Financial Strategy

Financial Strategy 2024-2034

Contents

1. Introduction

The Council is driven by a strategic approach to achieving outcomes that contribute to the its vision for Palmerston North **He iti ra, he iti pounamu, Small city benefits, big city ambition.** This Vision is supported by the following goals and related strategies:

Goal 1: An innovative and growing city
Goal 2: A creative and exciting city
Goal 3: A connected and safe community
Goal 4: A sustainable and resilient city

More detail about these in outlined in section 2 of the Long-term Plan.

2. Purpose

The purpose of the Financial Strategy is to:

- facilitate prudent financial management by Council, by providing a guide against which to consider proposals for funding and expenditure
- provide a context for consulting on Council's proposals for funding and expenditure, by making their overall effects on services, rates, debt and investments transparent

[Note: This Financial Strategy is an integral component of the Council's Long-term Plan (LTP). It should be read in conjunction with the Plan, which amplifies many aspects of the Strategy in relevant sections. The Strategy also links closely with the 30 Year Infrastructure Strategy.]

3. Approach

This strategy is structured in the following manner:

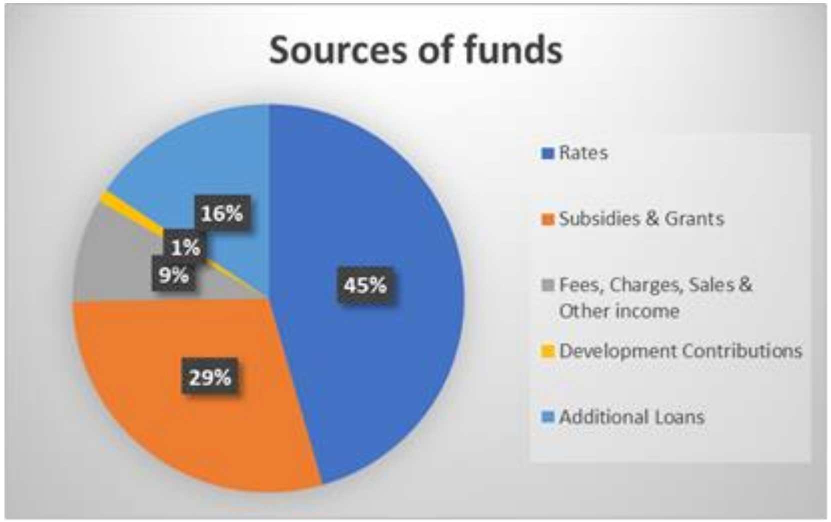
- Summary of key issues
- The current financial position of the Council
- Desired future financial position and challenges being faced
- Guiding financial management principles
- What this means for 2024-34 including debt and rates forecasts
- Appendices:
    - Growth assumptions
    - Cost of providing for growth
    - Looking after present infrastructure
    - Policy on giving security for borrowings
    - Financial investments

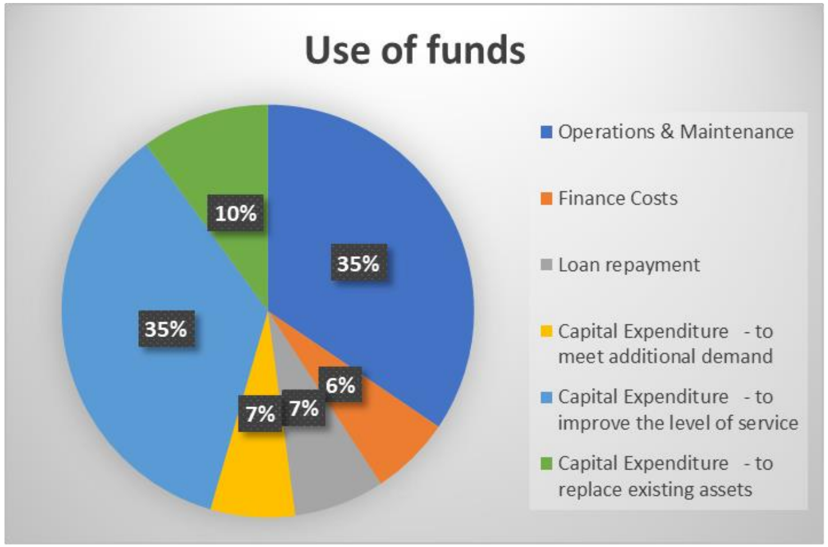
4. Summary of key issues

- The requirement to update the City's wastewater treatment and disposal system (Nature Calls) provides the greatest single challenge to long-term financial sustainability of the Council. At the present time it has been assumed that the proposed option will cost approximately $647 million but there is a high level of uncertainty about details of the proposal and it's cost.
- In order to fund existing Council services and key projects being proposed in the LTP, including new and growth-related capital expenditure of $1.84 billion, Council's rates and debt levels will need to increase – rates increasing from $124 million in 2023/24 to $253 million in 2033/34 and debt increasing from a forecast $260 million at 1 July 2024 to $623 million at 30 June 2034. It is proposed to increase the policy limit for the net debt/revenue ratio from 200% to $250%.
- The Council does not have the borrowing capacity to fund all of the proposed capital expenditure from debt. It has been assumed a number of projects will be funded using other mechanisms. In particular the Nature Calls project is assumed to be funded using a loan raised through a

government agency and that it would be serviced and repaid by ratepayers through what is termed an IFF levy over 30 years. Early assessments are this could progressively increase to at least $1,000 per property. Any loan raised in this manner will not be recorded as part of the Council's total borrowings.

- External funding of $105.9 million has been assumed for a range of other projects including infrastructure growth programmes, Te Motu o Poutoa Anzac Park and seismic upgrades to the central library and Te Manawa. This funding can be a combination of grants, partnership agreements or private ownership. Investigating and developing these other revenue opportunities will require a concerted focus. If Council is unable to achieve these funding arrangements it could delay the particular project or if this is not possible, then re-prioritise other programmes.
- An increased focus on Council's property holdings will be required over the next three years with an aim to identify further opportunities for revenue generation.
- The new government has indicated it plans to repeal all of the legislation that would have seen the 3 waters activities being transferred to a new regional water entity in 2026. It is uncertain what the new legislative framework will be, but the LTP assumes Council will retain responsibility for the water function throughout the ten years of the Plan.
- To help ensure Council lives within its prudent debt ratios (and in particular the net debt to revenue ratio of 250%) it is planned to fund accelerated debt repayment totalling $148 million from rates from year 4 onward creating approximately $130 million of headroom by year 10. Council has been increasing its investment in asset management planning and is progressively obtaining better condition assessments of its infrastructure assets. This information has led the Council to conclude it needs to increase its investment in both asset maintenance and asset renewal.
- Based on these assumptions total rates will need to increase by 11.3% in 2024/25, approximately 10% in 2025/26 and 2026/27, 9% in 2027/28 and progressively reducing to 4% in 2033/34. These figures do not include any IFF levies that might be charged in relation to the Nature Calls project.





