Financial Strategy
2021-2031

This Financial Strategy is part of **Section 4** of
Manawatū District Council's 10 Year Plan (2021-31).

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The Financial Strategy provides the financial framework for making decisions over the life of the 10 Year Plan. It outlines how Council intends to manage its finances, the impact on rates, debt levels of service and investments. It draws together all of the issues outlined in the 10 Year Plan, sets out their financial implications and the way that Council proposes to address these implications.

The framework will:

- enable the community to readily identify what the financial issues are
- provide the community with certainty about how expenditure will be met
- set out the impacts of proposals on levels of services, rates, debts and investment
- enable the community to understand how Council intends to manage the financial issues in the future
- provide guidance to decision makers when considering implications of financial issues on communities now and in the future.

What are our principles?
He aha ia ngā mātāpono?

- Financial stability – Council will manage its finances to maintain financial prudence and ensure long-term financial viability and resilience.
- Investment in infrastructure – Council will continue to invest in infrastructure to ensure assets are able to provide services now and into future.
- Affordability – Council will ensure value for money is received.
- Intergenerational equity – Council will consider how today's decisions will impact future generations.
- Economic development – Council will encourage economic development within the District.

Where are we now?
Ngā mahi o nāianei me ngā mahi kua oti kē

Over the last 10 years Council has invested heavily in core infrastructure, ensuring it is fit for purpose and future-proofed. The following projects are currently in progress or have been completed:

- upgrade of Feilding Water Supply
- upgrade of Manawatū Wastewater Treatment plant
- upgrade of Makino Aquatic Centre
- Mangaweka Bridge replacement
- development of the Resource Recovery Centre
- Council building earthquake strengthening – due for completion 2022/23
- Feilding Library upgrade – due for completion 2022/23
- Wastewater Centralisation Project – due for completion 2027/28.

Due to the substantial investment committed in infrastructure, Council has required the use of external debt to fund many projects, resulting in a current position that is near the maximum debt levels set within Liability Management Policy.

Council has also kept rates increases low since the inception of the last Long Term Plan, while maintaining, and in some areas increasing the levels of service provided to the community. The increases have been modest compared to other parts of the country.

What are the issues and our responses?
He aha ia ngā take matua me ngā urupare a te Kaunihera?

The following section provides an overview of the major issues in terms of our financial planning over the next 10 years, and our response to these issues.

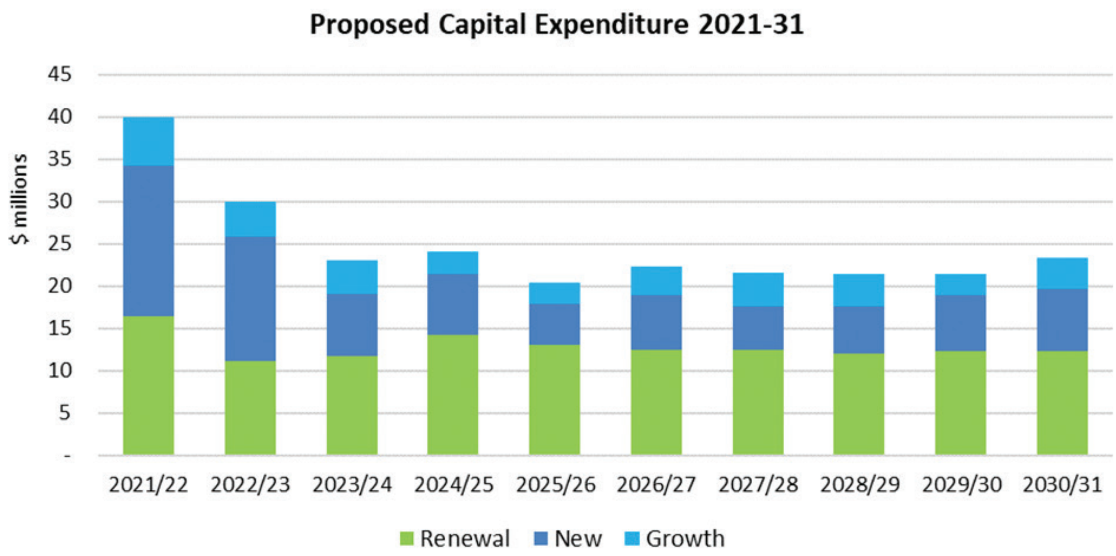
Growth and demand

The population of the District is growing, and pressure is mounting for development to cater for this growth. The following population, demographic and land-use change projections have been taken into account as part of our financial planning for the next 10 years.

