



AGENDA

Council Workshop Annual Plan Opex

Thursday, 23 October 2025

I hereby give notice that a Council Workshop will be held on:

Date: Thursday, 23 October 2025

Time: 9:00 AM Annual Plan 2026/27 - OPEX

**Location: Tauranga City Council Chambers
L1 90 Devonport Road
Tauranga**

Please note that this meeting will be livestreamed and the recording will be publicly available on Tauranga City Council's website: www.tauranga.govt.nz.

**Marty Grenfell
Chief Executive**

Order of Business

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1 BUSINESS

1.1 Annual Plan Opex - Working Draft

File Number: A19150171

Author: Tracey Hughes, Manager: Organisational Financial Performance and Corporate Planning

Authoriser: Kathryn Sharplin, Acting COFO - Finance & Digital

Presenter(s): Kathryn Sharplin – Head of Finance
Tracey Hughes – Manager: Organisational Financial Performance and Corporate Planning

Workshop information

Purpose of workshop

1. To inform Elected Members of what we are seeing in the 2026/27 Annual Plan model working draft.

Background

2. During September, opex budget managers updated their 2026/27 budgets based on their current expectations.
3. Finance staff also made amendments to structures to reflect the 2025/26 reset.
4. Quality checks are ongoing and this working draft will undergo a series of refinements over coming months.

Attachments

1. 23 Oct 2025 Annual Plan 2026-27 Working Draft and Process - A19162680 [↓](#) 



Working Draft Annual Plan for 2026/27

23 October 2025 Workshop



Tauranga City

Objectives of Workshop

- Outline the **working draft** information for Annual Plan 2026/27
 - Identify changes to financial assumptions and expenditure and revenue trends
 - Explain the process of review and decision-making to work toward a draft annual plan
 - Receive Council direction from this workshop
 - The material from this workshop will be covered in the 18 November 2025 Council meeting
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Agenda Coverage

- Strategic Framing
 - Annual Planning and Budget Process
 - Working draft budget movements based on BAU, depreciation and interest
 - Specific budget movements
 - Reductions in operating expenditure and revenue
 - New operating Expenditure or notable increases in expenditure
 - Additional expenditure not included in working draft
 - Decisions from user fees review not included
 - Subsidy and growth expenditure risks and impacts
 - Next Steps
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Working Draft Early in Process

- These high level working draft financials are prior to full review and prior to expenditure review/ savings and capital prioritisation
- At this stage of the process the expenditure levels are always higher than the finally agreed annual plan
- Council direction and indications are sought of areas where council would consider lower service and capital prioritisation



Principles for AP development

As resolved Nov12, 2024

- Looking after what we have got
- Paying a fair share
- Ongoing financial, economic, social, cultural and environmental sustainability
- Affordability
 - Robust and transparent financial analysis
- Growth pays for growth
- Value for Money

(Definition of) value for money

- The most advantageous combination of cost, quality, and sustainability, and refers to the efficient, effective, and economical use of public resources to achieve the best possible outcomes for Tauranga.
 - In this context:
 - Cost means consideration of the whole of life cost
 - Quality means meeting a specification which is fit for purpose and sufficient to meet the needs of the people of Tauranga
 - Sustainability means economic, social, cultural and environmental benefits, considered in the business case in support of council procurement.
 - A significant programme of work is underway to focus on value for money : [Value for Money hub](#)
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Savings achieved in 2025/26

- \$29-\$30m in total
- Included reduction more than 108 FTE positions
- Approx 12% saving in employee and other operating costs against the 2026 LTP
- These savings form part of the base budget ongoing



Annual Plan process (1)

- October 2025 workshops – provide information on working draft which is budgets updated by activity managers and based on assumed capital project levels and other key assumptions.
 - Working draft typically indicates total expenditure above levels subsequently adopted, after a process of review and elected member decision making.
 - The working draft is internal information **prior to**:
 - Further review sought by Executive
 - Updates from capital programme prioritisation
 - Outcome of user fee review and council decisions/direction
 - Elected member guidance, eg levels of service?
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Annual Plan process (2)

- Direction from this workshop and the Annual Plan capital workshop on 6 Nov will be brought to 18 November Council meeting
 - Decisions that update the working draft will be incorporated by staff through November and early December to enable a first draft Annual Plan budget broken down by activity for 9 December Council meeting
 - Other issues and options papers and decisions affecting draft annual plan considered by Council Feb/Mar 2026
 - Any other workshops required to consider budgets and options?
 - Consultation on the Annual Plan Mar/Apr 2026
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Financial Framing – Key Assumptions

