Financial Strategy

The Financial Strategy sets the financial direction of NPDC by guiding the decisions we make now, for the future. The strategy demonstrates how these decisions will impact on rates, borrowing, investments and Council services.

Our current position

NPDC is in a strong financial position with a large investment portfolio, comparatively low levels of borrowing and a strong credit rating. However rates increases have been kept at moderate levels, primarily at the expense of deferring asset renewals and maintenance. In addition, new assets and increased levels of service have been added to the portfolio of assets and services that Council provides.

Building our future

This strategy takes into consideration the challenges that face our district in regards to maintaining and renewing our infrastructure, whilst accommodating growth within the city. Substantial work has been undertaken in the last two years to understand the condition of our existing assets and as such, we have identified the need to make a significant investment in our core infrastructure to ensure we can continue to provide our residents with the same level of service as well as maintaining our assets for future generations.

NPDC is also facing a number of new challenges driven by central government, which affect what we do and how we deliver our services. Increasing national standards in water, wastewater and stormwater influence our expenditure, as well as the costs associated with responding to climate change and building a resilient community.

There are also a number of strategic projects within the plan which increase the level of service provided to our community that NPDC will deliver, contributing to our overarching strategic direction of a Sustainable Lifestyle Capital.

The following five guiding principles have been used in the development of this Financial Strategy.

Fairness and equity	Willingness to pay	Value for money	Risk management and assessment	Financial governance and stewardship
Ensures that funding of expenditure is fair across both present and future ratepayers. Different funding tools such as debt and development contributions facilitate this principle.	Ratepayer concerns may reflect unwillingness, rather than the inability to pay. This may be driven by a perceived benefit from rates or the public versus private benefit issue.	This considers the overall benefits and outcomes of a service or asset to the community, alongside its lifecycle cost and cost effective funding streams.	Includes consideration of risks, risk appetite and mitigation strategies which are important when managing public services and assets.	Requires NPDC to ensure that its actions today do not compromise the ability of future councils to fund their needs.

NPDC has successfully operated within the limits of its first financial strategy since 2012. This strategy builds on our strong financial position by continuing with similar limits which have proven to be prudent and sustainable. By staying with these limits Council is able to maintain its assets and service levels, keep its strong credit rating, balance its books and provide for growth.