5. Current Financial Position of the Council

The Council provides the full range of territorial local government services to its community. It has believed it to be important to fund new infrastructure and facilities just in advance of when required as a means of providing for and encouraging city growth. As a significant regional centre it has invested in community facilities to serve the wider region. From a policy perspective it has committed to maintaining and renewing those assets in a prudent manner.

With assets of over $2.3 billion and debt projected to be $260m as at 1 July 2024 the Council is conservatively geared. It has a S&P Global AA credit rating enabling it to borrow at the best rates available to local government and is currently operating well within its own prudent debt ratios and those of the NZ Local Government Funding Agency. The Council has been prepared to set rates and fees and charges at levels necessary to fund the delivery of these services and facilities and currently these rates and charges are comparable with other like Councils.

The key elements of the financial strategy underpinning this have been:

- to ensure the Council's long-term financial position is sustainable
- to recognise inter-generational funding requirements
- to manage debt within defined levels
- to maintain the infrastructure provided for the City by previous generations, for the use by current and future generations
- to ensure financial capacity for future generations so they are able to fund high-priority programmes
- timely provision of new infrastructure that builds capacity and enables the City to harness new development opportunities while avoiding the financial risks associated with over provision.

In developing this strategy, the Council has focused on:

- what needs to be done to ensure the City's infrastructure can continue to provide desired levels of service and meet any growth in demand
- what level of rates is required to meet the infrastructure needs
- how to create sufficient borrowing 'capacity' to cope with future high-priority programmes.

As a result, the approach has been to:

- encourage staff to provide innovative and efficient delivery of services
- commit to funding capital renewals at the levels required to maintain assets
- challenge expenditure proposals to ensure they are aligned to key Council Strategies, that the proposed timing is realistic and that they are capable of being delivered
- peer-review capital expenditure budgets to ensure they are adequate in the current challenging contracting market
- make sure the expenditure required for growth is committed soon enough to enable the City to harness development opportunities and comply with the requirement of the National

Planning Standards, but not too far ahead of when the infrastructure will actually be required.

6. Desired Future Financial Position and Challenges being faced

The Council faces a number of challenges which make developing a sustainable financial strategy more difficult than usual. Most of them introduce a high level of uncertainty to the planning process. They include:

6.1 Increased investment in maintaining services and and replacing assets

With an increasing investment in asset management planning more information is becoming available about the condition of the Council's assets although there is considerable further investment required to obtain a full picture of this. This has led the Council to understand that for a number of activities (especially roading, property, three waters and information management) there is a need to increase funding for maintenance and renewal.

6.2 Significant debt funding required for Nature Calls (wastewater treatment and disposal upgrade)

Council has determined a best practicable option for wastewater treatment and disposal and lodged a resource consent application to Horizons Regional Council. Although there is a high level of uncertainty about the final form of the project it is currently assessed as costing approximately $647m (including inflation) and the bulk of this expenditure is currently scheduled from years 4 to 9. Council acknowledges that it cannot raise this level of debt itself and will need to fund this project off balance sheet using a Special Purpose Vehicle (SPV) under the Infrastructure Funding and Financing Act (IFF), which will need to be repaid by ratepayers through a levy payable to Crown Infrastructure Partners. (CIP) (see more in section 9.4).

6.3 The nature and timing of water reforms

The legislation that would have seen the Council's three waters activities transferred to a new regional entity from 2026 has been repealed and replaced with a programme with a focus on 'Local Water Done Well'. The detail of their approach has yet to be formulated.

6.4 Climate change

Council's previous plans have recognised the climate is changing and has incorporated design solutions to cope with this especially for the stormwater activity. Most significantly is the likelihood of a higher frequency of heavy rainfall events which would increase both nuisance surface water ponding and flood events. Council has set its own greenhouse emission reduction targets and is aware the government may also be imposing a number of new requirements that will likely impact on transport and other city infrastructure.

6.5 Earthquake-prone buildings

More of the Council's buildings than previously assumed have now been assessed as earthquake prone. Although the remediation can be staged over 15 years the potential cost ($200 million plus) is significant. Whilst they remain assessed as earthquake prone it is not possible to obtain re-instatement insurance cover meaning the Council is exposed to significantly more risk for many of its major buildings.

6.6 Sustainable city growth

The City is projected to grow more significantly than previously assumed placing pressure on the Council to invest in infrastructure to enable and service that growth. Not only is this impacting on housing supply and affordability for city residents but a number of major government, residential and commercial projects throughout the Manawatu is stretching contractor resources and putting upward pressure on contract prices and ability to deliver.

7. Key forecasting assumptions

Council has made a number of significant forecasting assumptions in preparing its LTP. These are contained in section x of the LTP.

These assumptions range from global issues such as the worldwide pandemic and climate change, to national issues such as the magnitude and frequency of natural disasters or the level of external funding available from agencies (in particular, the New Zealand Transport Agency - Waka Kotahi) or inflation rates, to more local issues such as the conditions for resource consents (for stormwater and wastewater discharges).

Although Council believes it has made prudent assumptions in each case, there is a high level of uncertainty surrounding some assumptions. In most cases the Council has some flexibility to cope with changing circumstances. Depending on the issue, Council's response could involve reducing maintenance for a short period, postponing scheduled capital renewals, postponing new capital development or using any 'headroom' in the Council's borrowing capacity.

8. Guiding financial management principles

8.1 Equity between generations

Council will manage its financial operations and position in a responsible way, in the best interests of current and future generations of City residents.

This means trying to ensure the current generation pays a fair share of the costs of the City's services and facilities and that future generations are given a sound foundation to be able to address challenges and grasp new opportunities for the City.

It also means operating within a framework that assesses and tries to mitigate major risks and always strives to obtain value for money.

8.2 Levels of service, priorities and funding levels

The Council will review the levels of service to be provided within each activity at least every three years, and assets will be maintained to the standard needed to deliver the agreed levels of service.

