

## 4.1 Manawātū District Council - Financial Strategy 2024-2034

This Financial Strategy explains how Manawātū District Council manages its finances to sustainably deliver services and infrastructure that support our district.

The Financial Strategy provides the financial framework that guide decisions about what the council should, and should not do, so that Manawātū District Council continues to manage its finances prudently.

The framework:

- Outlines the funding mechanisms that are used
- Sets prudent parameters for rates, debts and investments
- Identifies the issues that have potential financial implications in the future
- Provides certainty about our approach to key financial matters such as revaluations and depreciation,

Six principles underpin the Financial Strategy that support the council's overall Community Outcomes.

- Financial stability – managing our finances prudently, ensuring long-term financial viability and resilience
- Sustainable investment in infrastructure – ensuring assets provide value now and into the future
- Affordability – ensuring value for money for residents
- Intergenerational equity – considering the impact of today's decisions on future generations
- Economic development – encouraging economic development across the District
- Environmental sustainability – ensuring that the services we deliver enable environmental sustainability within the Manawātū district.

Council has invested heavily in roading, three water infrastructure and community facilities over the previous 10 years. This means we have assets that broadly are resilient and fit for purpose. The cost for this investment has been spread over multiple generations using loan funding, which has resulted in a level of debt that is near the maximum levels allowable.

This position provides both challenges and opportunities for Council over the coming 10 year Long-term Plan, with high levels of uncertainty about central government reform and uncertain economic and population growth conditions adding to the issues we must consider from a financial perspective.

### Funding mechanisms

We use a range of funding mechanisms to fund our activities, which are summarised in the Revenue and Financing Policy.

The following table summarises the mechanisms we use to fund different kinds of expenditure:

	Operating Expenditure	Renewal Expenditure	New Works	Growth Works
User fees and charges	✓			
Subsidies and grants	✓	✓	✓	✓
Interest and dividends	✓			
Rates (including targeted rates)	✓	✓	✓	
Capital contributions		✓	✓	
Development contributions				✓
Funding from prior or future years' funds	✓	✓	✓	
Loan funding		✓	✓	✓

## Prudent limits

### Rates

Affordability for residents will be a key consideration when Council determines the required level of rates. In recent years, Manawātū District Council has faced cost pressures, meaning that rate increases have been necessary. However, with affordability being a key issue for many residents, we strive to ensure rates increases are as low as possible, while still providing for the assets and services our community needs.

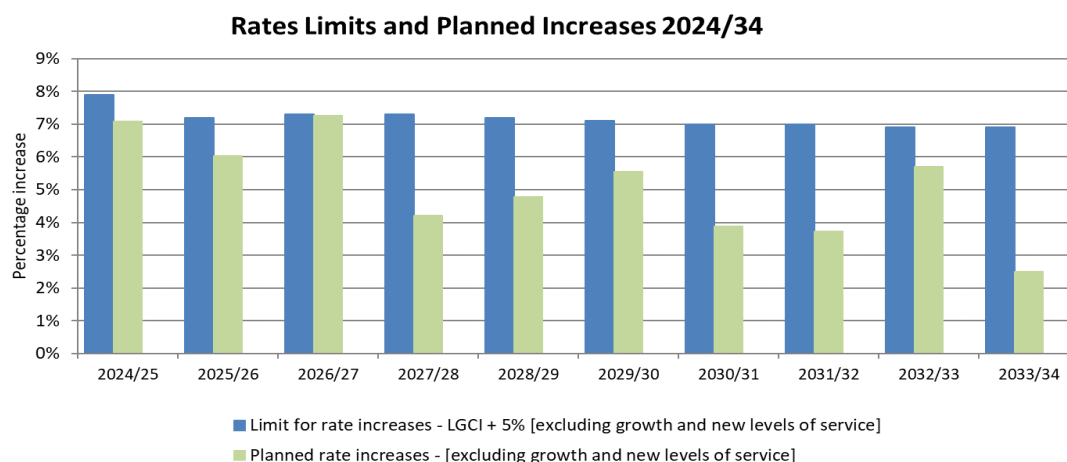
When determining rates, we consider:

- What ratepayers can afford
- Levels of service we provide
- Intergenerational equity
- Other sources of funds, such as grants or subsidies
- Debt levels
- Legislative and regulatory requirements
- How to deliver our services most efficiently
- External factors such as interest inflation and changes to external funding.

