Council Briefing Agenda

Date:	Wednesday, 5 August, 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.

Pages

2.1 LTP Direction Setting and Financial Parameters

Meeting:	Council Briefing
Date of meeting:	5 August 2020
Reporting officers:	Alan Adcock (General Manager – Corporate/CFO)
	Dominic Kula (General Manager – Strategy and Democracy)

1 Purpose

Direction setting for the 2021 – 2013 Long Term Plan.

2 Background

Late last year councillors held a number of briefings and workshops to discuss priorities for the Triennium. This work culminated in clear priorities being endorsed in February 2020, for consideration through the 2021 – 2031 Long Term Plan (LTP).

However, the arrival of COVID-19 resulted in a review of both Council's short term position (through consultation on the 2020 – 2021 Annual Plan process), and the framework to support the recovery and reset of our local economy over the medium to long term horizon of the LTP.

Central to this was the adoption of the COVID-19 Response Strategy and Council's Strategic Drivers and Priorities (with minor amendments from February) for the LTP in May 2020.

In adopting priorities Council also resolved to not undertake early engagement on the 2021-2031 Long Term Plan, instead requesting that staff to develop a communications programme.

This has allowed information Briefings to be held with councillors on each of the functional areas of Council working through what the business does, levels of service in the current (2018 – 2028 LTP) and key issues over the three to ten year horizon of the next LTP.

Having worked through these Briefings, and received initial feedback from councillors, this Briefing will mark a transition to the direction setting stage of the LTP.

As this is a key step in the LTP process we have scheduled a follow up/placeholder Briefing on the 12th August if required.

3 Discussion

The direction and decisions that make up the LTP must come from elected members. This is clearly highlighted in sector guidance which notes that:

'the decision to adopt (and all of the policy and service decisions that lead up to adoption) are political decisions for the elected members to make. The advice that officials provide is an information source to the process, as is the feedback gathered through community engagement [but] the LTP is . . . the elected member's document'

New Zealand Society of Local Government Managers - Living through the Long-Term Plan 2021

This briefing will therefore mark a transition from information Briefings aimed at providing a consistent/robust understanding of each area of Council, to Briefings focused on getting the direction required from elected members to develop a draft plan.

3.1 Recap and initial Councillor direction (Part 1)

It is proposed to break the Briefing into two parts, the first being a session to recap and seek councillor direction on key issues, programmes and projects.

It is important to note that as this is the first direction setting session the focus will be on the 'big issues' required to provide initial direction (essentially we will be covering where we want to focus in Part 1, and the mechanisms/parameters required to deliver in Part 2).

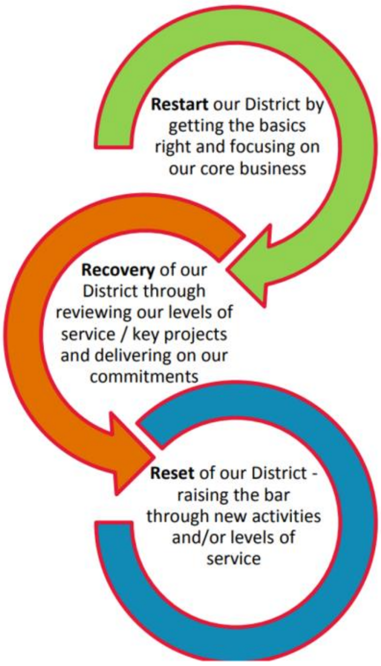
Further detailed sessions on Levels of Service, and councillors key projects and programmes, are scheduled for late August (26/27th) and early September. These will then feed into a councillor prioritisation process on the 17th of September.

Given the process that councilors will work through over the next two months to provide direction and prioritise programmes/projects it is proposed to frame this Part of the Briefing around:

- A summary of the process to date, including key issues raised.
- An overview of where we are at in the process, and the direction that will be sought from councilors in briefings leading up to Christmas
- Councillor direction on key issues, programmes and cornerstone projects. Examples discussed by councillors to date include;
  - Areas where you may want raise or lower levels of service (including grant funding levels)?
  - Strategies for managing capex delivery and carryforwards?
  - Key cornerstone projects or programmes?
  - Funding across rural and urban communities?
  - Planning for the 'known unknowns' (i.e. Central Government funding, Port relocation, waters, regulatory reform, NZTA subsidy etc)?

