Draft Long-term Plan 2021-41

Consultation – supporting information

Statement concerning balancing of budget

Kāpiti Coast
DISTRICT COUNCIL
Me Huri Whakamuri, Ka Titiro Whakamua

Statement concerning balancing of budget

The Council is required under the Local Government Act 2002 to ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses. The Council may set projected operating revenues at a different level from that required, if the Council resolves that it is financially prudent to so do. The operating revenues include all revenue budgeted to fund operating expenses but excludes income received for capital purposes such as development contributions, vested assets and capital grants.

In assessing a financially prudent position, consideration is to be given to:

- The Council's financial strategy which now, after six years of tightly imposed financial constraints, seeks to invest for the growth that is anticipated to eventuate across the district;
- The projected cost of maintaining our levels of service provision set out in the twenty year plan;
- The projected revenue available to fund our planned expenses associated with maintaining the service capacity and integrity of assets throughout their useful life;
- Our decision making needs to balance the interests of our range of residents, both now and into the future. We need to be aware of the various communities of interest – whether geographic or demographic – and ensure we understand what they want and what we can deliver;
- Any changes that we make need to be implemented in slow and steady increments, so that our community has certainty and stability.

Non-funded depreciation

In previous long term plans the Council has opted not to fully fund depreciation, on the basis that the asset renewals and rates funding thereof was not required until later. In the eight years prior to 2015/16 cumulative non-funded depreciation grew from $900,000 to almost $19 million.

From 2015/16, this non-funding was planned to reduce, with the intention of gradually reducing the shortfall over subsequent years. This however creates an accumulated shortfall in rates funding, which has to be subsidised by new debt. Due to Covid-19 pressure on the community and across New Zealand, to keep rates as affordable as possible, the Council made the unprecedented decision to reduce the funding gap further in 2020/21 as originally planned. The longer the funding gap remains, the greater the accumulated subsidised debt will be, and is expected to peak at $53 million in 2023/24.

To help the community to recover from Covid-19 and best prepare for the growth anticipated across the district over the next 20 years, we still need to close the non-funded depreciation gap to create the debt headroom, necessary to invest in and prepare for this growth and best respond to unplanned shocks in the future.

So, like all the key decisions relating to this financial strategy, there is a need to find a balance – to close the non-funded depreciation gap as fast as is practical, but without creating undue pressure on other costs, and on rates. We have been progressively closing this gap since the implementation of the new financial strategy for the 2015-35 LTP and we plan to be fully funding depreciation by 2024/25. During 2021/22 0.9% of the planned rates increase relates to closing the depreciation funding gap.

Water rates

Water rates are in a closed account which means that we ensure that water rates are only used to cover the cost of providing water services. We'll continue to manage future cost fluctuations with a gentle upward movement in rates spread over the next few years, noting that we are not proposing to increase the fixed or variable water rates above the levels set in 2019/20 for another year. This reflects a prudent approach given the three waters reform work that is currently underway from central government. The water rates shortfall in any given year will be offset by general rates to ensure no change in borrowings occurs.

Accelerated loan repayments

Given we don't have surplus assets to sell, additional debt repayments are primarily sourced from rates, by way of a rates surplus. The accelerated loan repayments will help to ensure that the Council has sufficient borrowings capacity when the significant replacement of Council's water and waste water network occurs from approximately 2040.

The planned annual levels of non-funding of depreciation and the future accelerated annual loan repayments are set out in the table on the following page.

	2021/22 $000	2022/23 $000	2023/24 $000	2024/25 $000	2025/26 $000	2026/27 $000	2027/28 $000	2028/29 $000	2029/30 $000	2030/31 $000
Unfunded depreciation / (accelerated loan repayments after fully funding depreciation)	2,500	1,500	500	(500)	(500)	(500)	(500)	(500)	(500)	(500)
Total increase/(decrease) in borrowings	2,500	1,500	500	(500)	(500)	(500)	(500)	(500)	(500)	(500)

	2031/32 $000	2032/33 $000	2033/34 $000	2034/35 $000	2035/36 $000	2036/37 $000	2037/38 $000	2038/39 $000	2039/40 $000	2040/41 $000
Unfunded depreciation / accelerated loan repayments (funded by rates)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
Total increase/(decrease) in borrowings	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)