

## Council Briefing Agenda

**Date:** Tuesday, 14 July, 2020

**Time:** 9:00 am

**Location:** Council Chamber  
Forum North, Rust Avenue  
Whangarei

**Elected Members:** Her Worship the Mayor Sheryl Mai  
(Chairperson)

Cr Gavin Benney

Cr Vince Cocurullo

Cr Nicholas Connop

Cr Ken Couper

Cr Tricia Cutforth

Cr Shelley Deeming

Cr Jayne Golightly

Cr Phil Halse

Cr Greg Innes

Cr Greg Martin

Cr Anna Murphy

Cr Carol Peters

Cr Simon Reid

For any queries regarding this meeting please contact  
the Whangarei District Council on (09) 430-4200.

**1. Apologies**

**2. Reports**

2.1 2021-2031 Long Term Plan - Revenue and Financing Policy  
and Financial Strategy

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**3. Closure of Meeting**

## 2.1 2021-2031 Long Term Plan – Revenue and Financing Policy and Financial Strategy

**Meeting:** Council Briefing  
**Date of meeting:** 14 July 2020  
**Reporting officer:** Alan Adcock (General Manager – Corporate/CFO)

### 1 Purpose

To discuss the Revenue and Financing Policy and the Financial Strategy as part of the development of the 2021-31 Long Term Plan.

### 2 Background

#### Revenue and Financing Policy

Under S102(2), of the Local Government Act 2002 a local authority must, in order to provide “predictability and certainty about sources and levels of funding” adopt certain policies. The Revenue and Financing Policy is one of these. It sets out Council’s ‘house rules’ for determining who pays of what, when. The policy is supported by analysis of the funding of each activity group and recognises that the funding policy is more than just a device for raising revenue but is also one of the instruments that can be used to promote community wellbeing.

The Revenue and Financing Policy is an important step in the process for rate-setting, determining levels of development contributions, and setting fees and charges.

The policy states Council’s sources of funding for it’s operating expenses and capital expenses.

S101(3) of the Local Government Act 2002 explains that the funding needs of Council must be met from those sources that the local authority determines to be appropriate. This involves considering the following for each activity:

- the community outcomes to which the activity primarily contributes; and
- the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and
- the period in or over which those benefits are expected to occur; and
- the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and
- the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and

the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.

## **Financial Strategy**

The Financial and Infrastructure Strategies are two of the key supporting documents to the Long Term Plan (LTP), providing both the strategic direction and the underpinning context for the plan. The Financial Strategy sets an overall direction for the financial management of Council.

Financial and infrastructure strategies are symbiotic. A financial strategy that is not grounded in service needs and realities is 'aspirational' at best, and will fail as a strategic control. An infrastructure strategy that is not properly grounded in financial realities is also an aspirational document and is a potential recipe for long-term service failure or other 'surprises' (such as unexpectedly large movements in rates or debt).

Broadly speaking, an infrastructure strategy takes Council's vision and identifies the key infrastructural issues and drivers over the long-term, and what choices the community might have in managing these.

The financial strategy presents the financial consequences of that vision. It can also establish the overall financial parameters that Council operates within; creating a financial envelope that caps the resources available to implement the vision through the infrastructure strategy. This 'chicken and egg' scenario requires the development of each strategy in tandem through an iterative process.

While legislation allows the Financial and Infrastructure Strategies to be integrated into one document, we intend to keep them as separate, but linked, strategies.

## **3 Discussion**

The overall objective of the Briefing is to explain the purpose of these two integral pieces of the LTP puzzle. We will discuss some of key decisions that will need to be made as we continue through the development of Council's 2021-31 Long Term Plan.

Presentation material will be provided prior to the Briefing.

## **4 Attachments**

1. Revenue and Financing Policy (LTP 2018-2028)
2. Financial Strategy (LTP 2018-2028)

# Revenue and Financing Policy

## Background

The *Revenue and Financing Policy* is a requirement of the *Local Government Act 2002*. The policy is supported by analysis of the funding of each activity group and recognises that the funding policy is more than just a device for raising revenue but is also one of the instruments that can be used to promote community wellbeing.

Under S102(2) of the *Local Government Act 2002*, a local authority must, to provide “predictability and certainty about sources and levels of funding” adopt certain policies. The Revenue and Financing Policy is one of these. The policy is supported by analysis of the funding of each activity group and recognises that the funding policy is more than just a device for raising revenue but is also one of the instruments that can be used to promote community wellbeing.

## Funding needs analysis

The *Revenue and Financing Policy* must demonstrate how Council has complied with the funding policy process under section 101(3) of the *Local Government Act 2002*. To achieve this, Council needs to review each individual activity and its funding in developing its *Revenue and Financing Policy*.

As part of that process, Council needs to consider the nature of the activity provided and the benefits and beneficiaries of the activity.

## Activity group

Council’s work has been grouped into nine key activities in which we provide a service to the community. These are:

- Governance and strategy – a new activity group compared to the *LTP 2015-25*, that provides transparency regarding performance and expenditure of strategy and governance for Council
- Transportation
- Water
- Wastewater
- Stormwater
- Flood protection
- Solid waste
- Planning and regulatory services
- Community facilities and services.

The activity groups are listed in the attachment.

# Activity

Each activity group is made up of operating projects – ‘activities’ – that Council delivers as services. Any one activity may have one or more operating projects which, when combined, provides the total level of service provided by Council. The activities, within the activity groups, are listed in the attachment.

## Step one

When assessing the funding for each activity the following need to be considered:

### Community Outcomes

Which Community Outcome the activity primarily relates to and the rationale for doing it. Council's vision is:

A vibrant, attractive and thriving District.

#### Community Outcomes:

- Efficient and resilient core services:
  - it is easy and safe to travel around our District for everyone
  - there are opportunities to walk and cycle
  - our District is well prepared for growth and can adapt to change
  - services are supplied in ways that benefit the environment.
- Positive about the future:
  - our District has productive land, people and a thriving city centre
  - there is a fair urban/rural balance
  - Council has clear, simple documents and rules
  - our District embraces new technology and opportunity.
- Caring for the environment:
  - communities work to keep the environment clean and healthy
  - access to the coast is protected
  - open spaces in parks and streets, are places where nature thrives
  - our District is positively adapting to climate change.
- Proud to be local:
  - our District is neat, tidy and looks attractive.
  - public areas feel and are safe
  - there is always something to do and see
  - there are opportunities for people of all abilities, ages and life stages to be active.

**User/beneficiary pays principle** – distribution of benefits between individuals or groups and the community, i.e. private or public good principle.

**Inter-generational principle** – the period over which the benefits are expected to accrue.

**Exacerbator pays principle** – the extent to which actions or inactions of individuals or groups contribute to the need to undertake the activity and the costs that occur as a result.

**Costs and benefits of funding the activity** – distinct from other activities, i.e. user pays or targeted rates.

## Step two

Consideration then needs to be given to the overall impact of any allocation of liability for revenue needs on the community. This may result in an alteration of the results of the first step, with the funding option or the level of funding from any source altered to ensure that there are no barriers or disincentives and that an inequitable burden is not placed on any particular community sector or group.

Some questions to ponder as part of this consideration are:

- how will the mix of funding impact on affordability, e.g. on the elderly or those on low incomes?
- will the policy impact on accessibility to some services?
- can we charge the amount required, or is it restricted by legislation?
- do we want to encourage or discourage a particular activity or behaviour?
- what is the effect on a particular sector of our community, community groups or rating categories?
- how will this impact based on current economic conditions?

# Funding sources

Section 103 of the *Local Government Act (2002)* requires a local authority to state the sources of funding for its operating expenses and its capital expenditure. The sources of funding for each category are set out below.

## Funding sources for operating expenses

Operating expenses are for the day-to-day spending by Council delivering ongoing services and for the maintenance of Council's assets. This includes contributions to the wear and tear on assets used (depreciation), interest charged on borrowing for capital projects and corporate overheads.

Council must consider the funding for each activity in a way that relates exclusively to that activity. Some activities may be best funded using user charges, others with targeted rates and others from general rates. Distinct funding enables ratepayers or payers of user charges to assess more readily whether the cost of the service provided to them, either directly or indirectly, represents good value. They can also more easily determine how much money is being raised for the service and spent on the service, which promotes transparency and accountability.

The different mechanisms available for funding operating expenses are:

**General rates** are used to fund those services where there is a benefit to the whole community (public benefit) or where there is no practical method for charging individual users. General rates fund a range of activities which are used by individual ratepayers to varying extents.

Rates are regarded as a tax, as there is no direct link between the activity or service provided and the individual ratepayer.

To maintain as simple rating as possible this Council currently uses general rates to fund a broad range of activities, rather than a number of targeted rates. This makes it easier for ratepayers to understand how they are being rated and it is more cost effective to administer.

General rates are currently assessed based on a property's land value and as a uniform annual general charge.

Value-based general rates are assessed on land value and are differentiated by land use. The differentials to be applied are:

- residential differential, including remissions for high value properties
- rural differential

- multi-unit differential
- commercial and industrial differential
- miscellaneous properties.

Full details of the differentials used may be found in the Funding Impact Statement.

A uniform annual general charge (UAGC) is applied to each separately used or inhabited part of each rating unit (SUIP). The UAGC is to be assessed by Council annually and set at a level considered to be reasonable. The UAGC is used to fund the same activities as the general rate and ensures every ratepayer contributes a base level of rates irrespective of property value or services used.

