Financial Strategy 2021-2031

1. Introduction

The Council is driven by a strategic approach to achieving outcomes that contribute to the its vision for Palmerston North **Small city benefits, big city ambition.** This Vision is supported by the following goals and related strategies:

Goal 1: An innovative and growing city
Goal 2: A creative and exciting city
Goal 3: Connected and safe communities
Goal 4: An eco-city
Goal 5: A driven and enabling Council

More detail about these in outlined in section xx of the 10 Year Plan.

2. Purpose

The purpose of the Financial Strategy is to:

- facilitate prudent financial management by Council, by providing a guide against which to consider proposals for funding and expenditure
- provide a context for consulting on Council's proposals for funding and expenditure, by making their overall effects on services, rates, debt and investments transparent

[Note: This Financial Strategy is an integral component of the Council's 10 Year Plan. It should be read in conjunction with the Plan, which amplifies many aspects of the Strategy in relevant sections. The Strategy also links closely with the 30 Year Infrastructure Strategy.]

3. Approach

This strategy is structured in the following manner:

- Financial overview
- The current financial position of the Council
- Desired future financial position and challenges being faced
- Guiding financial management principles
- What this means for 2021-31 including debt and rates forecasts
- Appendices:
    - Growth assumptions
    - Cost of providing for growth
    - Looking after present infrastructure
    - Policy on giving security for borrowings
    - Financial investments

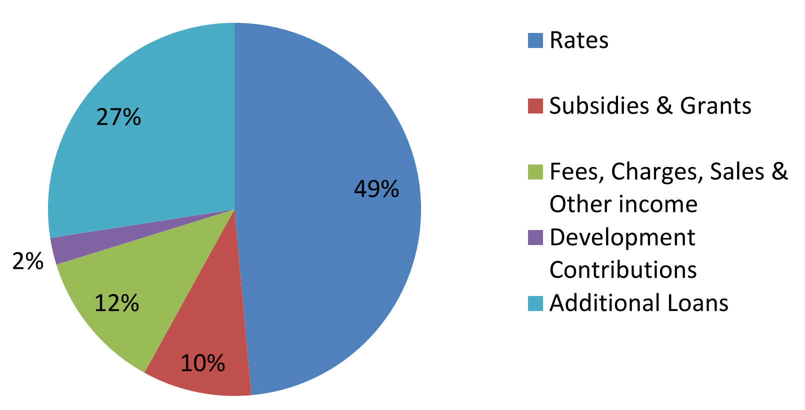
4 Financial overview

- Council has assets with a replacement value of more than $1.8 billion that are generally in good condition and are big enough to cope with significant city growth.
- The Council's current debt levels are moderate for a regional New Zealand city (especially given the range and quality of services provided).
- Rates levels are comparable with other districts of our size.
- Council is planning for medium population and household growth as forecast by Infometrics plus a margin as required by the National Policy Statement for Urban Development.

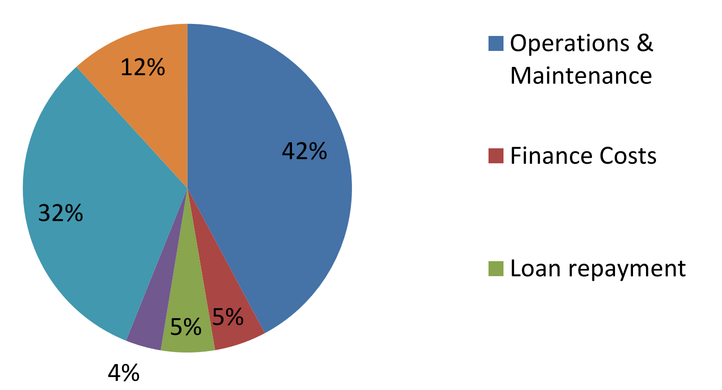
- The City has adequate appropriately zoned land or land identified for rezoning to cope with the first 10 years of growth.
- Council believes it needs to invest in new and better catalyst projects to meet its Vision and Goals for the City.
- The requirement to update the City's wastewater treatment and disposal system (Nature Calls) provides the greatest single challenge to long-term financial sustainability of the Council. At the present time it has been assumed that an acceptable option can be obtained for $391.7 million ($350 million plus inflation) but there is a high level of risk it could be more or less than this.
- Council has been increasing its investment in asset management planning and is progressively obtaining better condition assessments of its infrastructure assets. This information has led the Council to conclude it needs to increase its investment in both asset maintenance and asset renewal.
- In order to fund existing Council services and key projects being proposed in the 10 Year Plan, including new capital expenditure of $xxx million, Council's rates and debt levels will need to increase – debt increasing from a forecast $164 million to $861 million.
- These projected levels of debt would mean Council's own prudent borrowing ratios would be significantly exceeded and it is highly unlikely lenders will be prepared to lend to the Council in such circumstances.
- The government is proposing major reform which would include the transfer of 3 waters functions (or at least water and wastewater) to a small number of regional water entities within the next three years. Like all Councils our Council is required to plan on the assumption this change will not occur. However, the forecast borrowing required for the Nature Calls project is such as significant component of the Council's debt projections that the Council is not in a position to develop a credible, sustainable long-term financial strategy.
- It is proposed that once there is more certainty about the 3 waters proposals and the favoured option for the Nature Calls project an updated strategy will be prepared.
- Based on these assumptions total rates will need to increase by 6.9%[1] in 2021/22, 8.3% in 2022/23, 8.1% in 2023/24, 9.3% in 2024/25, 11.0% in 2025/26 and increases of between 2.6% and 6.5% in each of the following five years.

[1] The Council proposes to fund a central city Palmy BID group and to set targeted rates to collect the $250k plus GST to fund the programme. Including this new programme would mean total rates income for 2021/22 would increase by 7.1% over the budget for 2020/21.

What are the proposed sources of funds?



What is it proposed that money will be spent on?



5. Current Financial Position of the Council

The Council provides the full range of territorial local government services to its community. It has believed it to be important to fund new infrastructure and facilities just in advance of when required as a means of providing for and encouraging city growth. As a significant regional centre it has invested in community facilities to serve the wider region. From a policy perspective it has committed to maintaining and renewing those assets in a prudence manner.