- Rates increase to be at or below LTP year 3, 10.4% after growth
 - Growth assumption continues to be significantly below that assumed in the LTP (0.5% vs 1.5%)
 - Interest rate assumption for new debt is 4.5% vs LTP 5.1%.
 - Average cost of funds assumption 4.1% vs 4.4%
 - Debt starting point for annual plan \$88m lower than LTP
 - Capex assumption before prioritization c\$540m including TW and Digital
 - Organisational reset has moved some budgets between activities, impacting activity trends over time
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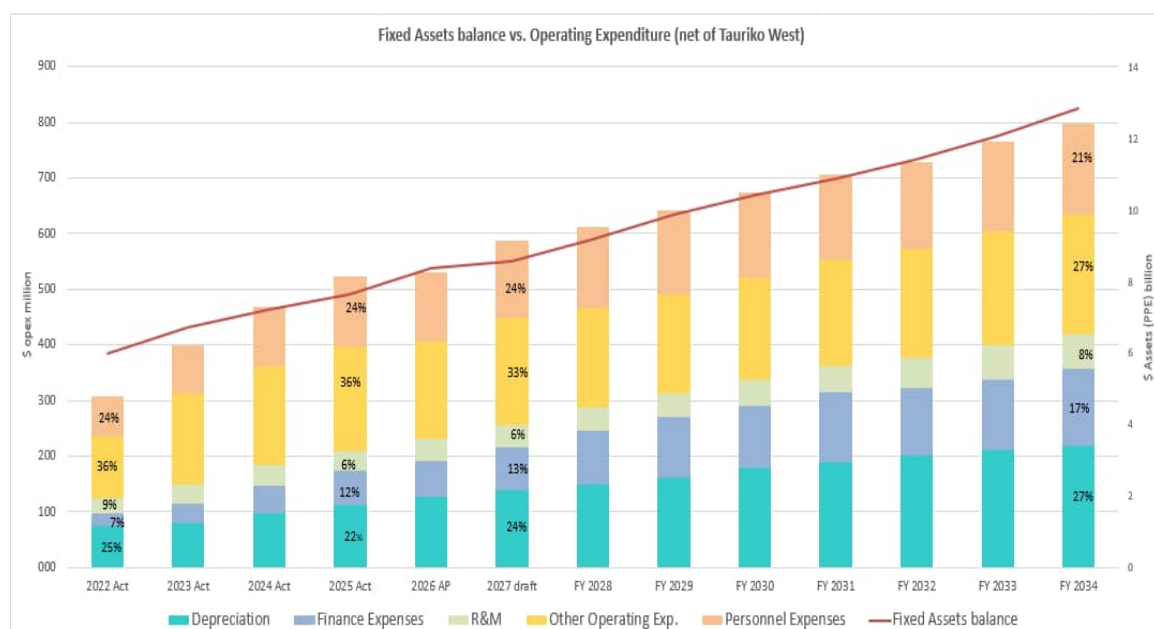
Working draft budget movements

Major movements arising from new capital assets:

- Depreciation has increased \$12m (10% yoy)
- Interest has increased \$13m (19% yoy)
- Operating costs from new assets
 - New library (rates funded) \$0.3m
 - Museum set up (rates funded) \$1.6 (further \$2.1m following year) replacing early start of staff which was budgeted in LTP

Opex relationship to assets (LTP)

- The bigger the capital programme, the higher are finance expenses (interest), revaluation and depreciation costs
- TCC is an infrastructure-based business with c\$8b in assets and c\$500m capex in 2025/2026, and c\$540m in draft 2026/27.
- Large operational projects of a capital nature (in digital, particularly to migrate from Ozone ERP), new museum and library set up costs c\$2m, and ongoing community non-capitalizable projects c\$3m additional opex in 2026/27.



Impact of capital

- Capital programme review is underway
- Programme likely to be c\$500m before EM review
- Further reduction to the capital programme would reduce opex and rates requirement.
- For example, \$100m reduction would generate interest savings in 2026/27 of c\$2.1m, and in later years of c\$4.2m per annum.
- Depreciation savings in later years, depending on asset type, \$2-5m per annum.

Other Business as Usual cost Adjustments

- Salaries and wages increased 3.5% for market movement
 - Churn % assumption reduced 2.1% to reflect current conditions – adding \$4.6m
 - Most external revenue and expenditure uplifted 2.2% for inflation (based on LTP expectations)
 - Longer term savings through for example procurement efficiencies identified through 2025/26 AP have not been costed in
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Other impacts on rates including funding

- Budgets now funding repayment of Digital SaaS loans \$3m – total Digital opex loan \$49m
 - Reserve funding of Libraries from community targeted rate reserve has finished meaning an uptick of library rates funding of \$3m
 - Other repayment of operating debt including grants for construction of community assets and city development over previous years - approx. \$6m
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2026/27 ongoing areas of work