**Targeted rates** are used where an activity benefits an easily identifiable group of ratepayers (such as the commercial or residential sectors) and where it is appropriate that only this group be targeted to pay for some or all of a particular service. The funds collected are used for the purpose for which they are rated. Targeted rates are only used where Council considers it is an appropriate mechanism to fund that activity or where Council wishes to make clear the purpose for which the rate is collected. The revenue collected in any one year may result in a surplus, which is used to repay debt or to fund capital expenditure in future.

**User fees and charges** are used where the beneficiaries can be identified and charged. They include consent fees, licence fees, sales of goods, hire fees or recoveries of costs incurred. When setting fees and charges, Council will consider any indirect benefit to the community, the distribution of those benefits and ability to pay. Some fees may be limited by legislation, meaning full recovery of costs is not possible.

**Grants and subsidies** apply to some activities when income from external agencies is received to support that activity. Each year Council receives funding from NZTA as part of the overall roading programme for the city's roading infrastructure. Operational subsidies fund maintenance of roading infrastructure. Council recognises the funding as income in accordance with GAAP.

**Borrowing** is not generally used to fund operating expenses, but is used to smooth the inter-generational benefits of the capital expenditure programme. Council may use borrowing to give a capital grant to a community organisation to fund a community facility, or for addressing storm damage (see below).

**Interest from investments** is used to reduce the requirement from general revenue and is used to fund activities in the same way that rates do.

## Distributions and dividends

- Council receives distributions from its joint venture investment in Northland Regional Landfill Limited Liability Partnership. These are directed to reduce the requirement from general revenue and is used to fund activities in the same way that rates do.
- Council currently receives dividends from LGFA which are used to reduce the requirement from general revenue and is used to fund activities in the same way that rates do. Any other dividends would be treated in the same way.

**Rental income** is generated from Council's various property types:

- from Council's pensioner housing which is used to fund the expenses of operating and maintaining Council's pensioner housing stock. It can also be used to fund capital expenditure on pensioner housing. Pensioner housing is a ringfenced activity so if pensioner rental property income is not fully spent in a given year then it will be reserved and carried forward to the next year
- from Council's investment properties which is used to ensure the overall portfolio is maintained in terms of ongoing purchasing power and any excess income is used to initially fund our District Strategy and Governance Group. If there is any residual funds after this then these are used to reduce the requirement from general revenue and are used to fund activities in the same way that rates do
- from Council's community properties which is used to fund the expenses of operating and maintaining Council's community properties and any excess income is used to fund Council's other community operating expenses.

**Enforcement fees** are charged where possible. They are used to promote compliance rather than to raise revenue and may not recover the full cost depending on the level of compliance and the extent to which charges are limited by statute or the court. Any excess income from enforcement fees is used to reduce the requirement from general revenue and is used to fund activities in the same way that rates do.

## Other sources of operating expense funding

Council also funds operating expenditure from other sources including:

### Reserves:

#### • Other reserves and ring-fenced funds

Restricted funds or special funds including the property reinvestment reserve, are those reserves within Council's equity that are subject to special conditions of use, whether under statute or accepted as binding by Council, that may not be revised without reference to the courts or a third party.

Subject to meeting any specified conditions associated with these reserves, Council may expend money, of an operating or capital nature, from these reserves.

#### • Specific reserving of operational funding

Where expenditure has been funded in a year for a specified purpose e.g. a grant to fund an external groups project and because of timing issues the conditions of the grant are not met in that year then the grant can be reserved at the end of the year to provide funding for the project in a future year once the conditions are met.

#### • Reserving and use of general surpluses from previous financial periods

Where Council has recorded an actual surplus in one financial period it may pass this benefit on to ratepayers in a subsequent financial period.

A surplus arises from the actual recognition of additional income or through savings in expenditure when compared to the Annual Plan for a given year. A surplus would only be finalised once the Annual Report for the year was adopted and it is the net surplus that needs to be considered.

Council considers that passing this benefit on to ratepayers in future financial periods improves the principle of intergenerational equity, in that any financial benefit is passed on to those ratepayers who shared the rates-funding burden in the financial period that the surplus was generated.

The amount of any surplus carried forward from previous financial periods will be reserved on the balance sheet and used to offset the operating deficit created by the expenditure to be funded by the surplus in the year the benefit is passed on to ratepayers.

Only those factors that are operating in nature and cash in nature will be available for use in determining the level of surplus to be



carried forward. Council will not carry forward surpluses in relation to:

- the sale of assets: such surpluses shall be used for either the repayment of borrowings or in the case of investment properties transfer to the property reinvestment reserve
- trust and bequest revenue: such surpluses shall be applied in accordance with the terms on which they are provided
- revenue received for capital purposes: such surpluses shall be retained to fund the associated capital expenditure
- revenue received from targeted rates such as water and wastewater
- depreciation
- development and lump sum contributions
- unspent budgeted operating expenditure associated with a capital project that is being carried forward
- unrealised gains arising from fair value adjustments to assets and liabilities: these gains are unrealised accounting adjustments in the period in which they are recognised
- vested or found assets.

## Trusts and bequests

Council is the recipient/holder of several trusts and bequests. These funds can only be used for the express purposes for which they were provided to Council. Each year, Council may expend money, of an operating or capital nature, from its trusts and bequests in accordance with the specified conditions of those funds. For the avoidance of doubt, Council does not fund the expenditure from its trusts and bequests from any of the sources of operating revenue.

If Council receives bequests in the future, then it will treat those in the same manner.

## Overheads

There are some activities within Council that provide support to specific cost centres or to the entire Council but do not provide a direct benefit to the community. The costs of these activities are treated as overheads and are reallocated against activities that do provide a direct benefit to the community.

This concept is particularly important when analysing the costs of delivering services and arriving at the appropriate fees and charges for those services.

## Storm damage

If because of storm damage, infrastructure assets need repair, an option for funding this (so as not to impact on the capital works programme for the year), is utilising debt, if there is projected headroom under the net core debt cap for the year. If it is determined that there is no headroom under the net core debt cap, then Council will look to defer operational and capital expenditure planned in the year to accommodate funding the repairs and renewals required.

## Funding sources of capital expenditure

For the purpose of this Policy capital expenditure represents expenditure on:

- property, plant and equipment
- intangible assets
- property.

Property, plant and equipment are tangible assets that are held by Council for use in the provision of its goods and services (for example: infrastructure assets such as land, roads, bridges, parks, water treatment plants and non-infrastructure assets such as computer hardware and libraries), or for rental to others, or for administrative purposes.

Intangible assets are assets such as software that Council purchases or creates as part of a project with an economic benefit longer than a year.

Property includes Council's pensioner housing, Council's investment properties and Council's community properties. It can also include property purchased for strategic reasons, for instance where a future road is planned to be constructed.

As described in the *Financial Strategy 2018-28*, Council while managing its existing assets, also has a challenge to manage growth, affordable rates increases and debt and deliver as many of the communities desired projects as possible. To achieve the appropriate balance between these variables Council takes the following approach:

- Council sets the annual rates requirement
- the activity operating cash revenue and expenditure budgets are determined, within this constraint
- the net cash operating costs are determined
- this leaves a cash surplus that is available for capital costs. This largely represents rate funded depreciation but may include operating surpluses from some activities and accounting provisions not held in reserve funds – this is funding not held by activity and available to fund any capital costs
- Council also sets the limit on debt, which determines the debt funding available for capital expenditure.

Consequently, despite the potential availability of the funding sources, this process results in the following funding available for capital costs:

### General rates

General rates may be used to fund a portion of capital expenditure when it is considered appropriate

to do so. This will be balanced against affordability for current ratepayers and the current and future needs of the community.

### Targeted rates

Targeted rates are used to fund operating expenditure but can be used to fund a particular capital project benefiting a discrete and identifiable group of beneficiary ratepayers.

### User contributions

These are typically paid in the form of a targeted rate by an identified group of direct beneficiaries. In many cases this group would have lobbied for the inclusion of the project during a consultation process.

### Borrowing

This is an appropriate funding mechanism to enable the effect of peaks and troughs in capital expenditure to be smoothed and to ensure the costs of major developments are borne by those who ultimately benefit from the expenditure. It is not appropriate or sustainable for all capital expenditure to be funded from borrowings. In periods of low capital expenditure, borrowing will be reduced.

### Proceeds from property sales

These will be invested in the property reinvestment reserve and the funds may be used to purchase other commercial properties in future. Any funds in the reserve may be used to fund capital expenditure in other activities to smooth Council's overall cash flow requirements.

### Proceeds from other asset sales

These may be used to fund capital works or to repay debt.

### Depreciation

Depreciation is an indirect source of funding as depreciation reserves are not created. However, rates are set at a level that offsets the calculated non-cash depreciation cost. Operating surpluses (where available) are then used to fund renewal capital expenditure.

### Development and financial contributions

are used to fund the growth component of capital expenditure. The growth in our District drives a portion of our capital work requirement to maintain Levels of Service to a larger community. As the costs of growth are driven by development, Council considers it equitable that a development should contribute to the costs that are being imposed.

Council has a development contributions policy which sets out the level of contributions required to fund infrastructure requirements.

Financial contributions will be used to fund capital expenditure in accordance with the Resource Management Act 1991.

**Grants and subsidies** are used when they are available. NZTA provide capital subsidies (accounted for as operating revenue) to fund agreed roading capital projects. This funding source also includes other contributions for various capital projects.

**Reserves** including retained earnings from operating surpluses from previous years may be used to fund capital expenditure. Reserves for specific activities such as Water can be created.