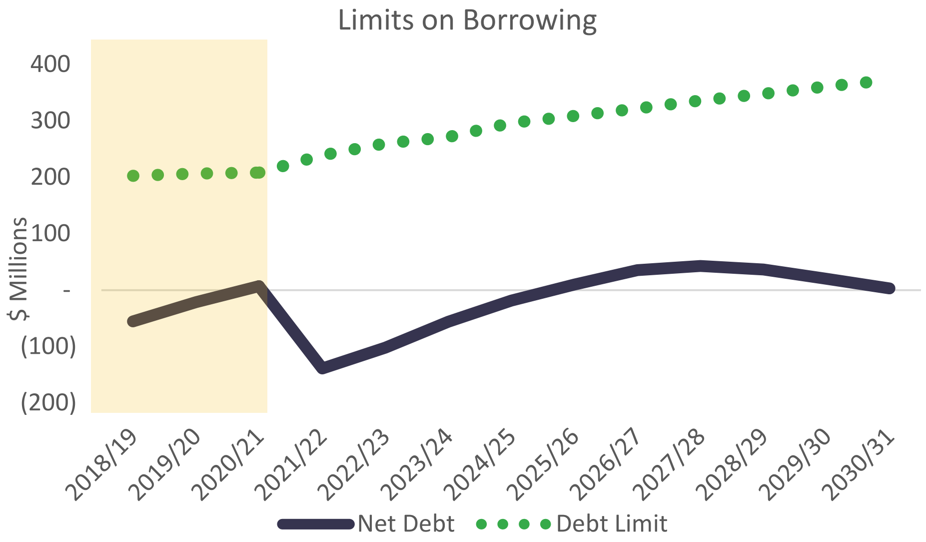
Financial Strategy

Debt

Debt Limit: Net debt* to total revenue will be limited to 135 per cent

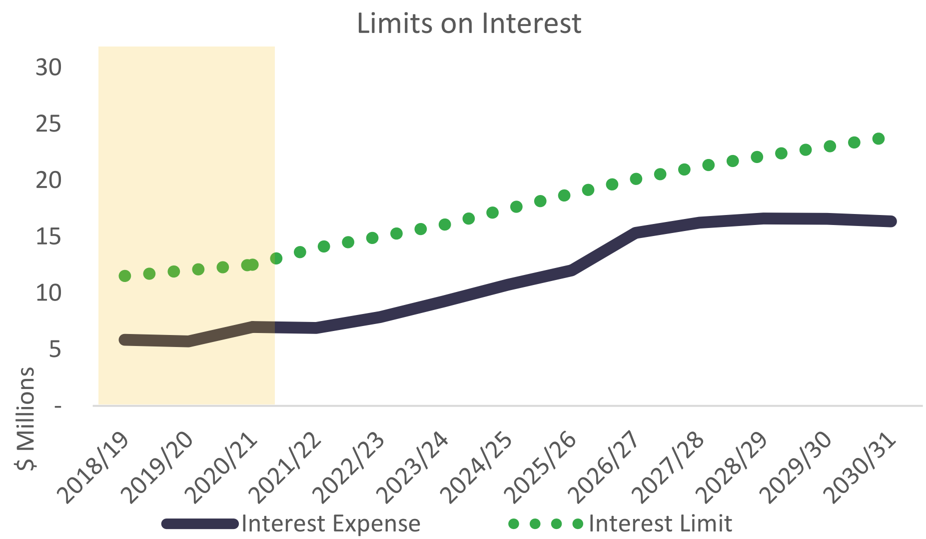
The Council has successfully managed debt and continues to project debt levels within these sustainable limits. This means that NPDC is in a strong position to accommodate the significant expenditure required for both new infrastructure assets to service our growing city and have capacity to provide funding for unforeseen events.

In addition, we identified that a step change in our work programmes is needed to renew many of our ageing assets. To fund this change over the short term through rates would make rates increases unaffordable and go against our principles of intergenerational equity. Therefore, we are proposing to fund the renewal of some of our longer life assets, such as pipes and bridges through debt.



(*Net Debt is the sum of Council's current and non-current borrowing and Council's financial assets).

Debt Limit: Net interest expense will be limited to 12.5 per cent of total rates revenue



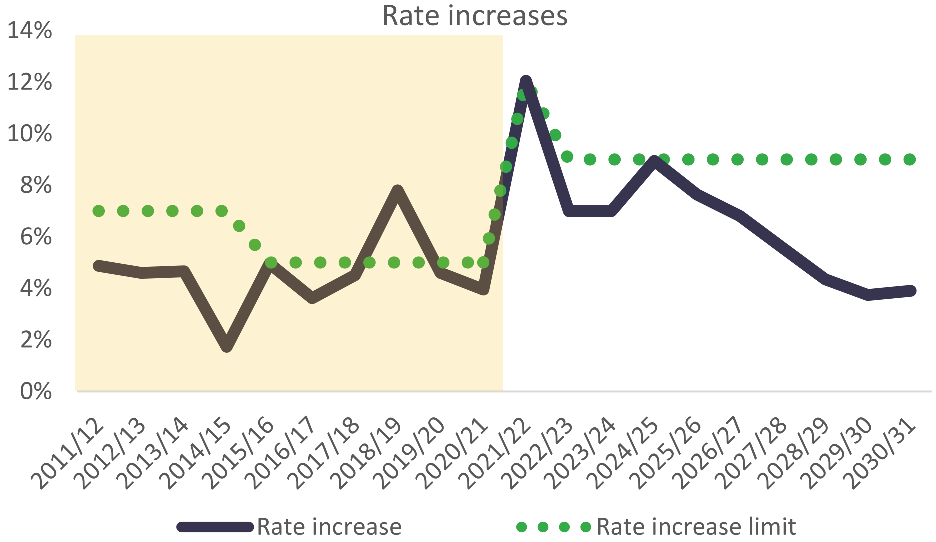
Financial Strategy

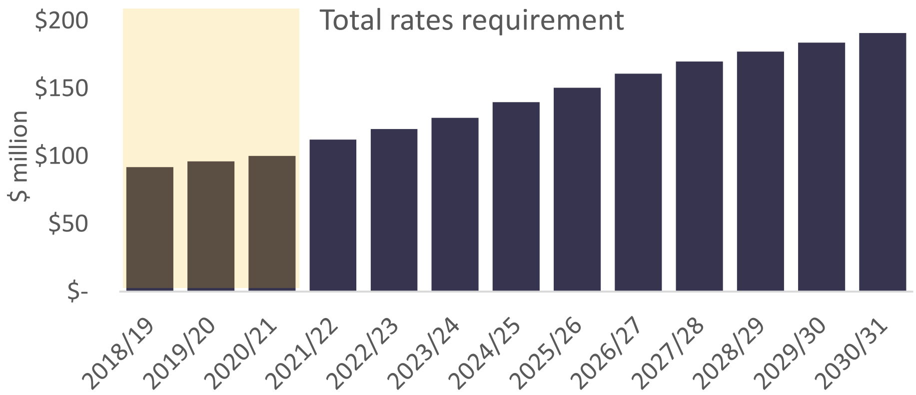
Rates

Rates are NPDC's main funding source and pay for community services and assets.