- The population of the Manawatū District has grown at an average rate of 1.5% a year over the last 10 years. Population growth has been particularly strong between 2014–17, with the average rate of growth of 1.8% per annum. Future population growth is forecast to average 1.3% a year from 2021 to 2031, ranging from 1.7% per annum to 1.1% over the life of the 10 Year Plan.
- The number of households in the district are expected to increase at a different rate than population increases. Household growth is forecast at 1.8% over the 2020/21 year. Over the period 2021–31, the number of households in the District are expected to increase by between 1.2% to 1.7% per annum.
- In June 2020, the District's population was 32,100. Over the 10 Year Plan period Council forecasting indicates that the population is likely to increase to 37,320 (by June 2031).
- Land use is anticipated to remain similar over the period 2021–24, with some degree of land-use change expected over the remainder of the 10 Year Plan period. Changes expected include some diversification of land use – in particular the mix of agricultural activities. This is due to changes to legislative and regulatory settings and changes in housing preferences and development patterns due to eroding affordability and restriction of residential development on productive land.
- Based on current projections for climate change in the region, it is anticipated that growth will remain the more significant driver for land use change over the next 10 years, (refer to forecasting assumption on land use change page 296).

Council does not expect any significant impact to current ratepayers from the forecast growth in terms of the costs of providing current activities. The additional capital expenditure required to provide services (including water, wastewater and stormwater) to cater for this growth will be recovered through development contributions.

Council has responded to this projected growth in demand by providing for a capital growth programme as summarised in the graph opposite. The graph shows the amount of capital expenditure required to maintain existing levels of service and meet any additional demand on Council's infrastructure.



In 2021/22, new projects include previously unplanned externally funded initiatives, which commenced in 2020/21. The first is the Ōhakea Rural Water Supply Scheme, outlined in the Infrastructure Strategy, section 4. The second is a $5 million grant from the Department of Internal Affairs under Stage 1 of the Three Waters Reform Programme. Council plans to spend these funds on a number of three waters infrastructure projects during the 2020/21 and 2021/22 financial years.

In addition to the externally funded work outlined above, there will be significant capital expenditure in the years 2022/23 as a result of projects that have been carried over from previous years or are in progress to be completed. These include the Wastewater Centralisation Project (completion 2027/28), the Feilding Library upgrade (completion 2022/23) and earthquake strengthening of the Council building (completion 2022/23).

Roading expenditure is a significant component of capital expenditure. In 2021/22 Council plans to spend $12.5 million on the roading network. Over the period of the 10 Year Plan, the annual expenditure on roading (capital) varies dependent primarily on the timing of major projects and funding agreement from Waka Kotahi NZTA. For instance, the final part of the Mangaweka Bridge replacement will be completed in 2021/22, and there are no major projects planned over the next years to 2030/31.

Council believes the resources made available in the 10 Year Plan give us the ability to meet levels of service requirements, including the expected increases from predicted growth.

Building our resilience to natural disasters and unexpected events

Like all other regions and districts of New Zealand, our district is vulnerable to natural hazards and disasters, the impacts of which will range from minor and limited in scale/impact to significant and widespread in scale/impact. In recent years there have been several weather-related events in the District. Manawatū District is located in a seismically active zone, with the Hikurangi subduction zone – a major fault line – located within the District. Major events can affect roading and three waters infrastructure and services. Council needs to ensure that its infrastructure is maintained to a level that takes into account resilience.

Storm events and extreme weather events are likely to become more severe and frequent due to the impact of climate change therefore, Council needs to ensure it has the financial means to respond to a natural hazard event.

The District is also vulnerable to unexpected events as exemplified by the Coronavirus pandemic in 2020, and has a requirement to be able to respond unanticipated community requests.

To enable Council to respond adequately to natural hazards or other unexpected events, Council has chosen to invest in externally sourced insurance, while also maintaining a self-insurance reserve of $1 million. Other measures providing additional resilience in the face of unexpected events include the resilience rate over the life of the 10 Year Plan and the maintenance of a self-imposed $5 million debt cap buffer to ensure there is capacity to borrow if required.