The below table shows the primary funding sources for the different types of capital expenditure and each of the activity groups.

By expenditure type:	General rates*	Targeted rates*	Borrowings	Development Contributions	Subsidies and Grants	Reserves	Property sales
Renewals		✓	✓		✓	✓	
Levels of Service		✓	✓		✓	✓	
Growth			✓	✓	✓	✓	
By activity group:							
Transportation	✓		✓	✓	✓		
Water		✓	✓	✓		✓	
Wastewater		✓	✓	✓	✓	✓	
Solid waste		✓	✓			✓	
Stormwater	✓						
Community facilities and services	✓		✓	✓		✓	
Flood protection		✓					
Corporate/property/other	✓		✓			✓	✓

*\*General and targeted rates create cash surpluses by funding depreciation, which is non-cash. These surpluses are then used to fund for renewal projects.*

## Review of funding sources and the funding bands

Having decided on:

- the activity groups
- activities within the activity groups.

Using the steps above, the funding sources and the funding bands from each source have been assessed for each activity to provide guidance for the *Long Term Plan 2018-28*. Suggested funding bands are set out in the attachment.

# Attachment

## Activity funding analysis

(To be read as part of the Policy) [LTPREP-647166279-348]

Activity Group 18-28	Activity/dept	Operational Expenditure Funding Sources					
		User Fees	Subsidies and Grants	Other	Rental Income	Targeted Rates	General Rates
Governance and strategy	Iwi liaison	-	-	-	-	-	100%
	Strategy and governance	-	-	-	-	-	100%
	Economic growth – district development	-	-	-	-	-	100%
	Economic growth – property *	-	-	100%	100%	-	-
	Economic growth – marina facilities	-	-	-	100%	-	-
	Economic growth – airport facilities	-	-	-	-	-	100%
Transportation	Road network	-	25-50%	0-10%	-	-	50-75%
	Car parking	80-100%	-	-	0-20%	-	-
	Footpaths	-	-	-	-	-	100%
Water	Water	0-5%	-	-	-	95-100%	-
Wastewater	Wastewater	5-20%	-	0-10%	-	80-100%	-
	Public toilets	-	-	-	-	-	100%
Stormwater	Stormwater	-	-	-	-	-	100%
Flood protection	Flood protection (Hikurangi Swamp)	-	-	-	0-10%	90-100%	-
Solid waste	Rubbish/recycling collection and disposal	0-50%	-	0-10%	-	50-100%	-
	Litter control	0-5%	-	-	-	-	95-100%
Planning and regulatory services	Resource consents	30-50%	-	-	-	-	50-70%
	RMA compliance	30-55%	-	-	-	-	45-70%
	Building consents	70-90%	-	-	-	-	10-30%
	Building and environmental monitoring	-	-	-	-	-	100%
	Food	40-60%	-	-	-	-	40-60%
	Health	0-15%	-	-	-	-	85-100%
	Alcohol licensing	90-100%	-	-	-	-	0-10%
	District plan development	0-20%	-	-	-	-	80-100%
	Noise management	-	-	-	-	-	100%
	Animal management	55-75%	-	15-30%	-	-	5-30%
	Parking enforcement	-	-	100%	-	-	-

Activity Group 18-28	Activity/dept	Operational Expenditure Funding Sources					
		User Fees	Subsidies and Grants	Other	Rental Income	Targeted Rates	General Rates
Planning and regulatory services	Warrant of fitness enforcement	100%	-	-	-	-	-
	Swimming pool inspections	100%	-	-	-	-	-
	Bylaws		-	-	-	-	100%
Community facilities and services	Sport and recreation facilities	0-10%	-	-	-	-	90-100%
	Parks reserves and natural areas	-	-	-	-	-	100%
	Play areas, walking trails, coastal	-	-	-	-	-	100%
	Cemeteries and crematorium	35-55%	-	-	-	-	45-65%
	Libraries	5-12%	-	-	-	-	85-95%
	Pensioner housing	-	-	-	75-90%	-	10-25%
	Community safety	-	-	-	-	-	100%
	Community development, community buildings and spaces and residential strategic property	-	-	-	70-90%	-	10-30%
	Community funding	-	0-5%	5-20%	-	-	75-95%
	Venues and events	5-20%	-	5-20%	-	-	60-90%
	Village planning	-	-	-	-	-	100%
	Civil defence	-	-	-	-	-	100%
	Visitor information services	5-20%	-	25-40%	-	-	40-70%
	Customer services	0-5%	-	-	-	-	95-100%

*\* Investment property generates surplus revenue after allowing for investment property operating expenses. This investment property surplus is used to fund the Strategy and Governance Activity and any residual surplus if any is used to fund overall operating expenses like general rates.*

*Note: Support Services is not shown as a separate activity because the costs of running Support Services which provides support to the organisation are allocated over the activities and departments delivering Council's external services.*



# Financial Strategy

## Strategic overview

The *LTP 2015-25* began a new direction for Council, focused on the need to increase investment in core services. These services are central to the successful function of a community and include the provision of water, waste disposal, stormwater, roads, footpaths and places to socialise and exercise.

To do this, Council identified that more money would be needed through a rates increase to maintain and renew assets and deliver the Levels of Service the community says it wants.

The updated *Infrastructure Strategy 2018-48* and *Financial Strategy 2018-28* are based on and continue the themes of Council's *LTP 2015-25*. They are also shaped by the key strategic directions from Council's new Community Outcomes, feedback and direction, which were provided through early engagement with the community. This resulted in a vision for Whangārei to be an attractive, vibrant, attractive and thriving District.

The following strategic issues have been identified.

### The need to continue focussing on core assets

To maintain existing Levels of Service, Council needs to ensure that the assets it already has are maintained and renewed to existing Levels of Service. Many are aged and worn, with some deteriorating faster than expected and others located underground, making it difficult to assess their condition accurately. In some areas, notably stormwater drains, renewals have historically been underfunded. Within the stormwater, wastewater and water networks (and to a lesser extent, parks and recreation facilities) insufficient information is available to plan proactively for and prioritise the maintenance and renewal of assets.

### Our District is growing

Population and household growth has increased in the past three years. The 2017 growth model supporting these strategies shows a picture of continued population increase beyond what was predicted in the 2014 growth model. We therefore need to ensure development can meet this growing demand into the future.

### There is an increased expectation of things to see and do across our District

Our residents not only expect to have things to see and do, they expect them to be attractive, high quality, engaging and appropriate to our people and place. We call this 'adding amenity', a term that is often used in conjunction with the phrase, Sense of Place. Examples in the last three years include key amenity projects such as the addition of the Pocket Park to the very popular Hatea Loop. As a growing District, there is a greater expectation to see these types of projects throughout our urban environment and rural areas.

Growth and increasing expectations for amenity require a balance between funding for the maintenance and renewal of core assets.

These issues also consistently require Council to balance limited funding across competing priorities. While Council's preferred option remains to continue to deliver at the current level of service through rates increases above inflation over the 10 years of the LTP, it is proposed to enhance this delivery through:

- increasing Council's self-imposed debt limits by inflation and growth over the 10 years, which will enable greater investment in renewals in earlier years, while also providing headroom for growth and amenity projects – we will keep our debt level well below our debt ceiling despite responding to growth on a per capita basis
- prioritising the money spent on stormwater renewals by allocating funding within the LTP 2018-28 and building capacity to deliver over the entire life of the LTP
- including funding to grow and improve knowledge on assets and information systems to aid decision-making on funding priorities
- reviewing the adequacy of infrastructure to service the *National Policy Statement on Urban Development Capacity (NPS-UDC)* growth projections, as described below, through a review of Council's *Whangārei District Growth Strategy: Sustainable Futures 30/50*
- consolidating parks and recreation 'sense of place' funding into a dedicated programme primarily focused on cornerstone projects around Pohe Island, the Hatea Loop and the *Blue/Green Network Strategy*.

## Managing our growth

Our District is growing and we expect it to continue to grow by an estimated 1.2% per annum over the next 10 years. The population of our District is projected to increase from 90,500 today to around 102,000 in 2028.

This represents an average annual increase of around 1,000 people per year and a total increase in population of about 11,000 over the next decade, increasing total dwellings by around 1.3% (or 510 additional dwellings) per year. In some parts of our District, growth has the potential to be substantial, particularly in the Marsden Point/Ruakaka area and along the coast. This expected growth in our population requires considerable investment in infrastructure, services and community facilities at substantial cost to Council, the business sector and the community, in general.

While this growth is desirable and to be encouraged, it will continue to put pressure on our core infrastructure and community facilities in the medium and long-term. Our transportation and roading network, water and wastewater services and parks and recreational facilities need to carry enough

capacity to provide for predicted growth, with the anticipation of what must happen and when it is needed being a significant challenge for Council.

In response to growth, the government has introduced a National Policy Statement on Urban Development Capacity which directs Council to respond to and manage growth. This will be achieved by reviewing the adopted *Whangarei District Growth Strategy: Sustainable Futures 30/50*.

The *Whangarei District Growth Strategy: Sustainable Futures 30/50* determines existing and potential land use patterns. This allows us to manage the impact of growth and assess and plan for infrastructure requirements for our District over a 30 to 50-year time frame.

Because land use patterns affect both the timing and costing of core infrastructure, the *Infrastructure Strategy 2018-48* builds on the direction set in the *Whangarei District Growth Strategy: Sustainable Futures 30/50* to provide more detailed planning of our network infrastructure needs. Our activity and asset management plans have also been developed to encourage growth where it has been considered desirable and where infrastructure is capable of meeting increased demand.

