

# Financial Strategy

Te Rautaki Ahumoni



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**Our focus for the next 10 years is to build on the journey we started in our last Long-Term Plan (LTP) – the step change in our work programme to renew many of our ageing assets; investing in our district to create a sustainable lifestyle capital by paying it forward; and our programme of greening our place. We will use the growth in our investment returns to boost our Disaster Resilience Fund and establish a Sustainable Lifestyle Capital Fund. We will continue to increase our contributions to our renewal reserves to remove the reliance on using debt. To enable us to maintain existing service levels we are weaving in a programme of efficiency savings by working smarter to reduce the impact on rates increases.**

Our Financial Strategy considers the dollars around what services and infrastructure we provide to our community to ensure that there is a balance between what we deliver and what we can afford. The strategy demonstrates how these decisions affect future rates increases, borrowing, growth and our investments.

### Our guiding principles

The building blocks of our Financial Strategy use five underlying principles which we have used to guide our decision making.

Financial governance and stewardship	Affordability balanced with a willingness to pay	Intergenerational equity	Value for money	Resilience and sustainability
 <p>Making effective, efficient and transparent financial decisions to benefit both the current and future well-being of our community.</p>	 <p>Achieving a balance between the overall rates burden and ability to pay, alongside those who benefit more from Council services contributing more to their cost.</p>	 <p>Where the benefits of expenditure are spread across time, the funding of that expenditure is spread across current and future ratepayers.</p>	 <p>Considering the overall benefits and outcomes of a service or asset to the community alongside its lifecycle cost and cost effective funding streams.</p>	 <p>Giving consideration to risks, risk appetite and mitigation strategies which are important when managing public services and assets.</p>

We know that the needs of our community and the environment we live in are constantly changing. Every three years, we need to revisit our Financial Strategy to reset where we want to be financially in the future, and what the journey to get there will look like. As part of this review, we set limits on rates and debt. This is about demonstrating to you as our ratepayers that we are responding to our community's needs, at the same time as balancing the affordability of providing those assets and services.

Whilst the LTP considers a 10 year planning cycle, there are elements of our financial budgeting where we need to consider the impacts of decisions over a longer time frame, such as funding the replacement of our existing assets and our ability to make repayments on future borrowing. This means that decisions in our Infrastructure Strategy also need align to the principles and limits we set in our Financial Strategy.



## Our current position

<p><b>Credit rating</b></p> <p><b>AA+</b></p>	<p>Our Council is in a strong financial position with a credit rating of AA+ (Standard and Poors). This means that we get to borrow at the best interest rates available to Council. Our credit rating is reviewed annually by Standard and Poors.</p>
<p><b>Borrowing</b></p> <p><b>\$302</b></p> <p>million</p>	<p>We have a comparably low level of borrowing at \$302m (Annual Plan 2023/24). This equates to around \$8,000 per rateable property. We mainly use borrowing to pay for new infrastructure such as pipes and roads. This helps to spread the cost of building these assets over multiple generations of ratepayers.</p>
<p><b>Investment Fund</b></p> <p><b>\$365</b></p> <p>million</p>	<p>We hold an investment fund of \$365m. Our investment fund is a perpetual fund which means that we only use a portion of the fund's earnings each year (around \$11.8m) at an average of \$318 per rateable property to reduce the overall rate requirement. This means that the investment is available to continue to benefit future generations of ratepayers</p>
<p><b>Assets</b></p> <p><b>\$3.4</b></p> <p>billion</p>	<p>We maintain over \$3.4b of assets on behalf of our ratepayers and continue to add new infrastructure to accommodate growth within our district. In our last LTP we started on a journey to fix our plumbing to address the risks of our ageing infrastructure through investment into our capital programme of works. We continue to monitor the condition of our assets and already know that many of our assets, such as pipes and roads are in need of significant expenditure to bring them back up to an acceptable condition.</p>
<p><b>Population</b></p> <p><b>89,000</b></p>	<p>The New Plymouth District is growing and changing. In 2024, our population will be 89,000, almost 70 per cent of the Taranaki region. Currently 20 per cent of our population are over 65 years old.</p>

We've been playing catch up over the past three years and this has meant bigger programmes of work supported by higher rates increases. The mahi needs to continue into the future to support our vision of being a Sustainable Lifestyle Capital, but we also know that it's a hard time to talk about investing in our district which is why we have incorporated a programme of efficiency savings into our budgets. We are focusing on keeping both our costs and rate increases as low as possible whilst maintaining our existing services, which means we have also had to make the hard decision to defer some projects.

