
Riverlink	0.4%
LGWM	0.4%
BAU savings	(3.6%)



COVID-19 Impacts on 2020/21 Annual Plan

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How big the impact is depends on:

- length of lockdown
- how quickly it takes to return to normal (bounce-back)
- the effectiveness of support and recovery packages

COVID-19 Impacts on 2020/21 Annual Plan

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Revenue

Public transport fares – likely to be covered by NZTA

Other charges - some impacts unknown at this stage

Rates – Subject to postponement and remission policy and decisions of TA's - could effect collections and therefore cash flows

Rental income – possible requests for rent relief and deferment



COVID-19 Impacts on 2020/21 Annual Plan

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Expenditure

There may be some delays in work programmes (both operational and capital) – impact unknown at this stage

Overall project costs may increase as a result of delays

Increase in technology costs to support working from home

Possible increase in costs to assist in stimulating economic recovery



Options to reduce rates increase

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- Further savings with limited impacts on service levels
- Additional revenue
- Reduce services levels
- Re-phase programmes
- Increase use of reserves/investment
- Debt fund operating deficit



Further savings with limited impacts on service levels

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The activity review undertaken last year has already identified savings that could be made without impacting on service levels.

Will need to review programme of works going forward and the impacts of COVID-19 on their delivery. This may identify additional savings, but may also impact service levels.

A clear view on this is unlikely to emerge until late April

Additional revenue

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Key revenue line is public transport fares

Annual Plan has a CPI increase built in public transport fares

Forecast patronage numbers probably unlikely to be met

No other significant user charges that would move rates requirement significantly



Reduce services levels

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Options previously identified:

Reduce levels of service in Environment Science	0.4%
Reduce levels of service in Sustainable Transport	0.4%



Re-phase programmes of work

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Options previously identified:

Delay RS1 implementation	0.4%
Delay EV/BNR bus implementation	1.0%



Possible options identified for savings

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Defer wage & salary increases	0.8%
Reduce PT capex plan by \$10m	0.25%
Reduce bus LoS by 10%	~1.5%
Pause Riverlink activity	<0.1%
Pause Project Optimus	0.25%
Fund LGWM over 20 years	0.25%
Customer Engagement	0.15%
Climate Change	<0.1%
Delay EV/BNR bus implementation	1%
Delay RS1 implementation	0.4%

Increase use of reserves



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Use existing reserves to fund current operational expenditure could be considered.

Current forecast balances of key reserves as at 30 June 2021

Public Transport	\$7.4m
(note that \$3.5m is planned to be used in 2021/22)	
Catchment/Land Management*	\$14m
Corporate Systems	\$1m

*Attached to specific programmes of work, or for self insurance (\$10m). A total of \$1.5m could be available to use without impacting self insurance levels.

Increase use of investments

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Use existing investments to fund current operational expenditure could be considered.

Current forecast balances of key investments as at 30 June 2021

Material Damage Contingency Fund	\$8m
Major Flood Contingency Fund	\$7m



Debt funding operating deficit

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If debt funding of an operational deficit is to be considered regard needs to be given to:

- Requirements of the Local Government Act (LGA)
- GW Revenue & Financing Policy (RFP)



100 Balanced budget requirement

- (1) A local authority must ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses.

- (2) Despite subsection (1), a local authority may set projected operating revenues at a different level from that required by that subsection if the local authority resolves that it is financially prudent to do so, having regard to
 - (a) the estimated expenses of achieving and maintaining the predicted levels of service provision set out in the long-term plan, including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and
 - (b) the projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and
 - (c) the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life; and
 - (d) the funding and financial policies adopted under [section 102](#).

Debt funding operating deficit - RFP

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As a general rule, Council will fund its operating expenditure, including interest on debt, and principal repayments, from:

- rates
- water levies
- grants and subsidies
- fees and charges
- interest and dividends from investments
- and any other source, which may include reserves from time to time.

Council may decide to use debt funding for operating expenditure in the following situations:

- Where the cost or additional cost is expected to be one-off in nature. For example, a spike in insurance premiums.
- Where a loss of revenue is expected to be one-off or relatively short-term in nature. For example, loss of revenue as a consequence of the Kaikoura earthquake in November 2016.
- Where the expenditure will provide a future benefit. For example:
 - Council may fund rail track renewals where a third party owns the tracks, to provide a better public transport service.
 - Council may use debt to fund its contributions to the Wellington transport planning project “Let’s Get Welly Moving”.

Debt funding operating deficit – RFP

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Simply debt funding operational expenditure (borrowing more) would appear not to be allowed for in the Revenue & Financing Policy. However borrowing to cover lost revenue is allowed for under the policy.

However Council could:

1. Change the policy (requires consultation), or
2. Note that a decision does not comply with the policy

Within the policy debt repayments could be deferred by:

1. Start debt repayments in the first year after the asset is purchased rather than in the same year (\$5.3m)
2. Suspend debt repayments on loans

Options to reduce rates increase – ongoing impacts

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The ongoing impacts of

- Use of reserves / investments
- Increases in debt funding

Will be to increase rates in later years as

- Reserves & investments are rebuilt
- Debt is repaid

And limit ability to respond to another event

Impact of the use of reserves/investment/borrowing \$10m to fund operational expenditure would be a rates increase of 1% for 10 years.

Options to reduce rates increase – example only

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Options to reduce rates increase is likely to be a combination of items

Items with limited impacts on future rates

Delay in EV's/RS1/BNR	1.4%
Defer wage & salary increases	0.8%
Reduce PT capital programme	0.2%
Reduce bus services by 10%	1.5%

Items with ongoing impacts on future rates

Use of reserves	?%
Use of Investments	?%
Start debt repayments in the first year after the asset is purchased	3.9%



Options to reduce rates increase—consultation requirements

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LGA:

- **Section 95(2A):** no consultation required where there is no significant or material difference from the relevant year of the LTP.
- **Sections 78(1), 78(3) and 79(1):** In their decision making process Council must consider the views and preferences of persons likely to be affected by, or have an interest in, the matter and should use their discretion to decide if the matter is significant enough to those affected and interested persons to warrant a consultation.

Consultation in the current environment would need to look different – no physical publications, no in-person events or hearings, reliance on online platform “Have Your Say” and notification via websites and Social Media channels. This will exclude people who don’t have easy access to technology.

A number of Councils* are choosing not to consult on their 2020/21 Annual Plan and will focus their consultation on the 2021-31 LTP pre-engagement. This is being driven by a lack of anything significant to consult on and a desire to support their communities who will have different matters on their minds over the coming weeks and months.

*Bay of Plenty Regional Council and Porirua City Council are two recent examples.

Options to reduce rates increase - timing

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The LGA requires the Annual Plan to be approved before 30 June 2020 – so there is time to consider approach

Currently considerable debate and discussion across the sector as to the approach to the Annual Plan 2020/21 – re consultation, rates setting, impacts on community and economic recovery

A Covid-19 Local Government Response Unit has been formed which has a number of projects including timing and other legislative requirements for the Annual Plan

No decisions required immediately, but need to be conscious of timelines if consultation is required.

Bulk Water Levy

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The increase in the bulk water levy is current budgeted at 6.1% (\$2.1m)

Current reserves	\$15m
Bulk Water Supply contingency fund	\$38m

Option to reduce rates increase – next steps

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Guidance from Council

- On level of rates increase
- Order of priorities to achieve

Further understanding of the impacts of COVID-19 on work programme

Report back to Council workshop in about 2/3 weeks