

2021-31 Long Term Plan - Economic and Financial Strategy Briefing

Workshop Outline

Purpose of workshop:

To provide information to Council to help inform decisions regarding the 2021-31 Long Term Plan (LTP) Infrastructure and Financial Strategies and to discuss desired rating levels for the coming years

Items to be discussed:

- LTP overview and update – Tracy Plane (Manager Strategic and Corporate Planning)
- Economic outlook and recovery – Jake Gilmer (Senior Strategic Advisor)
- Asset Management and Infrastructure Strategy – Nicci Wood (Asset Management Advisor)
- GW Financial Strategy and rates affordability – Tony Stallinger (interim CFO)

THE GREAT WELLINGTON REGIONAL STORY

LONG TERM PLAN 2021-2031



Strategic Priorities

Māori Engagement

Assumptions

Levels of service

Asset Management Plans

Infrastructure Strategy

Financial Strategy

Financial Policies

Mana whenua priorities

Budgeting and prioritisation
Sept-Nov 2020

Drafting LTP and supporting documents
Nov-Feb 2021

Public Consultation
Mar-Apr 2021

Audit 2
May-Jun 2021

Final Draft LTP Document
Feb-May 2021

Performance Measures
Aug-Dec 2020

Audit 1
Feb-Mar 2021

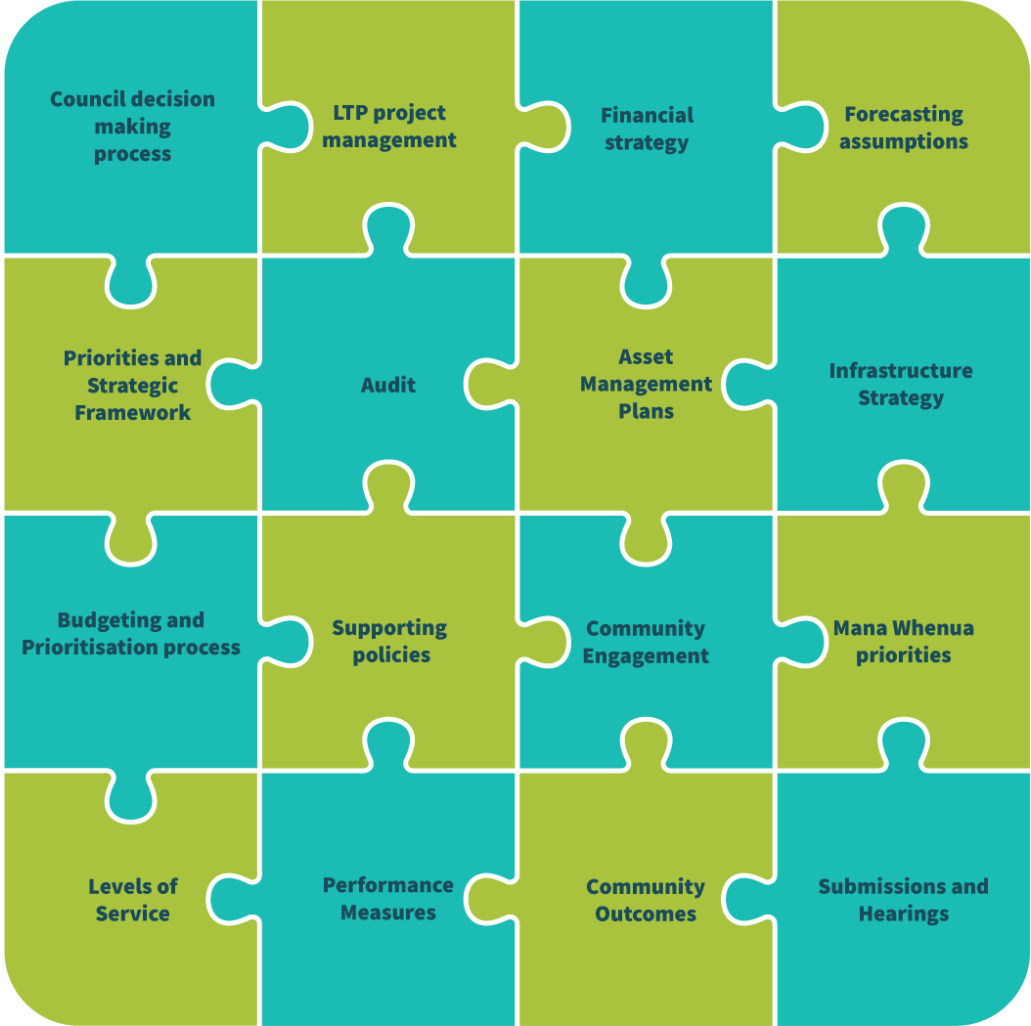
Deliberations
Late May 2021

Adoption
End of Jun 2021

LTP Project Documents

LTP overview – how it fits together

2021-31 Long Term Plan



LTP Assumptions

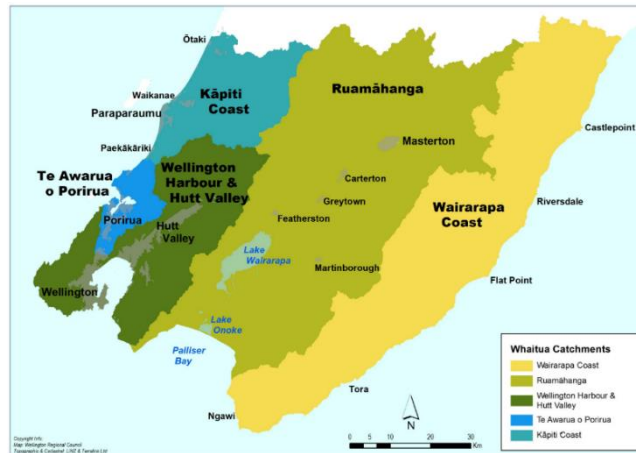
Climate Change

Temperatures and seasonality	Sea level and coastal hazards	Rainfall patterns and intensity
