Financial Strategy

Summary

The Council's overarching financial strategy is to be an affordable and financially sustainable organisation while at the same time delivering good quality Council services and promoting growth within the district. This can be summarised as living within our means while still contributing to Whanganui as a great place to live.

To deliver on the above strategy a balancing act needs to be achieved between reducing both the cost of Council and long-term debt, while at the same time ensuring critical assets are maintained and also providing those services that are necessary in promoting Whanganui as a great place to live.

In achieving this strategy our focus in on:

- Managing our finances prudently and sustainably
- Keeping rates at affordable levels
- Reducing debt with corresponding reductions in interest costs
- Improving our financial resilience
- Looking for efficiencies in the way we do business
- Changing the way we manage our assets to get better value for money and reduce risk
- Investigating and pursuing non-rates revenue streams
- Encouraging sustainable growth

Explaining our Financial Strategy

Our Financial Strategy describes how we plan to finance our services and activities in a way that is sustainable over the long term. Its purpose is to ensure Council has undertaken prudent financial management in the choices it makes on which services to provide. If our expenditure and funding plans are not sustainable we may not have the capacity or resources to deliver affordable services to residents and ratepayers in the medium and long term.

In simple terms, we must live within our means by ensuring that current ratepayers are paying the reasonable costs of the services they are consuming.

Our Financial Strategy is designed to give you an understanding of both our current and future financial positions. It also outlines the main factors that influence the demand for and cost of Council's services, as well as the financial challenges and risks that we face and how these risks will be addressed.

Most importantly, we have prepared our Financial Strategy to ensure that you and the community have the right information available, to engage with Council about the trade-off between the costs of Council services and the levels of service wanted by the community.

Financial Strategy

The Financial Strategy is a key part of Council's 2018-2028 Long-term Plan and it needs to be read with other key documents in that plan including:

Council's Vision Statement	This defines our goals for the mid to long-term future. It serves as a guide for choosing current and future courses of action.
Infrastructure Strategy	This strategy describes how Council intends to manage its infrastructure assets and associated expenditure needs over the next thirty years.
Revenue and Financing Policy	This policy details Council's intended approach to funding operating and capital expenditure from available resources. It determines who pays for Council activities and on what basis.
Liability Management Policy	This policy outlines approved limits and procedures in respect of all Council's borrowing and related risks.
Rates Required by Activity	This chart details the revenue and costs of each activity of Council. It includes both operating and capital costs in addition to the rates requirement and outstanding loans of each activity.

Our Current Financial Position (30 June 2018)

Our Financial Strategy over the last 10 years has balanced the services the community desires with what the community is prepared to pay for those services through tightly controlled expenditure, low rate rises and large debt increases due to the funding of large capital projects, particularly the separation of the wastewater and stormwater networks and the building of a new waste water treatment plant. In general the community's desire for low rate increases has overridden the desire to fully fund the expanding services and level of services delivered. In fact Council has planned to increase borrowings almost every year since 1999.

The following graph shows that from 2008/09 Council has planned for operating surpluses. However these surpluses have been insufficient to cover capital expenditure, as a result the graph also shows debt has increased during this period. (Actual income and expenditure will vary from planned income and expenditure due to the inclusion of non-cash items, such as depreciation and revaluations within actual income and expenditure.)

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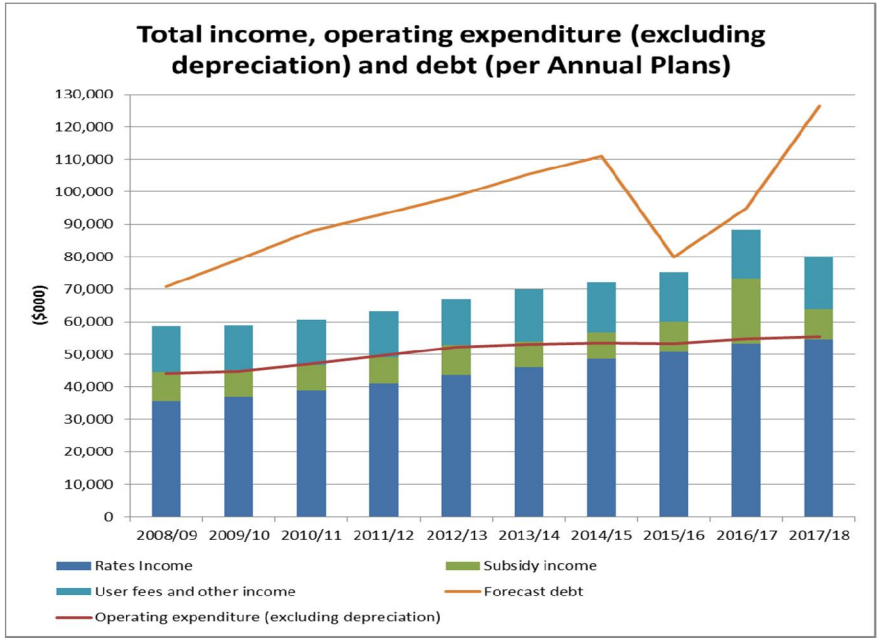

