Financial Strategy

Where we've been

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, relatively low rate rises and moderate debt increases due to the funding of large capital projects, particularly the building of a new wastewater treatment plant.

Council has been fortunate to have a number of saleable investment assets that it has utilised to part-fund some of our large infrastructure projects which has meant that debt is lower than it could have otherwise been.

As we embark on this Long-Term Plan 2024-2034, we are in a stable financial position. We manage $1.5 billion of assets and have $170 million of liabilities, including $158 million of external debt ($56 million under our debt limit). We have an AA credit rating from Standard & Poors – this is a strong rating, only one notch below the Government and higher than the major banks.

What's on our mind

Over the past three years since our last Financial Strategy was developed, the environment we are operating in has changed a lot. The local government sector is in a time of significant change, and reforms will fundamentally alter how local government operates into the future. COVID-19 has had deep economic and social impacts on our community.

These are the things that are front of mind for us now and as we move forward:

Business as usual cost increases: We are facing significantly increased costs just to deliver our standard suite of services due to inflation and price escalation. This is impacting on every aspect of our operations. Our insurance costs have doubled (up $1.9M per year) since our last Long-Term Plan. Interest rates have increased from 3.8 percent in the first year of the last Long-Term Plan to 5.4 percent in this Long-Term Plan, driving up our interest costs by $1.6M per year. Cost increases are affecting all of our services. As an example, the cost per kilometre to reseal roads has more than doubled over the past six years.

Increasing service levels due to new standards and legislative changes: Increasing standards and legislative changes are impacting on the level of service we provide and our costs of doing business. An example of this is the introduction of the Water Services Act 2021 which has resulted in a step change in what is required to operate a water supply safely. This has led to additional operating costs, more resourcing demands and the requirement for new assets.

Looking after our assets: We have a significant and ever increasing asset base to maintain. Our roading assets are facing increased pressure with demands increasing beyond what the assets were designed for. The costs involved in maintaining and renewing our assets are increasing at a rate substantially higher than the Consumer Price Index (CPI).

Climate change: Climate change is a critical issue for the Whanganui community moving into the future. In 2020 the Whanganui District Council declared a climate emergency. The Climate Change Strategy, Te Rautaki Huringa Āhuarangi plots a course for action to both mitigate and adapt to climate change and to provide a framework for collaboration. We are facing increased costs in a number of activities like stormwater, wastewater and roading due to the impacts of climate change on our infrastructure.

Local government reforms: There is a substantial degree of uncertainty over what local government might look like in the future. Reforms for three waters and the Resource Management Act were signalled by the previous government, along with consideration of the Future for Local Government report. These pieces of work are all now being reconsidered by the new government. Three waters assets will now remain with councils in the short term, although regional three waters solutions may become an option over time.

Significant capital projects: We have some significant capital projects underway. We have provided substantial investment into the port redevelopment project in order to leverage central government funding and maximise the economic opportunities the project presents for the community. The Sarjeant Gallery redevelopment project is nearing completion with significant assistance from external funding sources. In this plan some of the significant capital projects proposed are replacing the Dublin Street Bridge, upgrading the Royal Whanganui Opera House and investing in building a hotel and carpark.

Changes to our services: During the course of this plan we have some new services coming online that will affect our operating costs, like the opening of the redeveloped and extended Sarjeant Gallery in 2024, the introduction of the new kerbside recycling service in July 2024 and the kerbside food scraps service in July 2025. We are also proposing some service level cuts in this plan in order to keep rates at an affordable level for our community.

Rates affordability: With a cost of living crisis affecting our community as a result of household cost inflation, and with our community having lower than average incomes, we are mindful that ratepayers have limited capacity to absorb significant rates increases in the current environment. We consistently need to strike a balance between our work programme and the services we deliver, our rates increases and affordability, and our debt levels. Keeping rates affordable and debt sustainable while managing our assets and achieving our vision of a vibrant, liveable district requires a delicate balancing act.

Growth: Following population decline through to 2014 Whanganui's population has been growing steadily and we now in the position where we are short of housing. Our industrial sector is also thriving. We need to invest in infrastructure to support new housing and industrial growth areas. We will also encourage infill housing in existing residential areas while looking at other ways we can support housing availability.

Delivering on our aspirations to make Whanganui more liveable: We have some aspirational projects on the cards for Whanganui in the longer-term to make the city more attractive and liveable. These projects will create a step-change in Whanganui as a destination to visit and to live.