Average temperature will rise above present + 0.5 to 1°C by 2040 + 1 to 3°C by 2090	Permanent Sea level rise above present + 0.12 to 0.24 m by 2040 + 0.68 to 1.75 m by 2090	Change in rainfall patterns 5-10% decrease to 10% increase in average annual rainfall by 2090 * Longer dry periods, with more intense and more frequent drought Extreme rainfall events more frequent with up to 30% more rain during heavy rainfall days
More very hot days per year (above 25°C) Up to 30 days increase by 2040 Up to 80 days increase by 2090	More frequent storm surge, coastal flooding and coastal erosion	Changes in the forest fire danger 50 - 150% increase in number of days of very high and extreme danger
Fewer frost nights per year (below 0°C) Up to 15 fewer by 2040 Up to 40 fewer by 2090	Saltwater intrusion into coastal groundwater, and further upstream in rivers	Rivers mean annual low flow Up to 80% decrease by 2090
Wind	Ocean	Rivers mean annual flood 20% decrease to 100% variation
Extreme wind events Up to 12 days increase by 2090	Acidification of the ocean General temperature rise of sea water and marine heatwaves	

Legislation and Governance

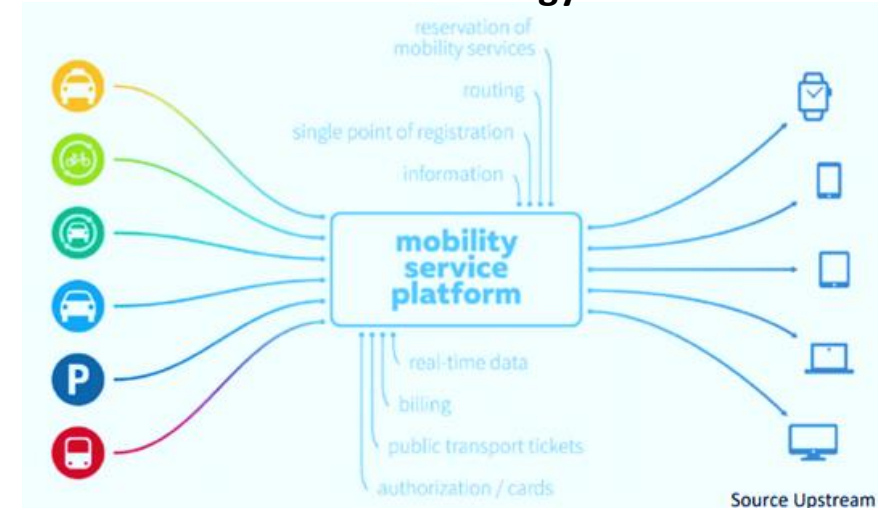


< Local councils play an active role in keeping our communities moving. >



Taumata Arowai – the Water Services Regulator Bill

Technology



Partnerships with Mana Whenua and Māori

Ngā Hapū o Ōtaki

Te Ātiawa ki Whakarongotai

Ngāti Toa Rangatira

Taranaki Whānui

Rangitāne o Wairarapa

Ngāti Kahungunu ki Wairarapa

COVID-19 Recovery Scenarios

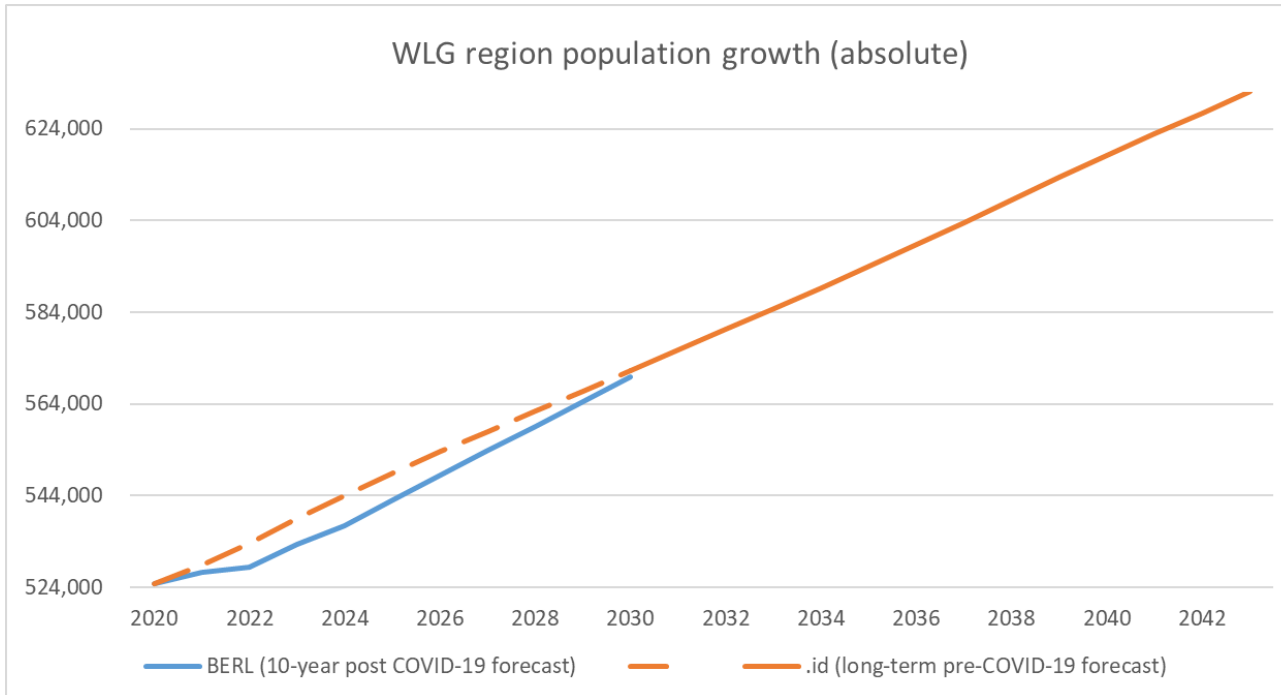
Greater Wellington COVID-19 recovery scenarios

Alert level	Scenario one (Best case)	Scenario two (Mid-point)	Scenario one (Worst case)	GDP reduction
	Months			%
Level 4	1	2	3	37
Level 3	1	2	3	19
Level 2	5	6	6	8.8
Level 1	5	2	-	3.8
Level 1 (2021)	6	9	12	4.8