(Note: The delay in the build of the new waste water treatment plant is the main reason for the decreased debt forecast between 2014/15 and 2015/16)

In explaining and analysing Council's financial position we have used the information from our Budgets (Annual Plan and Long-term Plans) as these are the figures that set your rates.

Community's ability to pay

The community's ability to pay for services is affected by its wealth and income, future expectations of wealth and income and the number of people who can share the cost of Council provided services.

From the 2013 census, median income for families was significantly lower in Whanganui at $43,800 compared to the then national average of $72,700. Approximately 58% of the population aged 15 and over was employed which is less than the national average of 64%. Compared to national averages, the population is slightly older, less ethnically diverse, less well educated and less wealthy. The average age of Whanganui residents is also increasing resulting in more people being on fixed incomes.

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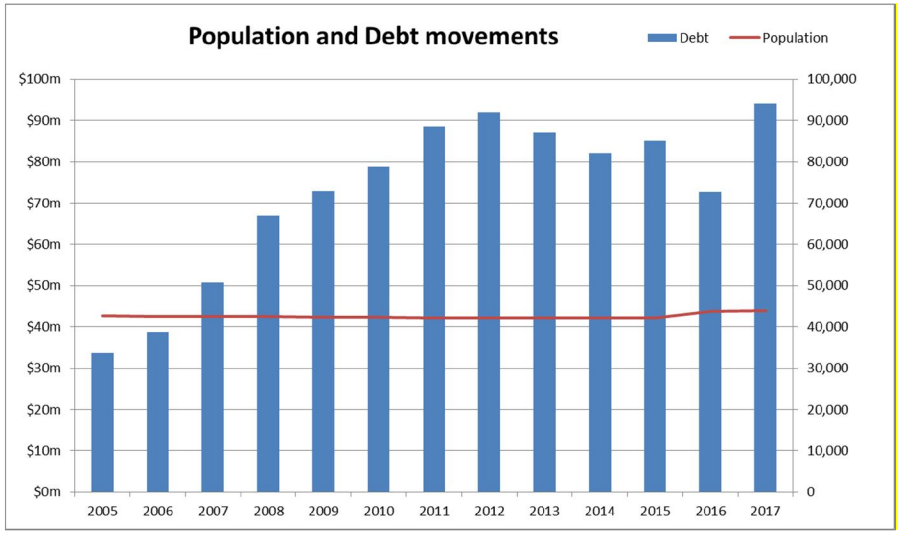
The graph below highlights Council's increasing debt against a static population growth.



Population projections and number of households

Over the past 18 years Whanganui has had a generally declining population from a peak in the year 2000 at 45,100. At the 2013 Census Whanganui's population was 43,500 and in 2014 it was 43,400. In 2015 and 2016 that decline turned around with an estimated population increase of 200 people each year. Statistics NZ December 2016 revised medium population estimates are in line with current trends forecasting a population of 44,200 in 2018.

We believe implementation of our Economic Development Strategy, the trend of people leaving Auckland for better lifestyle reasons, and workforce mobility through broadband technology, will lead to a small increase in net migration. Based on this, the projected population will peak in 2028-2033 at 45,000 and then decline to 44,100 in 2043.

In addition to modest growth expectations, the average occupancy per household is expected to drop from 2.37 to 2.28 by 2028 and 2.25 by 2043.