Rates requirement may be further lowered by:

- Areas still under review – (digital and communications)
- % allocations and approach to recovering costs of various corporate activities
- User fees and charges additional revenue if identified and agreed
- The nature and scale of approved capital programme
- Review of vacant positions

Rates requirement may be increased by:

- Additional loan funded opex (e.g digital migration from ozone)
 - Additional landfill capital and other capex or opex initiatives not budgeted in LTP
 - Any additional rates funding to cash activities if agreed
 - Up to \$29m on Marine Precinct may impact rates depending on confirmed accounting treatment
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Key Financials

	2026 Annual Plan \$m	2027 Annual Plan \$m	Variance 2027 AP to AP 2026 \$m	Variance
Capital and Debt Summary				
Capital Programme (\$m)	425	463	39	Programme review underway
Operational Expenditure of a Capital Nature (\$m)	78	74	(4)	Programme review underway
Net Debt (\$m)	1,648	1,766	118	Net debt measure now includes borrower notes asset which is allowed under LGFA methodology. The 26AP equivalent \$1600m.
Debt to revenue ratio (LGFA compliance)	260%	260%	()	
Financial Limit on Borrowing (debt to revenue ratio - bespoke)	330%	330%	0%	
Operational Summary				
Total revenue including all asset development revenue (\$m)	638	722	84	DC revenue and vested asset revenue under review and likely to decrease
Capital subsidies (\$m)	61	68	6	Grants expected for Museum and Memorial Park Aquatics offset be reductions related to Tauriko West and NZTA. Under review alongside capital programme.
Total operating revenue (\$m)	532	587	55	See operating revenue and expense table
Total operating expenditure (\$m)	591	642	51	See operating revenue and expense table
Balanced budget - LGFA requirement	100.2%	101.9%	1.1%	
Total Rates (\$m)	368	428	60	Impact of all updates and revisions on rates requirement.
Total Rates Increase (net growth and penalties)	9.9%	15.9%	6.0%	Growth assumption of 0.5%

2026/27 Operating Revenue and Expenditure

Forecast Operating Revenue and Expense						
	2025 Act (000's)	2026 Annual Plan (000's)	2027 All of Council AP Budget (000's)	2027 AP Var to 2026 AP (000's)	YoY increase %	approx % rates increase Year on Year variance comment
REVENUE						
OPERATING REVENUE						
Rates	372,596	367,996	428,337	60,341	16%	Result of all other operating and funding movements
Grants & Subsidies	86,696	78,171	71,379	(6,792)	-9%	1.0% Decrease in TW subsidies and other NZTA subsidies
Fees & Charges	77,195	79,515	78,572	(944)	-1%	Reductions mainly in expected Building and Trade Waste revenue
Finance Revenue	5,899	6,142	8,543	2,401	39%	-0.7% Reflecting reduction in short term deposit interest rates
TOTAL OPERATING REVENUE	542,387	531,824	586,831	55,007	10%	
EXPENSE						
OPERATING EXPENDITURE						
Personnel Expenses	121,487	124,442	141,043	16,602	13.3%	3.9% Salaries and wages increased \$3.5% for market movement. Churn % updated to reflect current conditions, adding \$4.6m. Additional salary costs re: waters reform recovered through revenue.
Depreciation & Amortisation Expenses	116,842	125,882	138,041	12,159	9.7%	3.4% Construction costs of last few years now being capitalised, some earlier than budgeted.
Finance Expenses	69,869	65,993	78,698	12,705	19.3%	2.5% Interest rates assumption now 4.25% down from 4.75%. New debt (including replacement debt) of \$537m in 2027 impacting costs.
Other Operating Expenses	298,248	274,394	283,884	9,490	3.5%	1.5% Inflation adjustment 2.2% + additional spending on Museum prior to opening and Library c\$1.9m yoy increase, + \$7.9m additional BVL grant.
TOTAL OPERATING EXPENDITURE	606,445	590,710	641,666	50,956	8.6%	
OPERATING SURPLUS/(DEFICIT)	(64,059)	(58,886)	(54,835)	4,050	-6.9%	Reduction in deficit

Balanced budget (LGFA measure)

Balanced Budget (LGFA/Financial Prudence)	2026 AP	2027 AP
Operating Revenue	531,824	586,831
Capital Subsidy revenue	61,460	67,937
Total Revenue	593,284	654,768
Operating Expenditure	590,710	641,666
Plus other losses	613	349
Plus Provisions expense	500	500
Total Expenditure	591,823	642,516
Revenue/Expenditure	100.25%	101.91%