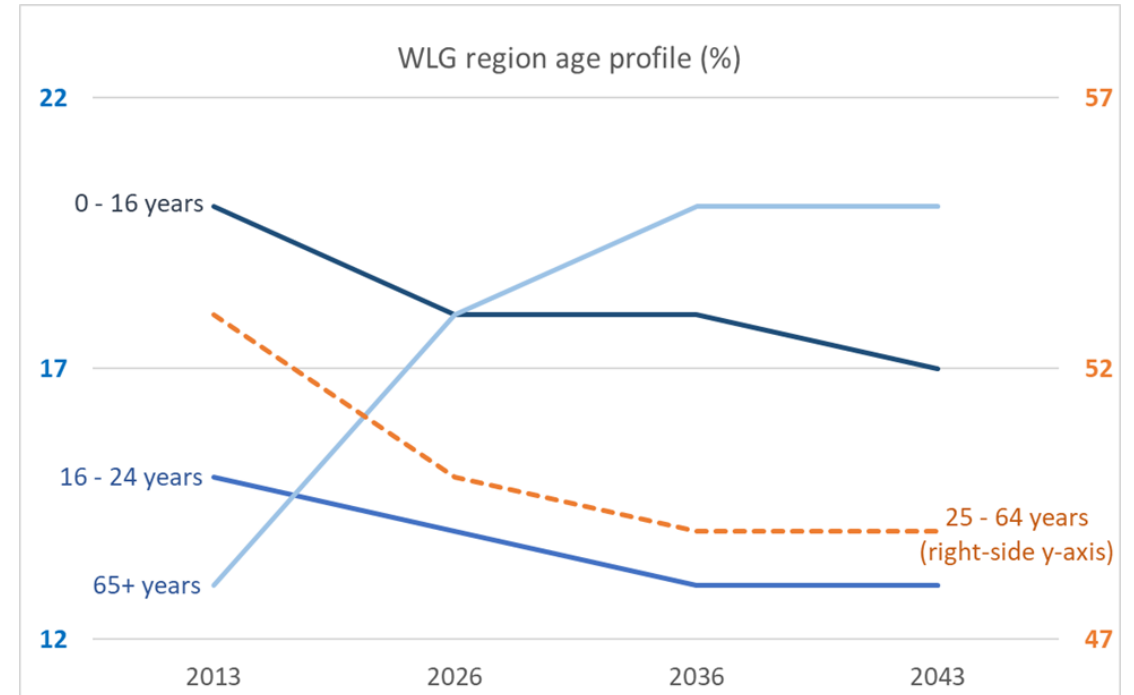
Alert level	Cumulative months as of 14 August 2020
Level 4	1
Level 3	1
Level 2	1
Level 1	1

Population Trends

WLG region population growth (absolute)

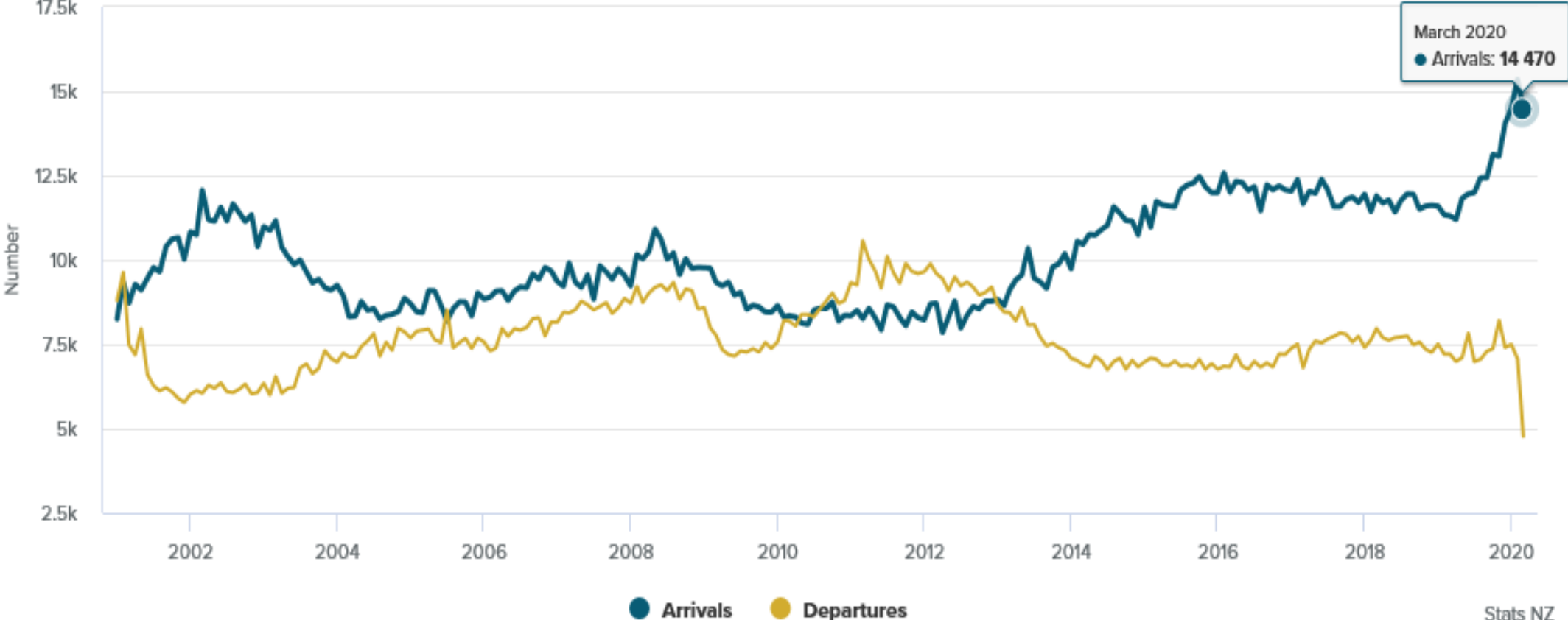


WLG region age profile (%)