Asset management plans will be maintained for all facilities and infrastructure, and these will contain information about asset condition and performance and any renewals required to keep them to the required standard.

A robust framework will be used to determine what expenditure should be undertaken. This framework includes:

- ensuring the expenditure will contribute to the Council's Vision for the future, including levels of service
- assessing the whole cost of any capital development over its expected life
- considering options for achieving the desired outcome.

The level of new capital expenditure that is considered sustainable will be governed by Council's ability to service and repay debt. This will be assessed against a series of prudent guidelines, which are outlined in section 9.5 of this Financial Strategy.

Council will set fees, charges and rates at levels that are sufficient to balance the Council's budget over the medium term.

The Council will aim to ensure that the total rates set each year are sufficient to cover net annual operating expenses (excluding depreciation). In addition, they will cover the projected three-year rolling average cost of renewals and a contribution towards repaying debt over the effective life of the assets (to a maximum of 30 years) funded from the borrowing.

8.3 Funding and financial policies

Grants, subsidies and capital contributions will be actively sought to minimise the impact of increased capital expenditure on City ratepayers.

Alternative funding arrangements including private/public partnerships, perhaps involving the use of Council owned land for development or Council leasing, rather than owning assets will be actively investigated.

The spending needed to service City growth will be funded by development contributions set according to the Development Contributions Policy and/or developer agreements.

Council may borrow to fund capital expenditure in the following circumstances:

- as an interim measure before development contributions for growth-related expenditure are received
- to spread the costs of major developments over the generations who will ultimately benefit
- to smooth the effects of capital expenditure
- where programmes will provide a positive net present value.

Council may also borrow in limited instances to fund operating expenses and then spread the cost over the period of the expected benefit – usually five to seven years. This is particularly the case for significant enterprise-wide information management systems.

To avoid the risk of Council's borrowing headroom being compromised the Council will actively consider the use of the special purpose funding vehicle tools available under the Funding and Financing Act.

Council will operate a corporate treasury function that will allocate the costs of servicing and repaying borrowings over the activities funded from borrowing. Renewals will be funded from subsidies and grants, rates revenue and, in certain circumstances (on an interim basis), from borrowing.

To foster the sense of a single community, Council will operate a common system of charging for services throughout the City.

To ensure all residents contribute to the cost of providing City services, charges will be set on a beneficiary-pays basis where practicable, with the rationale for each activity set out in the Revenue and Financing Policy.

To enable ratepayers to plan with certainty, Council will operate a stable, easily understood method of setting rates. The Council will aim to set rates in a way that is fair and equitable for all ratepayers and classes of ratepayer, and that is consistent with Council's strategic and district planning objectives.

9. What this means for 2024-34

9.1 Levels of service

The aim is to maintain the current services as a minimum. New environmental and building standards, changed expectations regarding modes of transport and forms of leisure, climate change and a range of other factors outlined in the Infrastructure Strategy led to pressure to improve levels of service for a number of activities. It has also been recognised that in a number of areas additional funding needs to be committed to ensure assets and service levels are properly maintained. The LTP includes progressively increased levels of funding to bridge this gap. Council believes that, subject to the significant forecasting assumptions, there will be sufficient revenue to fund the levels of service outlined. More information about each activity is provided in section x of this LTP.

9.2 Asset condition

Council has assets with a replacement value of more than $2.3 billion (mainly infrastructure like roads and pipe networks). It is committed to maintaining and renewing these in a responsible way so that they do not become run down. Recent assessments indicate an increased level of renewal expenditure is required to maintain asset condition.

Although much of the infrastructure is assumed to be in good condition, in recent times the roading network is showing signs of significant degradation and is the number one issue commented on in citizen surveys. Failure is in part due to the increased volume and size of the heavy trucks and the underlying weak clay soils. Additional focus is now being placed on obtaining better information about asset condition and utilising that information to plan asset maintenance and renewal in a more cost-effective way.

9.3 Sustainability of long-term funding

Through a better understanding of asset condition the Council is facing increased renewals costs especially for roading, property, three waters and information management. The LTP includes provision for a significant increase in renewal funding over the next five years.

Council's present approach is to fund the net cost of capital renewals from rates. The amount funded from rates in each year is calculated using a formula that averages the expected renewal expenditure in the current and next two years. Over the 10-year period of the Plan, forecast capital renewal expenditure totals $442 million and it is assumed that $92 million of this will be funded from external subsidies and grants, leaving a net sum of $350 million to be funded from rates. The Council's rolling average calculation formula achieves this aim.

The Council believes that, based on its current asset information, the amounts sought from current ratepayers are appropriate.

9.4 Level of capital development

As outlined in section 3, the Plan assumes there will be significant City growth over the 10 years and that the Council will need to provide infrastructure to support this. Council does not wish to constrain desirable City growth through a lack of key infrastructure, but in order to make the Plan affordable, future commitments will need to be reviewed regularly to ensure the proposed investment continues to support the Vision and Goals and is financially sustainable.

The largest single programme impacting on the Council's financial position is the requirement to upgrade the City's wastewater treatment and disposal system. More information about this is outlined in the Infrastructure Strategy and the Significant Forecasting Assumptions.

Council's resource consent to discharge treated wastewater from the treatment plant into the Manawatū River is due to expire in 2028. As part of the new consent process a review of the wastewater treatment and disposal options has been completed and a new consent application lodged.

For the purposes of the LTP it has been assumed obtaining the consent and implementing the solution will cost approximately $647 million (including inflation) over the 10 years of the Plan. It has also been assumed this will be funded through a Special Purpose Funding Vehicle under the Infrastructure Funding and Financing Act meaning the debt raised to fund the project will not be recorded in the Council's books. However, ratepayers will still need to service and repay the debt through what is termed an IFF levy. This is likely to be at least $1,000 per property p.a. over 30 years progressively implemented from about year 5.

The LTP assumes there will be total capital expenditure of $2.29 billion over the 10 year period comprising $442 million for capital renewals, $296 million for growth-related capital works and $1.56 billion for other new services and facilities.