With assets of over $1.8 billion and debt projected to be $164m as at 1 July 2021 the Council is conservatively geared. It has a S&P Global AA credit rating enabling it to borrow at the best rates available to local government and is currently operating well within its own prudent debt ratios and those of the NZ Local Government Funding Agency. The Council has been prepared to set rates and fees and charges at levels necessary to fund the delivery of these services and facilities and currently these rates and charges are comparable with other like Councils.

The key elements of the financial strategy underpinning this have been:

- to ensure the Council's long-term financial position is sustainable
- to recognise inter-generational funding requirements
- to manage debt within defined levels
- to maintain the infrastructure provided for the City by previous generations, for the use by current and future generations
- to ensure financial capacity for future generations so they are able to fund high-priority programmes
- timely provision of new infrastructure that builds capacity and enables the City to harness new development opportunities while avoiding the financial risks associated with over provision.

In developing this strategy, the Council has focused on:

- what needs to be done to ensure the City's infrastructure can continue to provide desired levels of service and meet any growth in demand
- what level of rates is required to meet the infrastructure needs
- how to create sufficient borrowing 'capacity' to cope with future high-priority programmes.

As a result, the approach has been to:

- encourage staff to provide innovative and efficient delivery of services
- commit to funding capital renewals at the levels required to maintain assets
- challenge expenditure proposals to ensure they are aligned to key Council Strategies, that the proposed timing is realistic and that they are capable of being delivered
- peer-review capital expenditure budgets to ensure they are adequate in the current challenging contracting market
- make sure the expenditure required for growth is committed soon enough to enable the City to harness development opportunities, but not too far ahead of when the infrastructure will actually be required.

6. Desired Future Financial Position and Challenges being faced

Council's broad desire is to maintain the financial strategy that has served it well, the key elements of which are outlined above.

However, in determining the way forward the Council faces a number of challenges which make developing a sustainable financial strategy more difficult than usual. Most of them introduce a very high level of uncertainty to the planning process. They include:

6.1 Recognition of underinvestment in costs of maintaining services and assets

With an increasing investment in asset management planning more information is becoming available about the condition of the Council's assets although there is considerable further investment required to obtain a full picture of this. This has led the Council to understand that for a number of activities (especially roading, property, three waters and information management) there is a need to increase funding for maintenance and renewal.

6.2 Uncertainty about the level of funding required for the Nature Calls (wastewater treatment and disposal upgrade) project

Although this is not a new issue the Council is committed to determining a best practicable option for wastewater treatment and disposal by June 2021 and to lodge a resource consent application by June 2022. Capital expenditure (assumed to be $350 million plus inflation) is scheduled for 2023-2027 and significantly impacts on the Council's projected financial position, in particular the level of borrowing required.

6.3 The nature and timing of proposed water reforms

In a three-year programme to reform local government three waters service delivery arrangements to improve service delivery outcomes, the government is proposing they are managed by a small number of multi-region entities instead. At this point, the Council has agreed to consider the proposal and, as a result, has been granted $9.4m of central government funding to bring forward some critical renewals and advance key water and wastewater resilience projects. The timing and design of these reforms is not clear. Due to this uncertainty Councils preparing their 2021 10 Year Plans assuming the status quo. As the Nature Calls project is such a significant component of the Council's planned overall capital expenditure programme whether or not it is ultimately the responsibility of the Council to deliver it has a real and significant impact on the credibility of the financial strategy.

6.4 The impact of Covid-19

Recognising a potential loss in income from a range of services and that there may be many in the community with uncertain income as a consequence of Covid-19 the Council decided to reduce its budgeted operating expenditure for 2020/21 and to increase rates by 1.95%, rather than the 4.4% increase originally proposed. This means that for a number of the Council's activities there is a catchup required for operating expenses budgets. The 10 Year Plan has been prepared on the assumption that there will not be a repeat of the nationwide lockdown and that supply channels for goods and services will remain open. There are increasing examples of worldwide disruptions to these channels and as a consequence goods are either unavailable when required or if they are available the cost (especially the transport component) will have increased significantly.

6.5 Climate change

Council's previous plans have recognised the climate is changing and has incorporated design solutions to cope with this especially for the stormwater activity. Council has set its own greenhouse emission reduction targets and is aware the government will also be imposing a number of new requirements that will likely impact on transport and other city infrastructure.

6.6 Earthquake-prone buildings

More of the Council's buildings than previously assuming have now been assessed as earthquake prone. Although the remediation can be staged over 15 years the potential cost ($150 million plus) is significant. Whilst they remain assessed as earthquake prone it is not possible to obtain re-instatement insurance cover meaning the Council is exposed to significantly more risk for many of its major buildings.

6.7 Sustainable city growth

The City is projected to grow more significantly than previously assumed placing pressure on the Council to invest in infrastructure to enable and service that growth. Not only is this impacting on housing supply and affordability for city residents but a number of major government, residential and commercial projects throughout the Manawatu is stretching contractor resources and putting upward pressure on contract prices and ability to deliver.

7. Key forecasting assumptions

Council has made a number of significant forecasting assumptions in preparing its 10 Year Plan. These are contained in section 3 of the Plan.

These assumptions range from global issues such as the worldwide pandemic and climate change, to national issues such as the magnitude and frequency of natural disasters or the level of external funding available from agencies (in particular, the Waka Kotahi New Zealand Transport Agency) or inflation rates, to more local issues such as the conditions for resource consents (for stormwater and wastewater discharges).

Although Council believes it has made prudent assumptions in each case, there is a high level of uncertainty surrounding some assumptions. In most cases the Council has some flexibility to cope with changing circumstances. Depending on the issue, Council's response could involve reducing maintenance for a short period, postponing scheduled capital renewals, postponing new capital development or using any 'headroom' in the Council's borrowing capacity.

8. Guiding financial management principles

8.1 Equity between generations

Council will manage its financial operations and position in a responsible way, in the best interests of current and future generations of City residents.

This means trying to ensure the current generation pays a fair share of the costs of the City's services and facilities and that future generations are given a sound foundation to be able to address challenges and grasp new opportunities for the City.