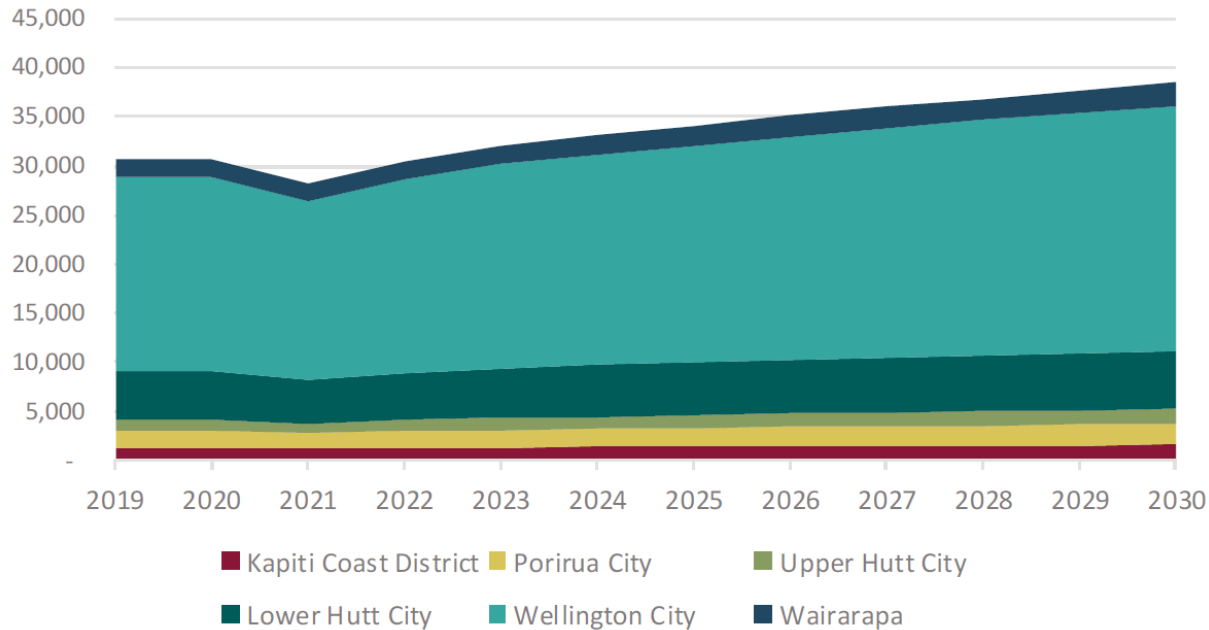
Population – COVID-19 Impact on Migration

Seasonally adjusted arrivals and departures, January 2001–March 2020

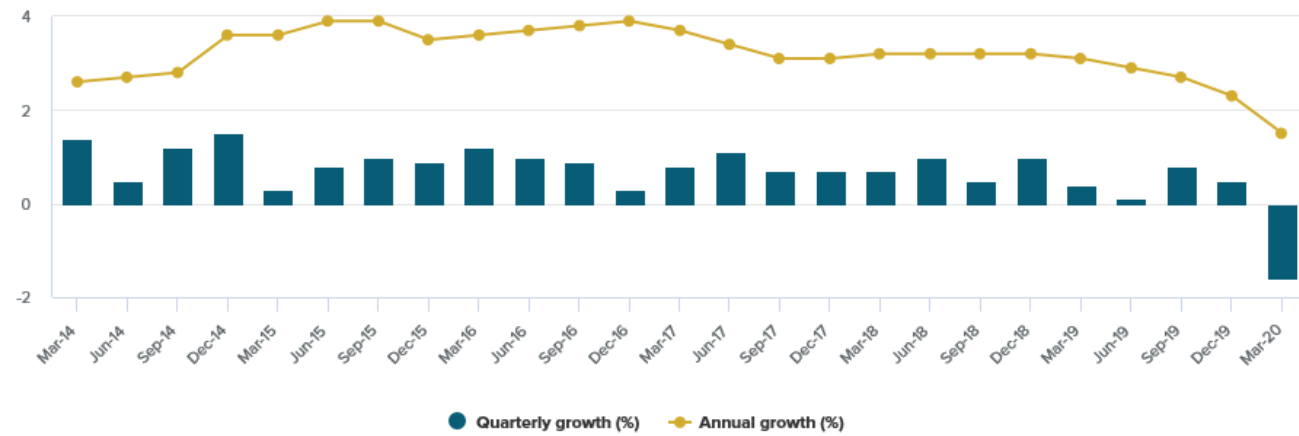


Economy – Gross Domestic Product

Figure 3.2 Wellington regional GDP 2019-2030 (\$million)



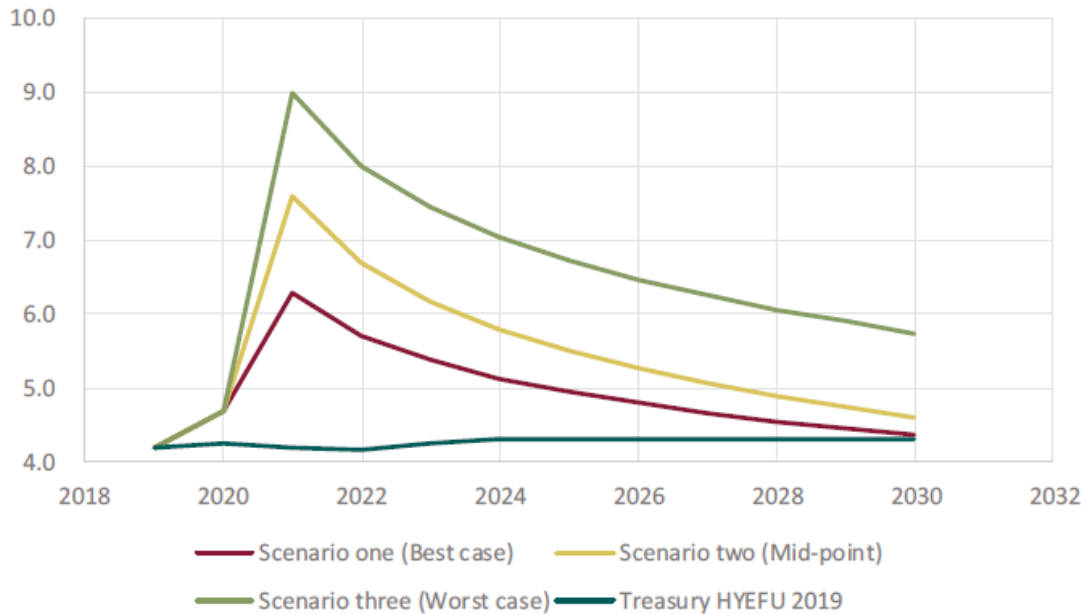
Gross domestic product, quarterly and annual growth rates, March 2014–March 2020



Seasonally adjusted for quarterly, and actual for annual chain-volume series in 2009/10 prices.