Our community 2024-34

Population growth

The Whanganui district had an estimated population of 48,700 as of 2022. Whanganui's tide turned in 2014 when the population began to grow after declining in all but two years since 1996.

Annual population growth during the five years to 2022 averaged 1.1 percent or around 500 people per annum. One of the factors that facilitated this growth was available housing stock, with Whanganui having only relatively recently (2018) surpassed its 1996 population level of 46,000. However this capacity is now fully utilised and we find ourselves in a housing shortage, like many areas around the country.

Infometrics forecasting predicts our population to grow by around 370 people per annum over the next decade. This will see our population at around 53,000 by the end of the Long-Term Plan planning period in 2034. Population growth is expected to slow down beyond 2034 to around 180 people per annum over the following 20 years.

Household and dwelling growth

Our projected population growth over the next ten years, along with a slight increase in the average occupancy per household, means we are projecting a lower increase in the number of households over this 10-year planning period.

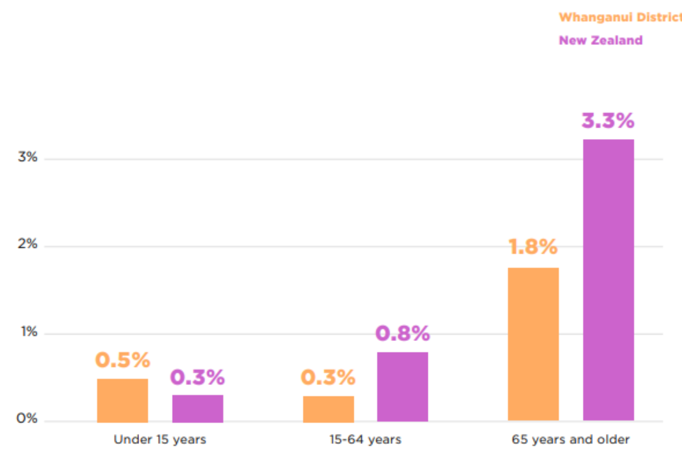
During the 30-year planning timeframe household sizes are predicted to increase from 2.4 people per household to 2.5 people per household.

We expect an increase of around 100-130 households per annum for the upcoming 10-year period.

Managing growth is a challenge and also an opportunity. Growth adds vibrancy and attracts businesses, investment and events to the district.

Population demographics

Whanganui's population is ageing, with the 65 and over age group expected to grow by 1.8 percent in the next ten years compared to under 15's growing by 0.5 percent and those 15 – 64 years growing the least at 0.3 percent.

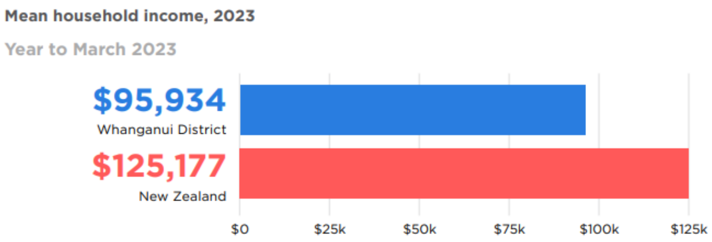


Whanganui has a lower percentage of its population in the working age group than the national average. The dependency ratio (the number of under 15 year olds and over 65 year olds as a proportion of the rest of the population) was 70.3 percent in the Whanganui district at June 2022, significantly higher than New Zealand's dependency ratio of 54.4 percent.

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

Household income is a fundamental measure of living standards and reflects the economic health of an area. Household income is derived from multiple sources including earnings from employment (wages and salaries), earnings from self-employment, allowances, benefits and superannuation.

The 2023 average household income for the Whanganui district is $95,934 compared to the national mean household income of $125,177. Of 66 territorial authorities, Whanganui ranks 45th for household income.



Compared to national averages, Whanganui's population is less ethnically diverse, less well educated and less wealthy.

How we're moving forward

We have come up with a six-point plan to help us move forward:

1. Encouraging population growth over the next 10 years

We have committed to stimulating population growth within our district by ensuring we can meet the needs of a growing community. If more families, individuals and businesses move to Whanganui, we'll be able to spread the rating costs across more people helping to keep rates lower.

2. Increasing non-rates revenue

Although rates are our main source of income, we can also lean on other methods. For example, we are proposing to increase a number of user fees and charges including building and resource consent fees, trade and tankered waste fees, and swimming pool fees.