Critical to this session will be the Strategic Drivers/Priorities adopted for the LTP in May 2020:

Strategic Drivers



Priorities for the LTP

1. Transport (Roading and Public Access)
2. Revitalising the City Core
3. Potential Northport expansion/Navy relocation
4. Sustainability (including waste minimisation)
5. Housing

These will provide a framework for direction setting, including any discussion of tradeoffs.

3.2 Financial Parameters and Rating (Part 2)

The Financial and Infrastructure Strategies are two of the key supporting documents to the LTP, providing both the strategic direction and the underpinning context for the plan. These policies help to establish an overall policy framework for Council's financial management, but do not themselves set the financial parameters.

Supporting the LTP, and setting financial parameters, are a range of policy settings/requirements including Prudence and Sustainability, Council's Financial Strategy, funding and financial policies, Balanced Budget requirements and rating policies. A summary of these is provided in Attachment 1.

Financial Parameters

The overall objective of this Part of the Briefing will be to produce an initial draft of high level parameters so that initial modelling can be used to validate the draft policies, strategies and general operating assumptions.

While these will be discussed at this Briefing, they will be revisited several times as the LTP process continues. Some of the matters that will be presented for discussion are:

- To determine whether a Rating review is necessary/desired (refer further information below)
- Rates e.g. Should we revert back to LGCI plus 2% plus a 1% growth factor?, how to the ongoing impacts of the lower rates rise (than originally planned) due to COVID-19.
- Treatment of Deficits/Surpluses arising from Targeted Rates for specific activities e.g. Water, Solid Waste, Wastewater, Flood Protection
- Balancing the Budget
- Debt levels – what is an appropriate amount of debt and how that limit be expressed e.g. $ amount, Debt per capita, Debt per Ratepayer.

By way of background, Council's 2018 Financial Strategy (included as Attachment 2) was to:

- *have a balanced budget in every year, where revenue exceeds expenditure (including depreciation) under the Financial Prudence measure.*
- *general rates increasing by 2% plus inflation plus growth (excluding water, and flood)*
- *limit overall rates revenue (excluding Water) to a maximum of 70% of total revenue*
- *debt as a percentage of revenue at less than 175%*
- *maintaining interest costs at less than 25% of rates revenue have a debt per capita level below $2,150 (+ inflation)*
- *provide sufficient cash surpluses to fund the planned capital expenditure programme without reliance on asset sales.*

Rating

At last month's Briefing on how rating works we presented an overview of the rating tools available to calculate the share to each ratepayer of the rates revenue required, to fund its activities. Issues that have been touched on in Briefings to date include:

- Sector splits – changes to the land value in the two sectors with low numbers of rating units (commercial and industrial and rural) can result is large impacts for some ratepayers. In 2020 we adjusted the sector splits slightly so that all ratepayers received the same movement in their general rates (2.2%).
- SUIP's – does our current definition need changing? In 2018 we changed the test for a SUIP from being used or "capable" of being used, to used or "intended" to be used. Or should rating units be used? This would increase rates for most ratepayers by 7%
- The District-Wide Refuse Rate and Uniform Annual General Charge are rated on the same basis. Would it be simpler for us and our ratepayers to combine these?
- Seal extension targeted rates – in 2019 we agreed to increase our seal extension programme and as this will be partially funded by ratepayers in the area of benefit, we are required to consult on this.
- Target rate for funding CBD activities – there is a demand more services for the CBD how should these be funded?
- Mãori remission and postponement policy – the Local Government Act 2002 requires that we consult at least each 6 years on rates remission and postponement policy. In 2018 we did not consult on Mãori remission and postponement policy, so we are required to consult on this in 2021.
- Targeted rates for Water, Wastewater and District-wide Refuse Management – these need to be reviewed to ensure that the revenue collected matches planned expenditure over the long term.