Economy – Unemployment

COVID-19 Unemployment Scenarios



Employment at a glance (seasonally adjusted)	June 2020 quarter	Quarterly change	Annual change
	Percent	Percentage points	
Unemployment rate	4.0	-0.2	0.0
Underutilisation rate	12.0	1.6	0.9
Employment rate	66.9	-0.6	-0.6
Labour force participation rate	69.7	-0.8	-0.6
	(000)	Percent	
Unemployed	111	-5.1	2.1
Employed	2665	-0.4	1.2
Filled jobs	1989	-0.5	0.8
Working-age population	3984	0.5	2.0

Council Role in COVID-19 Response and Recovery

\$3 BILLION INFRASTRUCTURE SPEND



Environmental



Housing & urban
development



Community & social
development



Transport
(cycleways, walkways,
ports and roads)

Economic outlook summary

- COVID-19 will impact population and economic growth over the next two years, even under the best case scenario
- Local and regional government spending can help keep people employed and stimulate the economy
- But that needs to be balanced with rates affordability and consideration of unemployment levels

Any thoughts or comments before we move on to the next section?

Infrastructure Strategy

Outline

- Infrastructure Strategy: What, why, how
- Audit NZ & SOLGM expectations
- Significant issues and cross cutting theme
- Options and decisions

Section 101B of the Local Government Act

101B Infrastructure strategy

- (1) A local authority must, as part of its long-term plan, prepare and adopt an infrastructure strategy for a period of at least 30 consecutive financial years.
- (2) The purpose of the infrastructure strategy is to—
 - (a) identify significant infrastructure issues for the local authority over the period covered by the strategy; and
 - (b) identify the principal options for managing those issues and the implications of those options.
- (3) The infrastructure strategy must outline how the local authority intends to manage its infrastructure assets, taking into account the need to—
 - (a) renew or replace existing assets; and
 - (b) respond to growth or decline in the demand for services reliant on those assets; and
 - (c) allow for planned increases or decreases in levels of service provided through those assets; and
 - (d) maintain or improve public health and environmental outcomes or mitigate adverse effects on them; and
 - (e) provide for the resilience of infrastructure assets by identifying and managing risks relating to natural hazards and by making appropriate financial provision for those risks.
- (4) The infrastructure strategy must outline the most likely scenario for the management of the local authority's infrastructure assets over the period of the strategy and, in that context, must—
 - (a) show indicative estimates of the projected capital and operating expenditure associated with the management of those assets—
 - (i) in each of the first 10 years covered by the strategy; and
 - (ii) in each subsequent period of 5 years covered by the strategy; and
 - (b) identify—

Principles Approach

- Forward looking
- Optimal
- Adaptive
- Coordinated

What when how.

Greater Wellington's Infrastructure Strategy tells you how we plan to manage our infrastructure over the next 30 years, to support the vision we have for the region.

It defines the nature of the challenges, our approach and actions for dealing with the challenges; and the implications of these actions

Audit NZ'S Key Disclosures

- Clear approach to lifecycle asset management
- Comprehensive discussion of climate change risks and our long term responses.
- Ratepayer affordability

GWRC infrastructure asset groups

- Public Transport;
- Water Supply;
- Flood Protection;
- Environmental Monitoring;
- Parks; and
- Harbour Management

Assumptions, Future Demand and Risk



Population & demographics



Economic activity



Climate change & natural hazards



Legislation, governance & partnerships



Technology

The significant infrastructure issues for the region are:

- Achieving zero carbon 2030
- Improving resilience
- Managing critical infrastructure
- COVID-19 recovery

The cross cutting theme-

- Affordability

Principle options for managing issues – carbon zero

Issues	Options	Most likely scenario
<p>Eliminate operational carbon to meet carbon zero 2030</p> <p>Grazing in Parks</p> <p>MetLink bus and train fleet.</p> <p>Corporate machinery</p> <p>Energy treating and delivering water supply</p>	<p>Policy changes (low carbon consideration policy, Energy and low carbon first)</p> <p>Retire grazing land</p> <p>Changes to levels of service.</p> <p>Low carbon accelerator funding</p> <p>Energy initiatives</p> <p>New infrastructure, investment and policy</p> <p>Do nothing- submit to >2°C warming /accept climate crisis</p>	<p>EV bus fleet</p> <p>Retire grazing leases</p> <p>Reforestation and offsetting</p> <p>New power supplier</p> <p>Low carbon Accelerator Fund</p>
<p>Mitigating capital/ embodied carbon of assets lifecycle</p> <p>Reduce carbon in newly-built assets and materials, manufacturing, transportation, labour and end-of-life</p>	<p>Policy changes (low carbon capital)</p> <p>PFSI (Permanent Forest Sink) registration of area review</p> <p>Low carbon Accelerator Fund</p> <p>New ways of thinking and working</p> <p>Innovation in digital technologies, construction techniques and development of standard products.</p>	<p>Off site construction</p> <p>Low carbon Accelerator Fund</p> <p>Drive development of new low carbon products – i.e. cement free concrete</p>

