



PAPAIOEA
PALMERSTON
NORTH
CITY

PALMERSTON NORTH CITY COUNCIL

AGENDA MINUTES ATTACHMENTS COUNCIL

**9:00 AM - ADOPT LONG TERM PLAN 2024-
34, WEDNESDAY 26 JUNE 2024**

COUNCIL CHAMBER, FIRST FLOOR
CIVIC ADMINISTRATION BUILDING
32 THE SQUARE, PALMERSTON NORTH

COUNCIL MEETING

26 June 2024

8 Adopting the Long-Term Plan 2024-34 and Associated Strategies and Policies

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To the readers:**Independent Auditor's report on Palmerston North City Council's 2024-34 Long-term Plan**

I am the Auditor-General's appointed auditor for Palmerston North City Council (the Council). The Local Government Act 2002 (the Act) requires the Council's Long-term plan (plan) to include the information in Part 1 of Schedule 10 of the Act. Section 94 of the Act requires an audit report on the Council's plan. Section 259C of the Act requires a report on disclosures made under certain regulations. I have carried out this work using the staff and resources of Audit New Zealand. We completed our report on 26 June 2024.

Adverse opinion

In our opinion, because of the significance of the matters described in the basis for adverse opinion section of our report, the plan does not provide an effective basis for long-term integrated decision-making or co-ordination of the Council's resources and accountability of the Council to the community. This is because of information and assumptions underlying the forecast information in the plan that are not supportable and are highly uncertain.

Basis for adverse opinion – Assumptions over costs, timing, funding, and delivery of capital expenditure projects

As outlined on pages [...] to [...], the Council proposes a significant increase in its capital expenditure programme during the 10 years of the plan, including upgrading its wastewater treatment and disposal system, redeveloping the central library and the Te Manawa museum, and constructing new roads in Kakatangiata.

The Council has assumed the upgrade of its wastewater treatment and disposal system would cost \$480 million plus inflation, and be funded entirely through 'off balance sheet' funding under the Infrastructure Funding and Financing Act 2020 (IFFA). It has further assumed that the redevelopment of the central library and the Te Manawa museum, and the construction of new roads in Kakatangiata would cost \$262 million, and be funded by a combination of external grants, 'off balance sheet' funding under the IFFA, public private partnerships, and developers.

The Council does not have adequate evidence to support the costs of these projects, which could be significantly higher, nor the funding. The Council has not applied for funding under the IFFA, and if successful it may not get 100% of the funding, or the cost of the funding may be unaffordable to the community. Further, the council has not secured funding either from external grants or public private partnerships, and it has limited other funding options due to insufficient borrowing capacity.

In addition, it is highly uncertain whether the Council will be able to deliver the capital expenditure programme within planned timeframes, due to local government demand on the construction industry. Some projects may therefore need to be delayed or reprioritised, which could have additional cost implications and reduced levels of service.

The effects of these unsupportable and highly uncertain assumptions are pervasive given the nature and significance of the projects, which warrants an adverse opinion on the plan.

Opinion – Disclosures required by Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014

In our opinion the disclosures on pages [XX to XX] represent a complete list of the disclosures required by Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014 (the Regulations) and accurately reflect the information drawn from the plan on which we have given an adverse opinion.

We carried out our work in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. In meeting the requirements of this standard, we took into account particular elements of the Auditor-General's Auditing Standards and the International Standard on Assurance Engagements 3400 *The Examination of Prospective Financial Information* that were consistent with those requirements.

We assessed the evidence the Council has to support the information and disclosures in the plan and the application of its policies and strategies to the forecast information in the plan. To select appropriate procedures, we assessed the risk of material misstatement and the Council's systems and processes applying to the preparation of the plan.

We did not evaluate the security and controls over the electronic publication of the plan.

Responsibilities of the Council and auditor

The Council is responsible for:

- meeting all legal requirements affecting its procedures, decisions, consultation, disclosures, and other actions relating to the preparation of the plan;
- presenting forecast financial information in accordance with generally accepted accounting practice in New Zealand; and
- having systems and processes in place to enable the preparation of a plan that is free from material misstatement.

We are responsible for expressing an independent opinion on the plan and the disclosures required by the Regulations, as required by sections 94 and 259C of the Act.

We do not express an opinion on the merits of the plan's policy content.

Our opinion on the plan also does not provide assurance that the forecasts in the plan will be achieved, because events do not always occur as expected and variations may be material. Nor does it guarantee the accuracy of the information in the plan.

In accordance with clause 45 of Schedule 1AA of the Local Government Act 2002, the consultation document on the Council's plan did not contain a report from the Auditor-General. The consultation document is therefore unaudited. Our opinion on the plan does not provide assurance on the consultation document or the information that supports it.