If there is appetite to conduct a rating review, it is important to understand that any moves to lower the rates burden from one party will shift it to another. This adjustment inevitably leads to negative feedback from those adversely affected during consultation.

4 Attachments

1. Financial Parameters and Rating summary

2. Council's 2018 Financial Strategy

1 Financial Parameters

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.

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.

The financial strategy is a mandatory inclusion in the Consultation Document and LTP and must include:

- quantified limits on rates, rates increases and debt
- an assessment of the implications those caps have for sustainability of service
- policies on giving security for borrowing.

It must also identify the factors that we expect will impact during the life of the strategy including:

- changes in population and land use (and the cost of providing for those changes)
- the expected capital expenditure incurred on the five mandatory groups of activity
- any other factor that affects our ability to either maintain existing levels of service, or meet additional demand for our services.

As well as the linkages to the Infrastructure Strategy, consideration must also be given to a number of other factors.

The Local Government Act (LGA) has some specific requirements in relation to financial management:

s101 Prudence and Sustainability	manage finances prudently and in a way that promotes the current and future interests of the community
S101A Financial Strategy	inform and guide the assessment of funding and expenditure proposals

S102 Funding and financial policies	adopt a set of funding and financial policies to provide predictability and certainty about sources and levels of funding
S 100 Balanced Budget	operating revenues must be set at a level sufficient to meet operating expenses, unless prudent not to.

These requirements influence or dictate various other inputs to the Financial Strategy, overall LTP and Council's operations:

- The Revenue and Financing Policy, which establishes the way each activity is funded
- Rating policies (including remissions and postponements)
- Treasury Policy, which establishes the way debt is raised and secured, as well how consequential liquidity and interest rate risks are managed.
- Development Contributions Policy, which establishes the total cost of capital expenditure the Council expects to incur to meet increased demand for community facilities resulting from growth, and how this will be funded.

2 Rating

Rates is Council's largest revenue source. While the financial parameters determine the amount of the rates, rating policy determines how much each ratepayer pays. Concurrently with the LTP, we could conduct a rates review to discuss different ways to share the rates burden.

At the 2018 LTP, we conducted at rates review for which preparations started in January 2017. We considered whether value-based rates should be calculated using the capital value of a property rather than the land value or a mix of both. We also considered using rating units rather than Separately Used or Inhabited Part of a Rating Unit (SUIP) for unit-based rates. Our ratepayers decided that they preferred the status quo, with the definition of SUIP being modified to improve equity and affordability.

Is it appropriate to conduct a full rates review this LTP or should we continue with the same rating policies?

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 *Whangarei 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 Whangarei 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
General rates			
UAGC portion	LGCI	2%	1%
Land value portion	LGCI	2%	1%
Targeted rates			
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.