For the 2018-2028 Long-term Plan it is assumed that the Whanganui community will continue to have lower incomes, lower income growth, a lower percentage of the population employed than the national average. However, with the projected population growth over the next ten years, together with a decrease in the average occupancy per household, we are projecting a small increase in the number of households.

Land development for growth

The National Policy Statement on Urban Development Capacity 2016 requires us to show we have the land development capacity to cater for projected growth over the next 30 years. Whanganui District Council has undertaken infrastructure modelling work to identify the future infrastructure requirements to accommodate this growth. The District Plan review is planning for this growth to be accommodated in Otamatea West with a total of 179 new

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sections and 500 infill developments, and in Springvale with a total of 417 new sections. There is also potential for further infill development in other parts of the city. A total of 1578 new lots is estimated to be required to house the projected population growth. This development will place demand on our infrastructure. The chart below is an estimation of new capital expenditure over the period of this Long-term Plan to service this growth. It is anticipated that the majority of these costs will be funded through development contributions.

Growth related capital expenditure	
	2018-2028
	$M
Storm water	5.3
Roading	0
Waste water	3.2
Potable water	1.9

As Council is forecasting low to moderate growth, additional operating costs are expected to be minor and able to be absorbed in the projected rates increases.

More details on Whanganui demographics and the Whanganui economy can be found in Volume One of the 2018-2028 Long-term Plan.

Council's Future Financial Position (2018-2028)

Purchasing and maintaining infrastructure assets

In the past 10 years Council has spent $292 million on purchasing and replacing its infrastructure assets and this is the main contributor to our rising debt levels. In context infrastructure refers to the roading and three waters activities and does not include flood protection and flood control as these are the responsibility of the Regional Council.

In this plan Council plans to spend $256 million on purchasing and replacing its infrastructure assets and an additional $10.4 million on infrastructure assets relating to growth. Funding for this capital expenditure will come from a number of sources, including new loans, government subsidies (e.g. New Zealand Transport Agency funding for roads), development contributions (growth related capital expenditure) and rates.

The following graph highlights Council's capital expenditure on infrastructure over the past ten years as well as what is budgeted for in this Long-term Plan. The build of the new waste water treatment plant is the main reason for the increased capital expenditure in years 2016/17 and 2017/18.

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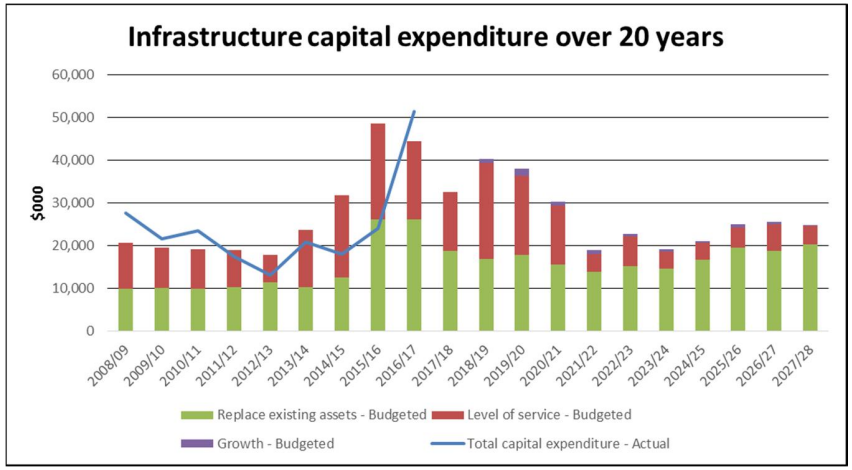

The following is a summary of infrastructure capital expenditure for years 2018/19 – 2027/28:

	($M)
Replacing existing assets	168.0
Levels of service increases	88.4
Growth	10.4

To ensure best value in its infrastructure spend, Council is taking a strategic approach to its assessment of asset condition, criticality and performance and, as a result, is adopting a risk based approach. This approach will ensure, amongst other things, that assets are adequately funded, risks are minimised, planned preventative maintenance occurs, there is a high degree of confidence in the asset data available and capital investment can be optimised.

(Refer to Council's Infrastructure Strategy for more information on this.)