It also means operating within a framework that assesses and tries to mitigate major risks and always strives to obtain value for money.

8.2 Levels of service, priorities and funding levels

The Council will review the levels of service to be provided within each activity at least every three years, and assets will be maintained to the standard needed to deliver the agreed levels of service.

Asset management plans will be maintained for all facilities and infrastructure, and these will contain information about asset condition and performance and any renewals required to keep them to the required standard.

A robust framework will be used to determine what expenditure should be undertaken. This framework includes:

- ensuring the expenditure will contribute to the Council's Vision for the future, including levels of service
- assessing the whole cost of any capital development over its expected life
- considering options for achieving the desired outcome.

The level of new capital expenditure that is considered sustainable will be governed by Council's ability to service and repay debt. This will be assessed against a series of prudent guidelines, which are outlined in section 8.5 of this Financial Strategy.

Council will set fees, charges and rates at levels that are sufficient to balance the Council's budget over the medium term.

The Council will aim to ensure that the total rates set each year are sufficient to cover net annual operating expenses (excluding depreciation). In addition they will cover the projected three-year rolling average cost of renewals and a contribution towards repaying debt over the effective life of the assets (to a maximum of 30 years) funded from the borrowing.

8.3 Funding and financial policies

Grants, subsidies and capital contributions will be actively sought to minimise the impact of increased capital expenditure on City ratepayers.

The spending needed to service City growth will be funded by development contributions set according to the Development Contributions Policy.

Council may borrow to fund capital expenditure in the following circumstances:

- as an interim measure before development contributions for growth-related expenditure are received
- to spread the costs of major developments over the generations who will ultimately benefit
- to smooth the effects of capital expenditure
- where programmes will provide a positive net present value.

Council may also borrow in limited instances to fund operating expenses and then spread the cost over the period of the expected benefit – usually five to seven years. This is particularly the case for significant enterprise wide information management systems.

Council will operate a corporate treasury function that will allocate the costs of servicing and repaying borrowings over the activities funded from borrowing. Renewals will be funded from subsidies and grants, rates revenue and, in certain circumstances (on an interim basis), from borrowing.

To foster the sense of a single community, Council will operate a common system of charging for services throughout the City.

To ensure all residents contribute to the cost of providing City services, charges will be set on a beneficiary-pays basis where practicable, with the rationale for each activity set out in the Revenue and Financing Policy.

To enable ratepayers to plan with certainty, Council will operate a stable, easily understood method of setting rates. The Council will aim to set rates in a way that is fair and equitable for all ratepayers and classes of ratepayer, and that is consistent with Council's strategic and district planning objectives.

9. What this means for 2021-31

9.1 Levels of service

The aim is to maintain the current services as a minimum. New environmental and building standards, changed expectations regarding modes of transport and forms of leisure, climate change and a range of other factors outlined in the Infrastructure Strategy led to pressure to improve levels of service for a number of activities. It has also been recognised that in a number of areas additional funding needs to be committed to ensure assets and service levels are properly maintained. The 10 Year Plan includes progressively increased levels of funding to bridge this gap. Council believes that, subject to the significant forecasting assumptions, there will be sufficient revenue to fund the levels of service outlined. More information about each activity is provided in section 2 of this 10 Year Plan.

9.2 Asset condition

Council has assets with a replacement value of more than $1.8 billion (mainly infrastructure like roads and pipe networks). It is committed to maintaining and renewing these in a responsible way so that they do not become run down. Most of the infrastructure is assumed to be in good condition, with much of it in the early to mid-point phase of its life cycle. Additional focus is now being placed on obtaining better information about asset condition and utilising that information to plan asset maintenance and renewal in a more cost-effective way.

9.3 Sustainability of long-term funding

As many the City’s key assets, particularly its infrastructure, are in the early to middle of their life cycles, the peak for capital renewal expenditure is not expected for another 30 to 50 years, depending on the activity. It has been recognised that though a better understanding of asset condition the Council is facing increased renewals costs especially for roading, property, three waters and information management. The 10 Year Plan includes provision for a significant increase in renewal funding in the early years.

Council’s present approach is to fund the net cost of capital renewals from rates. The amount funded from rates in each year is calculated using a formula that averages the expected renewal expenditure in the current and next two years. Over the 10-year period of the Plan, forecast capital renewal expenditure totals $337 million and it is assumed that $44 million of this will be funded from external subsidies and grants, leaving a net sum of $293 million to be funded from rates. The Council’s rolling average calculation formula achieves this aim.

The Council believes that, based on its current asset information, the amounts sought from current ratepayers are appropriate.

The present funding arrangements are adequate to meet forecast costs for now, but Council recognises that in the longer term additional revenue will be needed to fund a higher level of renewal. One of the big challenges for the future is deciding which generations should bear the cost of the increased level of renewals. This will be considered in more detail at each three-yearly review of the 10 Year Plan.

9.4 Level of capital development

As outlined in section 3, the Plan assumes there will be significant City growth over the 10 years and that the Council will need to provide infrastructure to support this. Council does not wish to constrain desirable City growth through a lack of key infrastructure, but in order to make the Plan affordable, future commitments will need to be reviewed regularly to ensure the proposed investment continues to support the Vision and Goals and is financially sustainable.

The largest single programme impacting on the Council's financial position is the requirement to upgrade the City's wastewater treatment and disposal system. More information about this is outlined in the Infrastructure Strategy and the Significant Forecasting Assumptions. In summary:

Council's resource consent to discharge treated wastewater from the treatment plant into the Manawatū River is due to expire in 2028. As part of the new consent process a review of the wastewater treatment and disposal options needs to be completed by June 2021 and the new consent application lodged by June 2022. A process is under way to further refine the shortlisted options before there is further community consultation. Ultimately the Council will need to balance regulatory compliance requirements with community expectations and Council's ability to pay.

For the purposes of the 10 Year Plan the following budgetary provisions have been made:

- $5.9 million to complete the options analysis and obtain the consent
- $392 million ($350 million plus inflation) between 2023 and 2027 to undertake the capital upgrades.

The amount of this provision does not signal that a particular option has yet been determined.

