Financial Strategy 2018–28

1. Preface

The Council is driven by a strategic approach to achieving outcomes that contribute to the following Vision, Goals and Strategies:

Vision

Palmerston North: Small city benefits, big city ambition

Goals and related Strategies

Goal	Strategy
An innovative and growing city	Economic development strategy City development strategy
A creative and exciting city	Creative and liveable strategy
A connected and safe community	Connected community strategy
An eco-city	Eco-city strategy
A driven and enabling Council	Organisational strategy

Key elements of the strategy are:

- 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.

[Note: This Financial Strategy is an integral component of the Council's 10 Year Plan. 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.]

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

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

3. Palmerston North now and over the 10 next 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.

Since 2006, the population has grown at an average rate of 0.7% a year, and has accelerated over the last three years to 1.17% a year. At June 2017, Palmerston North's population was estimated to be 87,300.

The Council has adopted a specific high-growth projection for 2018–28 that assumes the population will grow at an average annual rate of 1.0% from 2018 to 2028 (940 people a year) and that the number of households will increase by 1.3% (460) annually over the same period.

The population and household growth assumptions differ because of the reduction in average household size and the additional margins required by the National Policy Statement for Urban Development Capacity.

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.

The 10 Year Plan makes provision for network and community infrastructure at Whakarongo to support new greenfield housing, and for developing Council-owned land in the area. Provision has been made for servicing land in the City West area earlier than previously anticipated. A portion of the most suitable land requires rezoning and there are development challenges (including liquefaction mitigation) in other areas. Substantial greenfields capacity remains in Aokautere and there are other greenfields pockets that can be developed without the need for substantial infrastructure.

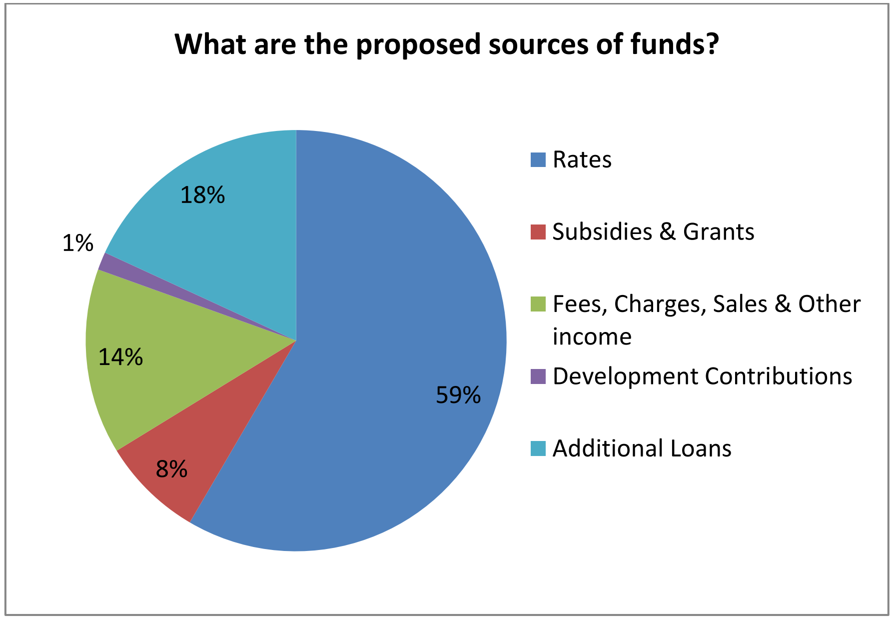
Adequate land is available for office and retail activities in the central city and nearby business zones, with industrial development capacity in the City's north-east and at Longburn.