Rating Limits

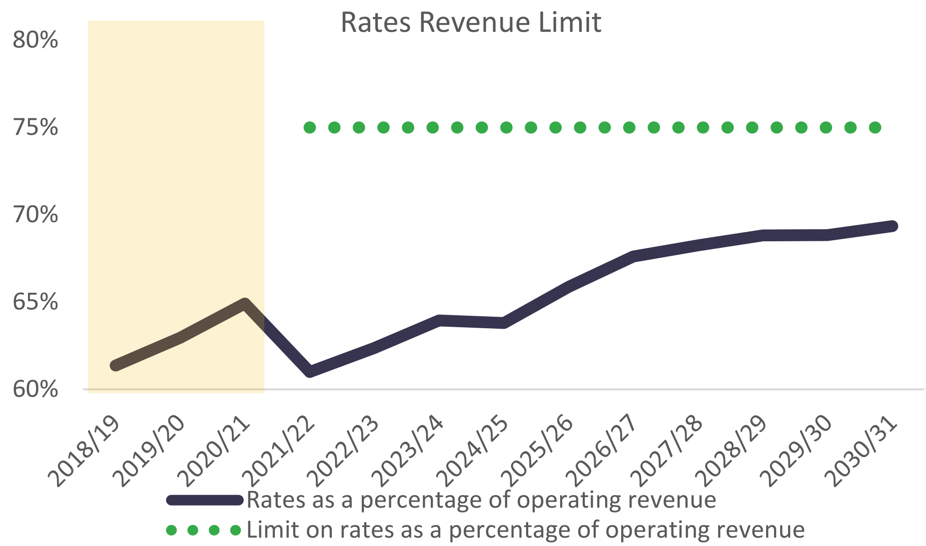
Rate Increase Limit: Average rate increases to existing ratepayers will not exceed 12 per cent in 2022 and then nine per cent from 2023 onwards. The average rate limit includes all rates except for the Voluntary Targeted Rate (VTR).





Total Rates

Rates Revenue Limit: Rates income will not exceed 75 per cent of NPDC's total operating revenue.



The average rate increase proposed for 2022 has been set at a level higher than the remaining years of the plan, in recognition of the step change that is required to maintain and renew our existing infrastructure. This step change recognises that whilst a portion of the long life capital expenditure can be funded through debt, there are also assets and infrastructure that need significant investment over the next 10 years. Over a 10 year period, we are increasing our rate funded contribution to renewals by $180 million (inflated). It is expected that we will be fully funding our renewal assets on a 10 year average basis by 2029.

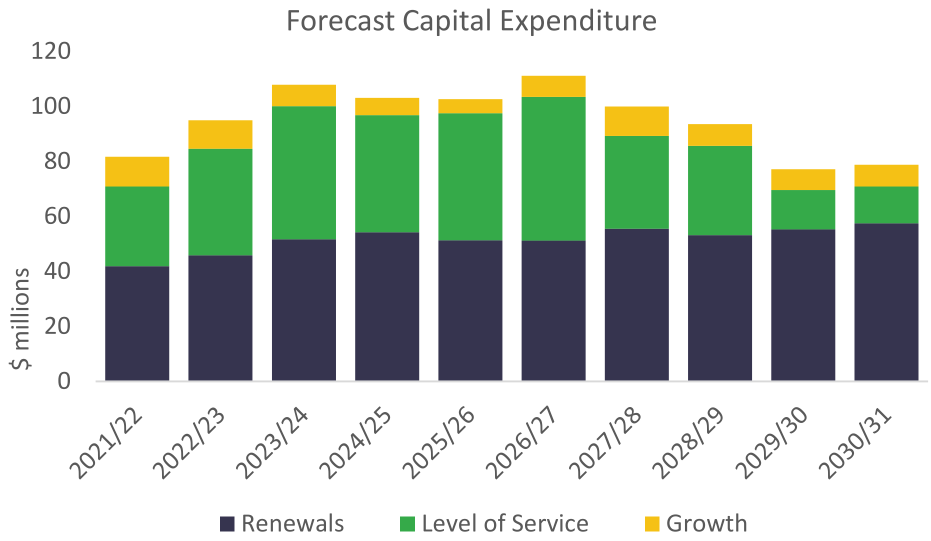
The proposed increased limit also recognises the contribution to rates needed to fund increased services that have been included in the Long-Term Plan (LTP), such as the multi-sport hub, an extension to the coastal walkway and improvements to the Waitara stormwater network.