The 10 Year Plan assumes there will be total capital expenditure of $1,487 million over the 10 year period comprising $337 million for capital renewals and $1,150 million for new capital works.

9.5 Level of debt

Council needs to borrow to fund major new capital developments in the same way individuals do when they need a new home or car. To help decide the maximum level of borrowing that is sustainable, the Council has adopted the following policy limits (based on Council's core financial statements):

BORROWING LIMITS	POLICY MAXIMUM	FORECAST LEVEL AT 30 JUNE 2022	FORECAST MAXIMUM DURING 10 YEARS	FORECAST LEVEL AT 30 JUNE 2031
Net external debt as a percentage of total assets	<20%	11%	28.5%	27%
Net external debt as a percentage of total revenue	<200%	151%	386%	366%
Net interest as a percentage of total revenue	<15%	3.6%	10.5%	10.3%
Net interest as a percentage of annual rates income	<20%	4.7%	13.1%	12.9%
Liquidity	>110%	%	%	%

Total revenue is defined as income from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue, and excludes mark to market gains/losses on financial instruments, revaluations of assets and grants or development contributions for capital programmes.

Net external debt is defined as total external debt less liquid financial assets and liquid investments.

Net interest is defined as all interest and financing costs (on external debt) less interest income for the relevant period.

Liquid financial assets are defined as overnight cash deposits, wholesale/retail bank term deposits no greater than 30 days and bank-issued RCDs less than 181 days.

Annual rates income is defined as the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 (including metered water charges).

Liquidity is defined as external debt plus committed, unutilised bank facilities plus investments divided by external debt.

The policy maximum for the net external debt as a percentage of total revenue ratio is 200%. This is less than the 250% level that has been set by the NZ Local Government Funding Agency for Council's with credit ratings but in the normal course of events is considered appropriate to enable Council to borrow the projected amounts needed for the proposed capital development programme.

However as demonstrated above the Council's projected borrowing requirements (including the amount assumed for the Nature Calls wastewater project) of $392 million mean this ratio is projected to be exceeded from 2024/25 onward.

At these levels it is highly likely the Council's credit rating would be lowered and funding agencies would not be prepared to lend the sums required.

The Council believes it has little option but to adopt the proposed 10 Year Plan and forecasts and in doing so recognises that in the longer term in is not financially sustainable under current ownership and funding arrangements.

Given the uncertainty of the forecast costs (especially in relation to Nature Calls), and the future structure for the management of the three waters Council has determined that for the time being the forecast programme of capital development and consequential borrowing requirements are appropriate.

Once these two key uncertainties are determined the Council will be in a better position to consider planning for the longer term. An updated 10 Year Plan will be prepared at that time, possibly in advance of the next scheduled update in 2024.

Budgets have assumed that as new loans are raised, provision will be made to repay them (on a table mortgage basis) over the average life (with a maximum of 30 years) of the asset being funded.

In recent years, the Council has generated operating surpluses (due in part to delays to the capital expenditure programme and the resulting savings in interest costs). As a matter of policy, Council has used these savings to repay debt early and to substitute for new debt.

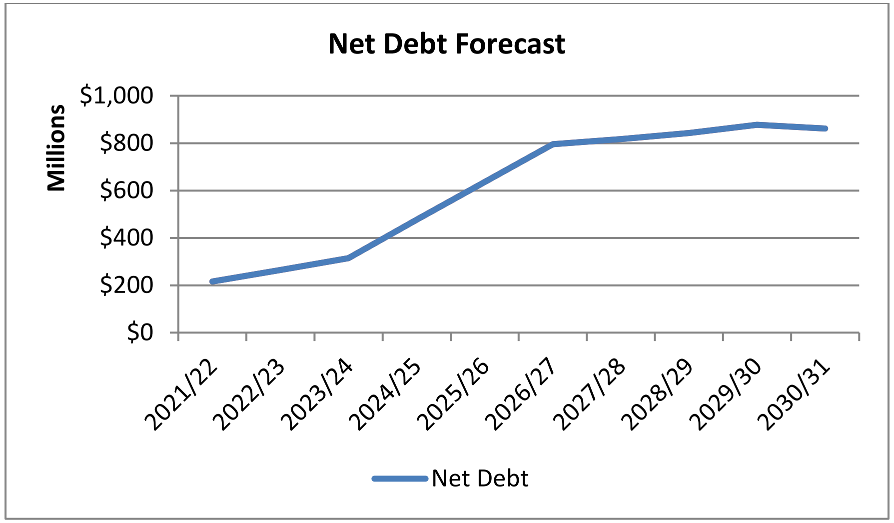
Council's 2018-28 10 Year Plan recognised that it needed to repay more debt in the short term to leave financial capacity to borrow for essential works in the future (in particular, the expected upgrades to the wastewater treatment plant). Provision was made for accelerated debt repayments totalling $49.8 million over the seven years from 2021/22.

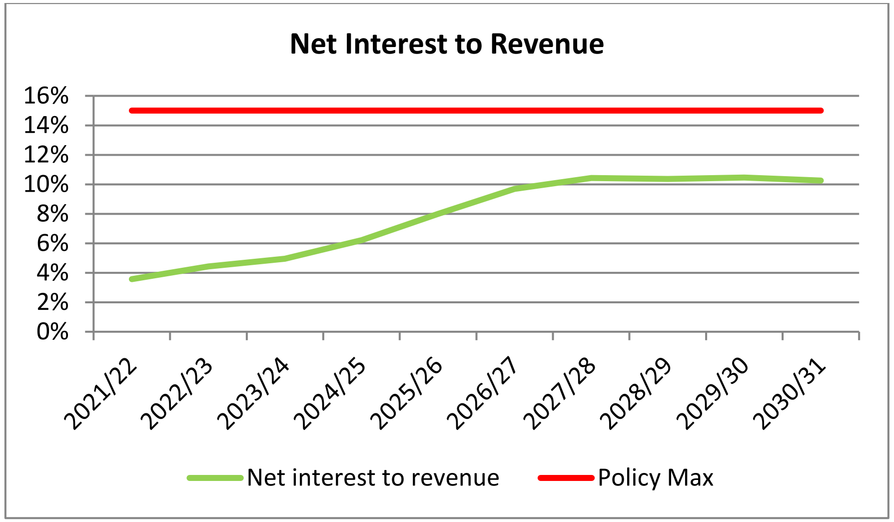
These accelerated debt repayment provisions have now been removed from the budgets in the 2021-31 10 Year Plan.