9.5 Level of debt

Council needs to borrow to fund major new capital developments in the same way individuals do when they need a new home or car. To help decide the maximum level of borrowing that is sustainable, the Council has adopted the following policy limits (based on Council's core[2] financial statements):

BORROWING LIMITS	**POLICY MAXIMUM**	**FORECAST LEVEL AT 30 JUNE 2025**	**FORECAST MAXIMUM DURING 10 YEARS**	**FORECAST LEVEL AT 30 JUNE 2034**
Net external debt as a percentage of total assets	<20%	12.5%	18.2%	13.3%
Net external debt as a percentage of total revenue	<250%	169.8%	243.6%	205.6%
Net interest as a percentage of total revenue	<15%	8.2%	12.5%	10.8%
Net interest as a percentage of annual rates income	<20%	10.8%	15.5%	13.0%
Liquidity	>110%	114%	110%	110%

Total revenue is defined as income from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue, and excludes mark to market gains/losses on financial instruments, revaluations of assets and grants or development contributions for capital programmes.

Net external debt is defined as total external debt less liquid financial assets and liquid investments. External debt that is specifically borrowed for on-lending to a CCO/CCTO is netted (if consistent with LGFA covenant testing practice), with the corresponding loan asset)

[2] The Council has entered a funding agreement with Palmerston North Airport Ltd (PNAL) under which the Council raises fixed rate debt on behalf of PNAL and on-lends the sum at fixed rates. The sums on-lent are netted off the Council's gross debt and interest received is netted off interest paid by the Council.

Net interest is defined as all interest and financing costs (on external debt) less interest income for the relevant period.

Liquid financial assets are defined (for liquidity purposes) as overnight cash deposits, wholesale/retail bank term deposits no greater than 30 days and bank-issued RCDs less than 181 days. Funds on deposit in association with pre-funding activity is excluded from this definition.

Annual rates income is defined as the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 (including metered water charges).

Liquidity is defined as external debt plus committed, available bank facilities plus liquid financial assets (as defined above) divided by external debt.

The policy maximum for the net external debt as a percentage of total revenue ratio is 250% (raised from the previous level of 200%) in the previous financial strategy. This is less than the 280% level that has been set by the NZ Local Government Funding Agency for Council's with credit ratings but in the normal course of events is considered appropriate to enable Council to borrow the projected amounts needed for the proposed capital development programme.

The buffer between 250% and 280% is an important component of the mitigation strategy in the event the Council faces significant costs from uninsured events.

Budgets have assumed that as new loans are raised, provision will be made to repay them (on a table mortgage basis) over the average life (with a maximum of 30 years) of the asset being funded.

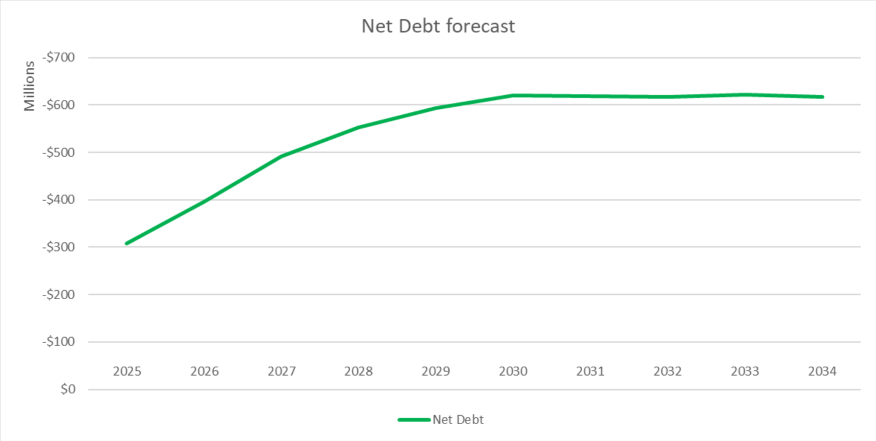
In recent years, the Council has generated operating surpluses (due in part to delays to the capital expenditure programme and the resulting savings in interest costs). As a matter of policy, Council has used these savings to repay debt early and to substitute for new debt.

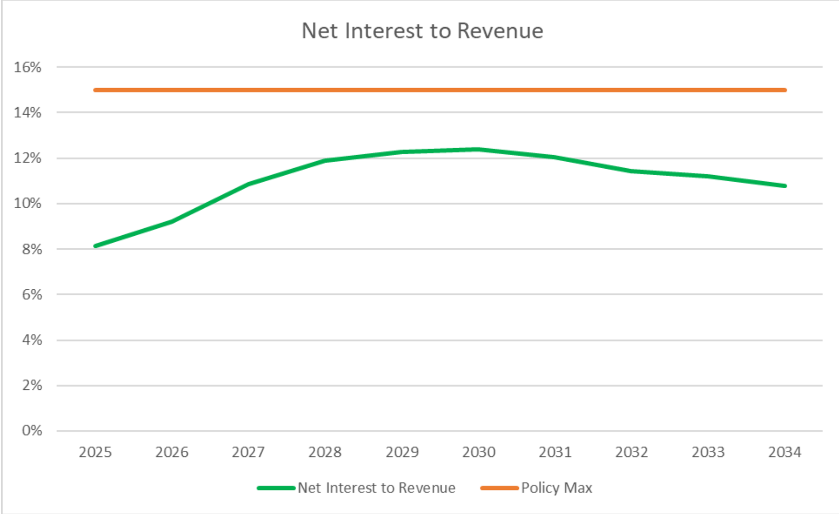
To ensure the Council is capable of living within its net debt/revenue ratio this LTP includes provision for accelerated debt repayments totaling $148 million from years 4-10. This also creates headroom for future generations by year 9.

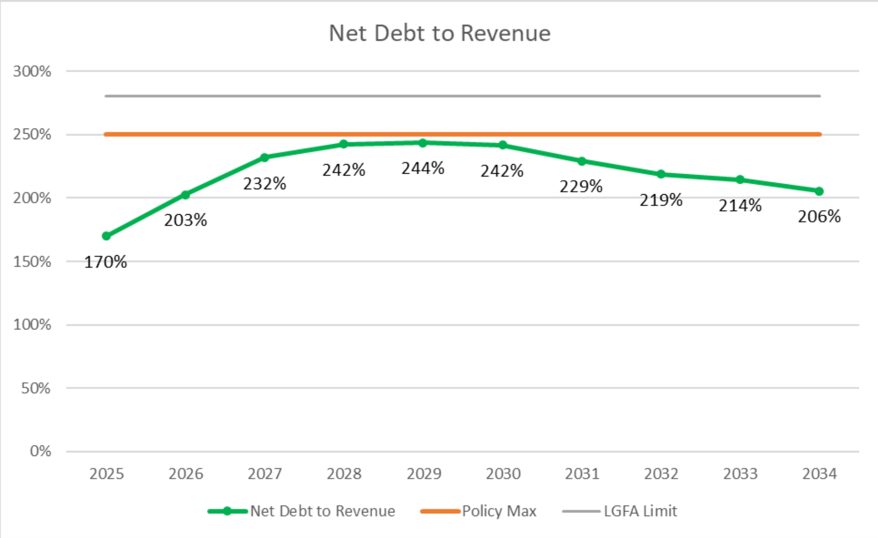
The combination of the debt repayment for present debt and the additional debt needed to fund new capital items means the following movements in the Council's debt levels are forecast over the 10-year period:

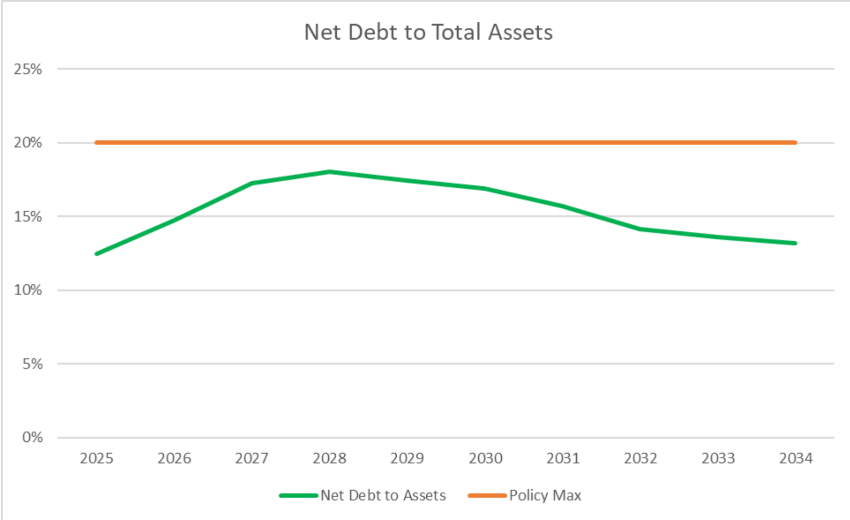
Forecast movement in debt ($m)	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**	**2032/33**	**2033/34**	**Total**
Planned expenditure on new capital items	59.6	119.3	124.4	204.8	185.7	189.1	233.9	183.3	141.2	111.9	1,553.1
Planned expenditure on growth capital items	12.3	13.2	29.7	25.5	35.2	49.2	46.0	38.8	18.4	27.9	296.4
Less external subsidies from NZTA	(10.0)	(17.1)	(25.3)	(24.1)	(16.6)	(16.0)	(17.5)	(19.7)	(29.2)	(34.3)	(209.9)
less grants (including PPP/IFF)	(5.5)	(2.3)	(2.0)	(29.8)	(29.8)	(30.0)	(30.6)	(0.1)	(0.2)	(0.2)	(130.7)
less Special Purpose Vehicle (SPV) funding (Nature Calls)	(5.0)	(6.2)	(6.3)	(85.4)	(90.1)	(100.8)	(156.4)	(118.4)	(54.4)	(24.7)	(647.7)
less developer agreement/PPP/IFF funding for Growth	(1.1)	(3.1)	(5.9)	(1.6)	(6.1)	(22.7)	(27.9)	(26.2)	(11.0)	(20.2)	(125.6)
less development contributions	(2.0)	(2.2)	(3.0)	(3.7)	(4.7)	(5.6)	(6.2)	(6.4)	(6.6)	(6.6)	(46.9)
less short-term funding from rates in advance of renewal expenditure	(1.6)	(1.8)	(2.5)	(0.5)	(3.3)	(2.2)	(0.4)	(0.3)	(0.6)	2.3	(10.9)
Additional debt required to fund new capital programmes	46.8	99.8	109.1	85.1	70.6	60.9	40.8	50.9	57.7	56.1	677.8
less debt repayment funded from rates	(7.7)	(9.6)	(12.4)	(20.2)	(26.9)	(30.5)	(39.2)	(49.7)	(53.5)	(59.5)	(309.3)
plus operating expenditure spread over life of investment	11.1	0.8	(1.5)	(3.3)	(3.4)	(3.4)	(3.5)	(2.2)	0.1	0.1	(5.3)
Additional debt required	50.2	90.9	95.2	61.6	40.3	27.0	(1.9)	(1.0)	4.3	(3.3)	363.3

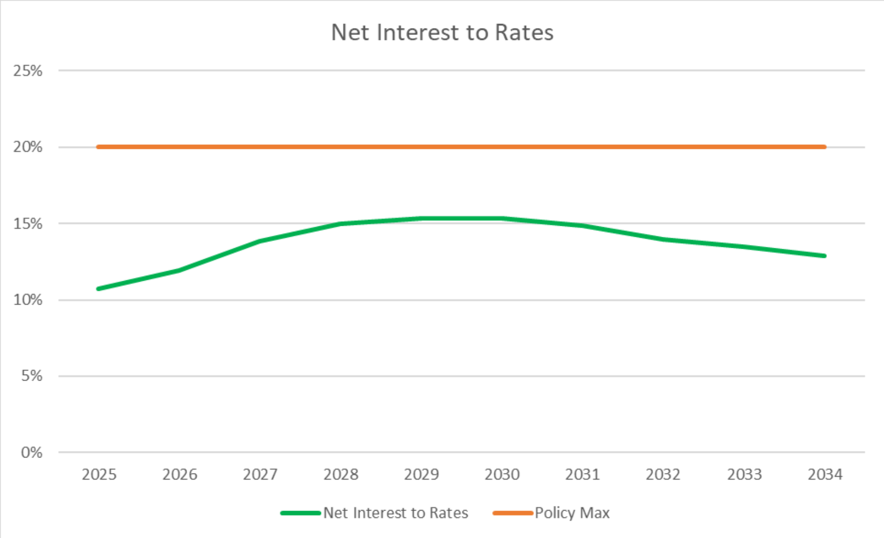
These movements result in Council's total debt increasing from $260 million to $623 million, as shown in the following graph:


Net Debt forecast
Millions
-$700
-$600
-$500
-$400
-$300
-$200
-$100
$0
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
Net Debt


Net Interest to Revenue
16%
14%
12%
10%
8%
6%
4%
2%
0%
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
Net Interest to Revenue
Policy Max


Net Debt to Revenue
300%
250%
200%
150%
100%
50%
0%
170%
203%
232%
242%
244%
242%
229%
219%
214%
206%
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
Net Debt to Revenue
Policy Max
LGFA Limit


Net Debt to Total Assets
25%
20%
15%
10%
5%
0%
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
Net Debt to Assets
Policy Max



9.6 Fees and charges for services

Council has developed policies for the proportion of costs of each activity to be paid by direct users of the service and by ratepayers. Where it is practical to identify the user, then the user will generally be expected to pay (for example, owners or developers pay for resource consents). In some cases, a subsidy from ratepayers is considered desirable so that a facility is affordable to all (for example, swimming pool entry charges do not cover the full cost). Some activities (such as civil defence) are funded entirely from rates because they benefit everyone.