Managing our borrowings

Council has taken the conscious step to continue to limit the level of the debt cap to $5 million less than the limit set by the Local Government Funding Agency. This buffer provides Council with the capacity to respond to emergency works if required in the event of a natural disaster. Council is mindful that a single infrastructure project or significant emergency works could use up this remaining borrowing capacity.

Council is moving to improve its financial resilience by building up a resilience reserve. Resilience reserve funds will enable Council to pay debt, respond to unanticipated community requests and increase the capacity to undertake repairs to infrastructure in the event of an emergency. The 2021–31 Ten Year Plan proposes to build up reserve funds by $460,000 in 2021/22, $319,000 in 2022/23, $638,000 in 2023/24, increasing in the outer years to $1.7 million in 2030/31. Resilience reserve funds will be collected via the general rate and is planned to reach $8.2 million across the ten years.[1]

Impact of changing regulatory environment

Council operates within a heavily regulated environment, in which legislation, regulations and other requirements are constantly changing. As these requirements change, they need to be incorporated into Council's business processes. This can lead to increased operating costs or the need for expensive infrastructure upgrades.

In recent years, there have been a number of significant regulatory changes that Council has needed to make further investment to comply with or respond to, including:

- changes to the Drinking-water Standards for New Zealand
- changes to earthquake-prone building standards
- the Three Waters Reform Programme
- National Policy Statement on Urban Development
- National Policy Statement on Freshwater Management
- more stringent resource consent requirements.

These new or revised regulations already have, or are likely to result in increased costs for Council both in operating costs and capital investment. The Three Waters Reform Programme is likely to be one of the most significant changes to the regulatory environment but its implications are, as yet, unknown.

Funding challenges

Impact of increasing revaluations and subsequent depreciation

Council's core assets are required to be revalued every three years, and this results in large increases which lead to significant increases in depreciation costs and subsequent rates.

To mitigate the potential for three yearly spiked increases, Council has elected to revalue its core infrastructure assets on an annual basis, which results in a more smoothed and controlled impact on rates. Land and buildings revalued on a three-yearly basis but due to land not being a depreciable asset the impact on depreciation is more limited.

[1] Used by the Council to fund activities that are of public benefit and cannot be charged to specific users.

Council rates for depreciation to fund the renewal or replacement of assets. However, there are three activities for which Council considers it prudent not to fully fund depreciation. These are roading, some community halls and recreation centres, and parks, reserves and sports grounds. The reasons for this are explained in the points below:

1. Roading is a strategic asset and is subject to a significant depreciation charge. However, the renewal or replacement of the majority of our roading assets are part-funded through a subsidy from Waka Kotahi NZTA. Therefore, it would be 'double dipping' if Council were to fully fund depreciation and also to receive a subsidy for the replacement.
2. Depreciation on most community halls is not funded as the asset may not be replaced or an alternative funding mechanism may be used to fund the replacement. The exception to this policy is in relation to the facilities deemed as strategic assets (Feilding Civic Centre and the Te Kawau Memorial Recreation Centre) and halls ranked as high priority: Āpiti, Colyton, Hīmatangi Beach, Kimbolton, Rangiwāhia and Sanson.
3. For the same reasons as outlined in relation to community halls, Council only funds 50% of the depreciation on parks, reserves and sports grounds.

Changing funding split from Waka Kotahi NZTA

Outside of rates, Council receives a significant level of subsidisation from Waka Kotahi NZTA. The financial assistance rate is decreasing over the first three years of the 10 Year Plan: from 53% in 2022, 52% in 2023 and 51% in 2024. The assumption is that no other capital subsidy for roading will be available. However, if new subsidies become available, Council will actively pursue these.

Balanced budget requirement

Council is required to balance its budget by ensuring that operating expenses are covered by operating revenue. There are some situations where Council is not required to balance its budget. Some of these exceptions are relevant to the 10 Year Plan, and include:

- not funding/partly funding depreciation on selected assets as outlined above.
- using revenue for capital purposes.