Financial Strategy

Capital expenditure

Capital expenditure pays for buying or building new assets such as renewing an existing asset (renewals); improving an existing asset to deliver a better level of service; or new assets to provide for population growth.

The following graph shows our proposed capital expenditure on a year by year basis and shows our commitment to increasing our investment in our community's assets.



Growth

Managing growth over the period of this LTP and beyond is a challenge because New Plymouth continues to grow. Growth is positive for the city because it means people want to live here and we are attracting businesses and investment.

With growth comes the need for investment in infrastructure. New infrastructure is expensive and needs to be balanced against maintaining the infrastructure we already have. Managing the demands for growth and balancing the opportunities for future ratepayers against affordable rates and debt levels for current ratepayers is a challenge for New Plymouth.

While NPDC is contributing significantly to growth, it is the intention of this strategy that those users who benefit from growth should pay for their appropriate share through development contributions or financial contributions. To defer some of the investment required to support growth until later in the Infrastructure Strategy, demand management strategies are proposed, such as water conservation, waste minimisation and alternative transport options.

The population has been projected to grow from 86,700 in 2021 to 93,800 in 2031. To support this population growth, NPDC is projecting an increase of 3,530 dwellings in the next 10 years. This projection is based on fertility, mortality and migration assumptions and is prepared by Infometrics. Population projections have been used to help prepare 30 year demand forecasts for the Infrastructure Strategy and the related capital expenditure programme for the LTP has been prioritised from this base.

Land use is anticipated to remain similar across the district as growth focuses in key nodes as identified in the Proposed District Plan. Bell Block continues to be the main growth area in the district over the LTP and the Smart Road area then becomes the main growth area starting in the 2030's. Intensification of existing areas is also expected to occur, with some growth in small settlements.

Activity Group	Growth $000's	Improve Service Levels $000's	Renewal $000's	10 Year Total $000's
Water	20,131	25,094	80,340	125,565
Wastewater	29,006	113,509	121,375	263,890
Stormwater	9,870	26,220	46,689	82,779
Transport	12,851	82,026	154,878	249,755
Flood control systems	-	-	576	576
Other	12,236	115,764	112,937	240,937
Total	**84,094**	**362,613**	**516,793**	**963,500**

The above table shows the total capital expenditure over the period of the LTP categorised by type of expenditure.

- Growth expenditure provides new or improved assets enabling more residents to live in our city.
- Expenditure to improve service levels is for creating new assets to service the current population.
- Renewals expenditure is used to bring our existing assets back to their original function or capacity.

There are additional operating costs associated with adding new assets including depreciation, however these are not considered to be significant. These costs are absorbed within the rates increase limit, with contributions from targeted rates for those properties receiving additional or new services.

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Risk of growth being higher or lower

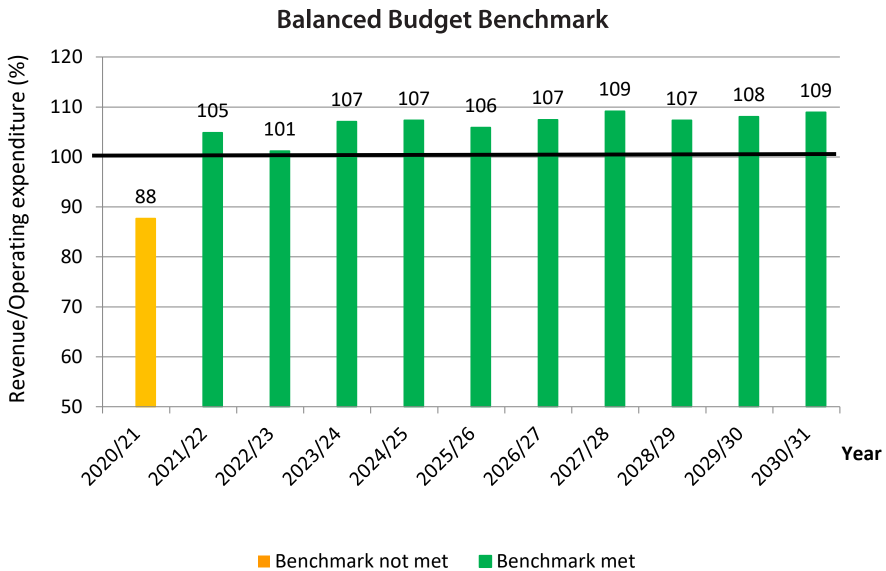
Should growth be higher than forecast, then development contributions revenue would be higher than has been budgeted in the LTP and we may need to reconsider the timing of some of our capital projects.