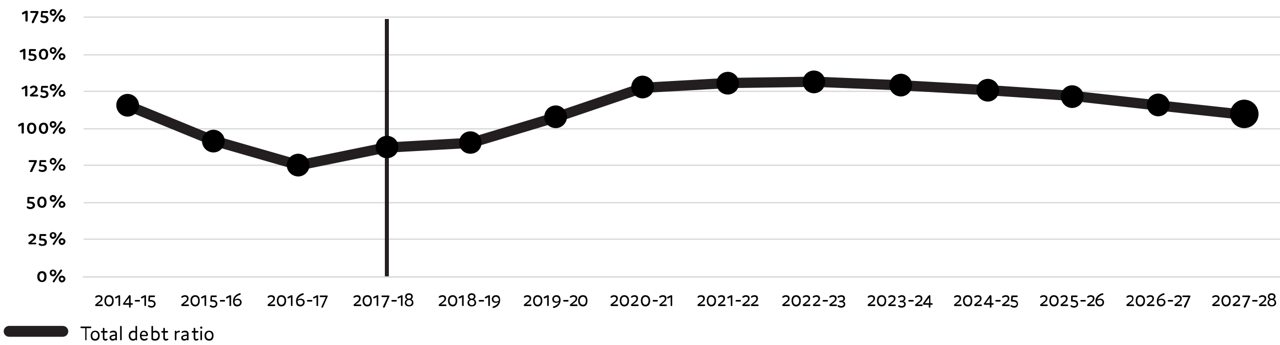
Debt, interest and internal funding

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

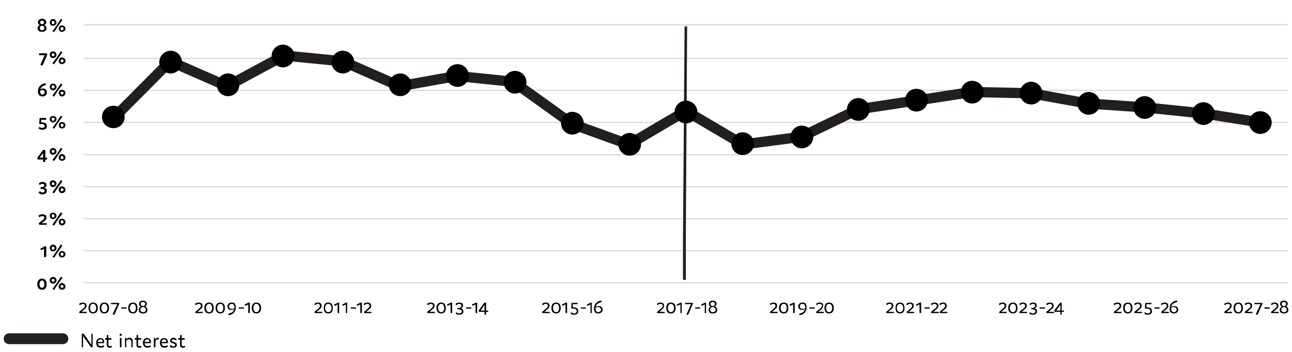
Council minimises its cost of debt by using interest rate swaps to protect against interest rate or margin increases. Debt maturities, or the dates when loan agreements must be repaid, are spread over both short and long-terms, as well as a mixture of fixed and variable interest rates.

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

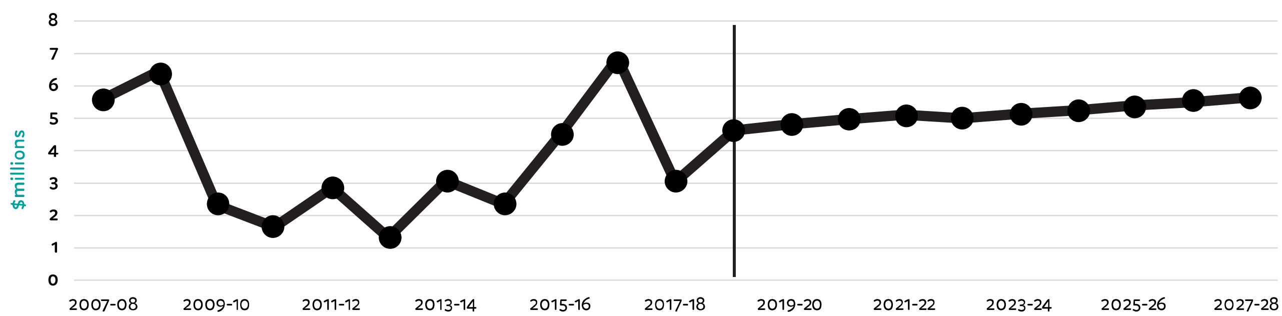
Council's practice is to fund most of the growth component of capital expenditure through Development Contributions (DCs), or the financial charges levied on developers, with the remainder funded through rates. Over the past few years, Whangārei has experienced growth with correspondingly higher DC revenue, 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
Breakdown by activity		
Network $m		
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%
Total	**695,172**	**43.4%**
Other		
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%
Total	**905,807**	**56.6%**
Total operating expenditure	**1,600,979**	**100.0%**
Breakdown by expenditure type	**$000**	**% of total**
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%
Total	**1,600,979**	**100.0%**

