Napier City Council

FINANCIAL STRATEGY

Supporting Document for LTP 2018-28

NAPIER CITY COUNCIL
Te Kaunihera o Ahuriri

CONTENTS

PURPOSE OF THE FINANCIAL STRATEGY

This strategy outlines the Council's financial vision for the next 10–30 years and the impacts on rates, debt, levels of service and investments. It will guide the Council's future funding decisions and, along with the infrastructure strategy, informs the capital and operational spending for the Long Term Plan 2018-2028 (LTP).

EXECUTIVE SUMMARY - THE NAPIER STORY

Focusing on our Infrastructure and Sustainability

Napier City has a history of conservative financial management with low rates and debt levels. This means Council starts this LTP in a very strong financial position relative to most other councils.

We are a coastal city that is subject to the threat of natural disaster. We remember well the impact of the 1931 earthquake on our city and are conscious that much of our land is low lying and subject to the dual threats of rising sea levels and tsunami. Part of our strategy therefore needs to be making sure we retain the financial strength to respond to any potential natural disaster.

Our pre engagement has told us that our public want us to continue to focus on our infrastructure, particularly in the three waters area. Additional capital works are needed on our Water Supply network in response to the Havelock North Water Inquiry while the main theme in our 30 year infrastructure strategy is one of improving the quality of our asset data to ensure we are spending on the right assets at the right time.

In addition Council proposes four new major projects. Council proposes to upgrade or replace its Onekawa aquatic facilities (potentially at a new site), expand the National Aquarium of NZ, commence work on the Ahuriri Master Plan and to provide for a new library (subject to options analysis on location).

Our programme of capital work as a result will require an increased level of debt from the past, however, we will continue to do this is a manner that is both prudent and sustainable whilst ensuring that we have the capacity and resources available to deliver this affordability to our ratepayers in the long term.

We know that our revenues need to be sufficient to fund these expenditure requirements in a manner that maintains our strong financial position and the flexibility it gives us to respond to any unforeseen events. This means running a balanced budget, ensuring we generate sufficient revenue to match our annual operating expenditure.

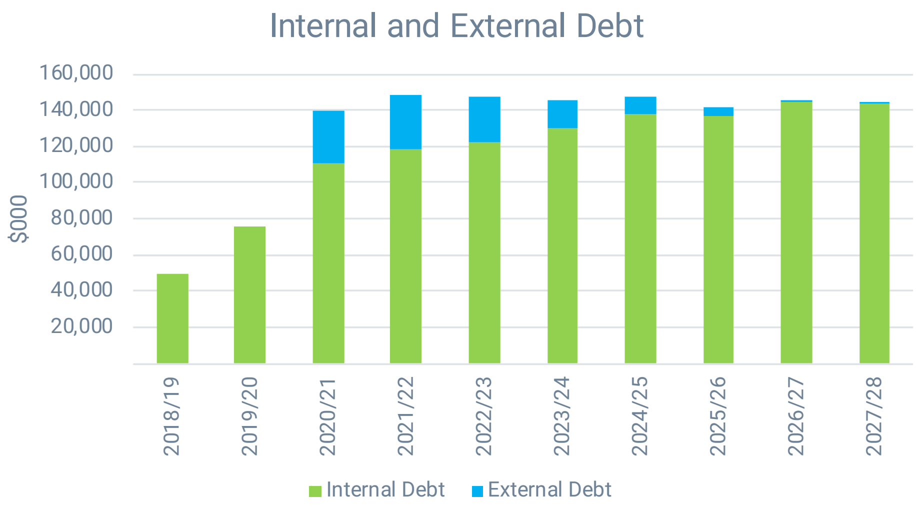
We have been able to generate significant revenues from our Parklands residential subdivision activities and this has enabled Council to invest in a number of projects to improve the vibrancy and livability of our great city. During the term of this LTP these revenues will cease and part of our strategy is to reinvest some of these revenues to provide another ongoing source of revenue for the city.

Currently Napier City Council has no external debt, with all debt funded internally. This has been a deliberate strategy as a result of:

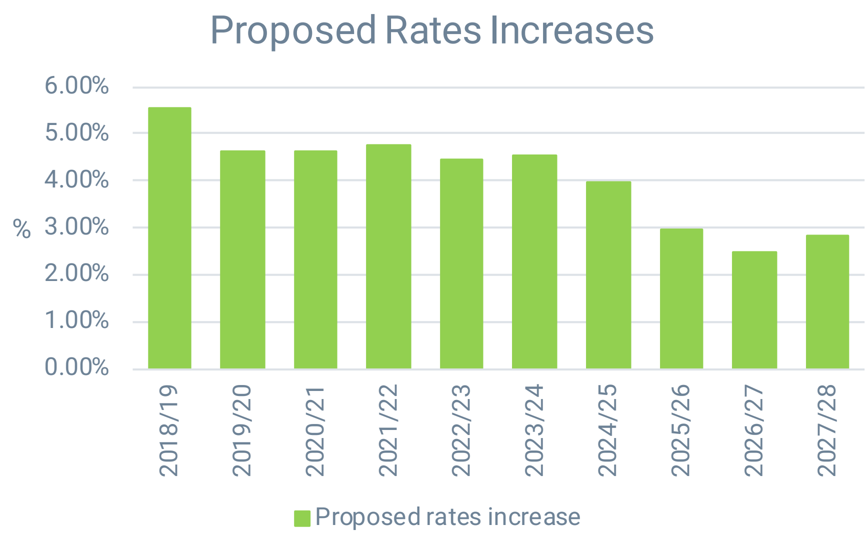
- Cash and investments accumulated for the replacement of existing assets or acquisition of new assets
- Leasehold land and accumulated surpluses
- Land available for sale (Parklands residential) and accumulated surpluses