## Financial strategy

### Overview

The *Financial Strategy 2018-28 for the Long Term Plan 2018-28* sets the financial parameters within which Council will operate and fund its operations and capital programme (spending on capital projects) for the next 10 years.

Council wants to continue a 'steady as it goes' approach flowing from what has been achieved in the first three years of the *Long Term Plan 2015-25*. Feedback from the community directs us to keep improving our District's infrastructure and amenities to cope with growth, without ignoring upkeep of the things in which we have already invested.

Council recognises that Whangarei District is a high growth area, with a population expected to increase to more than 100,000 by the end of 2028. A cornerstone of the *Financial Strategy 2018-28* must therefore be to provide adequate funding to meet future requirements for the increased demand on infrastructure, services and extra amenity across our District. As stated in the Strategic Overview, adding

amenity means making our assets more attractive, engaging and appropriate to our people and place and is often used alongside or in place of the phrase, Sense of Place.

Land use changes through our rural strategy and plan review, along with strategic direction from our compliance with the *National Policy Statement on Urban Development Capacity*, will see land appropriately zoned to meet demands of growth for housing, commercial and agricultural uses. The focus for urban land uses will be in and around the growth nodes identified in our adopted *Whangarei District Growth Strategy: Sustainable Futures 30/50*.

While it would be ideal to satisfy the needs and wants of everyone in our community, Council can only fund so much. It needs to work within its financial constraints to deliver the facilities, services and infrastructure that bring the most benefit to the most people for the greatest length of time.



# Financial parameters

Council has set financial parameters for the LTP 2018-28:

1. a balanced budget (as defined in the Financial Prudence Benchmarks) every year, where revenue exceeds expenditure, including depreciation
2. land rates and targeted rates (excluding water and flood protection) increasing by the *Local Government Cost Index (LGCI)*, plus 2%, plus growth (1%) over each of the 10 years
3. water rates will only be increased by annual growth of 0.6% each year, as this will provide adequate funding for this activity
4. flood protection rates will increase by 8% each year until 2022, then increase by *LGCI* from then on
5. limit overall rates revenue, which is the income from rates (excluding water rates), to a maximum of 70% of total revenue gained from all income sources
6. increasing debt limits by *LGCI* and growth over the 10 years to allow the funding of:
  - a. uncompleted capital projects carried forward from years one to three of the LTP 2015-25
  - b. capital projects already identified in years four to 10 of the LTP 2015-25
  - c. new projects for years eight to 10 of the LTP 2018-28
  - d. additional projects identified through engagement with the public on the LTP 2018-28

Two special projects will be debt-funded to provide inter-generational equity, a concept of funding fairness defined in more detail on the following page – the special projects are:

- civic precinct
- theatre complex.

Any future special projects will be consulted on with Whangārei ratepayers as specific initiatives before any debt funding is allocated.

7. have total debt less than 175% of revenue
8. have the total debt per capita level less than \$2,150 per Whangārei District resident in 2017-18, with that limit increased by *LGCI* over each of the 10 years of the LTP to maintain buying power
9. have net interest costs on total debt at less than 25% of rates revenue
10. provide sufficient funding through debt and operating surpluses (the difference between income and spending), to complete the planned capital expenditure programme without reliance on selling assets.

We have split our total debt into two parts:

**Core debt** – debt we incur as part of our day-to-day business.

**Special project debt** – debt to fund special projects (the new Civic centre and Theatre).

All debt calculations are based on our net debt, which is our total borrowing less any term deposits or cash at a given point in time.

## Over the next 10 years this allows for:

- a capital works programme of \$730.0 million
- 74% of capital expenditure focused on core network infrastructure such as roads, water, waste, stormwater and flood protection
- operational revenues of \$1.8 billion
- operational spending of \$1.6 billion.

# Building a sustainable financial strategy

The *Financial Strategy 2018-28* is based on fulfilling the core purpose of local government, which is to “meet the current and future needs of communities for good-quality local infrastructure, local public services and performance of regulatory functions in a way that is most cost-effective for households and businesses”.

We have continued to reflect on the community’s needs and our current financial position to make decisions on what Council believes are appropriate ways to fund the delivery of all the services that our community requires – both now and into the future, taking into consideration our growing population.

We continue to examine the state of our network infrastructure and community assets, the Levels of Service that our community expects us to deliver and the funding required to achieve this. This, in turn, has led to an examination of the funding allocation between ratepayers, services and debt. This strategy, together with the *Infrastructure Strategy 2018-48*, addresses these issues and describes our funding model, or the way in which we intend to fund future projects.

This is a sustainable financial strategy. By the end of the 10-year planning period, Council will have an income base that allows it to provide the services that our community expects, without leaving a large backlog of asset maintenance and renewal for later generations to deal with. While that does mean rates rises beyond the level of inflation, we believe they are necessary to provide the range and quality of services our community demands with a focus on increased services, i.e. things to see and do and amenity.

## Inter-generational equity

The concept of achieving fairness between ratepayers over time is called ‘inter-generational equity’.

Council has a responsibility to consider the interests of the community now as well as in the future. Thus we try to ensure that, as far as possible, today’s ratepayers only pay for services they are likely to use and not for benefits that will be received by new ratepayers in the future.

We need to make sure that today’s ratepayers are paying their fair share of the ‘wear and tear’ on assets that are used to provide services they receive. While things like roads and water pipelines have useful lives that can span decades, they deteriorate a little every year.

However, because many of our assets have long lives, they will provide benefits to future ratepayers as well. When we build new assets, we need to consider how much of the expenditure required should be funded through current ratepayers (via rates) and how much should be funded through future ratepayers by borrowing now and repaying debt later when future ratepayers become users.

## Maintaining Levels of Service

For this LTP we have also completed a 30-year *Infrastructure Strategy 2018-48* that provides a blueprint for delivery of services through our network infrastructure for which the *Financial Strategy 2018-28* has been prepared to give effect to.

Enjoyment of and engagement with this infrastructure, will be improved in the following areas:

- Pohe Island
- multi-modal transport options – more walking and cycling
- the *Blue/Green Network Strategy* and the Town Basin precinct.

The Levels of Service describes what the community can expect from Council's infrastructure and services and is a combination of the:

- quality of infrastructure provided by Council
- standard to which infrastructure is maintained
- services that assets, staff and contractors provide to the community.

Council is focussed on ensuring that the targeted Levels of Service identified in the LTP are maintained.

The appropriate Levels of Service in each activity area has been carefully considered by Council, along with the additional demand for infrastructure and services in our District due to predicted growth. In each activity area, Council has considered the ongoing effects of every decision and inevitably, there have been tensions, gaps or conflicts between the desired level of service and the level that can be provided within the financial parameters outlined in this strategy.

The asset and activity management plans upon which this Plan is based have therefore generally been prepared with the aim of maintaining current Levels of Service throughout the 10-year timeline of the Plan. This 'hold and maintain' strategy will be managed by looking for ways to be cost-effective across Council's planned operations, infrastructure maintenance, renewal and capital upgrades. Council will also review operational practices to find ways to be more efficient without adversely impacting service level delivery.

There are no instances where current LTP Levels of Service targets have reduced from the last LTP.

## Funding

Throughout the 10 years of the *Financial Strategy 2018-28*, Council will rely on funding from a variety of sources, with rates being the largest portion.

### Funding sources

General rates	41%
NZTA subsidies	13%
Wastewater targeted rates	13%
User charges	10%
Metered water	9%
Other targeted rates	5%
Development contributions	3%
Other	6%
Total	100%

\*Other = petrol tax, fines and infringements, interest received, dividends received.

A key activity in the development of the *Financial Strategy 2018-28*, was confirming levels at which revenues need to be set based on the following principles. Where possible:

- revenues are sufficient to cover expenses
- asset renewals and replacements are affordable within the available funding
- funding allows for major capital projects the community wants
- current service level targets are achieved
- the needs of current and future ratepayers have been considered
- we have balanced our budget each year
- rates increases are affordable.

# Rates

Like most Councils, rates are our main source of funding. While we try to maximise the subsidies available from Central Government and have a 'user pays' approach policy (through consumption and user charges) for many services, the bulk of our work is funded by rates, which fund 68% of Council's activities. There are two types of rates: general rates (41%) and targeted rates (27%).

In the last LTP, Council introduced rate increases above the rate of inflation. This approach will be retained, as we need to continue to increase our operating revenue to reflect the cost of providing services to our community. While we recognise that our District is slightly less affluent than the average, we consider that rates increases beyond inflation are affordable for our community.

We have also considered introducing cost-cutting measures to avoid the need for significant rates rises. However, we were unable to identify areas where we could make meaningful savings without significant reductions in service levels.

## General rates

Council currently uses general rates to fund a broad range of activities, where there is a benefit to the whole community (public benefit) or where there is no practical way to charge individual users.

There are two elements to general rates:

- Uniform Annual General Charge (UAGC), which is a fixed dollar amount that all rating units are levied
- 'value based' amount, which is based on the land value of each rateable unit.

A UAGC is applied to each 'separately used or inhabited part' (SUIP) of each rating unit. The UAGC is to be assessed by Council annually and set at a level considered to be reasonable. The UAGC is used to fund the same activities as the general rate and ensures every ratepayer contributes a base level of rates irrespective of property value or services used.

Value-based general rates are assessed on land value and are differentiated by land use into sectors.