Independence and quality management

We have complied with the Auditor-General's independence and other ethical requirements, which incorporate the requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board. PES 1 is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

We have also complied with the Auditor-General's quality management requirements, which incorporate the requirements of Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (PES 3) issued by the New Zealand Auditing and Assurance Standards Board. PES 3 requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Other than our work in carrying out all legally required external audits, we have no relationship with or interests in the Council or any of its subsidiaries.

Debbie Perera, Audit New Zealand
On behalf of the Auditor-General, Palmerston North, New Zealand

Replacement for page 365

		Funding Impact Statements		LTP 2024								
Budget	Whole of Council	2023/24	2024/25	2025/26	2025/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
\$'000s		\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
(SURPLUS) / DEFICIT OF OPERATING FUNDING												
Sources of operating funding												
General rates, uniform annual general charges, rates penalties												
91,451		86,345	76,288	62,771	66,753	69,645	73,542	78,302	83,779	88,226	93,421	
32,795		50,506	72,766	98,883	106,798	115,300	123,609	132,860	141,825	153,403	166,014	
Subsidies and grants for operating purposes												
7,880		6,370	6,467	6,605	6,662	7,417	7,558	7,772	7,860	8,003	8,222	
8,022		7,773	7,879	8,053	8,228	8,454	8,677	8,927	9,182	9,384	9,553	
150		356	359	363	366	370	373	376	380	383	386	
25,133		30,926	31,429	31,980	32,737	33,566	34,173	35,132	34,628	32,473	33,086	
165,430		182,276	195,189	208,655	221,544	234,751	247,932	263,370	277,653	291,877	310,682	
Total Sources of operating funding												
Applications of operating funding												
126,832		142,450	138,360	143,037	145,290	148,176	152,201	156,736	159,435	163,135	170,759	
9,899		14,520	16,998	20,474	24,685	27,095	28,675	29,656	29,707	29,333	28,309	
-		-	-	-	-	-	-	-	-	-	-	
136,731		156,970	155,357	163,510	169,975	175,270	180,876	186,392	189,142	192,468	199,069	
28,699		25,306	39,832	45,144	51,570	59,481	67,056	76,978	88,511	99,404	114,613	
(SURPLUS) / DEFICIT OF CAPITAL FUNDING												
Sources of capital funding												
17,725		16,093	27,779	35,157	97,659	106,476	158,480	211,647	152,066	125,580	116,453	
3,249		1,961	2,211	2,958	3,711	4,710	5,593	6,175	6,388	6,558	6,626	
43,672		53,296	57,112	76,706	65,181	30,151	30,559	11,558	2,933	2,570	21,715	
64,646		71,350	87,102	114,821	166,551	141,337	194,632	239,380	155,520	129,568	101,364	
Total Sources of capital funding												
Applications of Capital Funding												
Capital Expenditure:-												
13,018		14,972	12,684	25,014	19,485	29,346	48,010	52,041	45,335	24,989	27,891	
52,186		47,401	77,259	97,160	156,700	130,557	167,722	204,175	145,022	150,074	131,486	
28,141		32,984	35,598	35,921	40,346	40,180	45,211	49,860	53,746	53,971	54,129	
-		1,300	1,393	1,871	1,590	735	745	282	(72)	(63)	(530)	
Increase (decrease) of investments												
93,345		96,657	126,934	159,966	218,120	200,817	261,688	306,357	244,032	228,972	212,976	
28,699		25,307	39,832	45,144	51,569	59,480	67,056	76,978	88,511	99,404	111,613	
- Total Funding (Surplus) /Deficit												
- Total Funding (Surplus) /Deficit												