Manawātū District Council sets an upper limit for rates increases, which is 5% plus the Local Government Cost Index - excluding water by meter, central government imposed activities, new

levels of service and growth. 'Growth' accounts for the increased number of properties in the district, which allow us to spread the rates burden across more properties.

Within this current Long-term Plan, the council is proposing a rates increase in 2024/25 of 7.09% for existing ratepayers. This excludes growth and new levels of service.



The percentage increases reflect the Council's expected total rates revenue increases. They do not reflect individual property rates rises, which will differ from the average increase. Each property will be affected by the value of the property, services that the property is connect to, and any rebates that apply to the property.

As described above household growth allows us to spread the rates burden across more properties. Over the period of the Long-term Plan, we forecast that the growth in the District's population will range between 0.97% and 1.61% per annum over the period of the Long-term Plan.

## Debt

The council mainly borrows to pay for new capital works (new assets). Sometimes, third-party grants (such as Waka Kotahi/NZTA subsidies for new roading projects) supplement the costs of new capital works. Borrowing allows the council to spread the cost of new capital across future generations who will benefit from it.

Manawatū District Council secures borrowing over its ability to levy rates. It does not secure borrowing over other assets unless appropriate (for example leased assets).

The length of the terms of borrowings is set at the life of the asset, or 30 years, whichever is less.

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

The Liability Management Policy outlines four policy limit ratios that the Local Government Funding Agency sets. Our debt limit is whichever ratio yields the lowest debt. The limit ratios are:

Ratio	Limit
Net interest as a percentage of total revenue	Less than 20%
Net interest as a percentage of annual rates revenue	Less than 25%
Net debt as a proportion of total revenue	Less than 175%

Financial accommodation compared to external indebtedness.	Available financial accommodation of more than 110% of external indebtedness.
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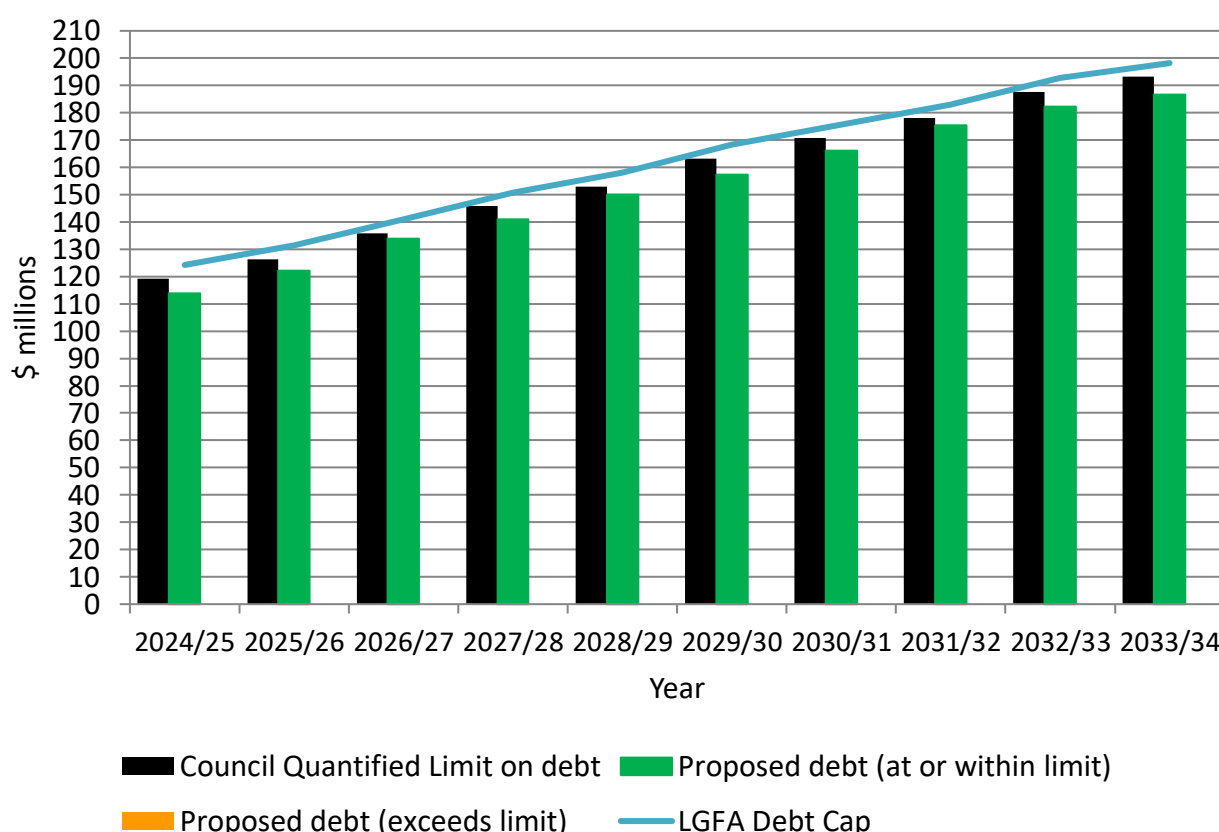
At the time of writing, the ratio that yields the lowest debt is the net debt as a proportion of total revenue.