## Allocation of rates

In 2012, Council introduced a 'fixed sector allocation' methodology, whereby a pre-determined percentage of general rates was shared between the three rating categories. The current splits are:

Residential properties	61.58%
Multi-unit properties	0.23%
Miscellaneous properties	0.19%
Rural properties	9.50%
Commercial and industrial properties	28.50%
Total	100%

## Targeted rates

Targeted rates are used where an activity benefits an easily identifiable group of ratepayers and it is appropriate that only this group be targeted to pay for some or all of a service. The funds collected must be used for the purpose for which they are rated.

Targeted rates are only used where Council considers it is an appropriate mechanism to fund that activity or where Council wishes to make clear the purpose for which the rate is collected. The revenue collected in any one year may result in a surplus, which is used to repay debt or to fund capital expenditure in future years.

We calculate targeted rates using different methods including:

- uniform charges for each Separately-Used and Inhabited Parts (SUIP) of a property (residential sewerage, unmetered water and District refuse management)
- based on the area of the property (Hikurangi Swamp)
- based on the number of pans or urinals (non-residential sewerage)
- based on metered water consumption
- those benefiting from a specific service or facility, such as a new boat ramp or seawall.

## Increases to rates

In the 10 years of this Plan, Council intends to increase the revenue obtained from most rates beyond the level of inflation, as shown in the table

below. Overall, rates revenue will also increase as our District's population grows.

	Annual inflation	Additional increase	Allowance for growth
<b>General rates</b>			
UAGC portion	LGCI	2%	1%
Land value portion	LGCI	2%	1%
<b>Targeted rates</b>			
Wastewater	LGCI	2%	0.8%
Refuse management	LGCI	2%	1%
Water rates			0.6%
Flood protection 2018-22		8%	
Flood protection 2023-28	LGCI		

*Note: These increases are applied to the total revenue from each rate type, not the amount per individual ratepayer.*

The projected number of rateable properties within the District at the end of each preceding financial year is shown in the table below.

### Projected rating base information

17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	26-27	27-28
41,760	42,062	42,483	42,907	43,337	43,770	44,208	44,650	45,096	45,547	46,003

Annual Growth factors shown above will be used for each year's rates strike regardless of actual growth to allow some certainty in financial planning.

The reasons for the different increase amounts are:

#### General rates

##### Land Value Portion

These increases are set at the level that will provide sufficient funding for the planned expenditure programme for the bulk of Council's activities. Increases to other rating types only vary from these amounts if there are specific reasons, as noted below.

##### UAGC

Review of the *Revenue and Financing Policy* indicated the current level reflects the funding requirements of the activities that are to be funded by all ratepayers equally and increases should align with the Land Value Portion.

#### Targeted rates

##### Wastewater

This increase matches that of the Land Value portion. However, the growth factor is reduced slightly as some growth will be outside the reticulated area.

##### Refuse management

The revenue for this activity will move in line with the UAGC, with ongoing growth and inflation adjustments.

##### Water

The water reserve has a surplus of \$26.9 million (as at 30/6/17). The current water consumption charge, together with increases limited to growth in the number of properties connected to the reticulated system, will provide adequate funding for the proposed expenditure programme. Charges for the water supply charge, backflow prevention and the water meter reading special charge will increase by LGCI.

##### Flood protection

In line with consultation for the 2012 LTP, with the public and those affected, Council has maintained targeted rate increases for the Hikurangi Swamp Scheme at 8% for the first five years of the Plan to fund additional expenditure required to maintain the effectiveness of the scheme. After this period, annual inflation adjustments will provide sufficient revenue.

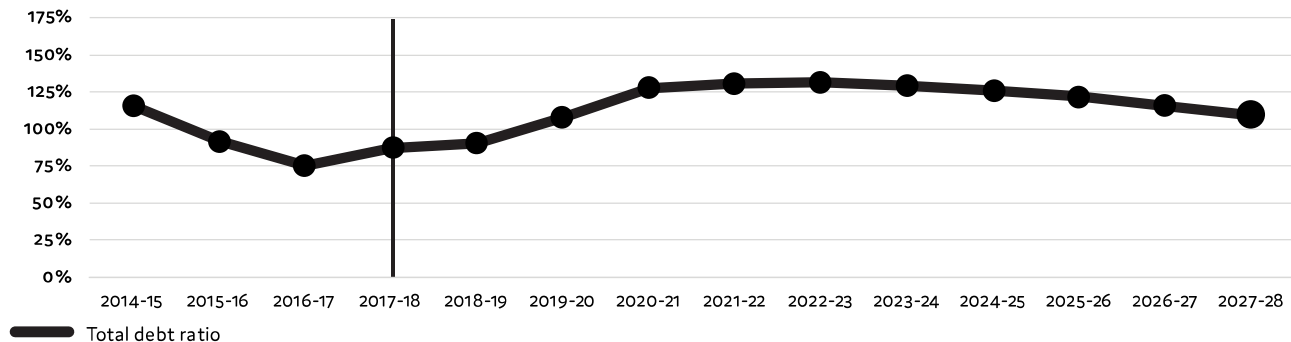
# Debt, interest and internal funding

## Debt

The *Financial Strategy 2018-28* sees total debt increase from \$124.6 million on 1 July 2018, peaking at \$241.5 million in year eight and ending at \$237.6 million on 30 June 2028.

The graph below compares total debt to revenue and shows an improving trend over the 10 years of the plan.

### Total debt as a % of revenue



Until the end of the 2014-15 year, Council managed its debt from a gross debt perspective. From the 2015-16 year, measurement is from a net debt perspective.

## Finance costs

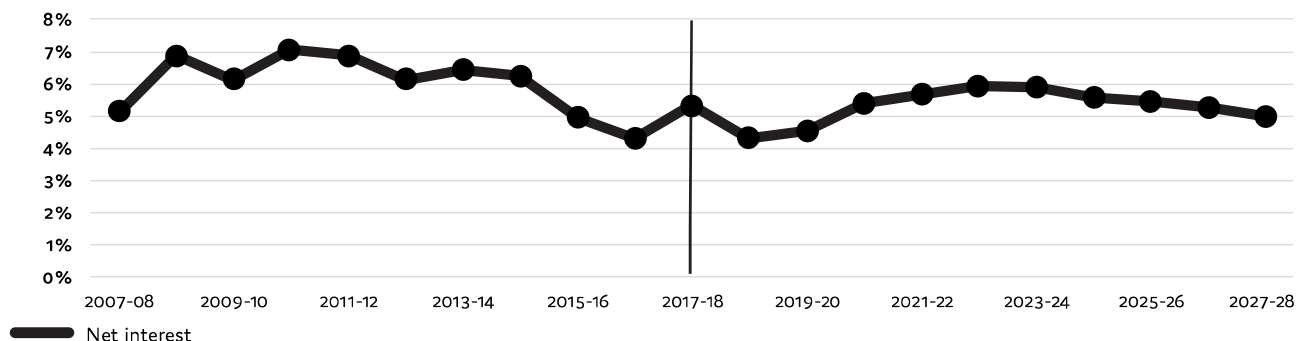
Council minimises its cost of debt by using interest rate swaps to protect against interest rate or margin increases. Debt maturities, or the dates when loan agreements must be repaid, are spread over both short and long-terms, as well as a mixture of fixed and variable interest rates.

To minimise financing costs, Council is a member of the Local Government Funding Agency (LGFA). This means Council can borrow at better rates than are available through direct lending from trading banks.

In May 2016, Council had its credit rating upgraded to AA by Standard and Poors with a credit rate outlook of 'stable', primarily in recognition of its strong financial management and very strong budgetary flexibility. This AA credit rating was reconfirmed in May 2018. An AA credit rating assists in reducing financing costs.

The LTP assumes an interest rate averaging 4.66% across the 10 years, after taking all factors outlined above into account.

### Net interest as a % of revenue



## Internal funding

As part of its financial or treasury management, Council minimises its overall interest costs by using funds held in reserve as ‘internal borrowing’. i.e. rather than keeping funds on deposit while borrowing all the money needed to fund capital works, reserve funds are used in the short-term and they are repaid in future as needed. Council intends to continue this approach into the future.

The largest reserve fund is the Property Reinvestment Reserve (PRR), which was originally created in 2010 through the sale of Council’s interests in leasehold land to those already leasing the properties. This fund had built to \$28.0 million by 30 June 2015, with all the funds used to finance infrastructure projects through internal lending.

However, Council has decided that from 1 July 2015 the proceeds of commercial property sales would be set aside for purchases that met Councils’ property objectives, as stated in its property policy. The portion of the PRR available for reinvestment is shown in the table below.

While there are no specific plans to sell more commercial property in this LTP, if any sales were to take place, the proceeds would be added to this reserve and be available for reinvestment. An annual dividend will also be added to the amount available for reinvestment. In the meantime, the original reserve balance of \$28.0 million would continue to be used to fund other Council activities.

Council has not identified or budgeted for any property sales or purchases in the next 10 years. However, it is recognised that there is a possibility that commercial opportunities may arise from time to time. Consideration may be given to funding a purchase, where there is an identified strategic benefit and/or the predicted return from a potential commercial property investment is greater than the cost of capital, thereby reducing the PRR balance. If there are insufficient PRR funds available for reinvestment, purchases are likely to be debt-funded and dealt with via a Council resolution or future Annual Plan/LTP process, as appropriate.