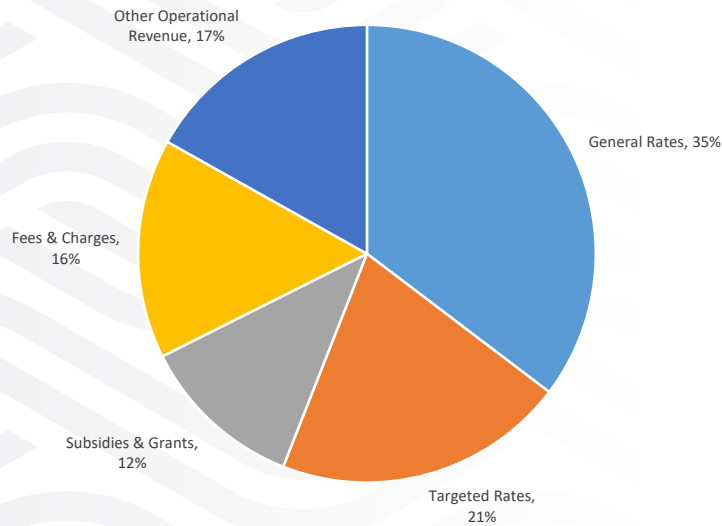
## What factors will impact on this Financial Strategy?

1. Increasing government standards and consent requirements will impact on our expenditure and work priorities as we renew and upgrade our existing infrastructure.
2. Managing and responding to natural hazards, emergencies and climate change, including future investment in the resilience of our infrastructure and assisting the community when events occur.
3. We will lead any large scale infrastructure projects in the district and recover a portion of expenditure from property developers.
4. We have chosen to change the repayment methodology of our debt to align with our principal of intergenerational equity. We will still repay our debt over the same term, however instead of making our principal repayments even over the life of the entire loan, we will consider all debt servicing costs (principal and interest) and even these out over the life of the loan.

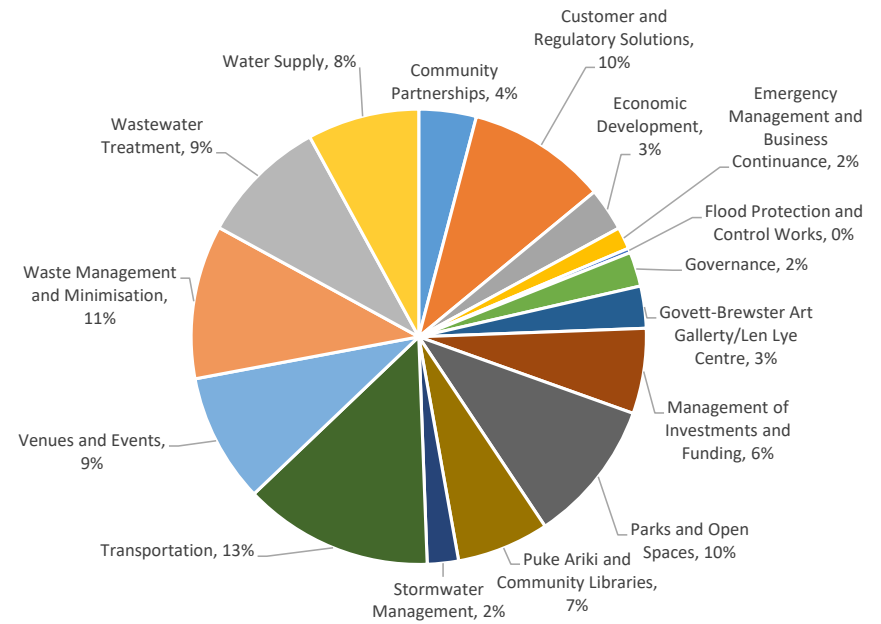
# Operating expenditure and revenue

In 2025 rates will account for 56 per cent of our operating revenue and is predominantly used to pay for our operating expenses. We also receive revenue from subsidies and grants, such as funding from NZ Transport Agency Waka Kotahi to support the delivery of our Transport programme and user fees and charges which recognise those who benefit from our services, should contribute to the cost of providing them. Development contributions are charged to developers to reimburse us for the costs of providing infrastructure. Our investment revenue is largely achieved through the release of revenue earned through our Perpetual Investment Fund.