Fees and charges will continue to be set at levels that are sufficient to fund the changing cost of services.

9.7 Rates

Rates will have to increase to fund the activities in the LTP.

The desire to keep rates increases as low as possible has to be balanced with the need to fund the maintenance and renewal of key City infrastructure. The need to plan for a higher level of debt repayment to be able to service debt from future high-priority capital programmes and ensure debt headroom capacity, also has to be considered.

Over the 10-year period, Council aims to limit rates as follows:

- Total rates[3] will increase by no more than the Local Government Cost Index (LGCI)[4]:
    - Plus additional rates obtained from growth[5] in the rating base
    - plus 2% (to fund costs of higher standards and new services)
    - plus increase in funding required for interest and debt repayment[6]

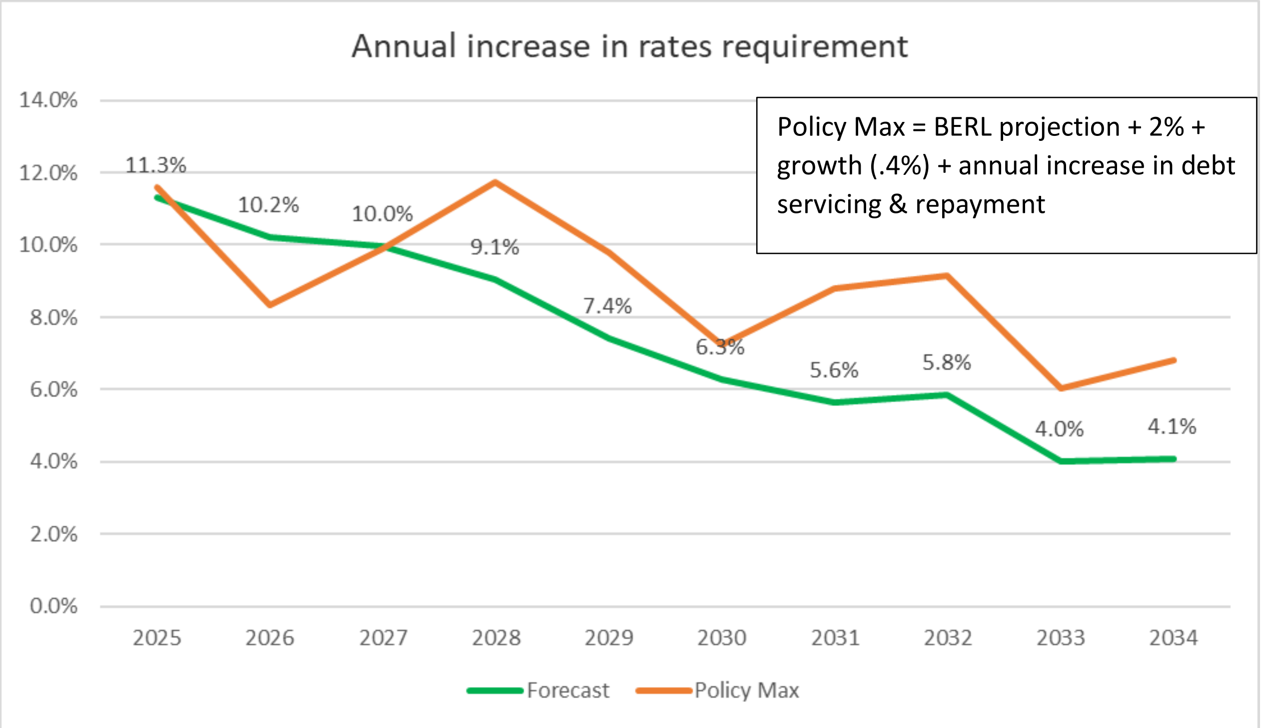
The proposed increases in total rates each year are shown in the following graph:

3 Total rates excludes rates on Council properties but includes metered water revenue.

4 LGCI is an overall cost index developed by Business and Economic Research Limited (BERL) for local authorities. It is based on the cost structures of local authorities and includes operating expenditure and capital expenditure variables. The forecast LGCI published by BERL in October 2023 was used in this Plan.

5 Assumed to be 0.4% each year

6 Assumed to be 6.3% for 2024/25 & 3.8% for 2025/26



Note – these increases do not include any IFF levies that may be charged to ratepayers to fund the nature Calls project

The actual increase in rates each year will be determined in the light of updated circumstances and the development of each Annual Plan.

Rates are made up of two parts, a fixed component that is the same for each property and a variable component based on the property value. For 2024/25, the fixed part ($1,217 for residential properties) is proposed to be made up of the following:

CHARGE TYPE	CHARGE	WHAT IT PAYS FOR
Water	$427	The cost of providing water
Wastewater	$384	The cost of treating and disposing of wastewater
Kerbside Recycling	$144	The cost of kerbside recycling
Rubbish & Public Recycling	$62	General rubbish and recycling costs, including transfer stations, cleaning up fly tipping, community education
General	$200	Contributes to paying for all other Council services and helps ensure all properties contribute a more equal share of cost rather than it all being based on the land value

The Council is proposing to introduce a new targeted rate for transport and economic development from 1 July 2024 and that it will be based on capital value differentiated depending on use made of the property. The general rate will continue to be based on the land value differentiated depending on use.

Commercial/industrial property is charged at a higher rate than residential property. Residential property is charged at a higher rate than rural/semi-serviced property.

Council is legally required to obtain updated rating valuations at least every three years. The values from 2021 will be used again in 2024/25 and the new values obtained in 2024 will be used for the three years from 2025/26.

More details about the rating system are shown in section x of this LTP.

