Absolutely Positively
Wellington City Council
Me Heke Ki Pōneke

File ref: IRC-3644

28 July 2022

Kia ora

Pre-election report

Thank you for your request sent to our Chief Financial Officer under the Local Government Official Information and Meetings Act 1987 (the Act), received on 22 July 2022. You requested the following information:

1. The Report notes a "..starting borrowing position of $1,074 million", presumably for 30 June 2022
   - In the Report's Summary Statement of financial position 2022 borrowing is $1,347 million.
   - If financial assets are added in that gives net debt of $986 million
   - **How is the $1,074 million derived (given that it seems not to align with either net or gross borrowing)?**
2. Looking at the 2021 figures (which can be referenced back to the published accounts):
   - The pre-election Report gives gross borrowing of $909 million and a net figure of $670 million (financial assets are $239 million)
   - The published accounts show Group borrowing of $909 million and net debt $717 million (financial assets of $192 million)
   - The pre-election Report indicates that debt has risen over FY22 by $301 million. If I deduct that from $1,074 million I'd get $773 million as the 2021 figure.
   - **What is the 2021 debt figure that is compatible with the 2022 $1,074 million figure and why are the financial assets in the pre-election Report lower than what are shown in the published accounts?**
3. The pre-election Report notes that 2031 debt in the L-T Plan is $1,668 million.
   - In the same Report, the summary statement of Financial Position shows that in 2026 borrowings are $2,006 million and net debt $1,845 million (financial assets of $161 million)
   - The same Report, Summary Statement of Cash Flows, shows debt rising $903 million over FY23-26. If added to the $1,074 million that gives $1,977 million
   - **Does the LTP anticipate Council repaying debt over the period FY27-31 (so as to reduce it from about $2,000 million in 2026), or are the projections shown in the per-election Report inconsistent with the LTP?**
4. The pre-election Report shows Council's gross interest cost (as opposed to net)
   - Matching the interest cost against the gross debt gives the following

$M	2020	2021	2022	2023	2024	2025	2026
Debt	$776	$909	$1,307	$1,474	$1,700	$1,954	$2,006
Interest	$26	$25	$27	$41	$49	$56	$62
Rate	3.4%	3.0%	2.4%	3.0%	3.1%	3.1%	3.2%

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- **Is the interest cost forecast based on a future borrowing rate of 3.2%pa.?**

- As you may infer, it feel that debt levels of this magnitude are a major burden, so I would like to make sure my understanding is accurate.
- The issue of sustainability is more complicated, but the first need is an understanding of what level of debt is to be sustained.

Wellington City Council has granted your request for information. Please see the below response to your questions, as put together by our Finance team.

1.WCC considers net debt a measure of our external debt less the combination of our cash assets such as term deposits for prefunding of upcoming debt maturities, term deposits being held for liquidity needs, and general cash holdings. A function of our Treasury team is to manage these balances, funding the cashflow needs of the city in a prudent manner, enabling effective operations while managing interest costs to get the best value for money for the rate payer.

The net debt reported in the pre-election report will have variances between the 2022 forecast closing debt and 2023 Annual Plan opening debt. This is due to timing differences between certain publications and maturing assumptions that are made. Forecast closing debt is calculated from a forecast system ledger based on capital forecasting information through to March 2022, while the Annual Plan opening borrowing data is a combination of capital forecast figures, and treasury borrowing strategies needed for managing liquidity, along-side accommodating other council decisions which occurred between March and June.

This results in a timing difference between available information and time taken to generate different sets of statements for different requirements. Note both the Annual and Long-Term Plan calculations are based on the starting borrowing position of $1,074m. This forms the basis to generate the $946m and $1,074m figures. The $946m figure in the forecast LTP 2021 closing debt figures and the $1074m in the opening debt of AP 2022 figures.

2. As the $1,074m figure is a forecast number and will change depending on where the final debt lands on the 30 June each year there is not a comparable figure in the prior year reported numbers as they are calculated based on actual reported results once the period has closed. The figures in the pre-election report are lower than what is reported in the 2021 Annual Report because the figures queried stated are for the Group, whereas the pre-election Report only includes the figures for Council. The Group figures include results for our CCO's, and equity accounted interest in Associates and Joint Ventures. In the Annual Report we account for both Council and the Group, therefore when comparing to the pre-election Report, please refer to the Council figures which are the same.

3. When reconciling the published Annual Plan 2022 and Pre-election report both show an expected increase of debt between 2023-2026 to be approximately $900m (difference between $906m - $903m due to rounding in each report respectively). The variance arises from comparing closing borrowings in 2022 to opening borrowings for 2023. This discrepancy is due to timing of the numbers generated. 2027 is the year in which our debt is expected to peak and will begin to reduce from there. Both reports are consistent, however the pre-election report covers two prior years and four future years of financial plans, while the LTP is published with a ten-year view, where you see debt beginning to reduce as it covers a longer period.

Any reduction in debt is mainly driven by rates funded deprecation. Debt begins to reduce when the deprecation funded by rates exceeds the proposed capital programme in that year. Due to a large delivery of capital assets in the years prior to 2027. WCC has many large-scale assets which will be capitalised and will then start to contribute to the collection of deprecation.

Another driver is the revaluation of assets. Where there is an increase in the value of our assets, the depreciation on those assets also increases. Where this increase is funded by rates, there is a resulting decrease in net borrowings.

4. Council calculates interest costs based on net borrowing forecasts (gross borrowing less cash and Investments) and takes into consideration the level of expected hedging Council will have in place at the time, current rate predictions extrapolated using prior and current year balances. This is due to fluctuating debt balances throughout the year. The effective interest rate accounts for this incremental change to ensure we do not over rate for the interest costs each year. The below rates were published as part of the Annual Plan calculations.

2022/23	**2023/24**	**2024/25**	**2025/26**
3.31%	3.28%	3.27%	3.29%

Please note, we will proactively release our response to your request with your personal information removed.

Thank you again for your request, if you have any questions, please feel free to contact me.

Kind regards

Claudia Holgate
Senior Advisor, Official Information