As a result of the proposed investments in improved community assets in this LTP, Council will need to borrow some funds externally (peaking at $30m and then reducing so Council is in a positive cash position by the end of the 10 years.) Increased levels of debt are driven by increasing the overall capital expenditure programme mainly due to:

- Additional infrastructure spend due to legislative changes regarding the management and treatment of the three waters and ensuring the networks are well maintained (water, stormwater and sewerage)
- Enabling Council to fund major projects to upgrade and expand its Aquatic facilities and the National Aquarium of NZ and Ahuriri Master Plan programme of work and Library.
- Although the Council buildings have been deemed earthquake prone, a business case has been developed to further explore the best option on the building options (undertake ourselves, take out lease, operate a BOOT model, **b**uy **o**wn **o**perate **t**ransfer). For this reason the LTP provides for ongoing operating costs only (equal to the equivalent capital project), and not any provision for a capital project at this time. The net rate impact on all options has been reflected.



Napier has consistently had some of the lowest residential rates in New Zealand. A rate increase of 5.6% is proposed in year one of the LTP (2018/19). These increases are required to ensure council continues to run a balanced budget, when capital revenues and one-off revenue sources are excluded. This will also ensure council continues to maintain a strong financial position and future ratepayers are not asked to pay more than their fair share.



EXECUTIVE SUMMARY

Council has set out its key financial goals that drive the budgets of the LTP 2018-2028. Key goals include:

- To limit the total external debt to 100% of our annual revenues
- To limit increases in rates to a maximum of LGCI + 5% per annum;
- To limit Interest to Revenue at < 10%
- To balance our budget each year by ensuring we are fully funding the wearing out of assets over their lifetime (funding depreciation) and have this embedded into our processes.
- To ensure there are sufficient funds or borrowing capacity available to fund the planned capital programme (i.e. provide essential infrastructure and services) and to allow for any unforeseen events;
- To ensure the costs of providing the growth component of infrastructure are paid by those that benefit from it (i.e. the growth component of capital projects will be primarily funded through development and financial contributions).
- To manage the size and scale of new community facilities in a way that ensures Council continues to retain sufficient financial capacity going forward;
- To identify a new long-term investment, to be funded from the revenues received from the Parklands residential development, to provide an ongoing revenue stream that maximizes its potential return for Council both in the short term and long term. Council will continue to review options for future revenue generation and will consult with the public as required. $30m has been identified for future revenue generation opportunities.
- To review Council assets and investments for potential sale to reduce debt, replace with higher yielding investments or fund key projects;
- To sell properties from its leasehold land portfolio that Council has determined to be non-strategic when they can be replaced with similar yield investments.
- To increase the Council's income by seeking better performance from the Council's commercial investments and activities

Population growth and an ageing population, land use change, changing legislation, natural hazards, and Infrastructure expenditure demands are just some of the matters that have been considered in developing this financial strategy.

The strategy dovetails with the Council's infrastructure strategy, growth strategy, activity management plans and other financial policies. The goals and limits in this strategy helped inform the financial decisions in the LTP 2018-2028.

1. INTRODUCTION: What is a Financial Strategy

A Financial Strategy explains the particular principles that a Council applies in determining how it manages the city's finances on behalf of ratepayers.

The financial strategy is specific to each organisation however it also must show how Council is meeting its legal requirements and how the financial decisions will impact on the current and future ratepayers.

Napier's financial strategy focuses on ensuring the Council's city vision and objectives are being met in a prudent and sustainable way, while acknowledging that this will require increasing debt levels and rates in order to achieve them.

Councils have a legislative requirement to plan for a balanced budget. This means that Council should generate sufficient revenues each year to fund all operational expenditure. Operational expenditure includes the annual costs to run the city. This includes the cash spent to physically operate and maintain facilities and services plus the annual charge that represents the consumption of assets (depreciation).

The strategy outlines the approach Council plans to take to manage the day to day operations and plan for the financial challenges facing the City, and Council's responses to these challenges. It also sets out its financial goals that have been used to guide decisions in the LTP 2018-2028. In developing the strategy for the 10 year plan council also must consider the future impacts and challenges outlined in its 30 year infrastructure strategy. The infrastructure strategy details the capital and operational budgets and specific projects in the areas of transportation and roads, water supply, stormwater, wastewater, and building requirements.

In particular this strategy looks at the strategic issues affecting Council's financial planning, including the impacts of:

- An increasing asset base and the long term funding requirements of the city – what are our long-term asset renewal requirements and how much should we collect now (annual consumption or depreciation charge)
- How we allocate funds collected and how we fund our often lumpy capital expenditure requirements
- How we will fund major projects and respond to specific known challenges such as
- Water supply and regulation changes
- Major $40m upgrade to the city's aquatic facilities
- Matariki REDS Strategic objectives – Aquarium expansion. A Council contribution of $10 million towards a $51m upgrade (not inflated)
- Civic and Library building upgrade/replacement
- Increasing infrastructure demands for operational and capital investment;
- Ahuriri Master Plan
- Keeping rates increases affordable
- A growing city – additional expenditure demands from an increasing population and an expanding urban footprint.

Both the Financial Strategy and 30-year Infrastructure Strategy feed into the LTP 2018-2028. These documents are available to view or download from Council's website, napier.govt.nz. Alternatively, you can view them at any Council office or library.

The Council's Financial Management Responsibilities

PRUDENCE and SUSTAINABILITY
Council will manage its finances prudently and in a way that promotes the current and future interests of the community.

FINANCIAL STRATEGY
The Council's Financial Strategy informs and guides the assessment of funding and expenditure proposals.

INFRASTRUCTURE STRATEGY

FUNDING and FINANCIAL POLICIES
Council adopts a set of funding and financial policies to provide predictability and certainty for the sources and levels of funding.