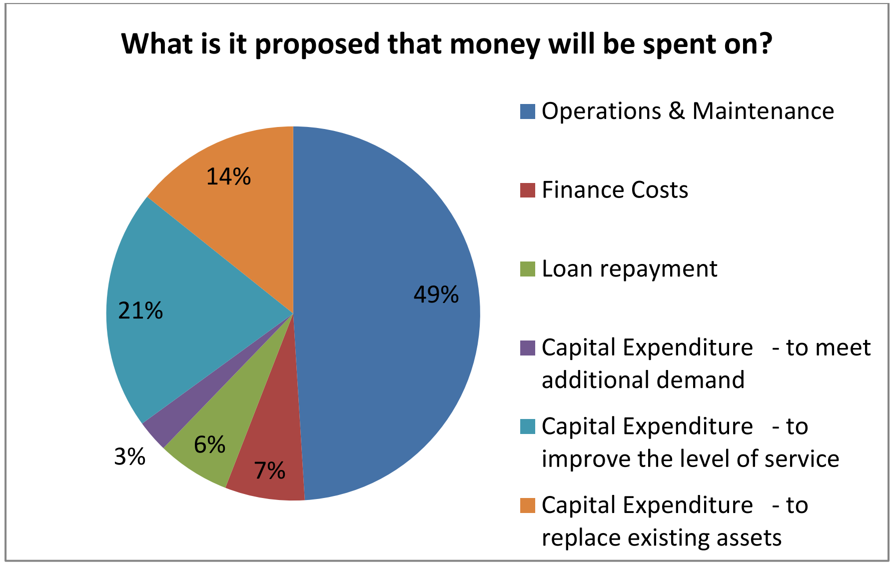
The City has a uniquely diverse community, with a prominent defence workforce, large numbers of young and transient tertiary students, and a strong connection to the wider Manawatū area. The population is relatively young, with a median age of 33.6. This is 3.4 years younger than the national median 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. More than 60% of households are made up of only one family, and a quarter of all households have only one member. The changing nature of the community needs to be considered when determining infrastructure investment.

4 Financial overview

- Council has assets with a replacement value of more than $1.7 billion that are generally in good condition and are big enough to cope with significant city growth.
- The Council's current debt levels are moderate for a regional New Zealand city (especially given the range and quality of services provided).
- Rates levels are comparable with other districts of our size.
- Council is planning for high population and household growth over the next 10 years and medium growth beyond that time.
- The City has adequate appropriately zoned land to cope with the first 10 years of growth.
- Council believes it needs to invest in new and better catalyst projects to meet its Vision and Goals for the City.
- The requirement to update the City's wastewater treatment and disposal system provides the greatest single challenge to long-term financial sustainability of the Council. At the present time it has been assumed that an acceptable option can be obtained for $128.8 million ($110 million without inflation) but there is a high level of risk it could be more than this.
- In order to fund existing Council services and key projects being proposed in the 10 Year Plan, including new capital expenditure of $506.8 million, Council's rates and debt levels will need to increase – debt increasing from a forecast $109 million to $349 million.
- To help manage the additional debt, rates have been increased now to enable the term of the debt to reduce from 30 to 20 years – this means $45 million more of the present debt will be repaid and $10 million less in interest will be paid over the 10 years than was originally proposed.
- Total rates will need to increase by 6.4% in 2018/19, 5.6% in 2019/20, 5.8% in 2020/21 and increases of between 2.6% and 6.6% in each of the following seven years.





5. 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 10 Year Plan 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)
Connected & Safe Community	939	371
Creative & Exciting City	8,391	4,431
Stormwater	4,826	1,982
Transport	25,999	15,410
Wastewater	31,685	12,339
Water	14,638	7,758
TOTAL	**$86,478**	**$42,291**

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 $86.5 million over the 10-year period and that revenue from development contributions will amount to $27.9 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.

6. 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 10 Year Plan 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 10 Year Plan incorporates the following provisions for renewal of network infrastructure:

	TOTAL CAPITAL RENEWAL EXPENDITURE FOR 10 YEARS ($000)
Eco-City	7,787
Stormwater	6,056
Transport	89,560
Wastewater	30,567
Water Supply	43,201
TOTAL	**$177,171**

As part of the Council's Funding Policy, capital renewal expenditure is drawn 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 $18.9 million in 2017/18 to approximately $20 million a year over the first two years of the Plan, rising to $27.7 million in 2027/28. 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.

7. Other significant factors affecting Council's ability to maintain levels of service and meet additional demands

Council has made a number of significant forecasting assumptions in preparing its 10 Year Plan. These are contained in section 3 of the Plan.

These assumptions range from global issues such as the worldwide economic position 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) 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. 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.

9. 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 prudential guidelines, which are outlined in 11.5 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 20 years) funded from the borrowing.

10. Funding and financial policies

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

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

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 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.

11. What this means for 2018–28

11.1 Levels of service

The aim is to maintain the current services as a minimum, and to improve them in some instances, such as providing additional cycling facilities. 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 2 of this 10 Year Plan.

11.2 Asset condition

Council has assets with a replacement value of more than $1.7 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 rundown. Even in tough economic times, it is important to protect the City's assets. As many of the City's key assets are relatively new, the total cost of renewing them is forecast to be reasonably consistent for the first five years of the Plan and then to progressively increase.