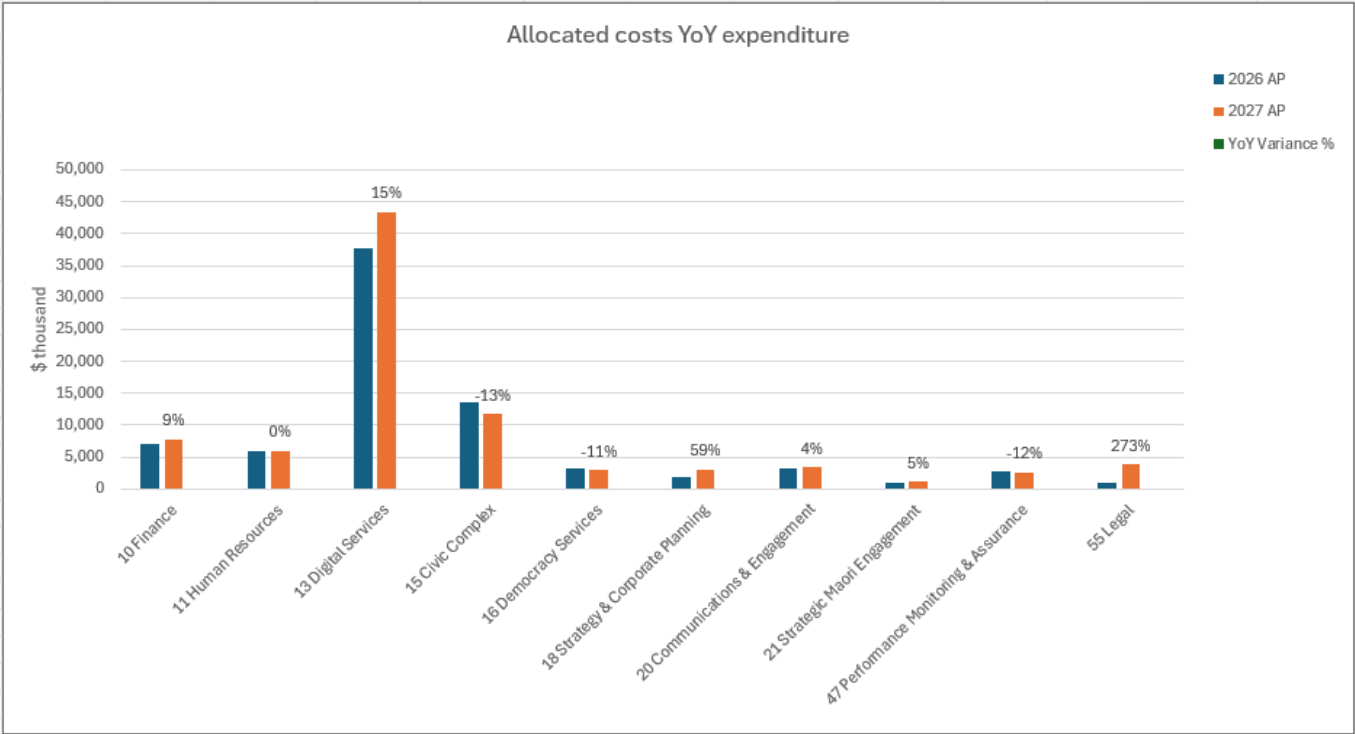
As a condition of our bespoke borrowing covenant with LGFA, this measure must be budgeted at over 100%.

Employee costs

- Are still under review to confirm results of reset
- Savings from reset remain

	2026 AP	2027 AP	YoY var	YoY var %	
Salaries & Wages	143,715	148,244	4,528	3.2%	3.5% increase for market movement
Churn	(7,681)	(3,073)	4,608	-60.0%	Updated to reflect current conditions
Capitalised salaries	(19,304)	(13,931)	5,374	-27.8%	\$3m digital, offset in other opex, \$1.6m transport, \$0.7m Waters
Salary recharges	(1)	1,743	1,744		Waters reform (loan funded) recovered through revenue
Other employee costs	7,713	8,061	347	4.5%	Inflation + increase in training to offset reduction in consultants
	124,442	141,043	16,602	13.3%	

Allocated costs



Options for AP financials (1)

- This working draft currently calculates rates at 15.9%.
- Reducing that requirement would require savings in rates funded activities, for example:

Rates increase	6%	8%	10%	16%
Required rates-funded savings to achieve lower rates \$m	37	29	22	
Percentage of rates funded employee and other operating costs saving required (approx)	15%	12%	9%	

- On top of the 2025/26 \$30m cost reductions, savings of this scale would likely require level of service reductions



Options for AP financials (2)

- Alternatively, increases to fees and charges may impact rates (but not always)
- Or reductions to the capital programmes will reduce interest charges immediately, and depreciation cost in the medium to long term