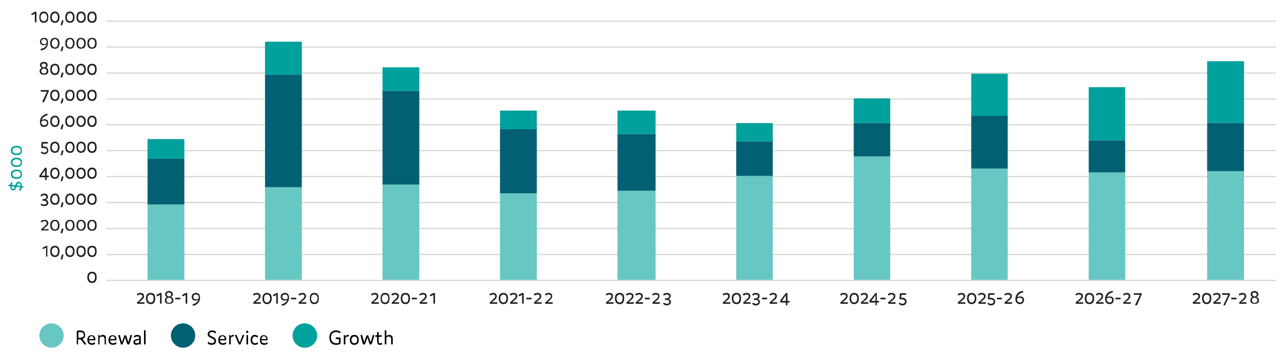
Capital expenditure

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.

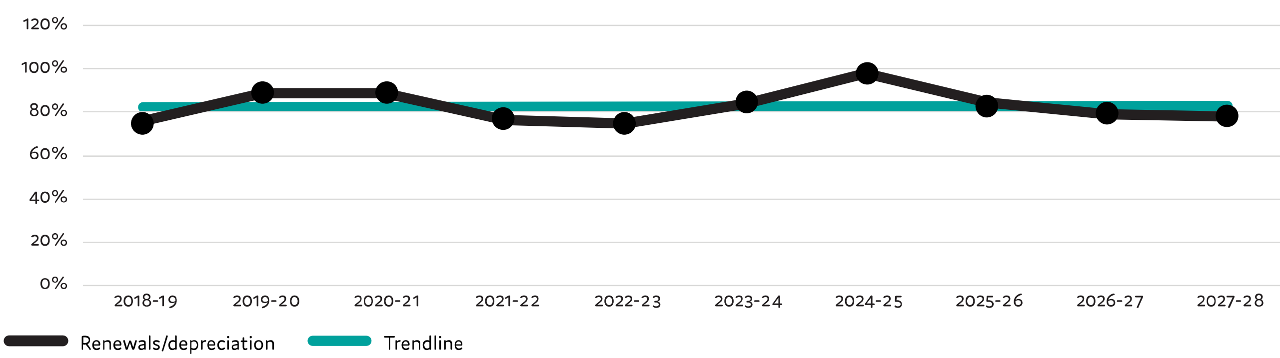
The graph below illustrates planned capital expenditure over the 10 years of the Plan of $730.0 million. The renewal of existing assets accounts for 53% of total expenditure, with 30% providing for improving Levels of Service and the balance of 17% providing for growth.

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
Network infrastructure			
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
Total	**543,110**	**74.4%**	**374,727**
Other			
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
Total	**186,535**	**25.6%**	**89,668**
Total capital expenditure	**729,645**	**100.0%**	**464,395**

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.