3. Finding alternative funding sources

We will always seek external funding such as central government or grant funding where possible. We've set a target to ensure that some projects will only go ahead if a good portion of the project cost is funded from elsewhere, taking the strain off our ratepayers.

4. Finding efficiency savings

We're focused on working smarter and finding efficiencies where possible. To name a few examples, we have undergone a management restructure, postponed technology software projects and reduced the number of council vehicles.

5. Reducing levels of service

The council has carefully identified services that could be cut or closed to keep costs down. Through this Long-Term Plan 2024-2034 the community will have the opportunity to provide feedback on these proposals.

6. Selling assets to repay debt

The council owns many assets which could be sold to repay debt and reduce costs considerably, which would then offset rates. We're asking through this Long-Term Plan how comfortable the community are with our broad proposal to sell assets.

Our financial position 2024-34

Our capital expenditure programme

A key part of our Financial Strategy involves balancing the requirements of our Infrastructure Strategy with our financial limits.

Council manages a portfolio of $1.5 billion of assets. The majority of these assets relate to our core infrastructure – roading and footpaths, stormwater, wastewater and water supply.

In this plan we plan to spend $287 million replacing our existing assets, $249 million on purchasing new assets and an additional $12 million on infrastructure assets relating to growth. The following is a summary of infrastructure capital expenditure for years 2024/25–2033/34:

	Replace existing assets Maintain levels of service	**New assets** Increase levels of service	**Growth**
Roading & footpaths	$197.4M	$35.5M	$5.0M
Stormwater	$9.1M	$25.1M	$4.1M
Wastewater	$14.7M	$45.1M	$2.0M
Water supply	$17.7M	$10.8M	$1.0M
Other	$47.8M	$132.7M	$0M
Total	**$286.7M**	**$249.2M**	**$12.1M**

Funding for this capital expenditure will come from a number of sources, including new loans, government subsidies (e.g. NZTA funding for roads), grants, development contributions (for growth related capital expenditure) and rates.

Replacing existing assets

To ensure best value in our infrastructure spend and maintain our levels of service, we take a strategic approach to assessment of asset condition, criticality and performance, and adopt a risk-based approach. This approach ensures 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. Further information on this approach can be found in our Infrastructure Strategy.

Replacing the Dublin Street bridge at an estimated cost of $69 million is a significant contributor to our $287 million budget for replacing existing assets over the 10-year period. We have assumed NZTA will subsidise 62 percent of this project, leaving council to fund the remaining $26.2 million.

New assets

We have a number of significant capital projects planned over the 10-year period of this plan, including upgrading the Royal Whanganui Opera House stagehouse and flying system, building a hotel and carpark, and extending the Davis Library. Some of our community asset projects assume a substantial level of external funding from grants, donations and sponsorship. We are reliant on external funding to deliver these community projects in order to keep rates affordable for our community, to meet our limits on rates increases set out in this Financial Strategy, and to manage our debt levels.

We plan to add a UV disinfection system to our water supply to meet new drinking water standards. We are continuing to invest in upgrading our stormwater system to better cope with increasing wet weather events as a result of climate change. We are also proposing to begin a significant investment programme in our wastewater network to improve the network’s ability to handle wet weather events.

For further information, see our detailed Capital Expenditure Schedules and the Infrastructure Strategy.

Growth

With growth comes the need for council to invest in new infrastructure. We have budgeted $12.1 million for specific growth projects over the period of this plan. We have considered who benefits from this infrastructure and have revised our Development Contributions Policy to ensure that developers and new ratepayers pay an appropriate share of the cost. Around half of our infrastructure investment for growth is anticipated to be repaid by development contribution income over the period 2024-34.

Our operations

We plan to spend $104 million per annum on average over the 10-years of this plan on operating our services. This contrasts with $77 million on average per annum in our last Long-Term Plan.

During the course of this plan we have some changes to our services that affect our operating costs, like the opening of the redeveloped Sarjeant Gallery, the start of the new kerbside recycling service in 2024/25 (year 1) and the introduction of the new kerbside food scraps service in 2025/26 (year 2).

Even those parts of our operation that are continuing with business as usual are finding that costs have grown substantially because prices for contracts and items such as labour and materials have increased substantially. We are facing greatly increased costs to maintain our three waters systems and look after our roads. The cost per kilometre to reseal our roads has more than doubled in the last six years.