Principle options for managing issues – resilience

Issues	Options	Most likely scenario
Rail in region at risk sea level rise	New investment – edge protection Managed retreat. New ways of thinking and working Accept risk	Partnership investment for protection?
Parks assets at risk from undermining and sea level rise	Rebuild as is Retreat Retire activity - Policy changes Innovation construction techniques	Rebuild inland
Water supply at risk from seismic events	New investment for upgrades and renewal Innovation construction techniques and development of standard products. Cross Harbour Pipeline	Reprioritised Ngauranga reservoir strengthening Ground strengthening Waterloo TP \$2M Replacement of Kaitoke trunk main (\$270mil)
Existing and potential land and development at increasing flood risk	Vegetated ‘soft’ erosion edge protection Critical stopbank building and /or reconstruction Retreat no new development in hazardous land – new policies required Do nothing	Hutt River erosion edge protection. Critical stopbank building. Ruamahanga River Scheme buffer land establishment and tree planting (\$1m); stopbanks reconstruction

Principle options for managing issues – infrastructure

Issues	Options	Most likely scenario
<p>Greater public transport patronage requires significant investment in infrastructure</p>	<p>New infrastructure, investment and policy Partnership to drive efficiencies</p>	<p>\$5M IN FUNDING FOR REGIONAL TRAINS \$4M business case is being prepared \$6B for MRT under LGWM</p>
<p>Existing Metlink assets require ongoing investment to meet current LOS</p>	<p>New infrastructure, investment and policy Partnerships Decrease LOS</p>	<p>\$200M infra Commission funding for rail network upgrades – Improvements to rail line between Wellington, Wairarapa and Palmerston North and Wellington Station safety improvements</p>
<p>Future demand on water supply</p> <ul style="list-style-type: none"> - Growth Porirua - Regional Growth Plan 	<p>Upgrading and new assets Integrated planning with WRGF New source supply for growth Different technology Demand Management - Promoting water conservation</p>	<p>Optimisation of capacity at Te Marua upgrade \$20M? Replacement of Kaitoke trunk main (\$270mil) Sustainable supply programme Water meters</p>

Key decisions

Significant Decision Required	Most Likely Scenario
Achieving Carbon Zero 2030	Capital Carbon options
	Wetland restoration
	Regional trains and EV bus fleet
Capital carbon lifecycle approach	
Sustainable flood protection strategies	Ruamahanga River Scheme
Improving water supply resilience	Strengthening Ngauranga Waterloo Kaitoke bridge
Delivering a high quality, reliable public transport network	
Meeting future demands	Developing and committing to delivering Regional Growth Framework Lets Get Wellington Moving RiverLink

Infrastructure Strategy Questions?

Financial Strategy

Financial Strategy – guiding principles

We adopted a principle-based approach in developing our Financial Strategy centred on:

- Fairness and intergenerational equity
- Balanced budget
- Borrowings funding
- Distribution of benefits
- Market neutrality
- Willingness to pay
- Value for money
- Prudent

Financial Strategy – strategic direction

Our Financial Strategy focuses on these key elements:

- Rates affordability

We balance demand for enhanced services with our communities' ability to pay

- Financial risk management

We have clear and effective risk management practices to protect core service delivery to our communities

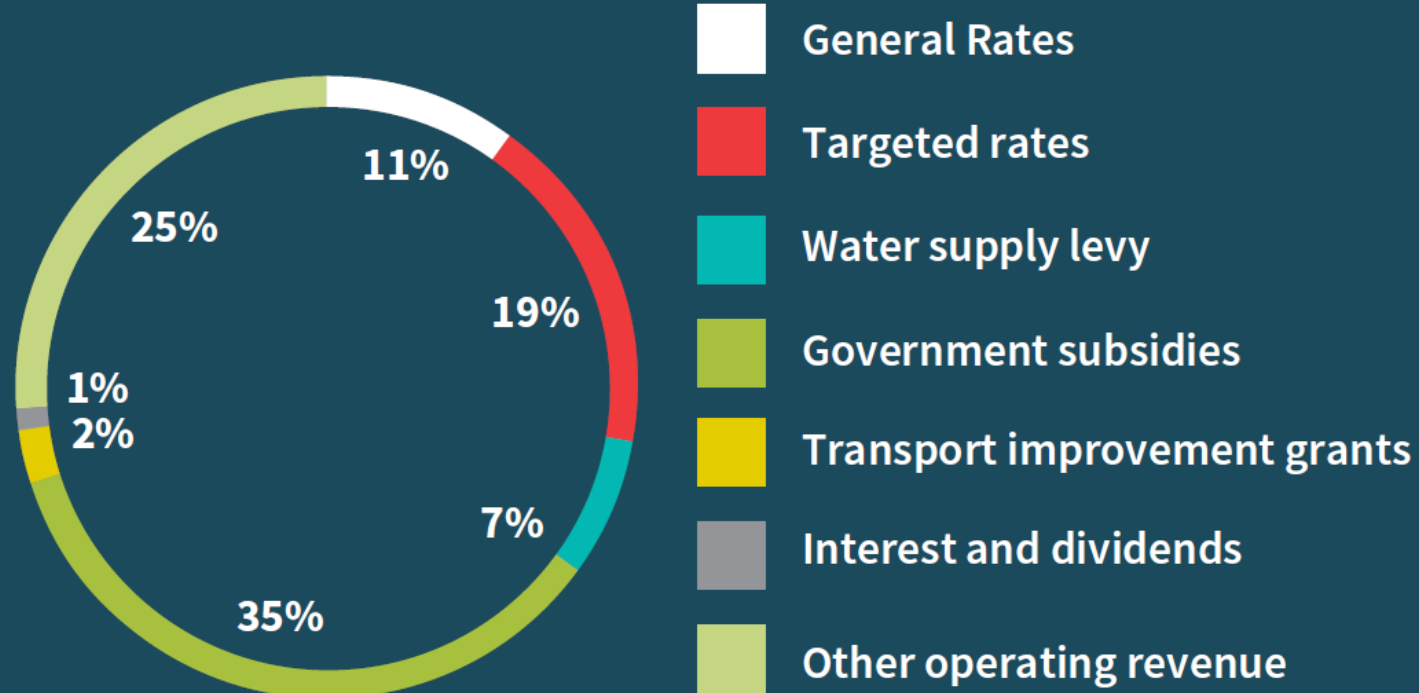
- Investing in the right activities with appropriate funding and financing sources