Balancing the books

For the last 10 years Council has planned to spend more than it has earned and has balanced the books by borrowing to pay the difference. Some of this borrowing has been to fund large capital expenditure, such as the new waste water treatment plant. However, with the completion of the treatment plant, one of the major focuses of this plan will be on repaying debt. This will increase our financial resilience to meet future challenges, e.g. impacts of climate change.

Council plans to slowly increase its debt repayment as most debt repayment is paid from rates and we are mindful of rates affordability for our community.

The following graph shows projected operating surpluses, represented as the difference between total income (each bar graph) and the total expenditure line graph.

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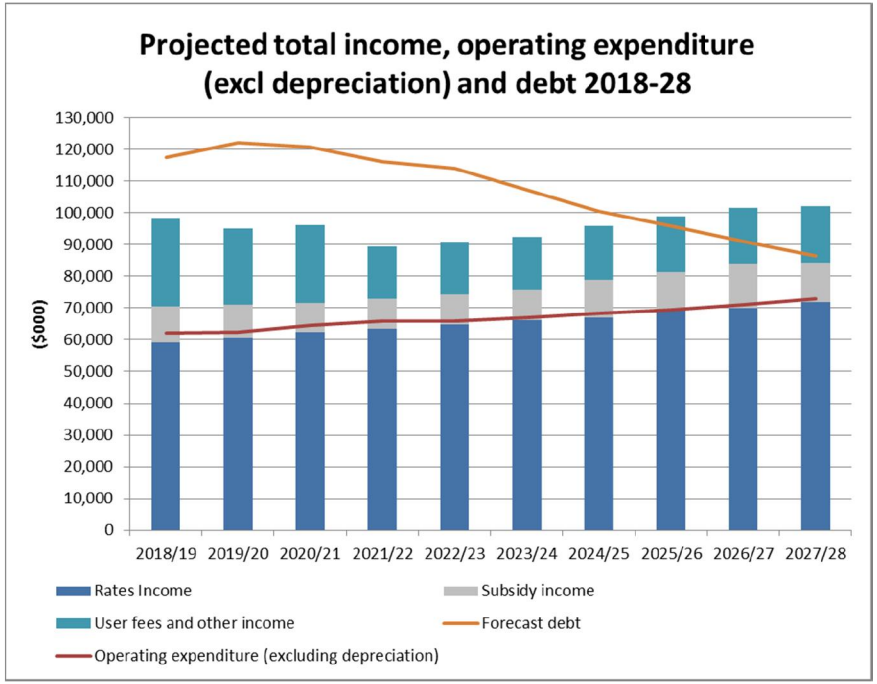

The debt balance is expected to peak in 2019/20 at $123.0M, and from there reduce as some of the operating surpluses are used for debt repayment. Total borrowings are forecast to reduce to $88.0 million by year 2027/28.

Borrowing limits

The Council is required to have a limit on debt to help facilitate prudent financial management. Council has set what it believes to be a prudent measure, which is well within the requirements of our rating agency Standard and Poor's and the Local Government Funding Agency. Council's limit for each year of the Long-term Plan are:

- Limit net borrowings* to less than 200% of total revenue;

*(*Net borrowings is defined as total debt less cash or near cash financial investments)*

As an example of compliance of this limit, our debt level is currently about 120% of our total revenue. That's the equivalent of a household earning $50,000 per year and having a mortgage of around $60,000.

By 2028 we expect our debt to be 86% of our total revenue. That's the equivalent of a household earning $50,000 per year and having a mortgage of around $43,000.

In addition to the limit above, Council will also adhere to the following limits outlined in in Liability Management Policy:

- Ensure that net interest is less than 15% of total revenue
- Ensure that net interest is less than 20% of annual rates
- Hold cash assets and confirmed borrowing facilities that are greater than 110% of external debt

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Asset sales

The 2017 Annual Report shows Council has approximately $945 million of assets and $120 million of liabilities with a net value of $825 million. However, the majority of assets are not saleable as they are fundamental in delivering our Council services to you. These are the pipes in the ground, the roads, parks, books, land and buildings etc.

Potential saleable assets include investments such as GasNet Ltd, the New Zealand Commercial Pilot Academy Ltd, and other assets, such as surplus and under-used parks and properties. Should Council decide to sell significant assets it would be required to undertake public consultation.