Insurance costs in particular have increased significantly due to recent natural disasters. On top of this interest rates have also increased substantially.

The three ‘i’s” - Inflation, interest rates and insurance - have had a significant impact on our operational costs and this has led us to reconsider everything we do and how we do it, culminating in our six-point plan to reduce rates.

To offset some of the cost increases, we are proposing some service level cuts. We have also committed to finding efficiencies in how we operate. We have provided for a small annual budget to invest in spend-to-save opportunities, for example replacing a heating system with a more efficient system to reduce ongoing power costs.

Our debt

We begin this Long-Term Plan with an opening debt balance of $158 million following our significant infrastructure investments of the past 40 years.

Our plan in our last Financial Strategy was to focus on reducing our debt balance once the wastewater treatment plant was built. However, a number of things have changed in the intervening three years - for example, additional investment in the port redevelopment and additional population growth requiring infrastructure investment. We also now have the replacement of the Dublin Street bridge coming into the middle of this 10-year plan period in years 5 and 6.

We are required to have a limit on debt to help facilitate prudent financial management. We have set our debt limit at:

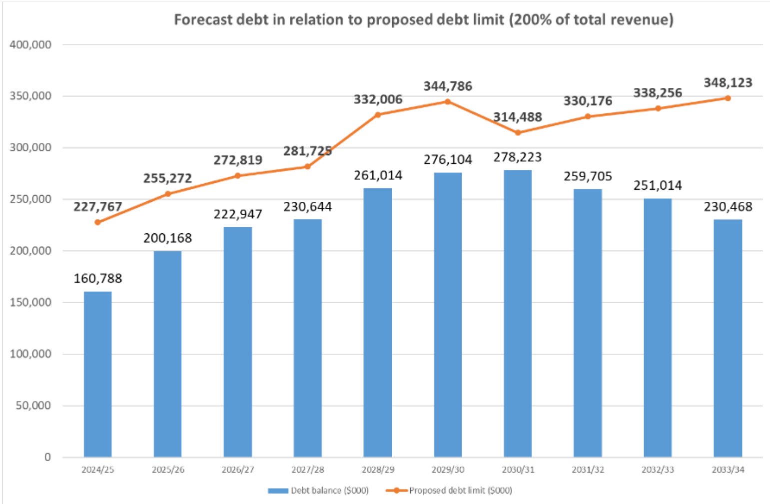
- Net debt* less than 200 percent of total revenue**

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

***Total revenue excludes development contributions and non-cash items*

This is the same as the limit in our last Financial Strategy. It is well within the requirements of our credit rating agency Standard & Poor’s and the Local Government Funding Agency (LGFA). The LGFA’s current debt limit for local authorities is net debt less than 300 percent of total revenue, reducing to 280 percent by 30 June 2026.

As an example of compliance of this limit, our debt level in year 1 of the plan is 141 percent of our total revenue. That’s the equivalent of a household earning $100,000 per year and having a mortgage of $141,000.



Our debt will continue to move higher than we had previously expected and is now expected to peak at $278 million in 2030/31 (177 percent of our debt limit) as we undertake some significant projects to add to Whanganui's liveability and attractiveness. We still have substantial available capacity to borrow within our limits should an unexpected event like a natural disaster occur.

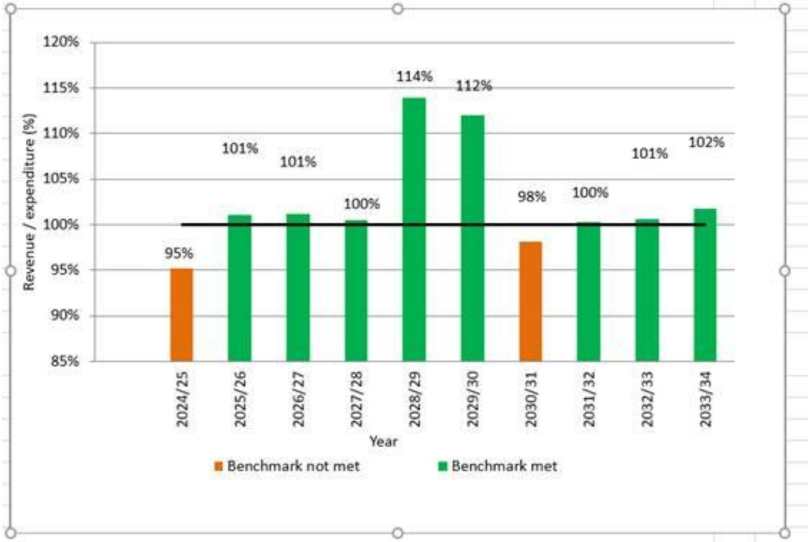
We will loan fund $244 million of capital projects over the 10-year period, but we have planned to repay $171 million of debt over the same period. With these mechanisms in place we expect our debt balance to be $230 million by 30 June 2034. This is 132 percent of our total revenue. That's the equivalent of a household earning $100,000 per year and having a mortgage of around $132,000.