Operating Revenue 2025



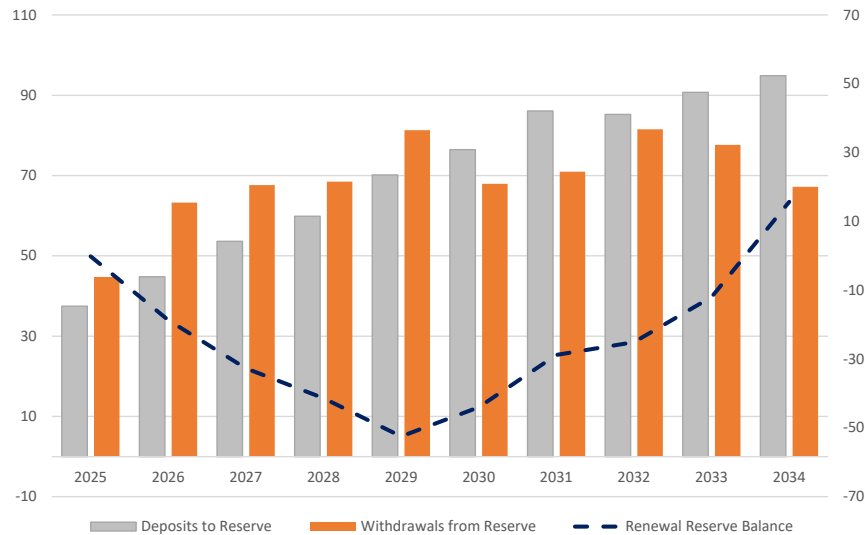
Operating Expenditure 2025



## Depreciation and renewal funding

Funding depreciation is a mechanism which enables us to deliver the renewal part of our capital programme. Our LTP 2021-2031 included a target of fully funding our renewal assets on a 10 year average basis from 2029 onwards. The impacts of the post Covid-19 recovery and related inflationary pressures on our recent Annual Plan's has meant that we are currently behind that target. Our 30 year renewal programme and our ten year delivery programme have been recalculated for this Long-Term Plan which would again see us fully funding our renewal assets on a 30 year average basis by 2028.

Renewal Funding and Expenditure



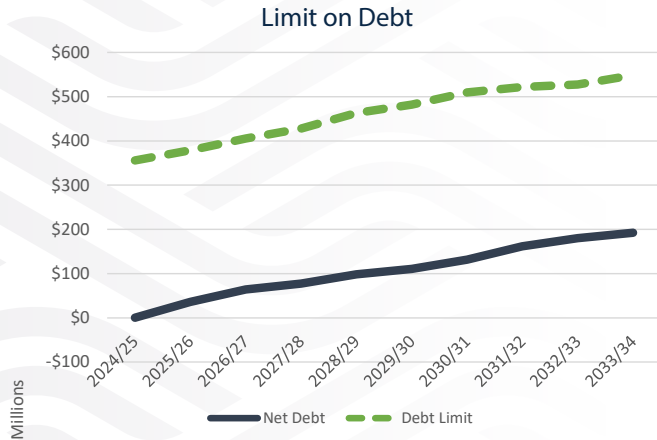
## Debt

We have a low level of existing net debt compared to our borrowing limits, which allows us to continue to borrow sustainably through this LTP to fund expenditure for new infrastructure assets to service our growing district and have the capacity to provide funding for unseen events. The use of borrowing to fund this expenditure aligns to our principle of Intergenerational Equity as the assets will provide a benefit to the community over many years into the future.

We have made a change in the method we use to calculate our debt repayments to support the principle of intergenerational equity. Our debt servicing costs going forward will be held constant for the life of the loan rather than our current method of front loading our debt servicing costs. This does mean that our loan balance will not decrease as fast and our overall borrowing costs will be a little higher, however we will still pay off each loan within the same timeframe and it means that ratepayers will be contributing more evenly to the cost of providing infrastructure. The benefit to ratepayers within this LTP is the deferral of rate funded debt servicing costs, out into future years.