BALANCED BUDGET REQUIREMENT
Unless it is prudent not to, operating revenues will be set at a level that meets operating expenditure.

2. OUR APPROACH: Proposed Limits and Infrastructure Spend

The following outlines our approach, considers the specific strategic issues affecting Napier City Council and sets specific targets and limits.

2.1 Income

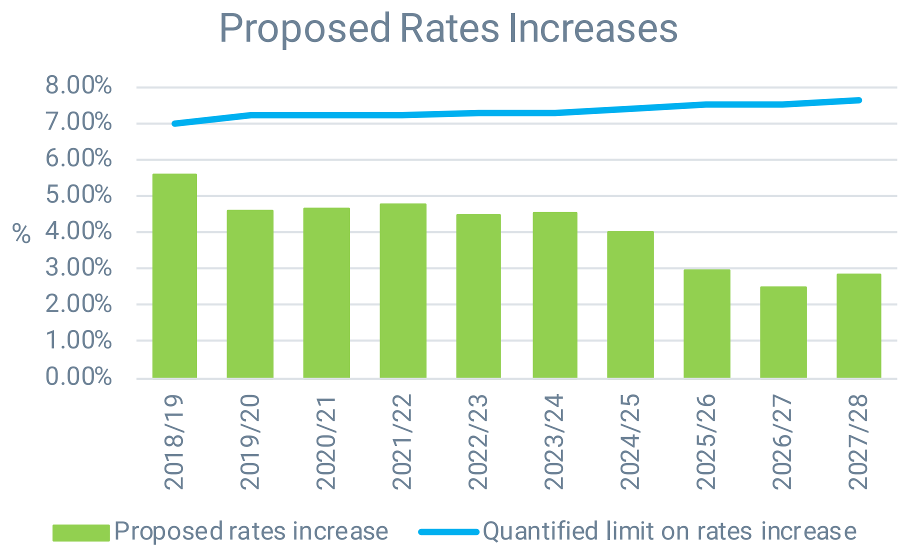
2.1.1 Rates

Rate revenue is the primary source of funding for Council activities making up more than 50% of our total revenues. Our annual rates requirement is allocated between different groups of ratepayers based on our Revenue and Financing Policy as outlined in this plan.

Each year we determine the amount we need to collect from rates by looking at our expenditure requirements and how much we are able to fund from other non-rates sources. When we determine how much we need to collect we consider the impact on the ratepayers we have today and on our future ratepayers (often referred to as intergenerational equity). The idea is that each year the ratepayers at that time should pay for the cost of all services delivered and all assets consumed during that year. We need to be able to clearly articulate whether we are collecting too much or not enough and why. Sometimes we may propose to soften the impact of any sudden cost increases and also we may propose to soften the impact of future increases by collecting additional funds in advance.

We are aware that affordability is a critical issue for our community and for many years we had an underlying philosophy of aligning rate increases to the annual CPI movement. When determining the proposed increase in rates we now compare our cost increases to a specific basket of costs that reflects the increased costs that relate to local government (referred to as the LGCI or Local Government Cost index).

While we expect to continue to have comparatively low levels of residential rates additional investment is required and this will mean that additional rate increases are needed. An average rates increase of 5.6% is proposed in year one of the LTP (2018/19). The increases for future years are more moderate however rates will need to increase by a greater amount than the rate of inflation applied to local Government costs. For this LTP, Council has set an upper limit for rate increases of the LGCI plus 5%. The total rates income is capped at $111m.



2.1.2 Other Specific Income Strategies

2.1.2.1 Review Fees and Charges

The Council's preference is to recover costs that provide private benefits to members of the public or specific organisations through user fees and charges. These fees and charges are reviewed regularly, and normally adjusted for inflation and increases in costs. During the first three years of the LTP the Council will be reviewing a range of fees and charges as part of its Revenue and Financing Policy review. There has been no additional income included in the forecasts from this review.

2.1.2.2 Review Council Assets for Potential Sale

During the first three years of the LTP (2018-2028), the Council will review the Council's assets and investments, to determine which may be surplus and suitable for sale. The Council's preference is to use proceeds from asset sales to reduce debt or purchase new assets, rather than offset operational expenditure.

To be considered for disposal, assets would need to be low performing, and the overall impact of the asset sale must be to reduce interest costs by more than the level of lost income from these assets. For example, if $2 million was earned from leasehold land investments, this would be taken into account when calculating the value. Following the review of assets, any proposed sale and intended use of proceeds from the Council's strategic assets would be discussed with the community prior to making a final decision. There has been no income included in the forecasts from these potential asset sales.

As part of Councils review of potential surplus assets during 2017/18, the Ahuriri Bowling club was approved to go out for tender. Funding has been provided for community projects in the LTP as a result of this sale.

Council has initiated a review of its Community Housing portfolio as the current stock will not be fit for purpose in the long term. Council will undertake further consultation regarding the portfolio in the near future once a business case has been developed and approved.

2.1.2.3 Increase Income from Council Owned Commercial Assets and Community Housing

The Council has a number of commercial and semi-commercial assets such as Kennedy Park, Par2 Golf, National Aquarium, and the Napier Conference Centre and some of its Housing portfolio. The Council has recently appointed a Visitor Experience Manager in order to improve the Council's return from its investments. This manager is ensuring that commercial disciplines are applied in managing these investments. A series of new activity management plans have been prepared for the LTP 2018-2028.

The Council intends to review the charging regime for its commercial assets, and will ensure charges fairly represent costs and a return on investment. The Council also intends to provide a greater level of re-investment in commercial assets to ensure their ongoing commercial viability. Planned reinvestments in commercial assets have been included in the financial forecasts along with known increases in fees and charges.

Another option to increase income is to set community housing rents closer to market levels, to partner with external organization (CHPS) or to sell its housing portfolio. Any such significant change would need to be phased in over time.