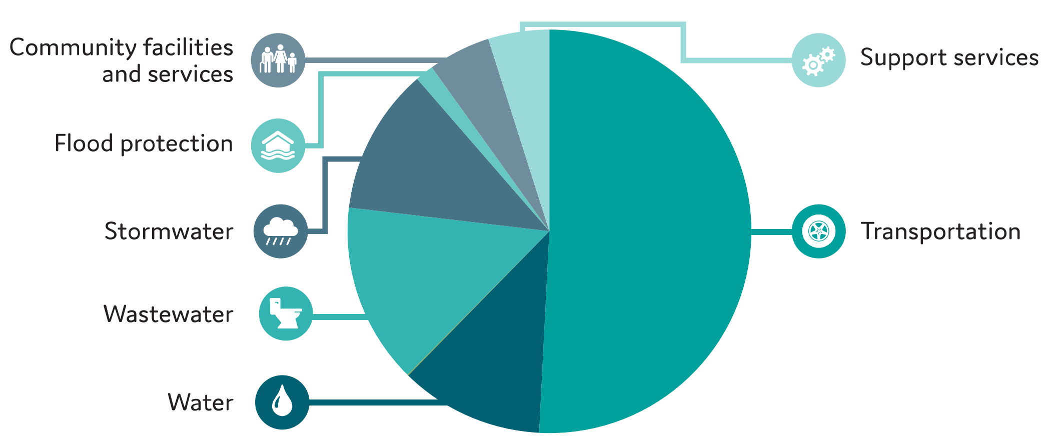
A full review of insurance providers was undertaken in 2016-17 and this will be reviewed again in the 2019-20 financial year.

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 tsunami, 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

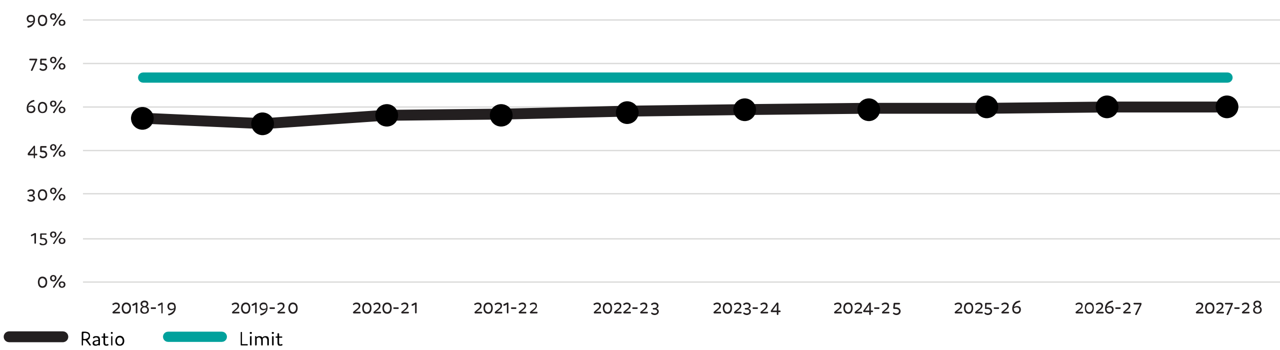
Limit on rates

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



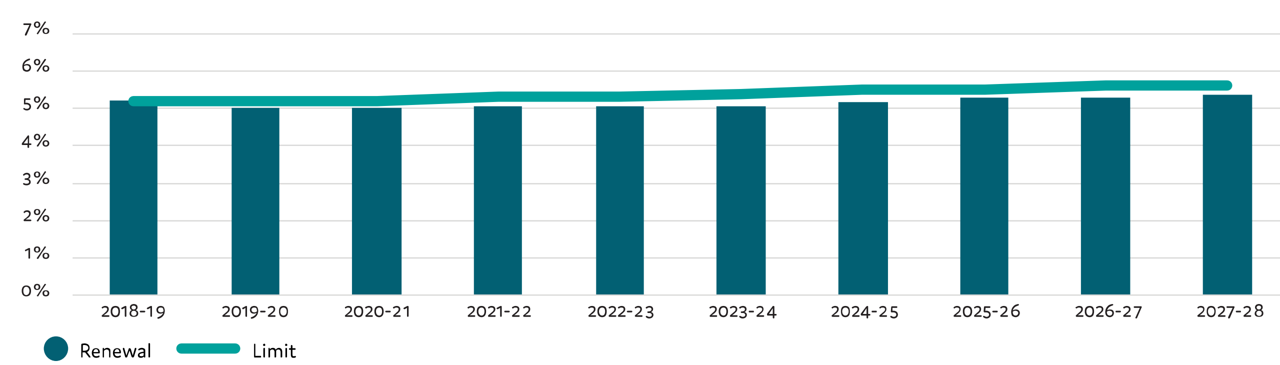
** For this limit, rates are defined as all revenue derived from general rates and targeted rates, but excluding water rates, which are effectively a consumption charge and are therefore out of Council's direct control.*