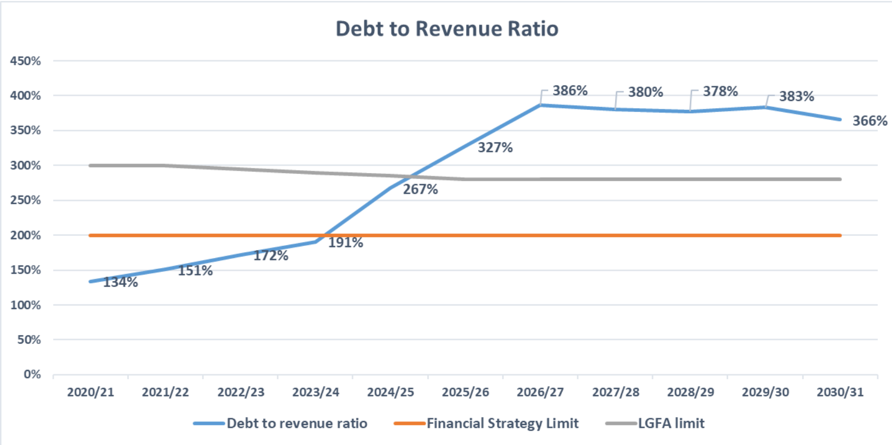
The combination of the debt repayment for present debt and the additional debt needed to fund new capital items means the following movements in the Council's debt levels are forecast over the 10-year period:

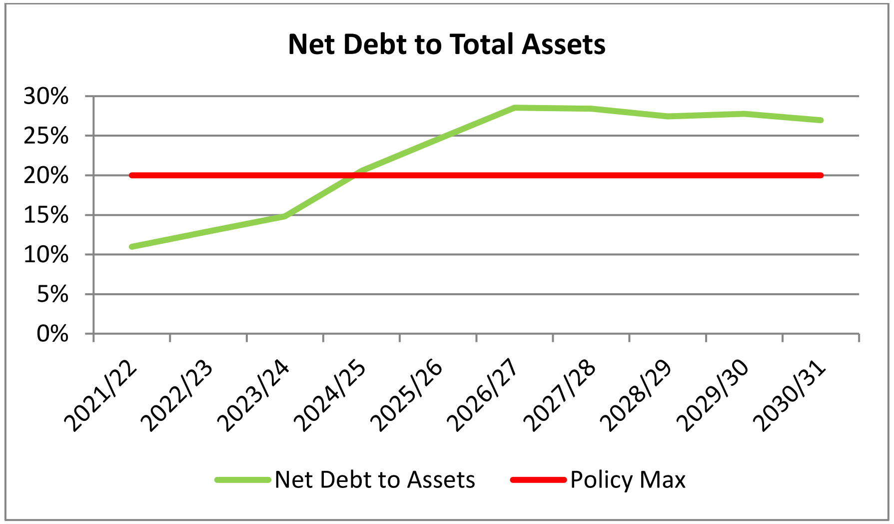
Forecast movement in debt ($m)	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**Total**
Planned expenditure on new capital items	72.0	72.0	88.6	197.9	197.8	208.3	82.0	97.3	106.3	29.2	1,151.3
less external subsidies and grants	(8.6)	(11.5)	(19.8)	(17.5)	(16.7)	(20.2)	(26.4)	(32.9)	(32.8)	(7.8)	(194.3)
less development contributions	(2.1)	(2.6)	(3.2)	(5.3)	(7.5)	(9.9)	(10.2)	(10.4)	(10.9)	(11.0)	(73.1)
Additional debt required to fund new capital programmes	61.4	57.9	65.5	175.0	173.7	178.1	45.3	54.0	62.7	10.4	883.9
less debt repayment funded from rates	(5.4)	(6.7)	(8.1)	(9.8)	(14.0)	(18.3)	(22.9)	(24.8)	(26.9)	(29.1)	(166.0)
less net proceeds of residential subdivision	(4.8)	(2.8)	(7.8	(7.5)							(22.9)
Operating expenses spread over life of investment	2.5	1.7	2.3	2.8	(2.0)	(2.0)	(1.5)	(1.2)	(0.9)	(0.3)	1.2
less funding from rates for capital renewals received in advance	(1.8)	(1.2)	(2.8)	2.3	1.7	1.5	1.1	(2.5)	(0.1)	2.8	1.0
Additional debt required	51.8	48.9	49.1	162.8	159.3	159.3	21.9	25.4	34.8	(16.1)	697.3

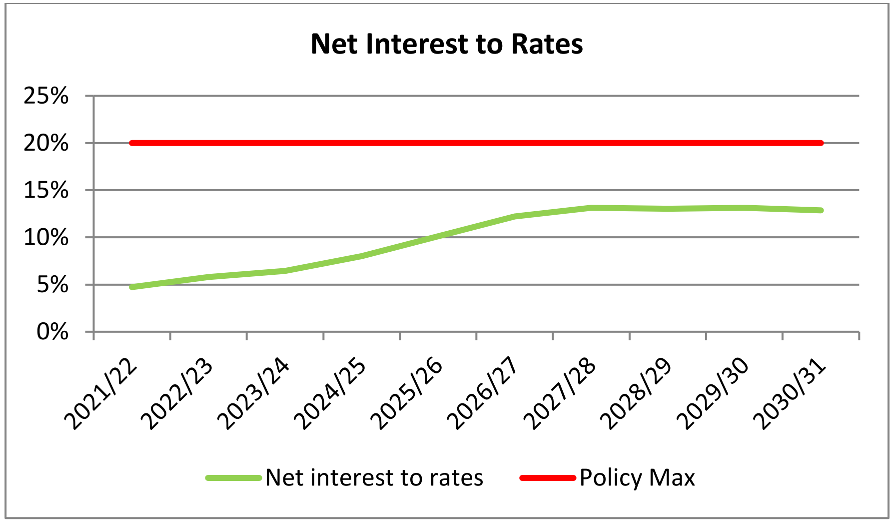
These movements result in Council's total debt increasing from $164 million to $861 million, as shown in the following graph:


Net Debt Forecast
Millions
$1,000
$800
$600
$400
$200
$0
2021/22
2022/23
2023/24
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
Net Debt


Net Interest to Revenue
16%
14%
12%
10%
8%
6%
4%
2%
0%
2021/22
2022/23
2023/24
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
Net interest to revenue
Policy Max


Debt to Revenue Ratio
450%
400%
350%
300%
250%
200%
150%
100%
50%
0%
386%
380%
378%
383%
366%
327%
267%
191%
172%
151%
134%
2020/21
2021/22
2022/23
2023/24
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
Debt to revenue ratio
Financial Strategy Limit
LGFA limit


Net Debt to Total Assets
30%
25%
20%
15%
10%
5%
0%
2021/22
2022/23
2023/24
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
Net Debt to Assets
Policy Max


Net Interest to Rates
25%
20%
15%
10%
5%
0%
2021/22
2022/23
2023/24
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
Net interest to rates
Policy Max

9.6 Fees and charges for services

Council has developed policies for the proportion of costs of each activity to be paid by direct users of the service and by ratepayers. Where it is practical to identify the user, then the user will generally be expected to pay (for example, owners or developers pay for resource consents). In some cases, a subsidy from ratepayers is considered desirable so that a facility is affordable to all (for example, swimming pool entry charges do not cover the full cost). Some activities (such as civil defence) are funded entirely from rates because they benefit everyone.

Fees and charges will continue to be set at levels that are sufficient to fund the changing cost of services.

9.7 Rates

Rates will have to increase to fund the activities in the Plan.

The desire to keep rates increases as low as possible has to be balanced with the need to fund the maintenance and renewal of key City infrastructure. The need to plan for a higher level of debt repayment to be able to service debt from future high-priority capital programmes also has to be considered.

Over the 10-year period, Council aims to limit rates as follows:

- Total rates[2] will increase by no more than the Local Government Cost Index (LGCI)[3]:
    - Plus additional rates obtained from growth[4] in the rating base
    - plus 3% (to fund costs of higher standards and new services)
    - plus increase in funding required for asset renewal[5]

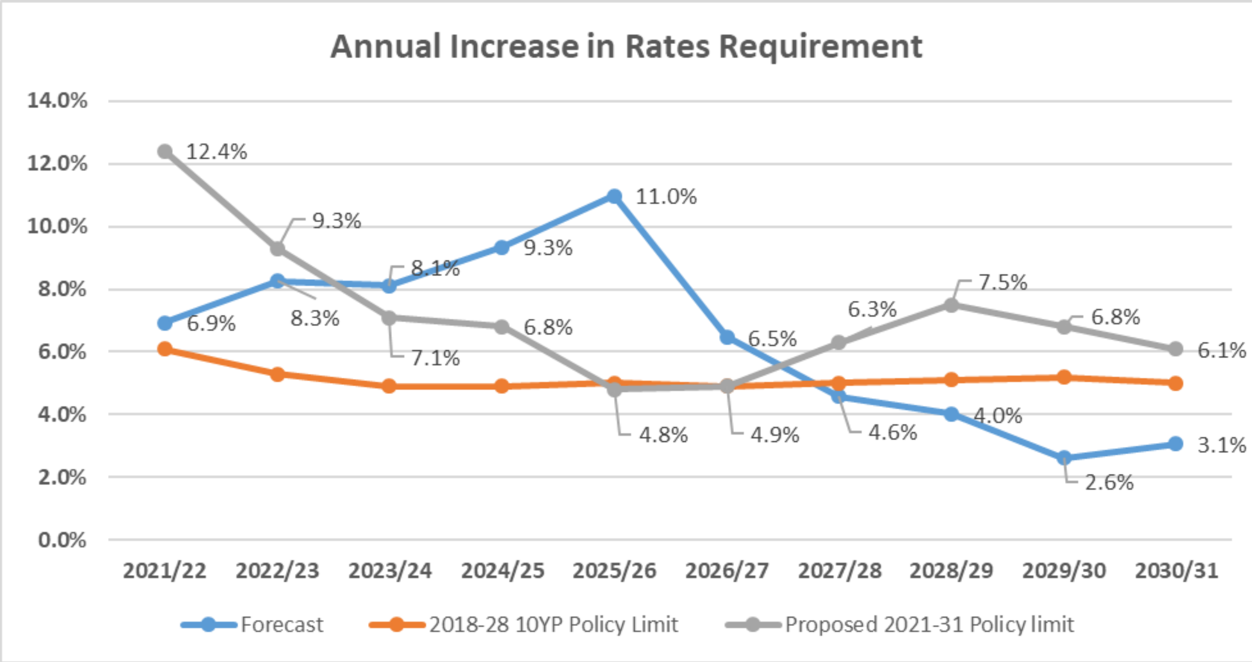
The proposed increases in total rates each year are shown in the following graph:

2 Total rates excludes rates on Council properties but includes metered water revenue.

3 LGCI is an overall cost index developed by Business and Economic Research Limited (BERL) for local authorities. It is based on the cost structures of local authorities and includes operating expenditure and capital expenditure variables. The forecast LGCI published by BERL in September 2020 was used in this Plan.

4 Assumed to be 0.4% each year

5 Assumed to be 5.3% for 2021/22 & 3% for 2022/23



At this stage, the 10 Year Plan does not achieve the policy aims for some years. To meet its Vision and Goals for the City, the Council believes rates need to increase by more than its target limit at least in the short term, and then again when the full impact of the proposed wastewater system upgrade takes effect. The actual increase each year will be determined in the light of updated circumstances and the development of each Annual Plan.