2.1.2.3 Investigate Accommodation Levy

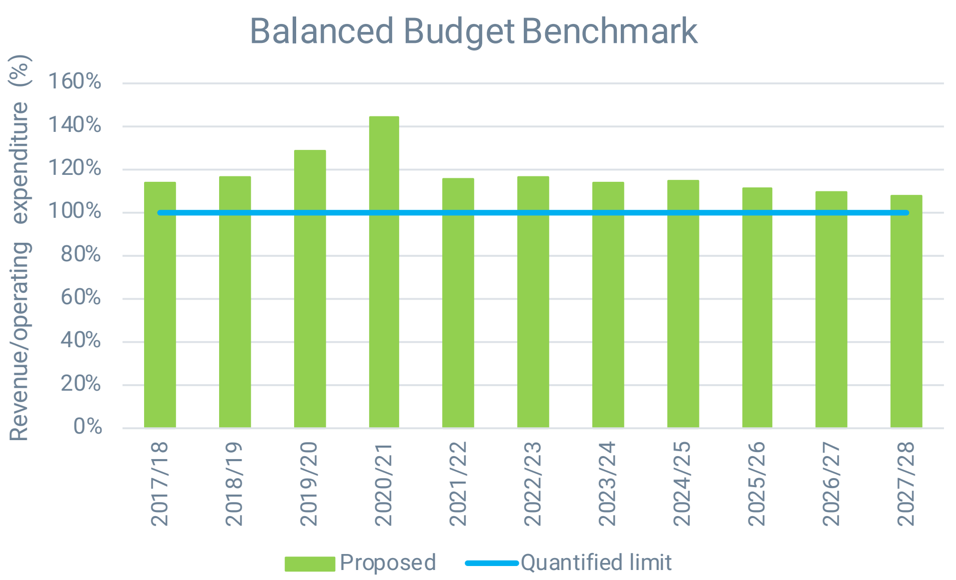
We will continue to explore non rates funded income opportunities, including an accommodation levy to assist with funding for tourism infrastructure requirements. This will be investigated during the LTP with further consultation to occur when this has been scoped and developed

2.2 How we balance our budget

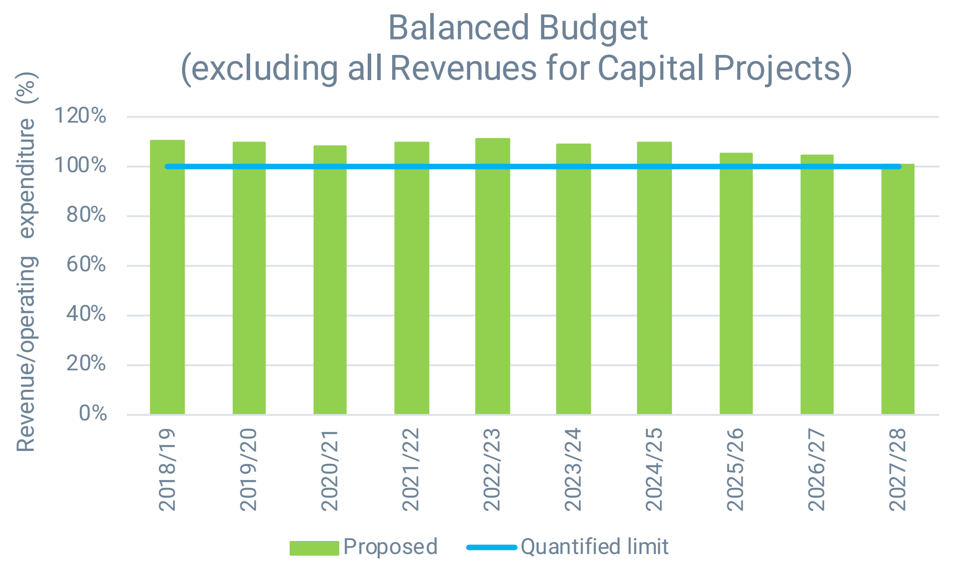
Each year we must collect sufficient revenues to meet our operating expenditure requirements (referred to as the balanced budget requirement). This includes all of our "cash" expenses such as pay staff and suppliers who delivers services to the community. In addition is also includes an annual charge for depreciation which represents the consumption of our assets during the year. The cash we collect from the annual depreciation charge is then used to fund expenditure on the replacement (renewal) of our assets and, when our asset renewal expenditure is lower than the annual depreciation cost we will repay debt or fund new asset purchases. Then, in years when we have greater asset renewal requirements, we will have the financial capacity to fund the expenditure so any "lumpy" asset renewal requirements will not directly impact on rates.

This represents a change to the approach outlined in the last LTP however it has not increased the amount we need to collect from rates. Council has been budgeting for a balanced budget in previous years, so we have been funding all depreciation each year. This new approach represents a more disciplined approach to making sure we meet our legal obligations and are charging today's ratepayers the correct amount.

The following graph shows how we are meeting the balanced budget requirements as set out in the Local Government Act.



To ensure we are collecting the correct amount for our current ratepayers each year we have developed an alternative benchmark where we remove all one-off revenues sourced to fund new capital projects. We have excluded all NZTA subsidies for roads and have also excluded 51% of the annual depreciation expense for those Road assets where we can expect to receive an NZTA subsidy of 51%.



This graph shows a much smoother profile and it shows that, in the later years of the LTP when we will no longer be receiving revenue from our Parklands residential subdivision activities, we are only just collecting enough from our current ratepayers.

2.3 Expenditure

Council's annual expenditure requirements are the key driver of rate increases for our community. As the city grows and acquires new assets, the annual cost of operating the city grows. The Council is committed to ensuring delivery of these services in a cost effective and efficient manner, and we have set a target for each year in the plan. This will be achieved by internal service delivery reviews, and improvements in technology to support the business for efficiently.