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

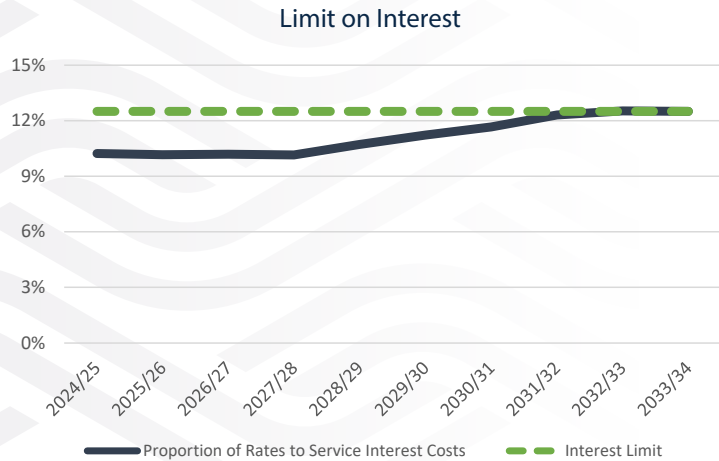
The Debt Limit set in the Financial Strategy is conservative as it means that the sum of our borrowings plus our investment assets must not exceed 1.35 times our total revenue.



\* 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**

The Debt Limit means that our net interest expense must not exceed 12.5 cents for every dollar of rates revenue.



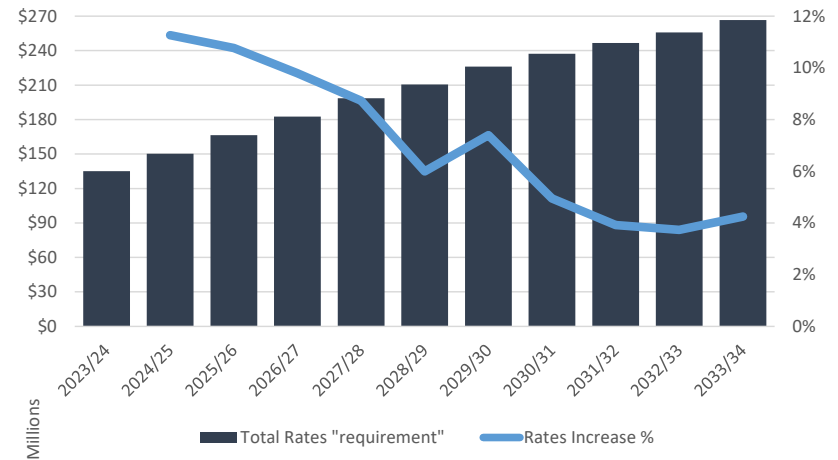
**Rates**

Rates are our main funding source and contribute around sixty to seventy percent of our operating revenue, paying for community services and assets.

Our proposed average rates increases are largely being driven by our commitment to continue contributing to the cost of maintaining and renewing our ageing infrastructure and retaining our current levels of service. This is especially noticeable in the first three years of the LTP, where we continue to step up the increase in rate funding set aside to renew our water, wastewater and stormwater infrastructure. With our ongoing investment into our three waters infrastructure through the life of the LTP, we will continue to invest rate funding into the renewal of our infrastructural assets.

Additional rates funding has also been budgeted to fund the debt servicing costs of new infrastructure, funding towards our disaster reserves and a sustainable lifestyle capital reserve.

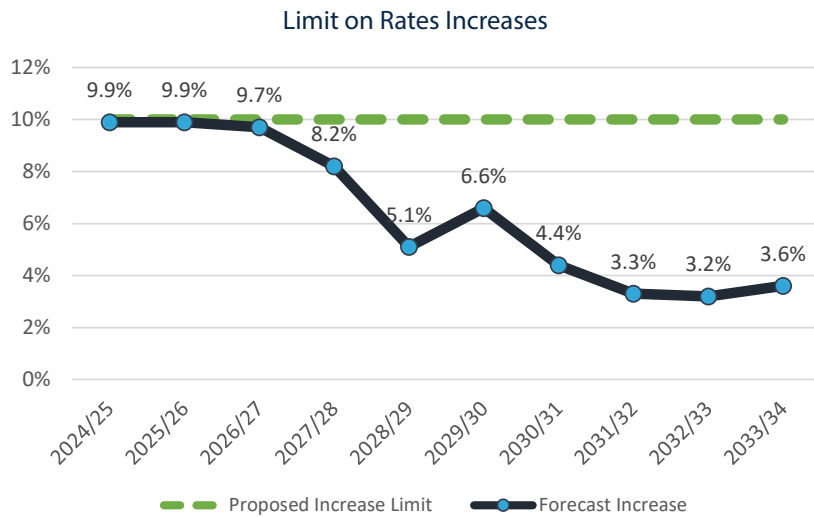
**Total Rate Requirement and Average Rate Increase**



## Rate Increase Limit: The average residential rate increase will not exceed 10 per cent

Our residential ratepayers account for over 80 per cent of our total ratepayers and approximately 60 per cent of the land value of our district. The average rate limit includes all rates except for the Voluntary Targeted Rate (VTR).