Rates are made up of two parts, a fixed component that is the same for each property and a variable component based on the land value. For 2021/22, the fixed part ($1,302 for residential properties) is proposed to be made up of the following:

CHARGE TYPE	CHARGE	WHAT IT PAYS FOR
Water	$307	The cost of providing water
Wastewater	$299	The cost of treating and disposing of wastewater
Kerbside Recycling	$130	The cost of kerbside recycling
Rubbish & Public Recycling	$66	General rubbish and recycling costs, including transfer stations, cleaning up fly tipping, community education
General	$500	Contributes to paying for all other Council services and helps ensure all properties contribute a more equal share of cost rather than it all being based on the land value

The portion which is based on the land value is charged as a rate in the dollar which depends on how the property is used. Commercial property is charged at a higher rate than residential property. Residential property is charged at a higher rate than rural/semi-serviced property.

Council is legally required to obtain updated rating valuations at least every three years. The values from 2018 will be used again in 2021/22 and the new values obtained in 2021 will be used for the three years from 2022/23.

More details about the rating system are shown in section 3 of this 10 Year Plan.

Appendix One

Palmerston North now and over the next 10 years

Strategically located in the central southern North Island, the City is ideally located as a hub for a wide range of activities, including commercial, education, health, defence, logistics and recreational activities. This location, together with the strength of the surrounding agricultural sector, has enabled the City to grow at a steady pace over the last decade. The City is the major economic hub for the Manawatū–Whanganui region.

Since 2006, the population has grown at an average rate of 0.8% a year and has accelerated over the last three years to 1.2% a year. At June 2020, Palmerston North's population was estimated to be 90,400.

The Council has adopted medium growth population and household projections from Infometrics plus the additional margins required by the National Policy Statement for Urban Development. They are higher than the high growth assumptions made in the previous 10 Year Plan and assume the population will grow at an average annual rate of 1.1% from 2021 to 2031 (1,089 people a year) and that the number of households will increase by 1.4% (504) annually over the same period.

Projected growth in the economy will lead to more industrial, commercial and residential development, all of which require additional infrastructural capacity. Council's main role is to make sure land and infrastructure are available to accommodate growth and provide market choice, while responding to changing demographics. Council continues its focus on ensuring the district planning framework clearly shows where future growth of the City should occur, how basic infrastructure will be provided and how it will be funded. Recent District Plan updates enable a wider range of housing choice in urban areas, with more intensive development making use of existing infrastructure.

Strong housing growth has occurred in the past three years. Growth in land values has made intensification more attractive for landowners and greenfield capacity has been consumed quickly. This is driving the need to bring forward long-term growth options to satisfy short and medium term demand. Significant capacity is proposed to be rezoned and serviced over the first three years of the 10 Year Plan. More detail about this can be found in the Infrastructure Strategy.

The 10 Year Plan makes provision for network and community infrastructure at Whakarongo to support new greenfield housing, and for developing Council-owned land (Tamakuku Terrace) in the area. Provision has been made for servicing land in the first stage (Kikiwhenua) of Kakatangiata (formerly known as City West).

Limited greenfields capacity remains in Aokautere and there are other greenfields pockets that can be developed without the need for substantial infrastructure.

Adequate land is available for office and retail activities in the central city and nearby business zones, with industrial development capacity in the City's north-east and at Longburn. KiwiRail has lodged a notice of requirement with the Council, seeking to designation land in the north east industrial area as a rail hub. The proposed development will not draw significant demand on water and wastewater infrastructure but will have a significant impact on transport infrastructure in the area and will place greater emphasis on the need for a regional freight ring road.

Owners of private infrastructure at Longburn are assessing options to upgrade it to the standards necessary for it to be vested in the Council. This may involve the Council undertaking some works itself to enable development and seek to recoup costs through development contributions or some other means.

The City has a uniquely diverse community, with a prominent defence workforce, large numbers of young and transient tertiary students, and a strong connection to the wider Manawatū area. The population is relatively young, with a median age of 34.2. This is 3.2 years younger than the national median age. The fastest growing group is people aged over 65.

Palmerston North is also becoming increasingly ethnically diverse. Along with the City's changing age and ethnic profile, there has been a change in household composition. More than 60% of households are made up of only one family, and a quarter of all households have only one member. The changing nature of the community needs to be considered when determining infrastructure investment.

Appendix Two

The costs of providing for growth

As a consequence of anticipated growth in population and changes in land use, Council will incur significant new capital expenditure and operating costs. For each activity, the 10 Year Plan identifies the specific capital expenditure programmes it is anticipating will be required. Any operating costs associated with the programmes are incorporated in the operating budgets. These are summarised in the following table:

ACTIVITY GROUP	GROWTH-RELATED CAPITAL EXPENDITURE FOR 10 YEARS (EXCLUDING RENEWALS) ($000)	ADDITIONAL OPERATING COSTS ASSOCIATED WITH GROWTH-RELATED EXPENDITURE (INCLUDES DEPRECIATION & INTEREST ON BORROWING) ($000)
Connected & Safe Community	3,442	2,022
Creative & Exciting City	11,235	7,096
Eco-City	4,390	2,729
Stormwater	13,142	6,679
Transport	71,163	16,804
Wastewater	87,031	42,151
Water	28,650	8,635
TOTAL	**$219,054**	**$86,116**

The Council’s Revenue and Financing Policy outlines how expenditure and operating costs are to be funded for each activity. The Development Contributions Policy outlines how capital expenditure incurred for growth-related network and community infrastructure will be funded, and what proportion of the costs will be funded from development contributions assessed on development. It has been assumed that growth-related capital expenditure will amount to $xx million over the 10-year period and that revenue from development contributions will amount to $73 million over that time. The Council will try not to commit expenditure for growth too far in advance of when the infrastructure is needed. The level of development contribution revenue received will depend on the actual timing of development. The revenue forecast represents our best assessment of timing for the associated growth, and is consistent with our overall growth forecasts.

Appendix Three

Looking after existing infrastructure

In fulfilling its responsibilities as a local authority, Council is legally required to provide residents with the key components of a city's infrastructure. The level of service in each case depends on a combination of factors, including Council's assessment of what the community wants and is prepared to pay for, the standards imposed by law, and resource consent conditions.

The Council's assessment of what the community wants is determined in a number of ways, including feedback from the 10 Year Plan and Annual Plan processes, obtaining residents' views and consulting from time to time about specific issues.