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

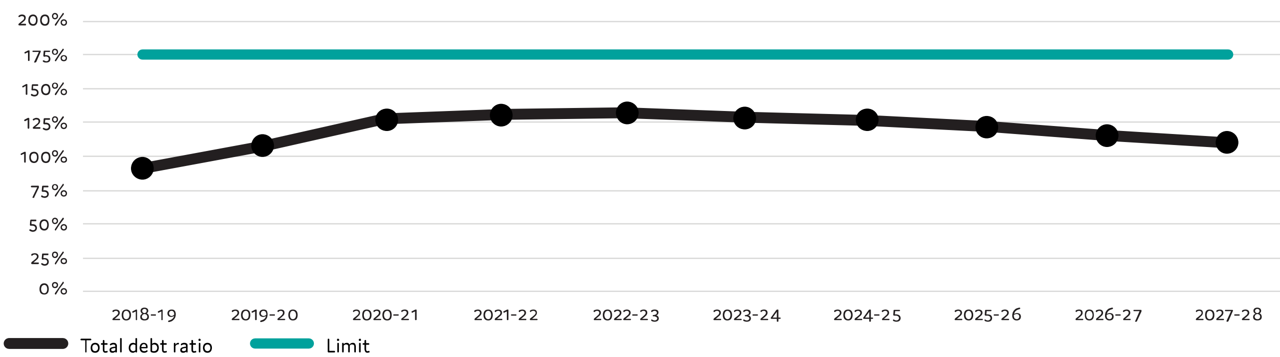
To allow for inflation and growth, the total debt limit increases over the life of the Plan by LGCI and growth over the 10 years. There are two other limits on borrowing:

- 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.

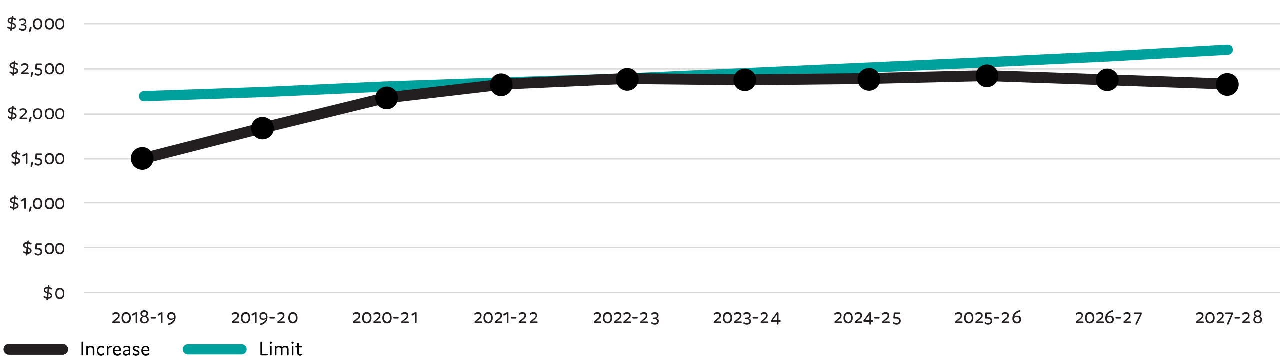
Details on how Council's debt is managed are set out in the *Treasury and Risk Management Policy,* which is available on request.

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.*