2. OUR APPROACH, OUR PROPOSED LIMITS AND INFRASTRUCTURE SPEND

While Council will operate with a balanced budget and will generate sufficient revenues to be able to fund all depreciation each year, Council still has discretion in determining how it will fund the renewal of its assets. The current approach will continue, where community assets considered as non-critical /essential nature, and this will be managed and funded as part of the City's Building Asset Management Plans. Council will continue to maintain these assets at a sufficient level on an ongoing basis. Any decision to replace these assets will be made at the time in consultation with the community. A mixture of loans, reserves and community funding could fund the cost of replacement. Assets identified as non-critical/ essential include: Rodney Green Centennial Events Centre, McLean Park, Napier Municipal Theatre, War Memorial Conference Centre, and other halls, tourism assets (Napier i-SITE Visitor Centre, Par 2 MiniGolf, National Aquarium of NZ) and MTG Hawke's Bay.

2.4 Debt

As at June 2017, Napier City Council has no external debt. As a result of an increased capital investment programme Council expects to peak with external debt at $30m during 2020/21 and no external debt again by 2026/27.

As a result of moving to external debt, Council has changed its debt limits to follow best practice and focus on Council's exposure to funds raised externally.

Consistent with Council's treasury policy Council will also adhere to the following debt limits:

Net external debt as a percentage of total income will not exceed 100%

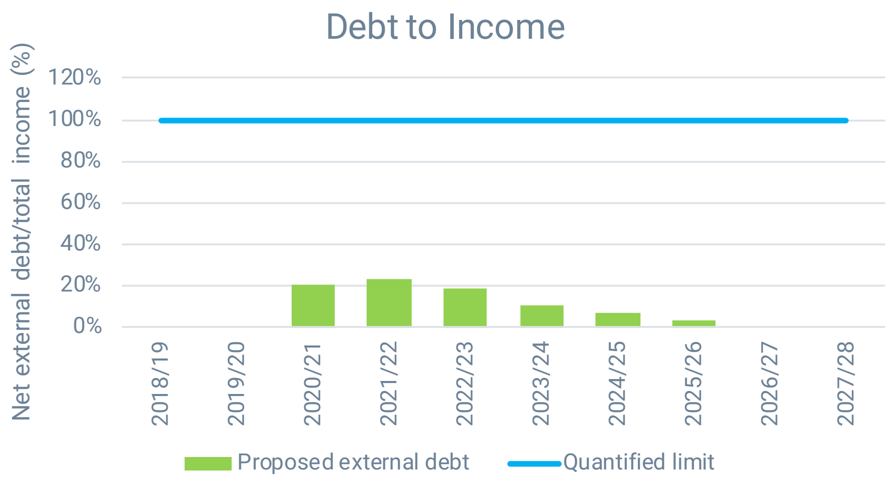
Net interest expense on external debt to total income will not exceed 10% (Industry standard ratio)

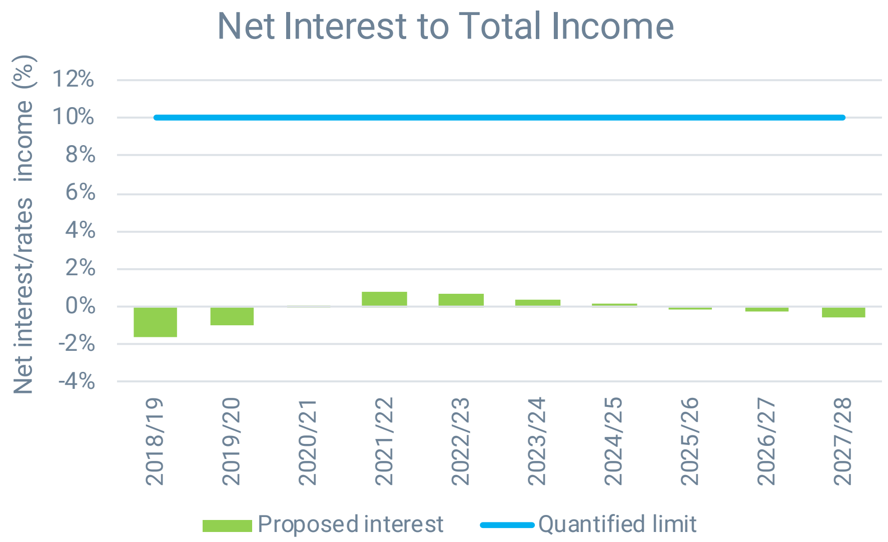
Liquidity to external debt must be at least 110%

To offset debt required for large projects Council has approved the following projects to be partially funded from reserves rather than external debt and subject to consultation:

Aquatic Centre expansion - $5m (Parklands)

Aquarium - $7.5m (Parklands)





2.5 Development, Vibrancy and Growth

This Council sees itself in playing an important role in the development, vibrancy and growth of the city to enable its vision of being the best little city to work, play and bring up a family.

During the LTP 2015-25, projects such as Marine Parade Development, Napier Conference Centre upgrade, and the Destination Playground were included to meet these objectives. The current plan looks to build further on the growth opportunities for Napier including the expansion of the Aquarium as part of the Regional Economic Development Strategy.

Development contributions will pay for most of the new infrastructure costs related to growth. However, the areas with rapid growth will also need the Council to invest in infrastructure to meet current and future needs. A review of the development of Lagoon Farm will be undertaken by 2020.

2.6 Growth in Napier's Population

The Council must consider how to respond to the needs of current and future communities. For past LTPs, growth in the community has been low. The underlying assumption for this LTP has seen a changed to a medium to high projected growth. These changes in population and land use will also lead to changes in the capital and operational costs for the Council.