11.3 Sustainability of long-term funding

In broad terms, the City's key assets, particularly its infrastructure, are around the middle of their life cycles. As a result, the peak for capital renewal expenditure is not expected for another 35 to 50 years, depending on the activity. Capital renewal expenditure can be expected to steadily increase after about year 20. Council's asset management plans are being progressively refined to gain a better understanding of the overall asset condition and renewal profile.

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 $258 million and it is assumed that $29 million of this will be funded from external subsidies and grants, leaving a net sum of $229 million to be funded from rates. The Council's rolling average calculation formula means that a total of $235 million will be received from rates for funding renewals over this period. The $6 million received in excess of actual requirements effectively reduces the amount of borrowing the Council needs to undertake.

Given the renewal profile of Council's assets, the amount required to be funded from rates is expected to increase in the first year and then progressively in most subsequent years. The Council believes that, based on its current asset information, the amounts sought from current ratepayers are appropriate.

The present funding arrangements are adequate to meet forecast costs for now, but Council recognises that in the longer term additional revenue will be needed to fund a higher level of renewal. One of the big challenges for the future is deciding which generations should bear the cost of the increased level of renewals. The additional $6 million of funding described above is one small part of the way for Council to address the challenge. This will be considered in more detail at each three-yearly review of the 10 Year Plan.

11.4 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. In summary:

Council's resource consent to discharge treated wastewater from the treatment plant into the Manawatu River is due to expire in 2028. As part of the new consent process a review of the wastewater treatment and disposal options needs to be completed by June 2021 and the new consent application lodged by June 2022.

With constantly evolving technology in this area, there is a wide range of potential options the Council will need to consider and at this stage the costs are unknown.

It is a significant project and will have a major impact on rates and debt levels.

As options are developed and their respective costs and benefits assessed there will be community consultation to help develop a preferred option. Ultimately the Council will need to balance regulatory compliance requirements with community expectations and Council's ability to pay.

For the purposes of the 10 Year Plan the following budgetary provisions have been made:

- $5.2 million between 2018 and 2024 to complete the options analysis and obtain the consent
- $128.8 million ($110 million without inflation) between 2023

and 2027 to undertake the capital upgrades. This is based on significantly improving the treatment of wastewater (to current state-of-the-art level) and continuing to discharge the treated water into the river.

Use of this option does not signal that it is the preferred option, as this will be determined in conjunction with the community, once the options are known. Other options could include land or ocean disposal and could cost up to $250 - $300 million.

The 10 Year Plan assumes there will be total capital expenditure of $765 million over the 10 year period comprising $258 million for capital renewals and $507 million for new capital works.

11.5 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 financial statements):

BORROWING LIMITS	POLICY MAXIMUM	FORECAST LEVEL AT 30 JUNE 2019	FORECAST MAXIMUM DURING 10 YEARS	FORECAST LEVEL AT 30 JUNE 2028
Net external debt as a percentage of total assets	<20%	8.4%	17.1%	16.3%
Net external debt as a percentage of total revenue	<200%	111%	205%	190%
Net interest as a percentage of total revenue	<15%	5.8%	11.2%	10.8%
Net interest as a percentage of annual rates income	<20%	7.5%	14.1%	13.5%
Liquidity	>110%	128%	128%	111%

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.

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 as overnight cash deposits, wholesale/retail bank term deposits no greater than 30 days and bank-issued RCDs less than 181 days.

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, unutilised bank facilities plus investments divided by external debt.

The policy maximum for the net external debt as a percentage of total revenue ratio has been increased to 200% (from the previous level of 175%). This is considered appropriate to enable Council to borrow the projected amounts needed for the proposed capital development programme and in particular the significant upgrades needed for the wastewater treatment plant. At this stage, there is a high level of uncertainty over the likely costs for the plant upgrade and ongoing operating costs.

The debt to total revenue ratio limit of 200% is exceeded in one year of the Plan. Given the uncertainty over the forecast costs, Council has determined that for the time being the forecast programme of capital development and consequential borrowing requirements are appropriate.

However, the Council will need to stay focused on the changing costs of programmes to ensure it does not become over-committed before having more certainty about the costs of the wastewater programme.

Based on the 10 Year Plan's projected capital expenditure programme for new capital items of $507 million, the Council will need to borrow an additional $377 million over the 10 years.