Should growth be lower than forecast, development contributions revenue would be lower than has been budgeted in the LTP and we may consider deferring some of our growth related capital projects.

Balancing the books

To ensure that today's ratepayers are paying for the services and amenities provided to them, everyday costs, such as maintenance costs, operational costs and depreciation should be paid from everyday revenue, such as rates, fees and charges and subsidies. We call this a balanced budget.

The following graph demonstrates that an operating surplus (revenue greater than expenditure) or balanced budget is achieved for each of the 10 years of the LTP. Operating surpluses are generally allocated to fund capital works or transferred to reserves to fund expenditure in future years.



Asset sales

NPDC has not included any asset sales in the LTP 2021-2031 as they are not considered material and there is considerable uncertainty associated with timing. The Council will continue to investigate selling minor assets, where appropriate, with net proceeds from any sales being used to reduce debt.

Policy on securities

In order to borrow money NPDC has to offer our lenders some security, just like residents do with their mortgage. Like most councils we secure our debt against our rates income. Our lenders like this as security and it helps keep our interest rates low. Giving rates as security means that our lenders can make us charge more rates to repay debt. That is why it is important to keep our debt at a sustainable level.

In certain circumstances NPDC may offer other security, including physical assets.

The full policy on giving securities can be found in the Treasury Management Policy on the Council's website.

Financial Strategy

Investments

NPDC is an equity holder in a number of companies, a trust and joint ventures. The principal reason for holding an equity interest in these investments is to achieve efficiency and community outcomes as well as a financial return on investment. NPDC's interest in the entities is as follows:

Company	Shareholding/ control %	Principal reason for investment	Budgeted return $000's
Papa Rererangi i Puketapu Ltd	100	Economic development	Nil
Venture Taranaki Trust	100	Economic development	Nil
New Plymouth PIF Guardians Ltd	100	Perpetual Investment Fund	3.3% + CPI + fees*
Tasmanian Land Company Ltd	100	Being wound up	Nil
McKay Forestry Joint Venture	56.5	Grow and harvest trees	$1.6m
Duthie Forestry Joint Venture	54.8	Grow and harvest trees	$365,000
New Zealand Local Government Funding Agency Ltd	0.4	Borrowing	$16,000 p.a.
Civic Financial Services Ltd	3.9	Risk management	Nil

* NPDC's objective is to maximise the return from the Perpetual Investment Fund portfolio and the expected rate of return is 3.3% + Consumer Price Index + management fees.

Cash Investments

NPDC holds cash for three main reasons:

1. To support the balance of reserves.
2. To ensure strong lines of liquidity and access to cash. Cash is supplemented by committed banking facilities.
3. To provide the funds for maturing debt.

Cash may be invested on short-term deposit to manage cash flows and maximise returns. These investments are managed in line with the guidelines set out in the Treasury Management Policy.

Other investments

As part of borrowing from the Local Government Funding Agency, NPDC is required to invest in financial bonds with the agency. The Council will receive interest on these bonds equivalent to the cost of borrowing.

Resilience

Since our last LTP, NPDC has learnt to become more resilient in the face of adversity. In 2018 we faced the impacts of ex-cyclone Gita, followed by the Covid-19 pandemic in 2020. Alongside these specific events, we continue to address the ongoing impacts of climate change, with the Council adopting a Climate Action Framework in December 2019.

Through this LTP, NPDC has committed over $2m to greening our district. Policy and procurement decisions made by the Council will continue to have a climate change consideration as these are embedded into our strategies, plans and operations.

Whilst central government is leading the economic and social recovery, post Covid-19, our Council will be a major player. The work we do in coming years will lay the foundations of our recovery and help determine how quickly our community and economy bounces back.

NPDC also has a responsibility to consider how it could respond to unplanned events such as civil defence emergencies and natural events. An Insurance Framework was created in 2018 to provide a structure for determining the balance between risk retention (by NPDC) and sharing (with insurers). The framework is reviewed every three years to ensure it is fit for purpose. NPDC holds insurance policies against its underground infrastructure at up to 40 per cent of the asset value, with the understanding that central government will provide the remaining 60 per cent following a disaster. The Council also maintains a disaster fund as part of its insurance strategy. The balance of this fund is projected to be $1.2m at 30 June 2021. Because of its strong financial position the Council also has significant capacity to borrow to fund unforeseen costs (a further $377m in 2022).