The Council then applies a \$5 million buffer to the limit calculated by the policy ratio, to allow for any emergency works, which sets our self-imposed debt cap.

Council is committed to improving our financial resilience by continuing to build up reserves. Reserve funds will enable Council to pay debt, undertake repairs to infrastructure in the event of an emergency, and/or respond to unanticipated community requests. The council is also building a self-insurance reserve that can be used for minor events when it's preferable to making an external insurance claim. The resilience reserve funds are collected via the general rate.

The following chart forecasts the total level of net debt against our debt limit, calculated by net debt being less than 175% of total revenue, less \$5 million.

## Debt Affordability Benchmark

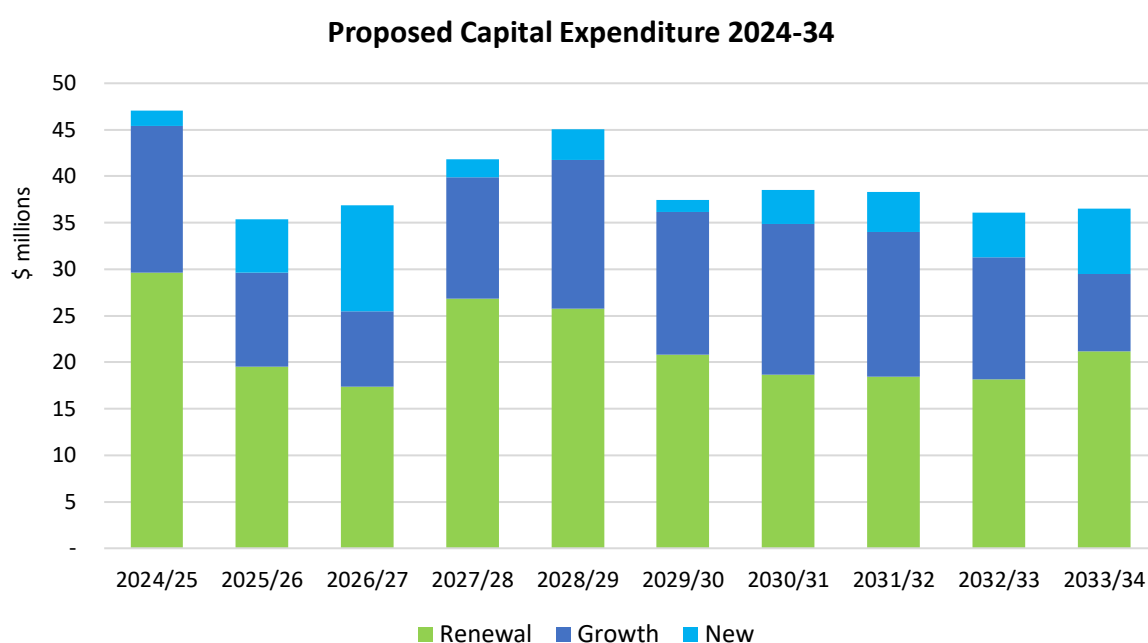


## Issues that have financial implications

Several issues have financial implications in the future. These are:

- **Growth**

- Over the next ten years, we forecast the population will grow by between 0.97%–1.61% each year.
- The rate at which our population grows will impact on the demand for our services and infrastructure.
- Additional capital work generated by growth is funded by Development Contributions.
- Economic growth is vital for the financial future of our district, but that growth must be managed so that it occurs at a sustainable rate so that our infrastructure and services can support that growth.
- Council has responded to this projected growth in demand by providing for a capital growth programme as summarised in the graph below. The graph shows the amount of capital expenditure required to maintain existing levels of service and meet any additional demand on Council’s infrastructure.