After a period of significant capital development, during which Council was paying interest only on its borrowings, a planned debt repayment programme was implemented under a new strategy adopted in 2009. Since 2009/10, the 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 80 years) of the asset being funded. Provision was also made for progressively increasing sums to begin repaying existing borrowings of $145 million as at 1 July 2009, and accelerated payments from 1 July 2012. From 1 July 2015, the previous provisions for accelerated debt repayment were replaced with a reduction in the maximum repayment term from 80 years to 30 years.

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.

When preparing this 10 Year Plan, Council recognised the early debt repayment from operations, and previously scheduled provisions for future debt repayment have been reduced.

In addition, the maximum term over which debt will be programmed to be repaid has been reduced from 30 to 20 years. This decision was made because Council believed it needed to repay more debt in the short term to leave financial capacity to borrow for essential works in the future (in particular, the expected upgrades to the wastewater treatment plant).

The reduced term means $45 million more will be repaid over the 10 years than would otherwise be the case, with $10 million less paid in interest.

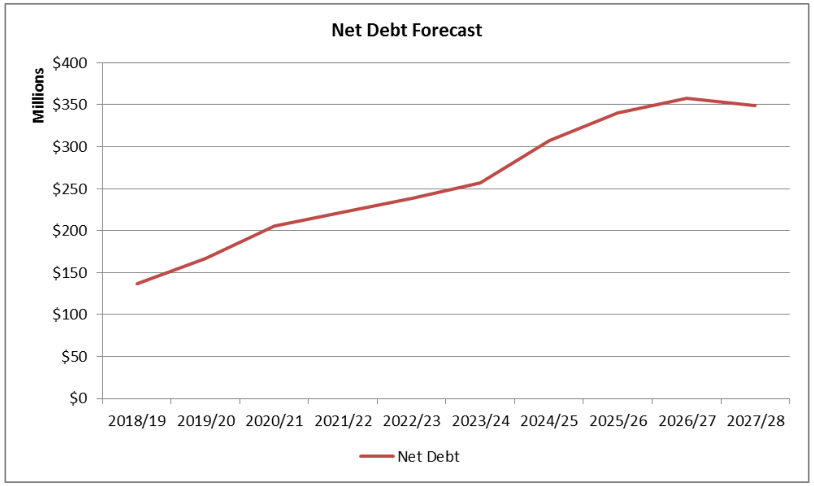
As a result, the Plan includes the following provisions for debt repayment:

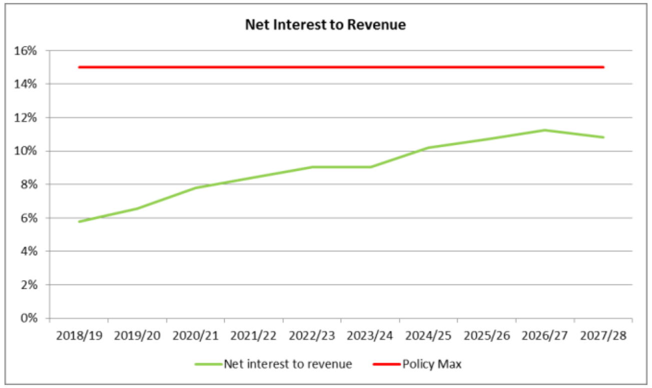
- All outstanding debt (projected as at 1 July 2018) will be repaid over the remaining useful life of the asset funded, over a maximum term of 20 years.
- New debt from 1 July 2018 will be repaid over the average life of the asset funded (the repayment term for the new borrowing ranging from 5 to 20 years).
- A total of $6 million will come from excess renewals funding.

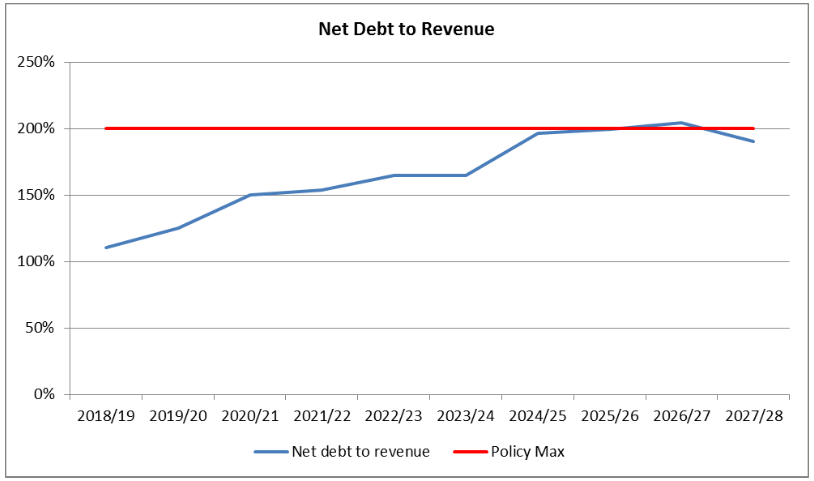
The combination of the debt repayment for present debt and the additional debt needed to fund new capital items means the following movements in the Council's debt levels are forecast over the 10-year period:

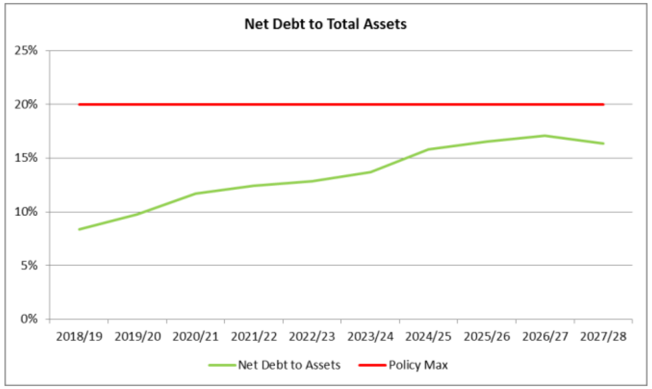
Forecast movement in debt ($m)	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Planned expenditure on new capital items	42.0	50.5	53.1	42.1	32.4	47.0	71.3	68.1	60.2	40.0	506.8
less external subsidies and grants	(10.8)	(6.8)	(5.0)	(8.7)	(3.6)	(6.2)	(3.6)	(11.3)	(16.4)	(23.7)	(96.0)
less development contributions	(1.1)	(1.5)	(1.9)	(2.1)	(2.5)	(2.8)	(3.4)	(3.9)	(4.3)	(4.5)	(27.9)
Additional debt required to fund new capital programmes	30.2	42.2	46.2	31.3	26.4	38.0	64.4	52.9	39.4	11.9	382.8
less debt repayment funded from rates	(6.0)	(7.0)	(8.7)	(10.4)	(11.5)	(12.8)	(14.5)	(16.6)	(18.8)	(21.5)	(127.6)
less net proceeds of residential subdivision	2.3	(3.6)	1.3	(3.9)	1.9	(4.7)	1.7	(4.6)	0.0	0.0	(9.5)
less funding from rates for capital renewals received in advance	1.2	(1.2)	(0.7)	(0.4)	(0.5)	(2.1)	(0.8)	0.9	(2.8)	0.2	(6.3)
Additional debt required	27.7	30.4	38.0	16.7	16.3	18.5	50.8	32.7	17.9	(9.4)	239.4

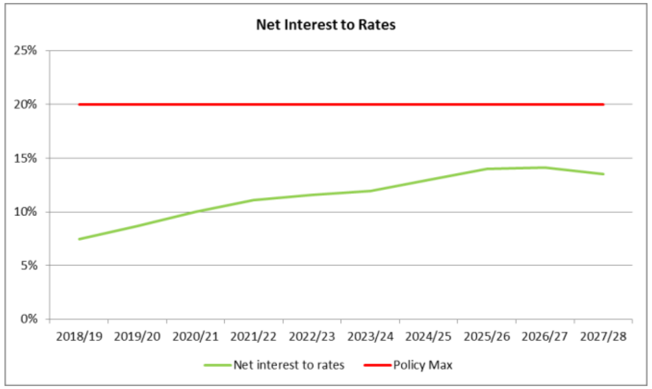
These movements result in Council's total debt increasing from $109 million to $349 million, as shown in the following graph:











The forecast net debt to revenue exceeds the policy maximum for a short period. As the extent of the policy breech is small, this is not particularly concerning. However, the forecast is based on a number of significant assumptions and a change in any one would impact on the final position. The long-term position will be kept under constant review, especially when preparing future annual and long-term plans.

11.6 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.