Replacement for page 374

		Funding Impact Statements		LTP 2024											
Budget	Supporting the Organisation	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	\$'000s	\$'000s	\$'000s	\$'000s
(SURPLUS) / DEFICIT OF OPERATING FUNDING															
11,096	Sources of operating funding	11,757	15,922	16,805	15,535	11,619	7,546	2,879	982	4,130	6,212				
	General rates, uniform annual general charges, rates penalties	143	146	149	-	-	-	-	-	-	-				
	Subsidies and grants for operating purposes	150	153	157	160	163	166	169	172	175	179				
215	Fees and charges	51,007	51,659	57,411	65,750	73,969	81,768	88,308	93,734	96,532	97,468				
36,171	Internal charges and overheads recovered	4,671	4,867	4,703	4,765	4,971	4,945	5,035	5,254	5,211	5,301				
4,938	Local authorities fuel tax, fines, infringement fees, and other receipts	67,729	72,747	79,225	86,211	90,721	94,425	96,391	98,178	97,788	96,736				
52,421	Total Sources of operating funding														
41,356	Applications of operating funding	44,050	43,469	44,252	43,925	45,217	46,083	47,072	48,778	49,322	50,181				
655	Payments to staff and suppliers	15,488	18,129	21,647	25,338	28,094	29,501	30,307	30,220	29,767	28,721				
10,139	Finance costs	8,159	7,738	8,108	8,754	9,829	10,994	12,038	13,023	13,636	14,056				
52,160	Total Applications of operating funding	67,697	69,336	74,007	78,517	83,140	86,578	89,417	92,021	92,725	92,957				
261	Total (SURPLUS) / DEFICIT OF OPERATING FUNDING	31	3,411	5,218	7,693	7,581	7,847	6,974	6,157	5,063	3,779				
(SURPLUS) / DEFICIT OF CAPITAL FUNDING															
	Sources of capital funding														
	Subsidies and grants for capital expenditure increase (decrease) in debt	6,167	2,181	2,185	604	2,960	2,308	2,832	1,574	858	281				
3,273	Total Sources of capital funding	6,167	2,181	2,185	604	2,960	2,308	2,832	712	565	281				
	Applications of Capital Funding														
	Capital Expenditure:-														
408	- to meet additional demand	1,265	961	2,339	2,192	850	888	685	640	622	633				
3,126	- to improve the level of service	3,633	3,238	3,193	3,308	3,036	3,955	3,185	4,876	3,938	3,394				
	- to replace existing assets	1,300	1,333	1,871	1,590	735	745	282	(72)	(63)	(530)				
	Increase (decrease) of investments														
3,534	Total applications of capital funding	6,198	5,592	7,403	7,090	4,622	5,539	4,152	5,444	4,498	3,497				
261	Total (SURPLUS) / DEFICIT OF CAPITAL FUNDING	31	3,411	5,218	7,693	7,581	7,847	6,974	6,157	5,063	3,779				
	Total Funding (Surplus) / Deficit														

The Big Picture for Council

The Financial and Infrastructure Strategies within this LTP outline the challenging environment the Council faces in which to make appropriate planning and financial provisions for the next 10 years. The significant forecasting assumptions section includes assumptions about city growth, the status of the wastewater treatment and disposal project (Nature Calls) and the approach to earthquake prone buildings. The sections cover forecast costs, proposed funding risks and mitigation strategies.

The LTP assumes the following over the 10 years:

1. Total new and growth capital expenditure of \$1.6b (comprising \$300m growth and \$1.3b new) with \$1b of this funded from external sources.
2. The external funding of approximately \$1b comprises:
 - \$546m utilising the Infrastructure Funding and Financing Act (IFF) to form a special purpose funding vehicle (SPV) for Nature Calls,
 - \$148m from NZTA,
 - \$262m of subsidies, grants and developer agreements (\$125m of this for funding growth possibly partly through the use of a SPV).
3. An additional debt requirement of \$297m raising net debt to \$553m by 30 June 2034.

The Financial Strategy includes the framework for determining appropriate maximum levels of debt and annual increases in rates.

Funding operations and the on-going proposed investments will mean significant increases in the total rates requirement from \$124m in 2023/24 to \$259m in 2033/34 with increases of 10.1% in 2024/25, 8.9% in 2025/26, 8.5% in 2026/27 and between 6.6% and 7.4% over the remainder of the 10 year period.

These rates increases do not include any levies collected from ratepayers to service and repay debt raised by the SPV for the Nature Calls project. Early assessments are this could amount to at least \$1,000 per ratepayer per year over 30 years beginning from about year 5 though this sum and the way it will be distributed amongst ratepayers has yet to be considered in any detail. We will do this as part of the IFF applications process over the next 1-2 years and will be consulting specifically on this issue with the community as part of this process. A further \$125m of external funding is assumed to fund growth related infrastructure. This could be in the form of an off-balance sheet SPV and/or developer agreements. It is intended that this external funding will be ringfenced in part or whole to the new growth areas. This will be explored in more detail over the coming 2-3 years and reviewed as part of the 2027/37 LTP. If it was funded through an SPV, an additional IFF levy would be required and the amount of this would need to be determined.

The primary measure for debt is the debt to revenue ratio, with a policy maximum of 250% (similar to many other Councils) and a forecast maximum through the 10 years of 230%. The budgets include provision for funding accelerated debt repayment totalling \$150m over from years 5 to 10. This has been included in this Financial Strategy as a risk mitigation measure in recognition that there is some risk that the funding assumptions within this LTP may not fully be realised. This means that by year 10 there is potential to borrow an additional \$223m within the 250% limit or more within the maximum 280% limit operated by the Council's primary funders, NZLGFAs. *Note: These projected debt levels do not include any debt that might be raised through a SPV as these are considered off balance sheet funding.*

The Council is conscious of the risks associated with its external funding assumptions and acknowledges throughout the LTP that it may face the need to re-prioritise programmes if the external funding assumptions are not achievable. It has resolved that programmes that are subject to external funding are not to proceed to the construction phase without the funding being confirmed otherwise it is to be the subject of specific consideration by the Council itself.