To help plan and manage its large investment in City infrastructure, Council has an overall 30 Year Infrastructure Strategy and detailed asset management plans for each activity that are continuously reviewed and updated at least each three years. Once the Council has committed to deliver a particular level of service for an activity, it must ensure that assets are appropriately maintained and renewed and that sufficient funding is available for this to occur.

The 10 Year Plan incorporates the following provisions for renewal of network infrastructure:

	TOTAL CAPITAL RENEWAL EXPENDITURE FOR 10 YEARS ($000)
Eco-City	10,759
Stormwater	8,985
Transport	88,358
Wastewater	52,344
Water Supply	48,662
TOTAL	**$209,108**

As part of the Council's Funding Policy, capital renewal expenditure is drawn directly from rates. The amount funded from rates in each year is currently calculated using a formula that averages the expected renewals expenditure in the current and next two years. Capital renewal expenditure is determined from Council's Asset Management Plans. Council reviews longer-term capital renewal expenditure to assess whether the three-year average capital renewal funding is sustainable over the following 20 years. The forecast average level of renewals to be funded from rates will increase from $20 million in 2020/21 to approximately $25 million in 2021/22, $28 million in 2022/23, $30 million in 2023/24 and between $28 million and $31 million each year after that. This increase will impact on the total rates requirement and place restraints on other expenditure if Council is to live within its guidelines for the maximum percentage increase in total rates.

Appendix Four

Policy on giving securities for borrowing

The security for Council debt will be the ability to levy rates. The Council will use Debenture Trust Deed security documents and appoint a professional trustee.

Council will undertake a portion of its borrowing through the New Zealand Local Government Funding Agency, and has provided guarantees to the Agency and cross-guarantees in favour of other local authorities who borrow through the Agency.

In unusual circumstances, with prior Council approval, a specific charge may be given over one or more Council assets. Physical assets will be pledged only when:

- there is a direct relationship between the debt and the asset purchase/construction, such as an operating lease or project finance; and/or
- Council considers a pledge of physical assets to be appropriate.

Any pledging of physical assets must meet the terms and conditions of the Debenture Trust Deed and Local Government Act 2002 (which prevents water service assets from being used as security for any purpose).

Appendix Five

Financial investments and equity securities

Financial investments

The Council has no plans to undertake new investments in long-term financial instruments.

As a net borrower, Council will seldom have funds to invest but it may invest to:

- meet statutory obligations by funding certain reserves
- match retentions held 'in trust' for the benefit of contractors under the Construction Contracts Act 2002
- manage short- or medium-term cash surpluses
- maintain operating cash levels
- pre-fund refinancing of maturing debt.

Any such investments will be held in a form consistent with the anticipated funding requirement. For short-term investments, generally held for liquidity management purposes, investments are held for up to three months as call deposits or negotiable instruments (that is, cash or cash equivalents) with registered banks. For investments held for periods beyond three months, government securities, LGFA or other strongly rated securities will be held.

Equity securities

The Council currently maintains equity securities in the following entities:

ENTITY	CATEGORY OF BUSINESS	REASON FOR HOLDING	% OF SHAREHOLDING
Palmerston North Airport Limited (PNAL)	Owns and operates Palmerston North Airport	To ensure the City has an appropriate air gateway for passengers and freight	100%
Central Economic Development Agency Limited (CEDA)	Provides economic development services for the Council and Manawatū District Council	To ensure there is an appropriate entity to help create and grow economic wealth in the Manawatū and beyond	50%
Civic Financial Services Limited (CFSL)	Provides a range of risk management products for New Zealand local government	To ensure there is appropriate insurance cover for local government if the private market fails to provide the desired cover	3%
New Zealand Local Government Funding Agency (LGFA)	Provides long-term funding to local government	To help give access to cost-effective long-term funding	0.4%

Shareholder expectations for these entities are set out in the Statements of Intent prepared each year. Although Council expects these entities to operate in a business-like manner, it does not expect high financial returns as the principal reason for the investment is to achieve strategic objectives.

Present performance targets for these entities are shown in the following table:

ENTITY & RATIOS	TARGET
Palmerston North Airport Ltd (for 2021/22)	
Net surplus before interest/tax/revaluations to total assets Net surplus after interest/tax to consolidated shareholders' funds Maintain ratio of shareholders' fund to total assets > 40% Interest cover (net surplus before interest and tax to interest)>=2.5 Maintain a net tangible worth>$50m Maintain a customer satisfaction Net Promoter Score >=50 Passenger throughput p.a. CAA part 139 certification Lost time injuries to those who work within airport community Company roadmap to carbon neutrality Emission reduction targets	Yet to be confirmed
Central Economic Development Agency Ltd	
	No specific financial targets
Civic Financial Services Ltd and **NZ Local Government Funding Agency**	
	No specific targets

Further capital investments in these entities will only be considered to achieve stated strategic objectives and by specific Council resolution. Sale of the investments would also require a specific resolution of Council and be subject to the requirements of the Local Government Act 2002.

It is expected that any other equity investments held by Council in future would only be as a result of a gift, through a restructuring of Council or to enable Council to participate in a central government or regional initiative to provide a key infrastructural activity. From time to time, Council will establish 'shelf' companies to be able to respond appropriately to any opportunities that arise.

Proposed 10 Year Budget at a Glance

Area of Spend	2021-31 Capital Expenditure $1,488.8m	2021-31 Expenses $1,967.6m	How operating expenses are funded	For every $100 of rates this much goes on this
Innovative & Growing City	$5.7m	$160.6m	Rates 48% Other 52%	$5
Creative & Exciting City	$229.2m	$341.0m	Rates 85% Other 15%	$19
Transport	$440.8m	$388.2m	Rates 46% Other 54%	$14
Connected & Safe Community	$65.5m	$288.3m	Rates 72% Other 28%	$14
Eco-City	$43.1m	$141.3m	Rates 68% Other 32%	$7
Water	$125.3m	$109.3m	Rates 98% Other 2%	$9
Wastewater	$477.5m	$285.8m	Rates 85% Other 15%	$19
Stormwater	$42.1m	$65.3m	Rates 100% Other 0%	$3
Driven & Enabling Council	$59.5m	$187.6m	Rates 52% Other 48%	$9