We manage Infrastructure Strategy requirements within Financial Strategy limits. We select funding sources in line with our Revenue and Financing Policy objectives

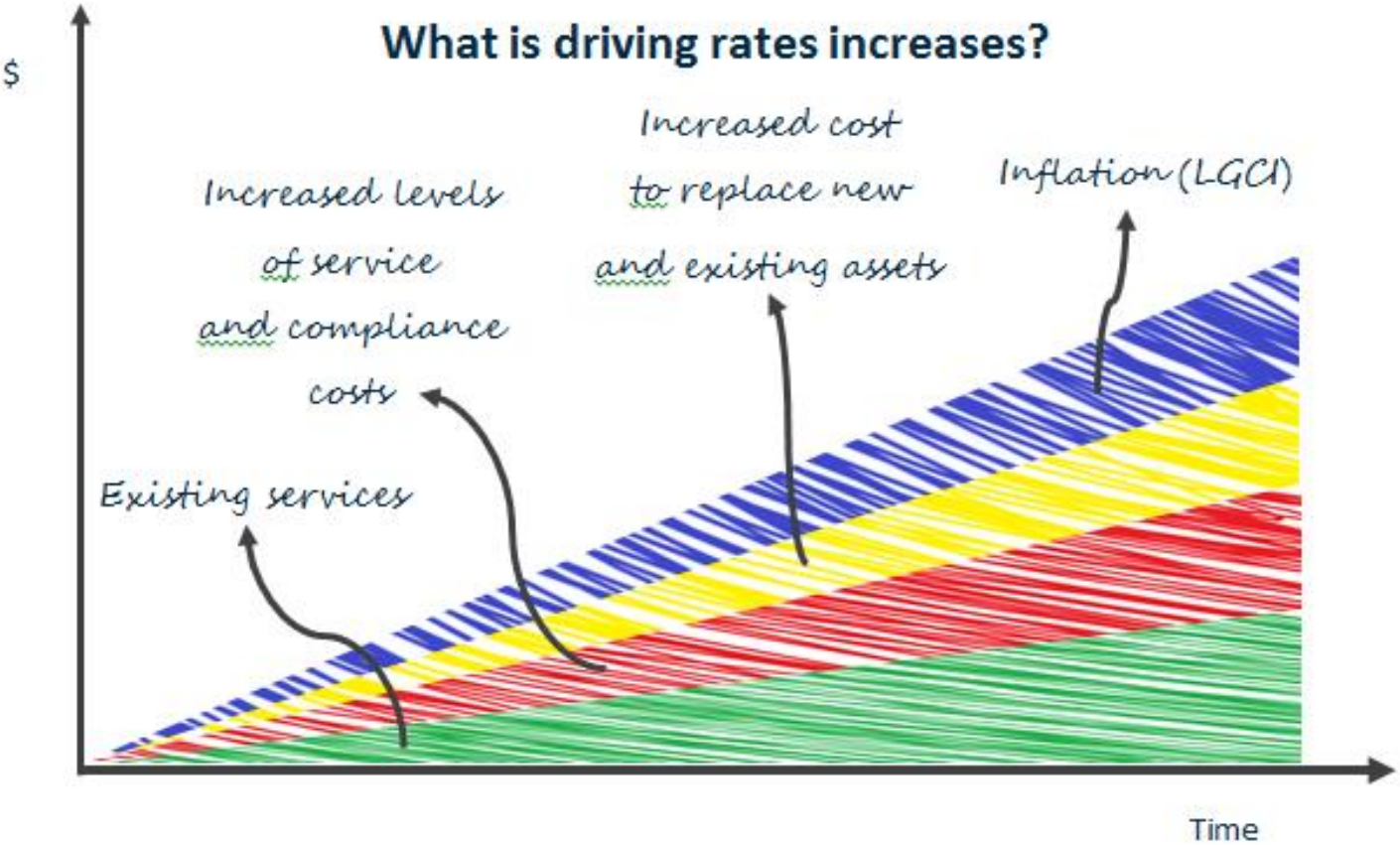
Revenue, rates and affordability

Composition of revenue

How do rates contribute to Greater Wellington's overall income?