This limit does not give an indication of the rates increase on different groups of ratepayers as this will vary according to rating structure, targeted rates, growth in rateable properties, land value changes as well as changes in our expenditure and revenue. Because of the proposed changes to our rating system there are also variations in rates increases amongst each sector of ratepayers in the first two years of the LTP.



## Capital expenditure

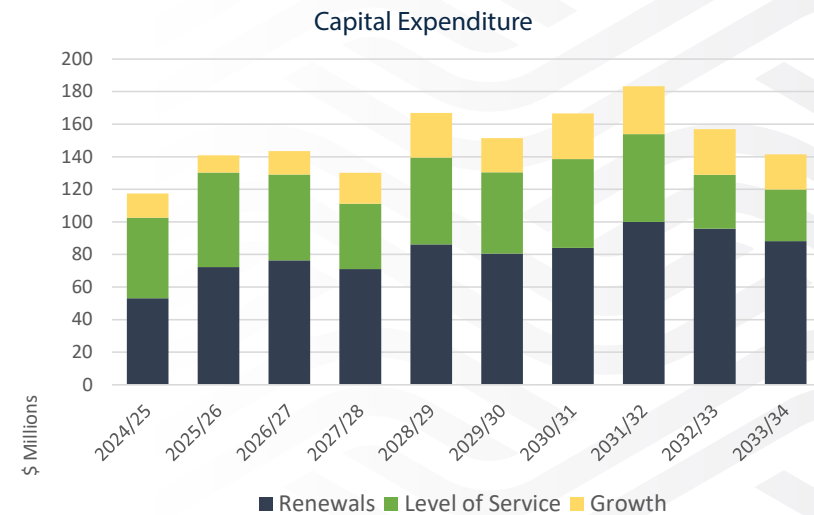
Capital expenditure pays for buying or building new assets such as renewing an existing asset (renewals); improving an existing asset to deliver a better level of service; or new assets to provide for population growth.

The affordability of our work programme is largely determined by the limits set in this financial strategy combined with our ability to deliver the programme of works. Our Infrastructure Strategy determines the priority of our work programme and is backed by three key drivers:

1. Ensuring our existing assets remain fit for purpose.
2. Resilience and adapting to climate change.
3. Providing for sustainable growth and the changing needs of our community.

Affordability constraints have meant that we have had to prioritise our work programme largely to delivering critical and essential projects, along with projects that are underway from our last LTP such as the Waitara Walkway and the Tūparikino Active Community Hub.

Our commitment to increasing the investment in our community's assets is shown in the following graph of our proposed annual capital expenditure.



## Growth

The New Plymouth District is growing and changing. In 2024, our population will be 89,000, almost 70 per cent of the Taranaki region. The population is projected to grow to 98,800 over the next 10 years and to 110,400 by 2054 (an increase of 24 per cent). Currently 20 per cent of our population are over 65 years old, by 2034 this is expected to increase to 23 per cent and by 2054 to 25 per cent.

Short to medium term growth (next 0 to 10 years) will be met within existing undeveloped residential areas, infill development and Medium Density Residential Zones. Along with the Structure Plan Development areas in Puketapu, Junction, Carrington, Johnston and Patterson Road.

We are leading the delivery of some infrastructure projects funded through debt to support specific growth areas with those users who benefit from this growth paying their appropriate share through development or financial contributions.

Activity group	Growth \$000's	Improve service levels \$000's	Renewal \$000's	10 year total \$000's
Water Supply	9,083	7,255	17,244	33,581
Wastewater Treatment	3,839	25,315	19,773	48,927
Transportation	31,376	122,865	314,354	20,873
Stormwater Drainage	3,005	13,085	4,783	468,595
Other	15,586	120,734	181,929	318,249
<b>Total</b>	<b>62,889</b>	<b>289,254</b>	<b>538,083</b>	<b>890,225</b>

## Asset sales

We have not included any asset sales in the LTP 2024-2034 as they are not considered material and there is considerable uncertainty associated with timing. We 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, we have to offer our lenders some security, just like our ratepayers 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 we 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.