The operating surplus in the Statement of Comprehensive Revenue and Expense includes revenue to fund capital expenditure. This type of revenue includes Waka Kotahi NZTA subsidies for roading capital expenditure, grants for community facilities, development contributions received to cover growth-related capital expenditure and contributions from ratepayers (in the form of capital connection fees and some capital contributions) to fund connection to Council infrastructure.

- funding growth-related capital expenditure from development contributions.

When new land is developed, the developer is charged a contribution fee toward the costs of infrastructure such as water and wastewater pipes, and facilities such as parks and reserves.

A 20-year work programme has been developed and development contribution fees have been calculated according to this programme. Often Council is required to put the infrastructure in place before the development occurs to ensure we have the capacity to accommodate growth in advance of the development. In these instances loans are taken out to fund this expenditure. The servicing of these loans (both interest and principal repayments) is funded by future development contributions.

- funding from prior or future years surpluses.

There are a limited number of circumstances in which it is considered prudent to fund operational expenditure from prior or future years' surplus. One example is where a grant is received for solid waste minimisation. This can only be used for a specific purpose and therefore unspent money is set aside and used in future years.

Borrowings

Council utilises external debt funding to cover new capital expenditure where third party funding is not available or does not cover the full amount. By utilising debt funding this spreads the cost of the capital expenditure across multiple generations of the community who receive the benefit of the asset.

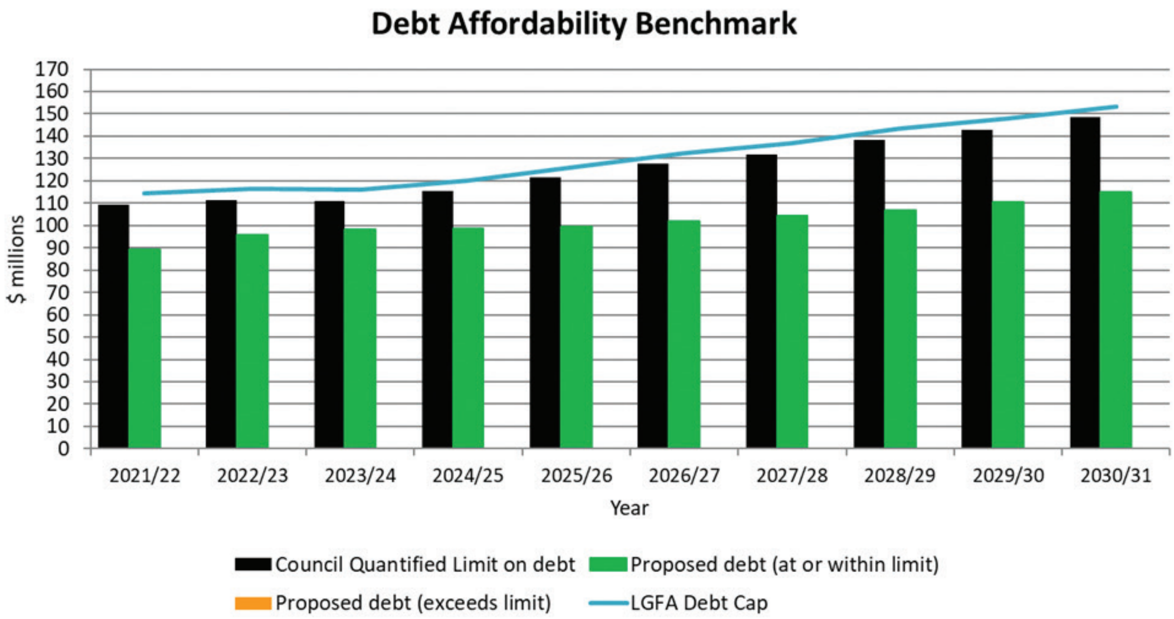
The term of borrowings is to be the estimated useful life of the asset or 30 years, whichever is less. While a 30-year ceiling does not fully address all intergenerational issues, it provides a suitable timeframe to repay debts. The loan repayments are offset by lower maintenance requirements for newer assets.

The relevant policy for borrowings is the Liability Management Policy which outlines the following borrowing limits as set by the Local Government Funding Agency:

- net interest must not exceed 20% of total revenue.
- net interest must not exceed 25% of annual rates revenue.
- net debt must not exceed 175% of total revenue.
- available financial accommodation must be more than 110% of external indebtedness.