Appendix One

Palmerston North now and over the next 10 years

Strategically located in the central southern North Island, the City is ideally located as a hub for a wide range of activities, including commercial, education, health, defence, logistics and recreational activities. This location, together with the strength of the surrounding agricultural sector, has enabled the City to grow at a steady pace over the last decade. The City is the major economic hub for the Manawatū–Whanganui region.

From 2006 to 2020, the population grew at an average rate of 0.8% a year. The COVID-19 pandemic put the brakes on population growth in the City between 2000 and 2022 with population growth stagnating over the two-year period. The removal of border restrictions in 2022, and strong demand for labour, fuelled strong growth in the City with population increasing by 1.7% (+1,500) over the year. At June 2023, Palmerston North's population was estimated to be 91,800.

The Council has developed hybrid population and household growth projections that reflect a higher population growth scenario between 2022-2024 due to elevated net international migration. and recovering labour force conditions. Over the medium to long term, economic and demographic change that will impact on population and household growth are reflected in the projections as well as the assumption that net international migration will return to its long term trend of 30,000 people per year over time.

The Statistics New Zealand high growth scenario was used as a starting point for the projections with the Infometrics medium growth rates overlaid from the 2025 year onwards. The additional margins required by the National Policy Statement for Urban Development have been added to the household projections to reflect the level of growth Council is required to plan for. The projections indicate a slightly weaker growth scenario than the previous 10 Year Plan, assuming that the population will grow at an average rate of 1.1% from 2024 to 2034 (1,055 people a year). Households are also expected to grow at 1.1% (399) annually over the same period.

Projected growth in the economy will lead to more industrial, commercial and residential development, all of which require additional infrastructural capacity. Council's main role is to make sure land and infrastructure are available to accommodate growth and provide market choice, while responding to changing demographics. Council continues its focus on ensuring the district planning framework clearly shows where future growth of the City should occur, how basic infrastructure will be provided and how it will be funded. Recent District Plan updates enable a wider range of housing choice in urban areas, with more intensive development making use of existing infrastructure.

Housing growth in the city hit record levels in July 2020, with annual consents peaking at 572. Consent numbers eased as a result of weakening housing market conditions and higher interest rates from 2021 to 2023 but continue to be elevated from an historical perspective. An additional 496 housing units are also planned to be built by Kainga ora over the next four years to provide for public housing needs in the City. Strong net migration into Palmerston North, high levels of public investment and easing financial conditions is expected to drive population and household growth in Palmerston North over the 10 years to 2034.

Significant capacity is proposed to be rezoned and serviced over the first three years of the LTP. More detail about this can be found in the Infrastructure Strategy and Future Development Strategy.

The LTP makes provision for network and community infrastructure at Whakarongo, Napier Road and Matangi to support new greenfield housing, and for developing Council-owned land (Tamakuku Terrace) in the area. Provision has been made for servicing land in the first stage (Kikiwhenua) of Kakatangiata (formerly known as City West).

Limited greenfields capacity remains in Aokautere and there are other greenfields pockets that provide opportunities for development without the need for substantial infrastructure investment. Significant capacity exists within the existing urban area for infill, housing intensification and repurposing of sites (Roxburgh Crescent and Hokowhitu Lagoon).

Adequate land is available for office and retail activities in the central city and nearby business zones, with industrial development capacity in the City's north-east and at Longburn. Further large floor plate industrial capacity (Te Utanganui) is planned for the north-east in the medium to long term and additional industrial land for small to medium scale industrial development is required in the short term. KiwiRail has an approved designation of land in the north east industrial area as a rail hub. The proposed development will not draw significant demand on water and wastewater infrastructure but will have a significant impact on transport infrastructure in the area and will place greater emphasis on the need for a regional freight ring road.

Owners of private infrastructure at Longburn are assessing options to upgrade it to the standards necessary for it to be vested in the Council. This may involve the Council undertaking some works itself to enable development and seek to recoup costs through development contributions or some other means.

The City has a uniquely diverse community, with a prominent defence workforce, large numbers of young and transient tertiary students, and a strong connection to the wider Manawatū area. The population is relatively young, with a median age of 34.9. This is 3.2 years younger than the national median age. The fastest growing group is people aged over 65.

Palmerston North is also becoming increasingly ethnically diverse. Along with the City's changing age and ethnic profile, there has been a change in household composition. The number of people per household is expected to stay above 2.6 in the City due to an increase in the number of multigenerational households and Māori and Pacifica families. At the same time, the ageing population is driving an increase in the number of one-person households in Palmerston North. The changing nature of the community needs to be considered when determining infrastructure investment.

Appendix Two

The costs of providing for growth

As a consequence of anticipated growth in population and changes in land use, Council will incur significant new capital expenditure and operating costs. For each activity, the LTP identifies the specific capital expenditure programmes it is anticipating will be required. Any operating costs associated with the programmes are incorporated in the operating budgets. These are summarised in the following table:

ACTIVITY GROUP	GROWTH-RELATED CAPITAL EXPENDITURE FOR 10 YEARS (EXCLUDING RENEWALS) ($000)	ADDITIONAL OPERATING COSTS ASSOCIATED WITH GROWTH-RELATED EXPENDITURE (INCLUDES DEPRECIATION & INTEREST ON BORROWING) ($000)
Creative & Exciting City	22,534	3,780
Stormwater	65.782	11,964
Transport	106,775	18,302
Wastewater	36,925	4,516
Water	64,402	11,044
TOTAL	**$296,418**	**$49,606**

The Council's Revenue and Financing Policy outlines how expenditure and operating costs are to be funded for each activity. The Development Contributions Policy outlines how capital expenditure incurred for growth-related network and community infrastructure will be funded, and what proportion of the costs will be funded from development contributions assessed on development. It has been assumed that growth-related capital expenditure will amount to $149 million over the 10-year period and that revenue from development contributions will amount to $47 million over that time. The Council will try not to commit expenditure for growth too far in advance of when the infrastructure is needed. The level of development contribution revenue received will depend on the actual timing of development. The revenue forecast represents our best assessment of timing for the associated growth, and is consistent with our overall growth forecasts.

Appendix Three
Looking after existing infrastructure

In fulfilling its responsibilities as a local authority, Council is legally required to provide residents with the key components of a city's infrastructure. The level of service in each case depends on a combination of factors, including Council's assessment of what the community wants and is prepared to pay for, the standards imposed by law, and resource consent conditions.

The Council's assessment of what the community wants is determined in a number of ways, including feedback from the LTP and Annual Plan processes, obtaining residents' views and consulting from time to time about specific issues.