The population is projected to increase from 62,700 in 2018 to 66,450 by 2028 (figures supplied by Statistics New Zealand). At the same time, the number of households is also expected to grow.[1]

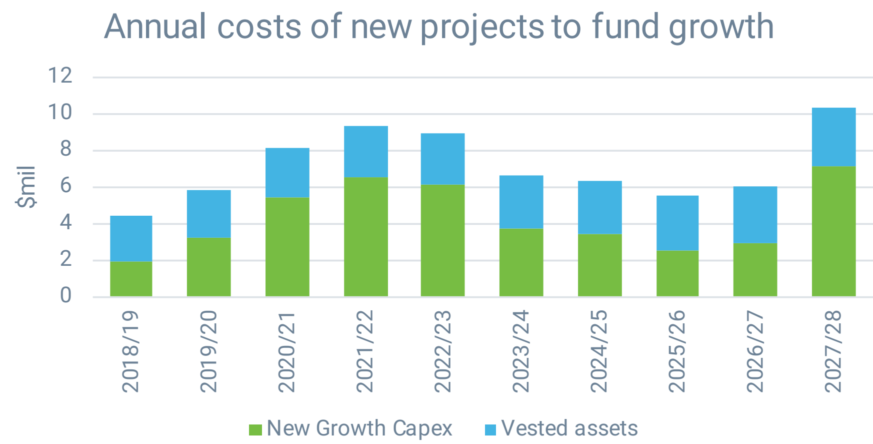
June Years	Population	Households
Latest Estimate for 2017	61,100	25,100
2018	62,700	25,600
2023	64,700	26,550
2028	66,450	27,400
2033	67,950	28,150
2038	69,050	28,600
2043	70,000	29,200
2048	70,900	29,550

[1]The Heretaunga Plains Urban Development Strategy (HPUDS) developed and adopted in 2010 and updated in 2017 provides the basis for strategic land use planning for Napier City. Growth (excluding infill) has been provided for with an additional 915 lots available within Parklands and Mission Estate. Allowance is also made for further growth in Te Awa.

The Council considers that with these developments, a portion the whole city should contribute funds to a range of infrastructure assets. This ensures everyone can be provided with essential infrastructure, and (at least) minimum levels of service. Use of this club approach means all residents will share in the costs and benefits of each other's infrastructure and services, all receiving benefit over time. Development and Financial contributions where direct benefit can be ascertained is considered in the Development and Financial Contributions Policy.

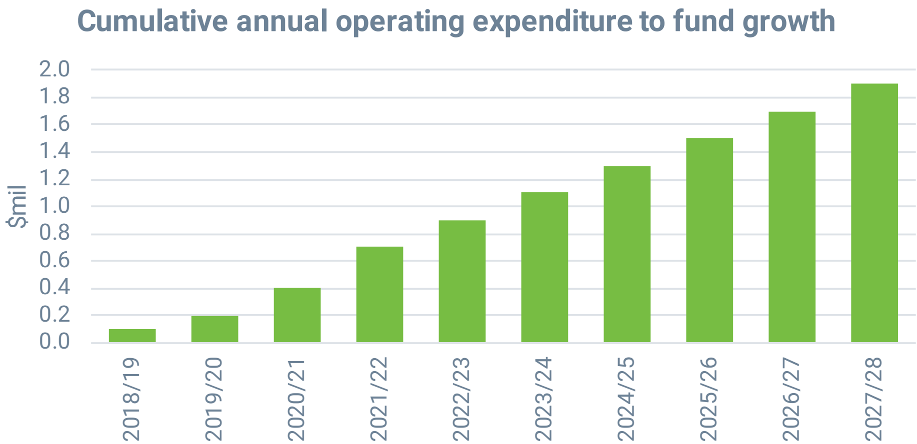
2.7 The Cost of Supporting Napier's Population Growth

The graph showing to the right represents the projected capital expenditure to service our growing community. These projects are primarily funded by development and financial contributions. Each year additional rates revenue, equivalent to 0.30% of total annual rates is expected to come from new properties added. This is sufficient to meet the additional operational costs from new growth related projects and services.



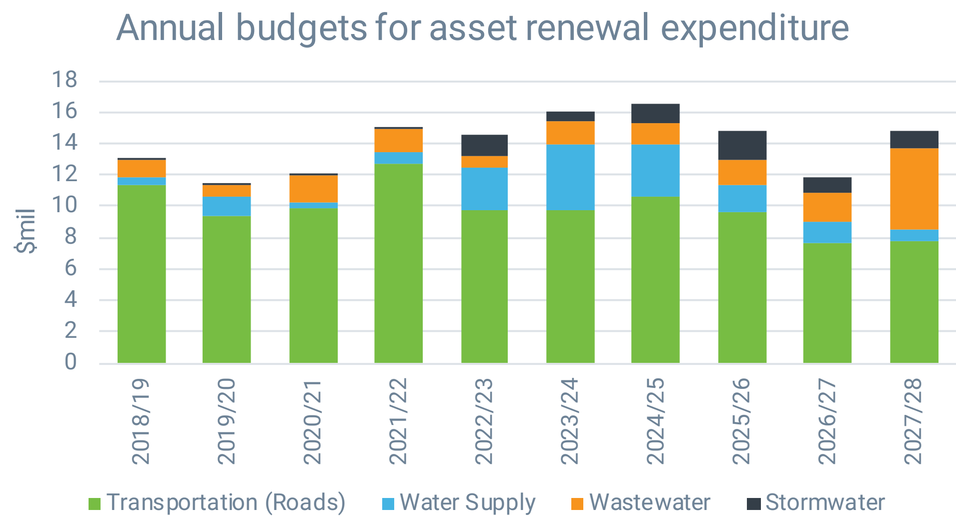
Operating expenditure

The following graph shows the cumulative annual operating expenditure related to expected changes in population and land use from 2018 to 2028.