Council has found that disposal of community assets is difficult as there is always a part of the community that wishes them kept. On average, over the last 10 years, Council has sold approximately $670,000 of surplus assets per year.

Increasing user fees and other non-rate income

User fees and other non-rate income, e.g. Government subsidies and investment income, make up approximately 30 percent of Council's funding requirements.

This income is subject to changes in market conditions and Government policy.

While Council takes every opportunity to leverage external sources of funding (for example: funding for the Gallery relocation), the funding is often application based, has a finite period and is subject to policy changes.

Rate Limits

As with debt limits discussed about, Council is also required to have limits on rates. In order to balance the rates affordability challenges while continuing to provide services to our community, Council has set the following limits on rates revenue and rates increase for the duration of this plan.

- Rates revenue (excluding water by meter, trade waste and penalties) will not be more than 75% of Council's total revenue;
- Rates increases (excluding water by meter, trade waste targeted rates and penalties) no more than the Local Government inflation rate plus 3% in 2018/19, and the Local Government inflation rate plus 2% in all other years (after accounting for growth)

The higher rates limit in year 2018/19 is due to a number of factors, including increased rates for the first year of operations for the new waste water treatment plant.

The forecast rates increase for the duration of this Long-term Plan are:

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	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	2026/ 2027	2027/ 2028
Proposed rates limits	5.0%	4.2%	4.2%	4.2%	4.3%	4.3%	4.4%	4.5%	4.6%	4.7%
Rates increase (net of growth)**	4.5%	3.7%	3.6%	1.5%	1.6%	1.6%	0.7%	3.2%	0.7%	2.3%
Rates as percentage of total revenue	59%	63%	65%	71%	71%	71%	69%	69%	68%	69%

*** There is assumed growth in the rating database of $200k per annum.*

In considering everything earlier in this Financial Strategy, Council proposes an average rate increase over the 10 years of 2.4%. With some major capital projects either completed, or near completion, such as storm water separation and the waste water treatment plant, the existing levels of services, and in some activities, such as storm water, an increase in levels of service, can be maintained within this rates increase.

In addition to the existing levels of services, the proposed levels of rates, combined with other sources of income, such as development contributions, will be sufficient to fund the requirements necessary to support the projected growth within the District.

Security

In order to borrow money, Council has to offer some security just like residents with their mortgage. Council offers a charge over rates and rates revenue, as security for general borrowing programmes and interest rate risk management activity. From time to time, with prior Council approval and the Trustee, security may be offered by providing a charge over one or more of Council's assets. Council offers security under a Debenture Trust Deed.

Investments

The Council holds investments in property, companies and joint ventures (JV) and bonds (see below for details).

Council holds property investments in the Harbour Endowment and City Endowment.

Entity	Principal reason for investing	Budgeted return
Harbour endowment	Maintenance and development of the Sea Port	6.5% Return on Investment
City endowment	Benefit the people of Wanganui via revenue to offset rates	6.5% Return on Investment

(Refer to Council's Investment Policy for more details regarding these property investments.)

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Companies and other entities that Council invests in are:

Company JV	Shareholding	Principal reason for investing	Budgeted return
Wanganui District Council Holdings Limited**	100%	Manage other investments	$1 million
GasNet Limited	100%	Provide return on investment	$1.8million
New Zealand International Commercial Pilot Academy Limited	100%	Business and economic development within Whanganui	nil
Wanganui Airport Joint Venture	50%	Provide an essential service to the District	nil
Manawatu Wanganui Local Authority Shared Services Ltd	14%	Efficient service delivery and reduced costs	nil
New Zealand Local Authority Funding Agency	0.4%	Effective borrowings and Reduced interest costs	nil
New Zealand Local Government Insurance Corporation Limited	2.6%	Risk management	Nil
Sarjeant Gallery Trust Board	100%	Support the Sarjeant Art Gallery	Nil
Whanganui and Partners Ltd	100%	Economic Development	nil
Wanganui River Enhancement Charitable Trust	33%	Health of the River	nil
New Zealand Master Games Limited	49%	Sport	nil
Whanganui Resource Recovery Centre Trust	40%	Manage and promote a resource recovery centre	nil

**The returns from GasNet Limited are paid to Whanganui District Council Holdings, which in turn pays $1M by way of dividends and loan repayments through to Whanganui District Council.