Balancing our books

We are forecasting an unbalanced budget for 2024/25 and 2030/31.

Due to substantial inflation, forecast depreciation for our infrastructure assets has increased by $4.7 million in the three years since our last Long-Term Plan, affecting our balanced budget in year one of the plan. We believe this is prudent because we are stepping up funding for our core infrastructure in a staged fashion over the period of this plan due to affordability concerns for our ratepayers.

Our balanced budget exceeds requirements in 2028/29 and 2030/31 due to substantial forecast NZTA subsidies for the Dublin Street bridge replacement. We have a slightly unbalanced budget in 2030/31 as we start to depreciate the new Dublin Street bridge. We believe this is prudent as the new bridge will not require any significant maintenance for some time.



Your rates

Council has historically kept rates increases low due to affordability concerns for its ratepayers. Our average rates increase over the last 10 years is 4.3 percent. In the current cost of living crisis, keeping rates increases to a minimum is even more of a concern; however we are facing many headwinds with costs escalating, standards increasing and climate change requiring us to adapt.

We are required to set a limit on rates increases in our Financial Strategy.

Our previous rates increase limit was Local Government Cost Index (LGCI) plus 2 percent, after accounting for growth. In the current environment this rates limit is too low for us to be able to deliver our services to the standards that are required in the short to medium term, even after implementing our six-point plan to reduce rates.

After looking at our budgets, considering rates affordability, and while continuing to provide services to our community and repay debt, we have set our limit on rates increases at:

- Rates increases (excluding water by meter, trade waste targeted rates and penalties) no more than the following, after accounting for growth:
  - 11 percent for 2024/25
  - 8 percent for 2025/26 and 2026/27
  - 5 percent for 2027/28
  - LGCI plus 2 percent for 2028/29 and beyond

These new rates increase limits will allow us to navigate this time of substantial legislative change, increasing standards and high inflation as well as the start of the new kerbside recycling and food scraps services, but retains our long-term aspiration for rates increases no higher than the LGCI plus 2 percent.

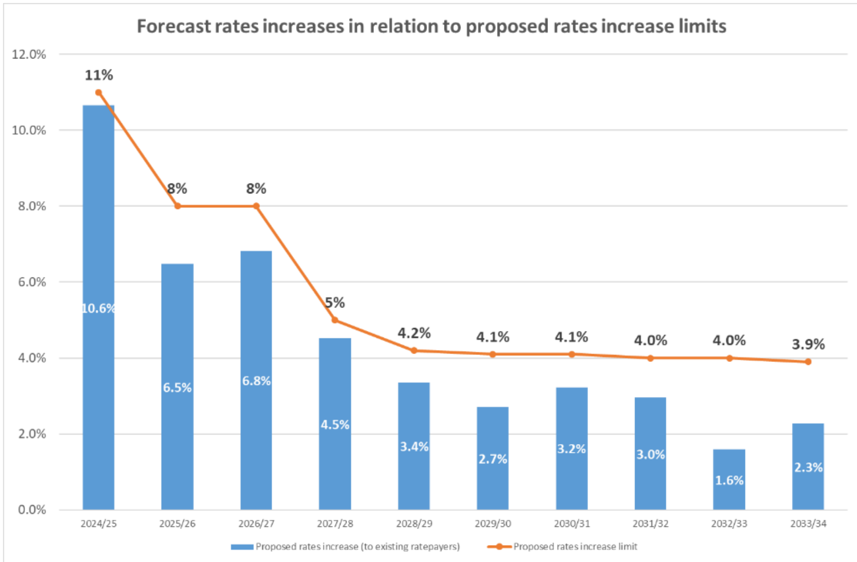
The average rate increase to existing ratepayers for 2024/25 is proposed to be set at 10.6 percent, which is within our Financial Strategy limit. On average, we are proposing rates increases of 4.5 percent on average over the course of this plan.