Interest is therefore paid via rates and principal repayments are funded via the depreciation reserve on assets where depreciation is rated. If the assets are not rated then principal repayment is rated.

The graph below shows Council's proposed debt over the next ten years, together with the maximum planned debt allowed according to the Financial Strategy. The maximum debt allowed in the Financial Strategy is based on whichever limit in the Liability Management Policy yields the lowest debt, less a $5 million emergency buffer – in this case the lowest debt limit not exceeding 175% of revenue.



During the life of the 10 Year Plan the level of debt stabilises from the previous ten years as the level of new capital spend slows. In return, the increase in revenue at a rate higher than the new debt results in more capacity to borrow in later years.

Rates limits

Council considers the affordability of the proposed rate requirements both for the Council and ratepayers. When setting rates Council considers:

- the levels of service provided
- intergenerational issues
- other sources of funds
- debt levels
- legislative requirements
- external factors e.g., interest, inflation and changes to external funding
- what our ratepayers can afford.

The Council has decided on the following limit for rate increases:

Rates increases are based on the previous year's total rates revenue multiplied by the Local Government Cost Index (LGCI) +3% and exclude:

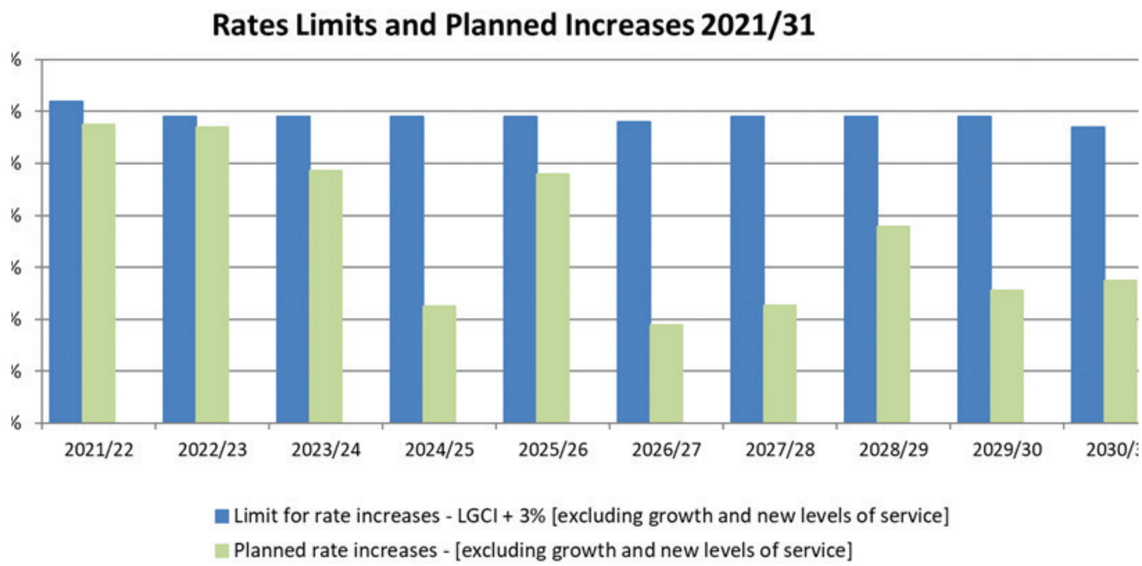
- increases that are the result of new levels of service
- increases absorbed by forecast household growth
- increases imposed by central government
- rates levied through water by meter charges, as these are volume related and are outside the control of Council.

The graph below indicates total rates increases against set limits over the ten years 2021–31.

The most significant rise is forecast in 2021/22, at 5.75% with the lowest forecast in 2026-27, at 1.89%. Over the next ten years, the average total rates increase per annum will be 3.66%. The smaller rises beyond 2023/24 are likely to increase when reviewed as part of the three-yearly 10 Year Plan process.

The percentage increases reflect Council's total rate revenue increases for existing ratepayers receiving a similar level of service as the prior year. They do not reflect individual rates rises. The change in rates on individual properties will be different from the average increase. The rates for individual properties are dependent on valuation changes, the mix of rate charges and the combination of services provided. The rates and the percentage increases below exclude increases in growth, new levels of service and water by meter.