## Property reinvestment reserve

	Year 1 2018-19	Year 2 2019-20	Year 3 2020-21	Year 4 2021-22	Year 5 2022-23	Year 6 2023-24	Year 7 2024-25	Year 8 2025-26	Year 9 2026-27	Year 10 2027-28
Opening balance	30,742	31,357	31,984	32,624	33,276	33,942	34,620	35,313	36,019	36,739
Funding allocated to Council activities	28,229	28,229	28,229	28,229	28,229	28,229	28,229	28,229	28,229	28,229
Funding available for reinvestment	2,513	3,128	3,755	4,395	5,047	5,713	6,392	7,084	7,790	8,510
Dividend 2%	615	627	640	652	666	679	692	706	720	735
Closing balance	31,357	31,984	32,624	33,276	33,942	34,620	35,313	36,019	36,739	37,474

Other significant reserve funds include Community Development Funds and asset reserves. Council also creates reserves when targeted rates for a particular activity are accumulated before significant capital expenditure occurs. As an example, there was a balance of \$26.9 million in the water reserve as at 30 June 2017, which will be used over the life of the LTP to fund water projects as they are completed.

At the outset of this LTP, internal funding will total around \$72.0 million, which is expected to decrease to around \$53.0 million by 2028.

Internal interest charges are allocated to each activity for their share of funds borrowed from

reserves, with these costs outlined in the activity funding impact statements accompanying each activity in the line item ‘finance costs’. The resulting revenue from these charges is outlined within the activity funding impact statements, line item ‘local authorities fuel tax, fines, infringement fees and other receipts’. No internal interest is included in the Prospective Funding Impact Statement for Council.



## Fees and charges

Council will increase most fees and charges annually to align with the Local Government Cost Index (LGCI) inflation rate, which ranges from 2% to 2.6% across the 10 years of the plan. In some areas, such as food inspections and liquor licensing, Council will seek to recover actual costs, which will result in increases beyond inflation. Council's fees and charges are reviewed on an annual basis.

## Development contributions

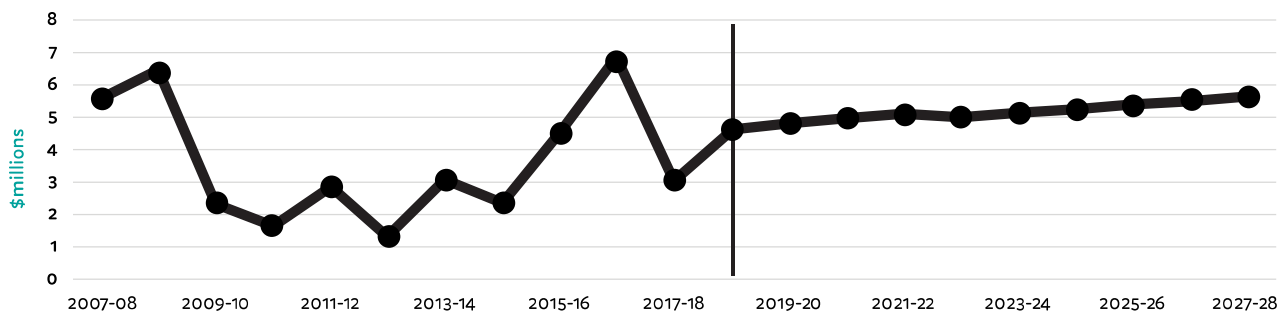
Council's practice is to fund most of the growth component of capital expenditure through Development Contributions (DCs), or the financial charges levied on developers, with the remainder funded through rates. Over the past few years, Whangārei has experienced growth with correspondingly higher DC revenue, so Council has taken a more optimistic approach to forecasting revenues in this area.

Across the 10 years of this plan, we expect to proceed with around \$123.0 million of growth projects. Forecast income of \$51.0 million from DCs will cover some of this cost, with the remainder of funding to come from rates and subsidies.

## NZTA subsidies

Subsidies from central government via the New Zealand Transport Agency (NZTA) provide a significant source of funding for our transportation activities, such as road construction and repair. In 2018-19, Council expects to receive NZTA subsidies of \$21.0 million, representing 53% of the gross cost of both operating and capital expenditure, on a wide range of approved roading projects. At the time of completing this plan, NZTA had not confirmed the subsidies applied for by Council.

## Development contributions





# Expenditure

## Operational activities

With the impact of inflation and growth, total annual expenditure is forecast to increase from \$141.0 million to \$181.0 million over the 10 years of the plan, while total annual revenue is expected to increase from \$152.0 million to \$217.0 million over the same period. This will provide an operating surplus in every year of the plan.

Forecasting Council's operational expenditure is a balancing act. Local government costs are rising faster than the costs of general consumer goods and thus, Council must rise to the challenge of meeting Levels of Service while at the same time looking to save costs wherever it can. Council also needs to allow for the effects of population growth

and operating costs associated with new assets in preparing its budgets.

One of the best ways to limit costs is to review the supply chain to ensure purchases are at the best prices. Continuous improvement of Council processes will also result in less cost and best use of available funds, or doing more with less. Council constantly reviews its operating costs with items such as bank charges, interest rates, preferred supplier arrangements and competitive procurement tendering.

The tables below show the split of total forecast operating costs for each Council activity and expenditure type for the 2018 – 28 planning period.

	\$000	% of total
<b>Breakdown by activity</b>		
<b>Network \$m</b>		
Transportation	359,186	22.4%
Water	144,388	9.0%
Wastewater	134,393	8.4%
Stormwater	46,577	2.9%
Flood protection	10,629	0.7%
<b>Total</b>	<b>695,172</b>	<b>43.4%</b>
<b>Other</b>		
Solid waste	77,582	4.8%
Community facilities	319,286	19.9%
Planning and regulatory services	119,969	7.5%
District strategy and governance	59,673	3.7%
Corporate and finance	329,297	20.6%
<b>Total</b>	<b>905,807</b>	<b>56.6%</b>
<b>Total operating expenditure</b>	<b>1,600,979</b>	<b>100.0%</b>
<b>Breakdown by expenditure type</b>		
Operating expenditure	431,702	27.0%
Professional fees	49,311	3.1%
Repairs and maintenance	226,810	14.2%
Depreciation	464,394	29.0%
Finance costs	95,782	6.0%
Personnel costs	332,979	20.8%
<b>Total</b>	<b>1,600,979</b>	<b>100.0%</b>

# Capital expenditure

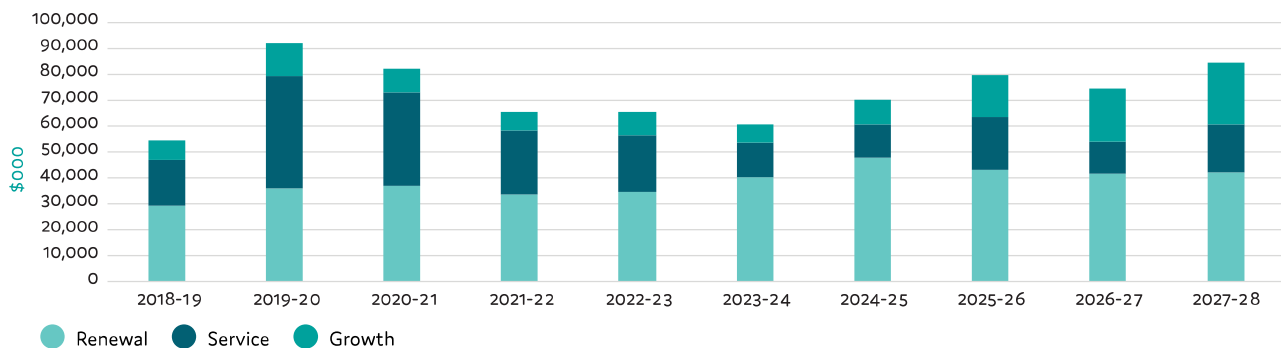
Allowing for inflation over the life of the plan, Council's total annual capital expenditure ranges from \$55.0 million to \$92.0 million. We have assumed carry forwards (transferral of funds for uncompleted projects from one year to another) of \$20.0 million from the 2017-18 financial year to the 2018-19 financial year.

Expenditure is funded by a combination of operating surplus, rates, debt, development contributions

and government subsidies. Council is expected to receive NZTA subsidies of 53% for subsidised roading projects over the lifetime of the plan.

The graph below illustrates planned capital expenditure over the 10 years of the Plan of \$730.0 million. The renewal of existing assets accounts for 53% of total expenditure, with 30% providing for improving Levels of Service and the balance of 17% providing for growth.

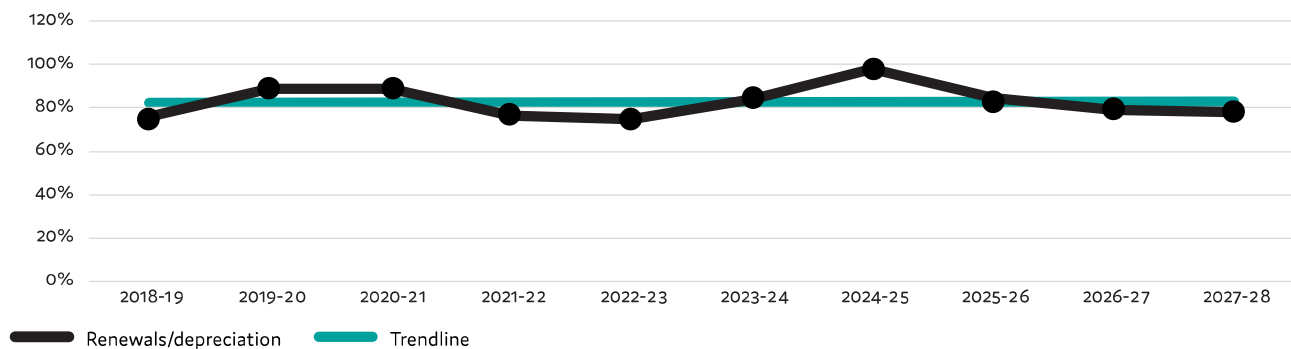
## Planned capital expenditure



Just over half the expenditure is for the renewal of existing assets and upgrades to extend their useful life. Each year a depreciation amount is estimated. This represents the portion of an asset's useful life that has been used up through 'wear and tear' in that year by current ratepayers. Depreciation

is calculated for all assets and while each year's renewal programme only affects a portion of assets, all of them will be replaced over time. The graph below shows the relationship between these two amounts over the life of the plan.