2.8 The Cost of Maintaining our Existing Levels of Service

The Council provides annual budgets for asset renewal expenditure based on the requirements of its asset management plans. The total provided for each major infrastructure area is as follows:



2.9 Significant Infrastructure Issues over the Next 30 Years

The infrastructure strategy identifies the following significant issues over the next 30 years:

- Water – security for reticulated water supplies, chlorination of systems, improvements to water quality, and integration of water systems
- Stormwater management –residential areas in the district are subject to some level of flood hazard, with a need to improve the water discharging to our estuary and ocean
- Wastewater – a focus on treatment, disposal, infiltration and inflow while meeting demand for growth
- Improvements in telemetry and control systems for our 3 waters as noted above
- Addressing immediate issues associated with our Inner Harbour, while considering the Ahuriri Master Plan and future vision for that area
- Upgrade/replacement of the Onekawa Pool due to increasing demands
- Upgrade of the National Aquarium of NZ
- Potential Upgrade or replacement of the Central Library building for Civic administration activities (subject to a business case and options)
- Potential new library (or return to old building) after the development of library strategy and options analysis
- Ensuring our buildings and properties are well maintained and meet required levels of service
- Joint landfill expansion with Hastings as existing landfill has limited years of capacity
- McLean Park - assess the future development opportunities to maintain standards to compete nationally for events
- The potential impact of regulatory changes to Resource Management Act on standards for our sewerage disposal
- Impacts of Coastal erosion

Each of these issues noted above have budgetary considerations and have been taken into account, in the LTP.

2.10 Vulnerability to Natural Hazards

Most of Napier is near the sea, or in low-lying areas. These areas are susceptible to sea level rise and coastal inundation, and flooding. The impacts of natural disasters can be significant and impose substantial unbudgeted costs on the Council.

Predicted sea level rise is also likely to increase the costs to the Council when infrastructure needs replacing or relocating. The Council wants to reduce its vulnerability to natural hazards.

INCOMES, INEQUALITY AND PROPERTY PRICES

Napier City has experienced a significant growth in residential property prices in recent years. Residential prices have increased significantly over the past three years. The high growth in prices has been concentrated in Bluff Hill, Hospital Hill, Ahuriri, Westshore, Taradale and Greenmeadows areas.

While this can be a benefit for existing homeowners, it is contributing to a housing affordability challenge for younger and lower income residents. It also means higher rates for people who live in the areas where property values have increased more than the average for the city. However, this is offset by lower increases in rates in other areas (again, relative to the city average.)

Napier City has a median wage economy with lower incomes than some other parts of the country. A relatively high proportion of people are on a fixed income. Napier City has had one of the lowest levels of rates across NZ councils. Any rate increases coming off a lower base may be higher in percentage terms, however are unlikely to change its overall position of being a low rating authority. It will continue to focus on its ability to generate non rates funded income to offset rates related costs where possible.

At the time of writing this Strategy, the Labour government were implementing changes to the minimum wage progressively from 1 April 2018 to 1 April 2021. The impact of these changes were significant to this Council and the number of employees it has. Provision for the costs of minimum wage adjustments have been made in this LTP.

Also, Napier's population is getting older. Currently 19.8% of our population is aged over 65, (2013 Census) and this is projected to increase to 25.8% by 2028. Most of these older people are likely be retired, therefore on fixed lower incomes, and financially vulnerable to rates increases above the movement in the Consumer Price Index/Local Government Cost Index.

2.11 Regional Shared Services and Collaboration

Napier City, Hastings District, Wairoa District, Central Hawke's Bay and Regional Council all participate in Hawke's Bay Local Authority Shared Services with a revised focus on collaboration across the organisations.

All Councils are required to deliver efficient and effective services for the current and future needs of its communities. Local Government Act Section 17a Service Delivery reviews are undertaken jointly where appropriate and as part of the ongoing 6 yearly requirement for these reviews.

Regional activities/Joint Activities include Omarunui Landfill, web services, joint recycling and refuse collection contracts, Civic Defence, Alcohol Strategy, Geographic Information Services, fuel purchasing, Insurance, Hawke's Bay Airport, Business Hawke's Bay, Hawke's Bay Tourism, Regional Economic Development Strategy (Matariki REDS), and LIFT (Social Inclusion Strategy), Property Valuations, and Crematorium Services.

2.12 The World Around Us

Napier City is influenced by external factors – national and international, environmental, economical, and political. Future changes in interest rates, international markets and legislation, as well as natural hazards and climate change, are likely to impact on the Council's finances.

The Council's resilience and ability to respond to these factors outside of its control will be enhanced by effectively managing debt to ensure Council maintains additional capacity to respond to any adverse event. If the Council spends and borrows to moderate levels, it will have more flexibility to respond to new situations.

2.13 Financial Investments

Napier City holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. Our primary objective when investing treasury funds is the protection of its investment capital and liquidity of its investments.

Investments and associated risks are monitored, managed and regularly reported back to Council. We are risk averse in our management of cash. In addition, our preferred approach for funds available for long-term investment, is that our investments support the Napier community.

In addition Council maintains strategic equity investments in Hawke's Bay Airport Authority Ltd and the Omarunui Regional Landfill. Council's objective with these equity investments is to retain local airport ownership and ratepayer control of solid waste disposal facilities. Any investment in the Local Government Funding Agency (LGFA) will be to ensure Napier and other local authorities have access to low cost debt funding. The primary driver of these investments is for strategic reasons.

We have in place control limits that are designed to manage interest rate and maturity risk on the financial investment portfolio. The portfolio comprises both case and core treasury investments. Cash investments relate to matching investments with our working capital funding requirements and liquidity buffer amount requirements. An important objective of the financial investment portfolio is to match the portfolios maturity term to planned expenditure thereby ensuring that investments are available when required.