### Investments

We are 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. Our 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*
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 per annum
Civic Financial Services Ltd	3.9	Risk management	Nil

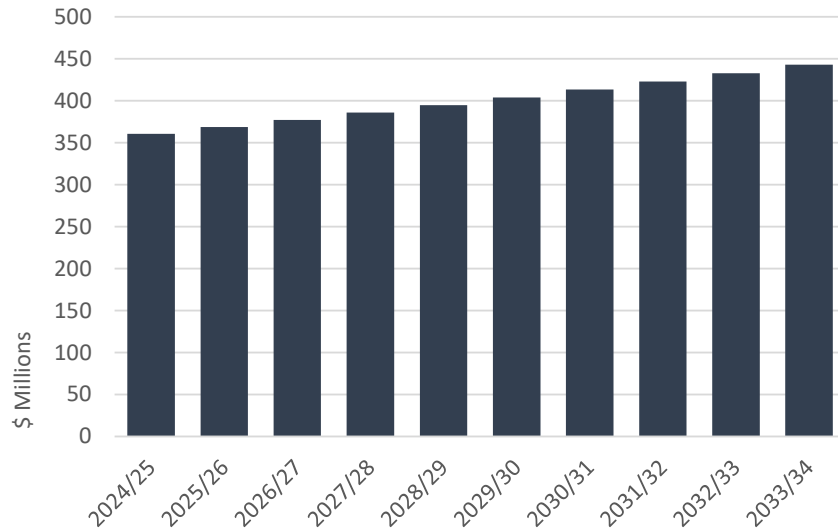
\* Our objective is to maximise the return from the Perpetual Investment Fund portfolio and the expected rate of return is 3.3% + Consumer Price Index + management fees.



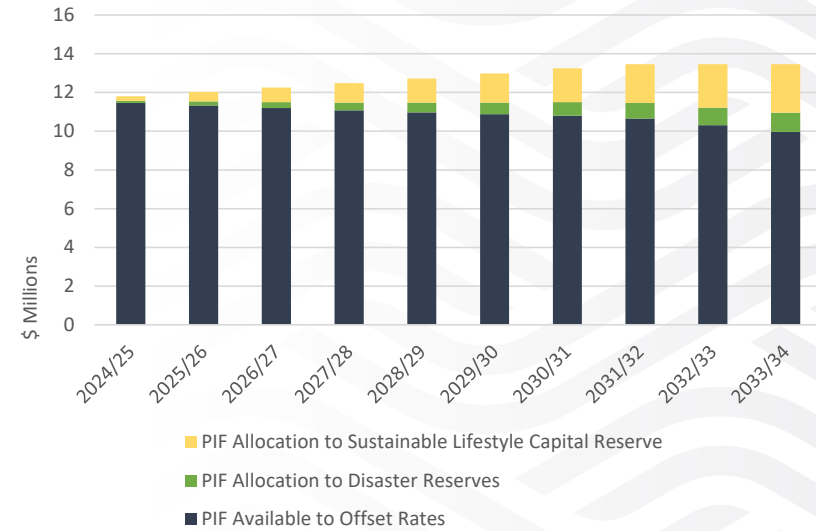
## Perpetual Investment Fund

Each year we receive almost \$12m from our Perpetual Investment Fund (PIF) to subsidise our general rate requirement. The releases we receive each year are carefully calculated through a release rule that supports the perpetual nature of the fund, but incrementally increases the amount released to us each year adjusted by a combination of inflation and the fund balance. In the LTP, we will use a portion of the increased year on year returns from the PIF to boost the contribution to our Disaster Reserves by \$100,000 per annum, up to a total contribution of \$1m in year 10. We will also use a portion of the PIF release to create a Sustainable Lifestyle Capital reserve of \$250,000 in year one, increasing by \$250,000 per annum, up to a total contribution of \$2.5m in year 10. The balance of the release will continue to subsidise the general rate requirement on an annual basis.

PIF Balance



Allocation of PIF Release



## Cash Investments

We hold 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, we are required to invest in financial bonds with the agency. We receive interest on these bonds equivalent to the cost of borrowing.

## Resilience and sustainability

Over recent years, we have 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.

Our key commitments to resilience through this LTP are:

- **\$5.5m** additional funding committed to our Disaster Recovery Reserve over the LTP. This is in addition to the \$0.2 per annum we contribute on an annual basis.
- **\$2m** to Planting our Place through planting programmes and working with our iwi.

We created an Insurance Framework 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. We hold insurance policies against our 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.

With our strong financial position, we have significant borrowing capacity to fund further unforeseen costs (\$376m in 2025).