## Renewals to depreciation



This graph shows the average ratio of renewals to depreciation to be 83%. While renewal expenditure should roughly match depreciation expense in the long-term, Council takes a cautious approach that will not compromise service levels in the foreseeable future or leave a significant backlog of asset replacement for future generations. This issue is explored in more depth in the *Infrastructure Strategy 2018-48*.

Capital expenditure by activity type is allocated as shown in the table below.

	Capex \$000	% of total	Depreciation \$000
<b>Network infrastructure</b>			
Transportation	307,028	42.1%	203,532
Water	108,218	14.8%	65,624
Wastewater	85,015	11.7%	71,760
Stormwater	39,138	5.4%	30,465
Flood protection	3,711	0.5%	3,346
<b>Total</b>	<b>543,110</b>	<b>74.4%</b>	<b>374,727</b>
<b>Other</b>			
Solid waste	2,152	0.3%	523
Community facilities	124,798	17.1%	58,591
Planning and regulatory	1,619	0.2%	460
District strategy and governance	2,736	0.4%	1,104
Corporate and finance	55,230	7.6%	28,990
<b>Total</b>	<b>186,535</b>	<b>25.6%</b>	<b>89,668</b>
<b>Total capital expenditure</b>	<b>729,645</b>	<b>100.0%</b>	<b>464,395</b>

*Note: Solid waste expenditure relates solely to transfer stations, which are the only solid waste assets directly owned by Council. The bulk of our refuse management operations (including the landfill and Re-Sort facility) are delivered with our joint venture partner through Northland Regional Landfill.*

As the above table shows, over the life of the plan, 74% of capital expenditure is focused on network infrastructure, reflecting Council's recognition that it still must invest considerable amounts in our core assets to meet the service levels the community expects.

However, community facilities like boat ramps, playgrounds, walking tracks and theatres, are a significant component of a happy, engaged, balanced and sustainable community. They also form an important part of Council's aspirations to improve the sense of place and economic, social, health and education statistics in our District. While some consider these projects as 'nice to have', Council views them as just as important as core infrastructure in achieving its overall outcomes, while recognising that expenditure on them needs to be kept in check.

# Assets

Council holds a range of fixed assets, or assets that are purchased for long-term use, which were valued as at 30 June 2017 at \$1.5 billion. A total of \$1.4 billion (92%) of these comprise our core network assets such as roads, water systems, wastewater, stormwater and flood protection infrastructure.

Asset management plans have been prepared for infrastructure assets, setting out the expenditure on maintenance and renewals required to ensure they are appropriately managed and maintained to meet Council's targeted Levels of Service. Council intends to maintain these assets in accordance with these plans.

Council also holds various operational and investment assets, including property (incorporating land, buildings, ground leases and land held for development) and small forestry blocks.

The full insurance programme for these assets was reviewed in 2016 resulting in a change of brokers and some schedules being managed directly with insurers.

Council's assets are insured in several ways through various insurance providers. The exception to this is roading assets which are covered, in part, by emergency reinstatement funding from NZTA.

All underground assets, which were previously insured under the Local Authority Protection Programme Disaster Fund (LAPP), are now covered under a commercial insurance.

Valuations have been completed for most of Council's assets during the 2016-17 financial year, with insurance schedules updated throughout the financial year as changes occurred within Council.

Current insurance levels are:

- full value for underground assets, in line with recent valuations
- commercial insurance around 90% of the value of assets
- roading insurance through the NZTA at 53%.

Insurance levels are reviewed annually in line with scheduled renewal dates.

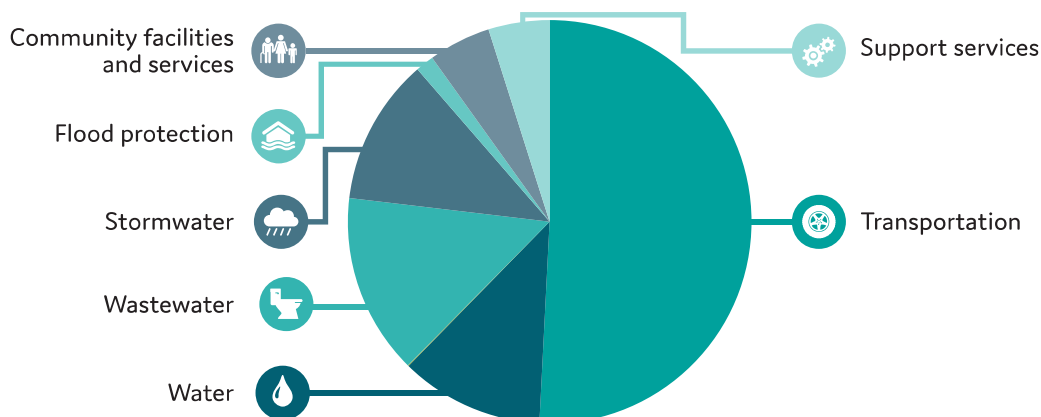
A full review of insurance providers was undertaken in 2016-17 and this will be reviewed again in the 2019-20 financial year.

2017 was a revaluation year. Revaluation information was not available until after the placement of the 2017-18 insurance programme and because of this, Council's insurance schedules were again subject to a full review. This process involved an assessment to determine whether the costs of asset replacement across Council should be met by commercial insurers, LAPP and NZTA, or self-insurance. Following this review, the insurance schedule was finalised, with respective insurers notified of adjustments.

Direct equity investments in Council Controlled Organisations (CCOs) and Council Controlled Trading Organisations (CCTOs) and other shareholdings in the form of investment in land, buildings, airport assets and artwork, make up the remainder of Council's assets. These investments are also reviewed on a regular basis to ensure that they are still appropriate for Council to retain.

Over the period of this Plan, the value of assets is expected to rise considerably as capital works projects create new assets of significant value and existing assets are revalued every three years.

## Assets by activity



# Minimising risk

In preparing this Plan, Council had to make some assumptions about what will happen in the future. However, this always brings with it a level of risk. We have identified four major areas of risk that could impact on our ability to deliver on the *Financial Strategy 2018-28*.

Our District is susceptible to extreme weather events which requires funding to be available for unplanned repair works. The main impacts are felt in our roading network, but there is often damage to other infrastructure such as pipelines, walking tracks and coastal structures. While we design and build our infrastructure assets to have resilience to these storm events, we are still often faced with unplanned repairs. Council has considered the establishment of a reserve fund to cover storm damage, but has chosen not to do so now. Rather, Council would fund maintenance and capital works by utilising the money it had available to reach its debt limit. If this was not possible then Council would defer operating costs and capital spending to accommodate the work required to make good the damage.

No provision has been made for catastrophic events such as tsunamis, as this would be so disruptive that a business continuity plan based on the current operating model would be impractical and other interventions (such as central government support) would be required.

We know that population growth and development will continue, but we cannot accurately quantify exactly when, where or to what extent it will occur. Our asset management plans, infrastructure and financial strategies are all based on historical trends and future growth forecasts to give us the best prediction of our District's needs into the future. While several projects that support growth are included in our LTP, we will review actual growth patterns and infrastructure needs each year and adjust the programme accordingly.

Adverse global economic conditions can also have a negative impact on Council's financial resources, as well as those of our ratepayers and residents. While forecasts of future economic conditions are built into this plan, provision is also made to adjust activities if there is a downturn. Measures include access to debt markets, liquidity parameters and projects that can be scaled or deferred to match population growth or financial resources.

Conversely, buoyant global economic conditions can lead to higher interest rates. Given the level of Council's external debt, every 1% increase in interest rates represents an average increase in interest

expense over the life of the Plan of \$1.6 million per annum. However, we manage our vulnerability to interest rate movement through a hedging programme that minimises the risk of financial loss and gives us a high degree of protection from global or national events. In other words, we have capped our interest rates for many years into the future at the current rates of between 3.86% and 6%.

We also take a conservative approach to our debt levels, meaning that we have considerable capacity to raise debt to deal with abnormal events and emergencies. While there is no intention to increase debt beyond the levels shown elsewhere in this strategy, it is important to note that we have access to more funding in the unlikely event that it is needed.