11.7 Rates

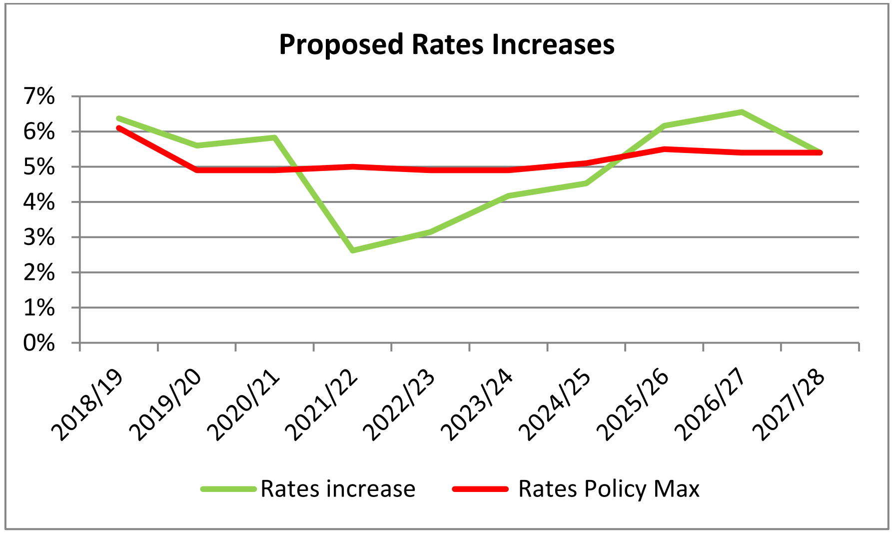
Rates will have to increase to fund the activities in the Plan. In recognition of the economic climate, Council has tried to minimise rates increases and challenges Council staff to continually look for innovative and more efficient ways to deliver services.

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 also has to be considered.

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

- Total rates[1] will increase by no more than the Local Government Cost Index (LGCI)[2]:
  - plus the growth in the rating base
  - plus 2% (to fund increasing asset renewal costs and new services)
  - plus an allowance for accelerated debt repayment[3].
- Total rates will be no more than 2% of the City's rateable land value.

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



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

2 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 September 2017 was used in this Plan.

3 This allowance reflects the effect on rates of the additional debt Council has decided to repay earlier than previously planned (by repaying over a maximum of 20 years rather than 30 years). For 2018/19, this equates to 1.7% of total rates.

At this stage, the proposed 10 Year Plan does not achieve the policy aims for some years. To meet its Vision and Goals for the City, the Council believes rates need to increase by more than its target limit at least in the short term, and then again when the full impact of the proposed wastewater system upgrade takes effect. The actual increase 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 land value. For 2018/19, the fixed part ($1,413 for residential properties) is proposed to be made up of the following:

CHARGE TYPE	CHARGE	WHAT IT PAYS FOR
Water	$272	Pays for the cost of providing of water
Wastewater	$250	Pays for the cost of treating and disposing of wastewater
Kerbside Recycling	$126	Pays for the cost of kerbside recycling
Rubbish & Public Recycling	$65	Pays for general rubbish and recycling costs, including transfer stations, cleaning up fly tipping, community education
General	$700	Contributes to paying for all other Council services and helps ensure all properties contribute a more equal share of costs rather than being based only on land values

The variable part is based on a property's land value. Council is legally required to obtain updated rating valuations at least every three years. The values from 2015 will be used again in 2018/19 and the new values obtained in 2018 will be used for the three years from 2019/20.

The portion of rates based on the land value is charged as a rate in the dollar, which depends on how the property is used. Commercial property is charged at a higher rate than residential property. Residential property is charged at a higher rate than rural/semi-serviced property.

More details about the rating system are shown in section 3 of this 10 Year Plan.

12. 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).

13. Financial investments and equity securities

13.1 Financial investments

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

In 2001, Council resolved to invest $70 million from the sale of its investments in the electricity sector in a long-term managed fund. The aim was to grow the capital value in real terms and provide annual distributions to supplement operating revenue.

Over following years, the Council's position moved from being a net investor to a net borrower and Council decided that it was no longer prudent to retain the fund. In 2007, the Council resolved to progressively wind down the fund and use the investment to repay term borrowing or substitute for term borrowing. The fund was fully realised by December 2017.

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 as 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.

13.2 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 of Palmerston North Airport	To ensure the City has an appropriate air gateway for passengers and freight	100%
Central Economic Development Agency Limited (CEDA)	Provides economic development services for the Council and Manawatū District Council	To ensure there is an appropriate entity to help create and grow economic wealth in the Manawatū and beyond	50%
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	
Net surplus before interest/tax/revaluations to total assets	3%
Net surplus after interest/tax to consolidated shareholders' funds	2.1%
Interest cover (net surplus before interest and tax to interest)	>=2.5
Net tangible worth	>$35m
Maintain high level of customer satisfaction	>=90%
Passenger throughput p.a.	639,000
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.