#### - **Changes in land use**

- Land use on class 1, 2 and 3 soils is now governed by the National Policy Statement for Highly Productive Soils and will restrict development on these types of soils.
- Further changes to land use are likely to occur over the term of the Long-term Plan, which may include:
  - diversification of land use from agriculture to forestry and other low emission land uses,
  - de-intensification or relocation of intensive primary production away from waterways, and
  - greater protection of land to protect indigenous biodiversity.

#### - **Natural disasters and unexpected events**

- We are forecasting that with climate change, there will be more frequent and more damaging storms hitting our district. This will require us to build more financial resilience into the way we manage our finances in the future.
- The Manawatū is in a highly seismic zone, which could threaten our services and infrastructure.
- The COVID-19 pandemic demonstrated the vulnerability that all organisations face when pandemics hit our communities.
- Recent events (for example, storms, COVID-19, climate change and cost inflation) mean that our insurance premiums have increased significantly.
- The council also sets aside a reserve fund to provide resilience. In recent years, events such as Cyclone Gabrielle have meant that we have had to spend more than is in the reserve fund for disaster recovery. Manawatū District Council used this reserve fund during COVID-19 to apply no rates increase in 2020/21.
- The council ensures that its net debt is at least \$5 million below the debt limit to allow for emergency funding if required.
- **Regulatory and policy changes**
  - Regulatory changes can require councils to provide new services, set new compliance standards, and make District Plan changes to reflect resource management decisions.
  - These changes can increase Council's costs, which can impact rates or user fees and charges.
  - Uncertainty on government policy changes (such as the recent Three Waters legislation) can also impact the certainty with which Council makes decisions about the future of our services.
- **Funding challenges**
  - The increases in costs-of-living have affected us all. It means we are under more pressure to ensure that the council's services and infrastructure provide value for money, while at the same time facing increased costs for many of the products and services we procure. Affordability for our residents is carefully considered when decisions are made.

## **Financial settings**

### **Revaluation of our assets**

Revaluations of council assets can significantly impact depreciation (the amount the council puts aside each year to fund the renewal of old assets when they reach the end of life).

The council revalues its core infrastructure assets annually, which smooths the impact on rates from changes in depreciation. The council revalues land and buildings on a three-yearly basis.

### **Depreciation**

The council rates for depreciation to fund the renewal or replacement of assets. There are three activities where the council considers it prudent not to fully fund depreciation. These are roading, halls and recreation centres and parks, reserves and sports grounds.

Roading is a strategic asset of the council and results in a significant depreciation charge. However, the renewal or replacement of the majority of our roading assets are funded through subsidies from the New Zealand Transport Agency (NZTA). Therefore, it would be double dipping if the council were to fully fund depreciation and also to get a subsidy for the replacement.

- With the exception of the Feilding Civic Centre the Te Kowhai Recreation Centre, and the District's high priority halls (which are considered strategic assets) depreciation on other halls is not funded as the asset may not be replaced or alternative funding mechanisms, such as third party funding, may be used to fund the replacement. For the same reasons we only fund 50% of the depreciation on the Makino Aquatic Centre, the Community Hub and Libraries, parks, reserves and sports grounds.

### **Balancing our budget**

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, including:

- Not funding or 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 NZTA Waka Kotahi 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 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 operations expenditure from prior or future years' surpluses. 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.

### **Relevant financial policies and approaches**

We have several policies that bring effect to this strategy.

- The Revenue and Financing Policy outlines how we fund operational and capital expenditure.

- The Liability Management Policy governs how we borrow and debt limits. It is underpinned by council's risk adverse orientation, which leads to interest rates, liquidity and credit risks being managed but not speculated on.
  - The Investment Management Policy guides how we should invest to optimise investment income while maintaining appropriate levels of risk, and ensure adequate funds are available when needed. It covers a mix of investment types. It lists how we manage our risks to preserve the council's capital base. The Investment Management Policy also covers the following:
    - 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 review regularly to ensure strategic and economic objectives are being met.
    - 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 are provided to community organisations at Council's discretion to provide social, economic, cultural and environmental benefits to the District. While a market return is received from a number of these investments, other provide no return. Council individually approves this type of investment, with community benefits and the targeted return being address at that time. The targeted return on these investments (taken as a group) is nil.
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