# Limits and policies

## Limit on rates

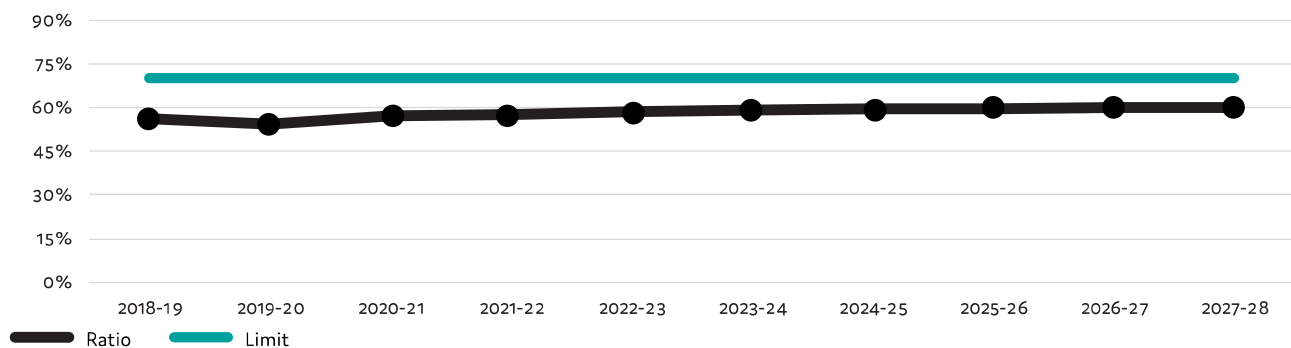
Council does not have a particularly diverse income stream, with the main sources being rates, fees and charges, development contributions and government subsidies (e.g. for roading). There is limited scope to add new revenue sources without allocating funds to new investments, so the reliance on rates as a revenue source will remain relatively high.

While Council will continue its approach of allocating rates as a funding distribution based on who causes

and benefits from its activities, it will also endeavour to limit rates (excluding water)\* collected each year to a maximum of 70% of total Council revenue, with the long-term average below this limit.

This limit will be reconsidered as part of every Annual Plan and LTP to ensure that it remains practical, given Council's financial position and broader economic conditions at that time.

### Limit on rates (excluding water) as a % of revenue



\* For this limit, rates are defined as all revenue derived from general rates and targeted rates, but excluding water rates, which are effectively a consumption charge and are therefore out of Council's direct control.

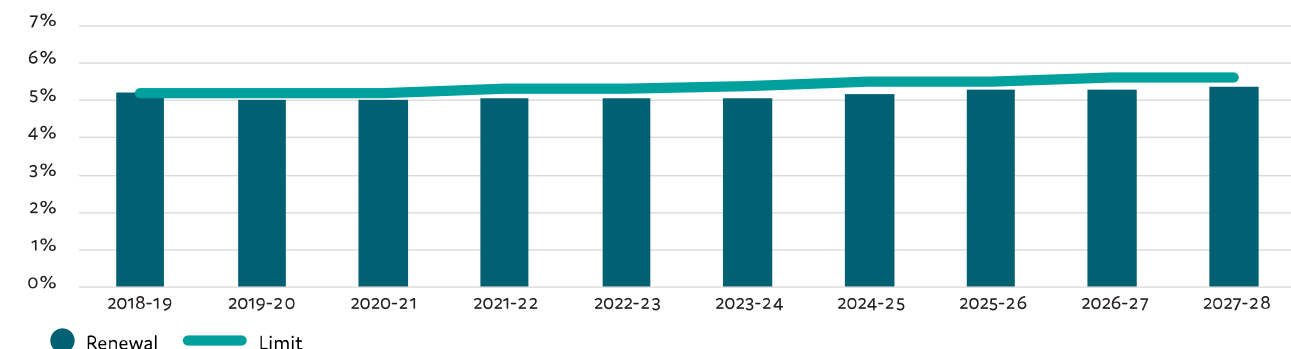
## Limit on rate increases

As noted in the rates section above, Council intends to apply an increase of 2% above inflation to all rating types apart from water. The inflation factor used is the Local Government Cost Index (LGCI).

Rating revenue will also increase through natural

growth in the rating base, i.e. as our population grows. An allowance of 1% per annum is made for rates levied on all ratepayers and 0.8% for wastewater and 0.6% water, as some growth will be outside the water and wastewater network areas.

### Limit on rates increases (excluding Water)



For reporting purposes, the target set on the limit on rates increases will be reviewed and possibly reset in each year's Annual Plan based on the latest LGCI predictions.

From time to time there may be extraordinary events

that mean Council may have to go outside these limits. For instance, there may be a need to fund the clean up after a catastrophic event. However, these situations are considered unlikely and have not been provided for in this plan.

## Limits on borrowing

To allow for inflation and growth, the total debt limit increases over the life of the Plan by LGCI and growth over the 10 years. There are two other limits on borrowing:

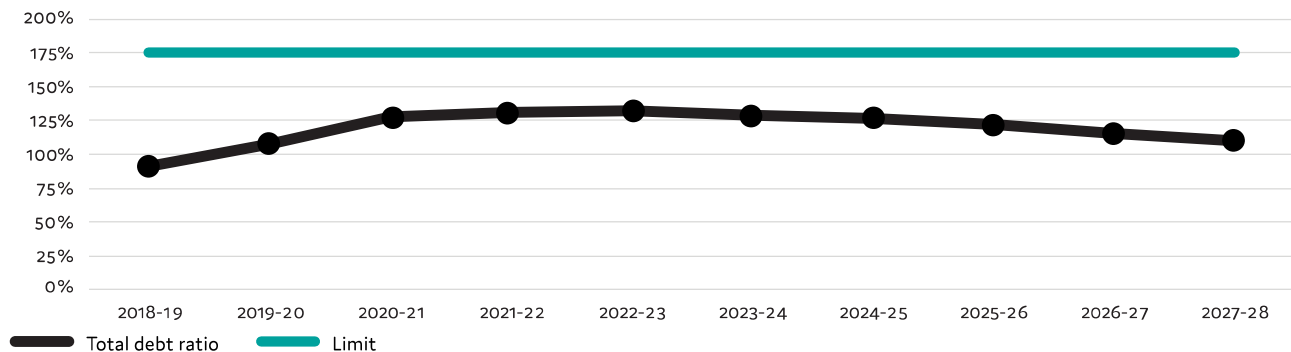
- limiting total debt (the portion of debt borrowed from creditors outside Council) to less than 175% of revenue
- limiting the total debt per capita level (the debt

per head of our District's population) to below \$2,150 in the 2017-18 financial year, growing by LGCI over the 10 years.

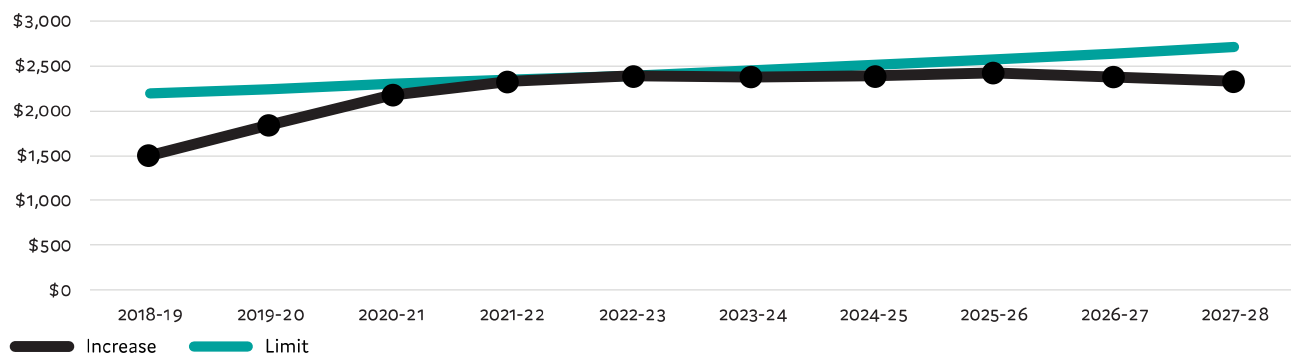
Details on how Council's debt is managed are set out in the *Treasury and Risk Management Policy*, which is available on request.

Council also utilises internal funding which is not subject to the above limits.

### Total debt as a % of revenue



### Total debt per capita



## Securities for borrowing

Council currently secures its external borrowing and interest rate risk management instruments against the total of rates revenue via a registered debenture trust deed. It is intended to continue with this practice, which provides ample security cover for predicted levels of borrowing.

### Financial investments and equity securities

Council uses any surplus cash to reduce debt, or invest in short-term investments which are included

as cash. Council can also hold investments in its subsidiaries.

Council does not hold equity securities in public companies except for small holdings in Civic Assurance Limited and New Zealand Local Government Funding Agency Limited, which provide insurance services and lending to participating local authorities respectively.

# Council organisations

Council currently delivers a variety of services through Council Organisations, Council Controlled Organisations and Council Controlled Trading Organisations where it considers this is a more effective, efficient and financially viable option compared to other means of delivery.

There are four Council Controlled Organisations:

- Whangarei District Airport
- Whangarei Waste Ltd
- Whangarei Art Museum Trust
- Northland Events Centre Trust.

There is one Council Controlled Trading Organisation – Northland Regional Landfill Limited Partnership.

There is one Council Organisation – Whangarei Quarry Gardens Trust.

Council also has a small (3.3%) shareholding in the New Zealand Local Government Funding Agency, which is owned by 30 councils and the Crown.

Council does not intend to make any significant changes to the current funding arrangements for these Council Organisations throughout the LTP 2018-28.

# Monitoring and reviewing the strategy

As part of business-as-usual, we constantly scan the financial environment and our own performance to monitor:

- sustainability of our financial performance and position
- emerging risks
- whether the *Financial Strategy 2018-28* is being implemented
- trends in the community's ability to pay.

The *Financial Strategy 2018-28* will be reviewed every three years as part of the LTP process. Consideration will also be given to the impacts of any significant changes in local, national or global economic conditions during each year's Annual Plan process.

# Supporting documentation available

The policies listed below have been developed in conjunction with this LTP and are available upon request:

- *Treasury and Risk Management Policy*
- *Development Contributions Policy.*