Added to these increases is rates revenue received as a result of new rateable properties (growth in the number of households in the District) and new levels of service. For the 2021/22 year Council is forecasting the number of properties in the District to grow by 1.7%. In addition, Ōhakea will be receiving a new level of service for water supply in 2022/23. These residents will be rated for the new water supply scheme for the first time in the 2022/23 rating year.



Funding Mechanisms
He āhuatanga tahua

Council has a number of funding mechanisms available. Council's Revenue and Financing Policy details the funding mechanisms used for each activity. In summary, how an activity is funded is determined by:

- contributions to community outcomes
- who causes the costs to be incurred
- who receives the benefit
- when the benefit is likely to be enjoyed

Funding mechanisms include, but are not limited to those detailed in the table below.

	Operating Expenditure	Renewal Expenditure	New Works	Growth Works
User pays fees and charges				
Subsidies and grants	 	 		
Intrest and dividends				
Rates (including Targeted Rates)		 		
Capital contributions				
Development contributions				
Funding from prior or future years' funds				
Loan Funding				

 primary source of funding if available

 secondary source on a case-by-case basis

 funding will be considered if necessary on a case-by-case basis

 main source of revenue is from Waka Kotahi NZTA for roading

 depreciation is charged through rates and is used to fund the renewal of assets

Our future state: where do we expect to be in 10 years?
Kia rangi te tiro: te tūnga ahumoni hei te 10 tau haere ake nei

There will be many challenges and opportunities during the course of this 10 Year Plan. Council has invested heavily in roading, three water infrastructure and community facilities over the previous 10 years. This has resulted in an asset base that is resilient and fit for purpose, with cost associated with the investment being spread over multiple generations using loan funding. This in turn has resulted in a high level of Council debt.

Central government funding for Stage 1 of the Three Waters Reform Programme, and capital funding for the Ōhakea Rural Water Scheme has resulted in a number of capital works programmes being completed at little or no capital cost to the ratepayer.

New capital work expenditure decreases in the later period of this 10 Year Plan, with the focus shifting to renewal expenditure and capital spend associated with future growth.

Policies governing our borrowing limits and financial investments
Ngā kaupapa here mō te tepenga nama me te haumi pūtea

Liability Management policy

- Council utilises external borrowing to fund the acquisition of assets. Council's Liability Management Policy governs the borrowing mechanisms and current limits.
- Internal borrowing is a mechanism available to manage both the level of funds available and external debt. The internal borrowing facility enables an activity to borrow from the Council treasury function as opposed to borrowing externally, with an appropriate interest rate charged.
- Security for Borrowings
    - Many of Council's assets are not readily saleable so are less attractive as security for loans. Council will secure borrowings by a charge over our rating revenue, either directly or through a debenture trust deed.
    - Council will not secure other assets unless circumstances show it to be appropriate (e.g. leased assets).

Investment Management Policy

Council is a risk-averse entity. Council will not undertake transactions where the level of return or benefit is dependent on an unacceptable level of risk. The Investment Policy expressly forbids any form of purely speculative activity.

Adequate liquid funds are to be kept to allow all expected payments to be made on the due date. Investment levels should ensure adequate funds are maintained so special funds and reserves are backed by suitable investments.

Equity investments

Shares are held for strategic purposes that allow other activities within Council. Shares are not purchased solely for investment purposes. While Council receives a dividend from these investments, the benefits of holding these shares are not always related to the dividend. Consequently, the target on these investments is a nil return.

The performance of these investments is reviewed regularly to ensure strategic and economic objectives are being met.

Treasury investments

Treasury investments include cash investments such as government stock, local government stock, bank bonds, debentures and bank deposits.

These are held:

- to ensure Council's specific reserves (separate, special and loan redemption funds) are backed up by realisable cash assets except where Council approves otherwise.
- to manage Council's cash position in a manner that maximises interest returns and minimises operational cash deficits and the associated costs incurred.
- to maximise interest returns from surplus funds.

For these investments, Council expects an average market return.

Community loans

The main objective of providing loans to community organisations is to provide social, economic, cultural and environmental benefits to the District. While a market return is received from a number of these investments, others provide no return. Council individually approves this type of investment, with community benefits and the targeted return is addressed at that time. The targeted return on these investments (taken as a group) is nil.

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