The following are the specified targets for returns on our financial and equity investments:

Financial Investments

- The targeted, minimum, return on our financial investments will be the average of the 90Day and 1 year Government investment rates.

Equity Investments

- The target rate of return for Hawke's Bay airport authority Ltd is set through the company's Statement of Intent. In general Council expects the company's return on equity to exceed Council's budgeted cost to borrow funds (4.5% in this LTP).

- Any Council equity stake in the LGFA will be held for the purpose of helping facilitate this entity for the purpose of lowering the cost of borrowing for local Government in New Zealand.
- No specific return on equity is sought from the Omarunui Regional Landfill. This facility is owned jointly with the Hastings district Council for the purpose of meeting both Council's legal obligations relating to the management and disposal of waste. The joint landfill committee uses a full cost accounting model to determine pricing for this facility.

2.14 Giving of Securities

In order to borrow money externally, Council must offer some security just like people do with their mortgage. Like most Councils, when required, Council secures our debt by way of a debenture trust deed over its rates income. We generally do not offer assets security for any loan or performance of any obligation under an incidental arrangement. In exceptional circumstances, with prior Council approval, security may be offered as a charge over one or more specific assets.

3. FINANCIAL GOALS

The Council's goals for managing its finances are outlined in the following table. These goals have been set to reflect where the Council wants to end up in 2028.

TOPIC	GOALS FOR THE NEXT 10 YEARS
FINANCIAL PRUDENCE	1. To run a balanced budget in all years of the 10 year LTP. This means that operating income will meet or exceed operating expenditure each year . 2. To seek to run a balanced budget – excluding any one off revenue sources such as revenues collected to fund new capital projects 3. To manage the increased level of gross debt in a prudent manner and assess other funding streams for projects where possible 4. To maximise the returns from the Parklands residential subdivision to ensure that this will benefit the current and future community 5. Ensure that all new activities are supported by a detailed business case to ensure viability and long term sustainability. Council will ensure prudent decision making is achieved through this gateway process. 6. The Council is committed to ensuring services are delivered in a cost effective and efficient manner, and will set an annual target of $500k of efficiencies for this plan. This will be achieved by internal service delivery reviews, and improvements in technology to support the business for efficiently
INCOME	7. To maintain and improve the financial performance of the Council's commercial investments and assets. This includes the review of the investment portfolio and may involve the sale of non-strategic land. Funds from the sale of this land will be replaced with investments that will provide a similar return and risk profile. 8. To seek and improve tourism focused activities for maximum returns. 9. To undertake a detailed review of Lagoon Farm and the development of the Business Park by 2020 10. To review Council's assets and investments for potential disposal of surplus assets by 2020. The source of funds, restrictions and the use of related income will be recognised in the use of the proceeds. 11. The additional funds available in this Long Term Plan as a result of the increased number of sections for Parklands will be focused on ensuring the current and future community benefit by future revenue generating opportunities 12. To undertake a detailed review of the regulatory changes and impacts of the removal of Financial Contributions from year 5 of the LTP in detail by 2020 and its associated impacts. It is likely that Council will consult further during the intervening Annual Plans as this is further refined. 13. To increase community contributions (i.e. fundraising) for new, large, community, recreational, sporting or cultural facilities, and their renewal, to a minimum of one third of the total project costs (excluding Saxton Field facilities).
RATES	14. To limit total rates income increases at a maximum of LGCI plus 5 % per annum. 15. To take a long-term view to our funding requirements and look to smooth the impacts on ratepayers of any significant changes in our annual funding requirements.

3. FINANCIAL GOALS

TOPIC	GOALS FOR THE NEXT 10 YEARS
EXPENDITURE	16. To ensure there are sufficient funds or borrowing capacity available to fund the capital program including major projects. 17. To ensure that the growth component of capital projects will be primarily funded through development and financial contributions noting the regulatory changes to financial development contributions will be occurring in year five of the plan 18. To recognise the overall impact of increased costs associated with the governments increase in minimum wage on its business e.g. construction costs and implement in an affordable manner 19. To consider pre-funding significant capital costs of major projects. 20. To review the Sewerage Treatment Plant resource consent requirements and set the timing of the rating impact for the funding of this by 2020
DEBT and BORROWING	21. To limit external total debt to a maximum of $143m over the term of the LTP. Planned external net debt is expected to reach a maximum of $30m during 2020/21.
LEVELS OF SERVICE	22. To maintain overall levels of service as set out in the LTP 2018- 2028 and provide similar levels of service for growth areas. 23. Service level improvements will be undertaken for water, stormwater and sewerage network requirements and aquatic facilities 24. Environmental improvements will be a focus, and will be implemented based on the findings and consultation around the Ahuriri Master Plan
PLANNING FOR EMERGENCY EVENTS and CONTINGENCIES	25. Napier has significant reserves that have been deliberately accumulated. These funds provide sufficient cover to be able to deal with emergency events and contingencies. Although Council will go into debt during this plan, it still has capacity to be able to respond in an emergency 26. To maintain appropriate insurance cover, activity budgets and committed borrowing facilities to mitigate costs related to unexpected events.

4. ASSUMPTIONS

This financial strategy has been developed based on some important assumptions. If these assumptions change, there may need to be changes to the financial strategy. It is assumed that the Onekawa Pool redevelopment, and the Aquarium expansion will go ahead, with a significant amount of funds contributed by external parties. If either of these projects do not go ahead, there would need to be a change in focus, particularly on alternatives for securing alternative pool swimming facilities for the community.

For the purpose of this financial strategy, it is also assumed that Napier City Council will remain an autonomous organisation, with no underlying changes to the delivery of services e.g. Council Controlled Organisations as proposed by the previous government. Many of the financial assumptions used in developing Council's financial strategy and budgets are contained in the LTP 2018-2028.