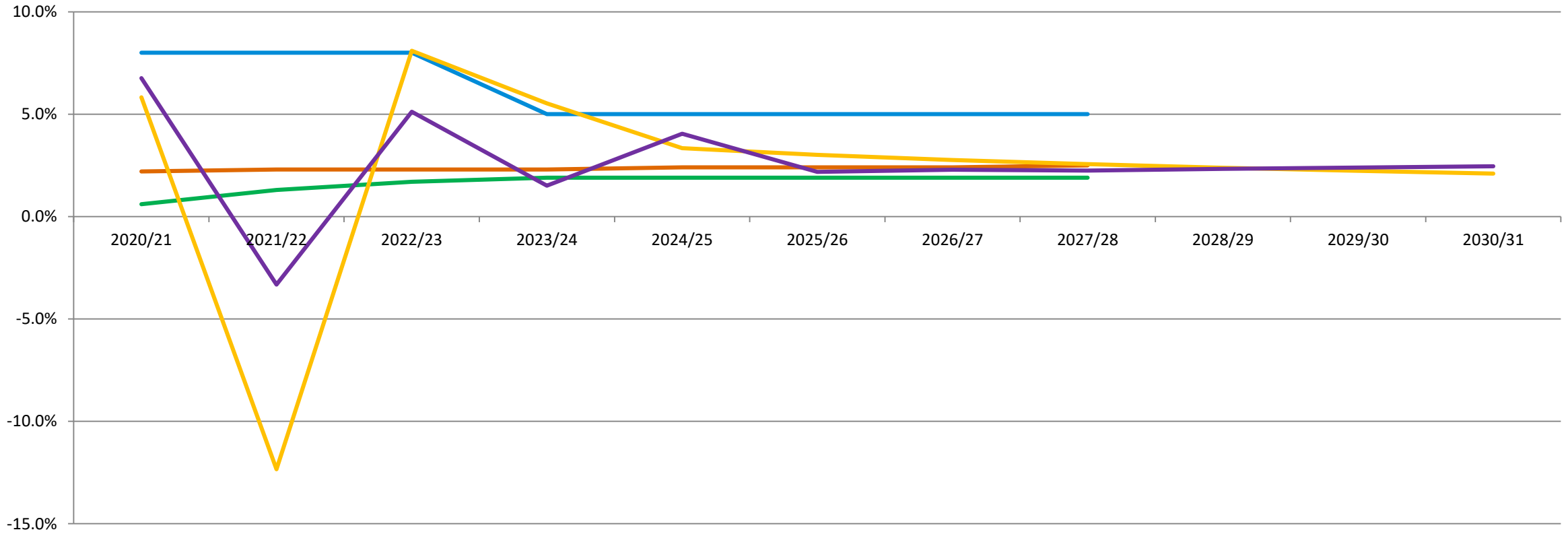


Rates and rates affordability



Rates and rates affordability cont....

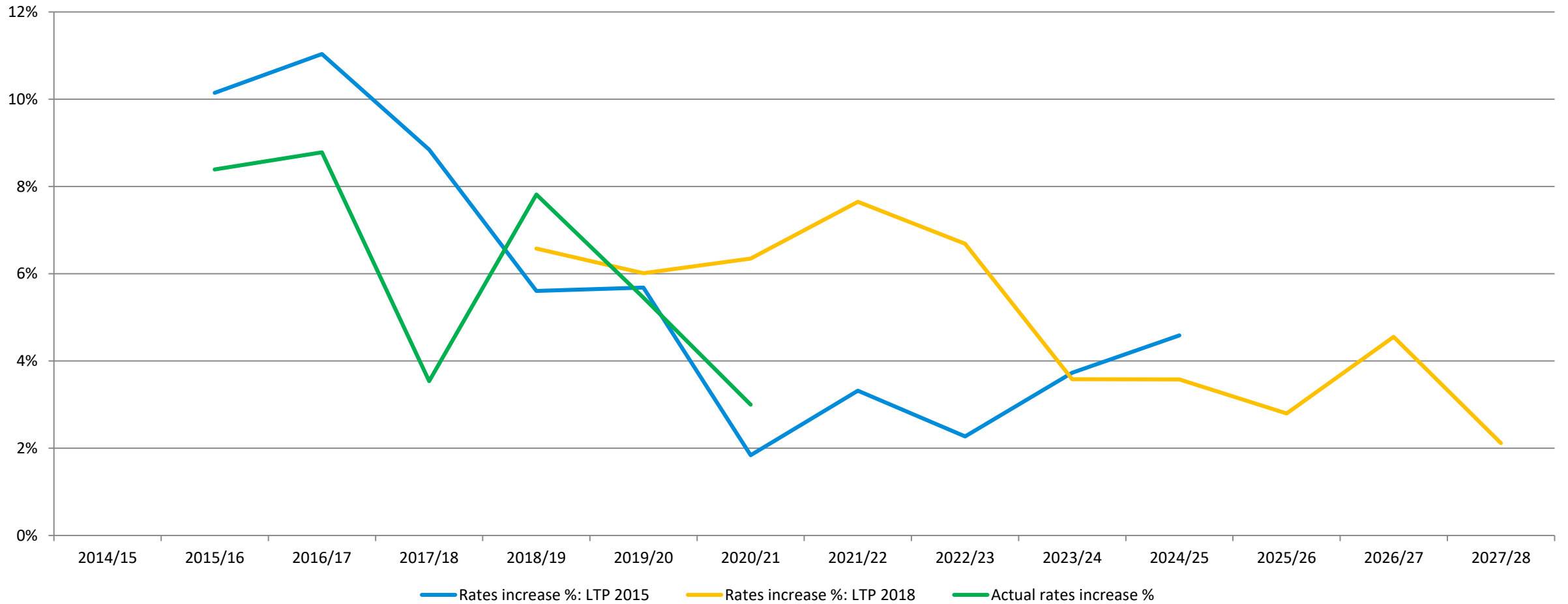
Rates % increase vs inflation, household and consumer spending % change year on year



— Limit on rates increase %: 2018 LTP — Inflation rate (LGCI) — Inflation rate CPI — Household incomes % increase — Consumer spending % increase

Rates and rates affordability cont....

Annual change in forecast rates revenue



What can our rates look like?

Options	Years 1-3	Years 4-10
Low	0% - 4% <ul style="list-style-type: none"> Main focus is on affordability and alleviation of economic hardship Less focus on supporting economic recovery and strategic priorities Aligns with slower population growth and higher unemployment High priority on core services, keeping expenditure low and finding savings Deferral of some significant projects and some service levels reduced Minimal opportunity for new initiatives Probable budget deficits in the short term 	3% - 8% <ul style="list-style-type: none"> Economic forecasts indicate rates increases maybe more affordable over this period Lower rates increases during years 1-3 will result in upward pressure on rates in subsequent years Delayed projects and constrained service levels during years 1-3 will add to that pressure on rates as pressure mounts to catch up and enhance services
Medium	5% - 7% <ul style="list-style-type: none"> Balances focus on affordability and alleviation of economic hardship with delivering on strategic priorities High priority on core services Emphasis on finding savings opportunities Deferral of some projects and some service levels reduced to create opportunity for new initiatives Possibility of budget deficits in the short term 	3% - 10% <ul style="list-style-type: none"> Economic forecasts indicate rates increases maybe more affordable over this period Continued pressure on service levels, project delivery and rates will continue, but at a lower level than the “low” option above
High	8% - 10% <ul style="list-style-type: none"> Main focus on continued investment to support economic recovery and our strategic priorities Less focus on community affordability Projects deferred only if necessary due to delivery constraints Savings identified to help fund new initiatives Service levels maintained and increased in some areas Higher likelihood of running a balanced budget 	3% - 12% <ul style="list-style-type: none"> Economic forecasts indicate rates increases maybe more affordable over this period Higher rates increases in years 1-3 will create more flexibility and ability to consider lower rates increases in subsequent years Demand for increased service levels and project delivery will be lower than other options, as investment levels were higher during years 1-3