This level of rate funding will allow us to maintain the levels of service set out in this plan, provide for expected growth, and deliver the projects outlined when combined with our other sources of income like development contributions, fees and charges, subsidies and grants.

The forecast rates increase for the duration of this Long-Term Plan 2024-2034 are:

	2021/ 22	**2022/ 23**	**2023/ 24**	**2024/ 25**	**2025/ 26**	**2026/ 27**	**2027/ 28**	**2028/ 29**	**2029/ 30**	**2030/ 31**
Proposed rates increase*	10.6%	6.5%	6.8%	4.5%	3.4%	2.7%	3.2%	3.0%	1.6%	2.3%
Rates increase limit	11.0%	8.0%	8.0%	5.0%	4.2%	4.1%	4.1%	4.0%	4.0%	3.9%

**Assuming growth in the rating database of $600,000 per annum*



Increasing user fees and other non-rate income

User fees and other non-rate income such as government subsidies, grants and investment income, make up approximately 30 to 40 percent of council's funding requirements.

Our major external funding source is NZTA subsidies for our roads. Our subsidy rate currently sits at 62 percent, up from 61 percent last year.

We have forecast investment dividends of $500,000 per year in years 1 to 3 of our plan, allowing our holding company's subsidiaries to invest in their infrastructure. We have forecast $1 million per year of investment dividends from year 4 onwards.

Fees and charges are set for some activities where this is a private benefit that the user of the service receives. We have reviewed our fees and charges and most will be increasing by inflation annually to ensure we don't inadvertently pass cost increases onto the ratepayer when fees don't keep up with cost increases. There are a number of activities where we do not charge fees or keep fees low in order to increase usage to achieve our community outcomes - for example swimming pools, libraries, and the Sarjeant Gallery.

Demand for land is high and developers are opening up new land developments which we need to provide infrastructure for. We have forecast $6 million of development contribution income over the 10-year period of this plan. We have considered who benefits from the infrastructure and have revised our Development Contributions Policy to ensure that developers and new ratepayers pay an appropriate share of the cost (the draft policy will be consulted upon alongside this Long-Term Plan 2024-2034). Around half of our infrastructure investment for growth is anticipated to be repaid by development contribution income over the period 2024-34.

We have forecast a substantial level of external funding for some of the community asset projects in our plan, like the Royal Whanganui Opera House stagehouse and flying system upgrade, the Davis Library extension and the North Mole carpark and amenities. We are reliant on external funding to deliver these community projects to keep rates affordable for our community, to meet our limits on rates increases set out in this Financial Strategy and to manage our debt levels.

Some of our non-rate income is subject to changes in market conditions and government policy. While council takes every opportunity to leverage external sources of funding, the funding is often application based, has a finite period and is subject to policy changes.

For further information on how we fund our activities, see our Revenue and Financing Policy.

Securities

In order to borrow money, council has to offer some security just like residents with their mortgages. 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 and bonds (see below for details).

Council holds property investments in the city endowment.

Entity	Principal reason for investing	Budgeted return
City endowment	Benefit the people of Whanganui via revenue to offset rates	$100,000 p.a.

(Refer to council's Investment Policy on our website www.whanganui.govt.nz for more details regarding these property investments.)

During 2020/21 council established Whanganui Port Limited Partnership. Council's harbour endowment and port assets have been transferred to the limited partnership.

Companies and other entities that council invests in are:
(Note – council is currently undertaking a review of its council controlled organisations, which may impact some of the entities below. Once the review has been completed this section of the Financial Strategy will be updated)

Company/joint venture	Shareholding	Principal reason for investing	Budgeted return
Whanganui District Council Holdings Limited (WDCHL)	100%	Manage other investments	$500,000 years 1-3, thereafter $1 million
GasNet Limited	100% shareholding by WDCHL	Provide return on investment	$1.2-$1.8 million paid to WDCHL
New Zealand International Commercial Pilot Academy Limited	100% shareholding by WDCHL	Business and economic development within Whanganui	Nil
Whanganui Port General Partner Limited (WPGPL)	100% shareholding by WDCHL	Maintenance and development of the sea port	Nil
Whanganui Port Limited Partnership	Units held by WDC; 100% shareholding by WPGPL	Maintenance and development of the sea port	Nil
Whanganui 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

Company/joint venture	**Shareholding**	**Principal reason for investing**	**Budgeted return**
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 the resource recovery centre	Nil