To help plan and manage its large investment in City infrastructure, Council has an overall 30 Year Infrastructure Strategy and detailed asset management plans for each activity that are continuously reviewed and updated at least each three years. Once the Council has committed to deliver a particular level of service for an activity, it must ensure that assets are appropriately maintained and renewed and that sufficient funding is available for this to occur.

The LTP incorporates the following provisions for renewal of network infrastructure:

	TOTAL CAPITAL RENEWAL EXPENDITURE FOR 10 YEARS ($000)
Sustainable & Resilient City	6,484
Stormwater	3,997
Transport	155,590
Wastewater	60,958
Water Supply	73,518
TOTAL	**$300,548**

As part of the Council's Funding Policy, capital renewal expenditure is funded directly from rates. The amount funded from rates in each year is currently calculated using a formula that averages the expected renewals expenditure in the current and next two years. Capital renewal expenditure is determined from Council's Asset Management Plans. Council reviews longer-term capital renewal expenditure to assess whether the three-year average capital renewal funding is sustainable over the following 20 years. The forecast average level of renewals to be funded from rates will increase from $27.7 million in 2023/24 to $28.7 million in 2024/25, $31 million in 2025/26, $32.3 million in 2026/27 and between $34.5 million and $40.9 million each year after that. This increase will impact on the total rates requirement and place restraints on other expenditure if Council is to live within its guidelines for the maximum percentage increase in total rates.

Appendix Four
Policy on giving securities for borrowing

The security for Council debt will be the ability to levy rates. The Council will use Debenture Trust Deed security documents and appoint a professional trustee.

Council will undertake a portion of its borrowing through the New Zealand Local Government Funding Agency, and has provided guarantees to the Agency and cross-guarantees in favour of other local authorities who borrow through the Agency.

In unusual circumstances, with prior Council approval, a specific charge may be given over one or more Council assets. Physical assets will be pledged only when:
- there is a direct relationship between the debt and the asset purchase/construction, such as an operating lease or project finance; and/or
- Council considers a pledge of physical assets to be appropriate.

Any pledging of physical assets must meet the terms and conditions of the Debenture Trust Deed and Local Government Act 2002 (which prevents water service assets from being used as security for any purpose).

Appendix Five
Financial investments and equity securities

Financial investments

The Council has no plans to undertake new investments in long-term financial instruments.

As a net borrower, Council will seldom have funds to invest but it may invest to:
- meet statutory obligations by funding certain reserves
- match retentions held 'in trust' for the benefit of contractors under the Construction Contracts Act 2002
- manage short- or medium-term cash surpluses
- maintain operating cash levels
- pre-fund refinancing of maturing debt.

Any such investments will be held in a form consistent with the anticipated funding requirement. For short-term investments, generally held for liquidity management purposes, investments are held for up to three months in the form of call deposits or negotiable instruments (that is, cash or cash equivalents) with registered banks. For investments held for periods beyond three months, government securities, LGFA or other strongly rated securities will be held.

Equity securities

The Council currently maintains equity securities in the following entities:

ENTITY	CATEGORY OF BUSINESS	REASON FOR HOLDING	% OF SHAREHOLDING
Palmerston North Airport Limited (PNAL)	Owns and operates Palmerston North Airport	To ensure the City has an appropriate air gateway for passengers and freight	100%
Central Economic Development Agency Limited	Provides economic development services for the Council and Manawatū	To ensure there is an appropriate entity to help create and grow economic wealth in the	50%

ENTITY	CATEGORY OF BUSINESS	REASON FOR HOLDING	% OF SHAREHOLDING
(CEDA)	District Council	Manawatū and beyond	
Civic Financial Services Limited (CFSL)	Provides a range of risk management products for New Zealand local government	To ensure there is appropriate insurance cover for local government if the private market fails to provide the desired cover	3%
New Zealand Local Government Funding Agency (LGFA)	Provides long-term funding to local government	To help give access to cost-effective long-term funding	0.4%

Shareholder expectations for these entities are set out in the Statements of Intent prepared each year. Although Council expects these entities to operate in a business-like manner, it does not expect high financial returns as the principal reason for the investment is to achieve strategic objectives.

Present performance targets for these entities are shown in the following table:

ENTITY & RATIOS	TARGET
Palmerston North Airport Ltd (for 2024/25)	
Net surplus before interest/tax/revaluations to total assets Net surplus after interest/tax to consolidated shareholders' funds Maintain ratio of shareholders' fund to total assets > 40% Interest cover (net surplus before interest and tax to interest)>=2.5 Maintain a net tangible worth>$50m Maintain a customer satisfaction Net Promoter Score >=50 Passenger throughput p.a. CAA part 139 certification Lost time injuries to those who work within airport community Company roadmap to carbon neutrality Emission reduction targets	Yet to be confirmed
Central Economic Development Agency Ltd	
No specific financial targets	

Civic Financial Services Ltd and **NZ Local Government Funding Agency**
No specific targets

Further capital investments in these entities will only be considered to achieve stated strategic objectives and by specific Council resolution. Sale of the investments would also require a specific resolution of Council and be subject to the requirements of the Local Government Act 2002.

It is expected that any other equity investments held by Council in future would only be as a result of a gift, through a restructuring of Council or to enable Council to participate in a central government or regional initiative to provide a key infrastructural activity. From time to time, Council will establish 'shelf' companies to be able to respond appropriately to any opportunities that arise.

10 Year Plan at a Glance **Area of Spend**	**2024-34** **Capital Expenditure** 2,291,083	**2024-34** **Expenses** 2,484,468	**How operating expenses are funded**		**For every $100 of rates this much goes on this activity**
An innovative and growing city	77,255	344,685	Rates 41%	Other 59%	$10
Transport	638,814	480,568	Rates 59%	Other 41%	$16
A creative and exciting city	291,102	512,378	Rates 89%	Other 11	$22
A connected and safe community	61,353	340,033	Rates 91%	Other 9%	$15
A sustainable and resilient city	51,277	191,171	Rates 52%	Other 48%	$7
Water	214,778	181,337	Rates 100%	Other	$12
Wastewater	787,983	234,441	Rates 94%	Other 6	$11
Stormwater	121,549	97,179	Rates 100%	Other	$4
Supporting the Organisation	46,972	102,676	Rates 15%	Other 85%	$3
TOTAL	**2,291,083**	**2,484,468**			