In response to submissions on the proposed LTP and increasing concerns about whether the community could afford the level of investment that appeared to be required to meet the standards of discharge being imposed the Council decided it wished to signal it was not prepared to commit to a budget of any more than \$480 million (in 2024 dollars) plus inflation for the Nature Calls project. This sum is what has been included in this LTP.

The Council as part of its deliberations has resolved to review the best practicable options (BPO) for the Nature Calls project previously considered and to determine whether there might be further options worthy of consideration in response to concerns around affordability being raised from the community consultation.

Despite this there is a risk the project may not be able to be delivered within the budget. If this became evident the Council would take this into account in its consideration of the sum to be sought to be funded through the SPV and it would consider other options such as re-prioritising other programmes.

The Council has assumed that 100% of the funding for Nature Calls will be provided through an SPV, however there is a risk that the full amount may not be obtained. The Council does have debt headroom (within its own debt/revenue policy limit of 250%) to consider funding a greater share from Council borrowing of up to \$51m in 2029/30 rising to \$223m in 2033/34. Whilst this would mean an increase in Council rates, it would mean a lower levy payable to the SPV, meaning the impact on ratepayers of this would likely be minor.

For the first time, the LTP assumes external funding and/or developer agreements for a range of growth programmes, including the entire Kākātangia growth area and some infrastructure at Aokautere and Ashhurst. Land-use planning decisions regarding growth in these locations will need to carefully consider the level of certainty regarding external funding and/or developer agreements. Council would not proceed with growth in the absence of external funding commitments and/or developer agreements. The Government continues to signal new forms of funding and financing options for infrastructure to support growth.

ITEM 8 - ATTACHMENT 3

Growth-related programmes have been prioritised in a way that means those where significant external funding has been assumed are scheduled in the later years of the LTP. This provides time for the Council to further consider where growth should be and how it will be funded as part of the development of the next LTP.

The Council has assumed high levels of external funding for the redevelopment of the Library and Te Manaوا, acknowledging that these facilities are currently earthquake prone. In the event this external funding is not achievable the Council has a range of options including deferring the development further, reprioritising its capital programme, providing additional debt funding from the available headroom, or it could consider

providing the services from other premises. These alternative options would potentially have higher rating impacts than what is currently proposed in this LTP.

In summary, the Council does recognise there are risks related to its funding assumptions but believes there are a range of financially prudent options available to it to mitigate these risks within its financial strategy without causing an unreasonable impact on core city services. There is sufficient time to be able to investigate further these key programmes and consult (if required) further with the community as the detail of these assumptions becomes further developed.

Correction to table in clause 2.8 in report 'Setting Rates for 2024/25'
Capital Value figures corrected.

2.8 Examples of the rates which will be assessed are shown below:

	Land Value	Capital Value	Actual Rates 2023/24	Proposed Rates 2024/25
Single unit residential				
Average	468,000	739,000	3,206	3,456
Median	455,000	690,000	3,149	3,380
Quartile 1	360,000	590,000	2,735	2,942
Quartile 3	540,000	840,000	3,520	3,799
Two unit residential				
Average	561,000	829,000	5,532	5,985
Median	525,000	770,000	5,313	5,736
Quartile 1	450,000	675,000	4,858	5,237
Quartile 3	625,000	920,000	5,920	6,417
Non-residential				
Average	1,022,000	2,402,000	17,518	19,783
Median	620,000	1,030,000	10,867	11,687
Quartile 1	385,000	610,000	6,979	7,456
Quartile 3	1,110,000	2,295,000	18,974	21,020
Rural & semi-serviced (5ha or more)				
Average	1,373,000	1,585,000	2,196	2,374
Median	730,000	1,102,000	1,310	1,434
Quartile 1	520,000	551,000	1,020	1,045
Quartile 3	1,218,000	1,670,000	1,983	2,189
Rural & semi-serviced (between 0.2 & 5ha)				
Average	549,000	1,202,000	1,817	2,222
Median	520,000	1,180,000	1,737	2,131
Quartile 1	435,000	950,000	1,503	1,812
Quartile 3	590,000	1,390,000	1,930	2,401
Miscellaneous				
Average	916,000	1,746,000	5,355	6,074
Median	550,000	720,000	3,336	3,551
Quartile 1	295,000	400,000	1,930	2,030
Quartile 3	965,000	1,445,000	5,625	6,150