Primary strategies and policies

Financial Strategy

Executive summary

This 2018–38 Long-term Financial Strategy continues to be based upon the principles established in the Long-term Plan 2015–25 (LTP):

- a prudent budget keeping debt levels affordable;
- prioritising infrastructure investment;
- ensuring intergenerational equity.

These principles continue to provide the foundation to driving towards a balanced budget by 2022/23 and moving to a more sustainable financial base. We continue to work through the financial adjustments needed to achieve the balanced budget, recognising that until it is achieved; rates will be higher than we would like.

While the Local Government Act 2002 requires councils to develop a 10-year LTP, Porirua City has determined to develop a LTP that spans 20 years. This provides more transparency around our long-term asset requirements and also aligns with how we develop our Infrastructure Strategy and asset management plans.

The November 2016 Kaikōura earthquake and storm events have heightened councils in the Wellington region's awareness of the state of its core infrastructure and our ability to be able to provide services following such events. Porirua City has been particularly concerned about the effect a major event could have on our three water assets and services. As a result a more asset "resilient" approach has been factored into this LTP and is reflected in our capital spend programme. A reprioritisation of planned capital expenditure together with an additional $18 million capital over the first 10 years of the LTP is focusing on both stormwater and wastewater assets.

Our financial position is sound and we have a strong balance sheet – as supported by our Standard & Poor's AA credit rating. With the significant capital expenditure over the first four years of the LTP (the completion of the Transmission Gully Motorway link roads occurs in Year 2), we will need to increase our debt to fund what is not provided for by way of depreciation and capital subsidies. This will see us increasing our debt to a peak level of $135 million in 2022/23. Debt will then decline (as the policies of a balanced budget and rating for depreciation take effect) to $114 million in 2027/28. Additional debt is then required to fund capital spend until 2033/34, with debt rising up to $138 million and then declines for the remainder of the LTP period. There is further capacity, should new projects be added to future LTPs.

Over the first 10 years of the LTP the Council is proposing to spend $347 million on capital, 31 per cent of which will be in the wastewater, stormwater and water supply areas, and 23 per cent on roading. Included in the $347 million of capital spend is $12.8 million carried over from 2017/18 for which $8.0 million relates to the Transmission Gully Motorway link roads.

This significant capital investment will be funded by debt and from rating for depreciation.

Rating levels for the first five years of the LTP are reflective of the increased capital spend and the progressive increase in rating for depreciation along with the need to achieve a balanced budget (living within our means by 2022/23).

Rate levels are forecast to change annually and changes between years can be significant as the impacts of some assets and expenses vary annually. The Council has determined that it will adopt a smoothing approach to provide more certainty and consistent rate levels. Until we achieve the balanced budget in 2022/23, the Council is looking to have the same level of rate increase for each of the first five years. This will allow the Council the time to implement a number of efficiencies and non-rate revenue increases to have a solid platform by 2022. The alternative is to have higher rates in the first two years of the LTP and lower rates for the following three years, as the changes are implemented. This smoothing approach is seen to be fairer.

While the rate levels for the first five years are higher than the Council would like, they are lower than what was projected in the 2015–25 LTP and reflects the drive to be more efficient and provide value for money. The cumulative rate impact for the first five years is 24.9 per cent compared with the 27.9 per cent of the 2015–25 LTP.

Introduction

Over the past three years, the Porirua economy has been relatively steady, albeit economic growth has generally been around 1 per cent per annum, although the residential sector has been experiencing growth closer to 1.6 per cent. We would anticipate growth to continue at these levels over the next few years. When Transmission Gully Motorway and our two local link roads are completed in 2020, we envisage an increase in economic activity as Porirua takes advantage of the opportunity. We anticipate that after 2020, an increase in residential activity is likely and this, coupled with the more progressive and "growth friendly" District Plan, will sustain the 1 per cent growth that we have been experiencing. Our preference would be for a stronger growth rate (1.5 per cent per annum) and while this LTP does not reflect this level, we believe that the next 2021–41 LTP will start to reflect the potential that Transmission Gully Motorway presents Porirua – both residential and commercial/industrial.

The preparation of this Financial Strategy has continued to reflect the focus on strong fiscal management that the Council embarked upon with its 2015–25 Financial Strategy. This has proved challenging as while our rate increases have been lower than that projected in the LTP, the Council recognises that they are higher than most residents want but reflect the fiscal challenges facing the city, as we address growing demands for increased capital expenditure in core infrastructure assets such as the roading network, the stormwater, wastewater and water supply networks and the property portfolio.

Rating levels relate to the levels of service that a council provides. In Porirua's case our rating levels reflect higher levels of service than other similar local authorities in the arts and recreation areas, including our green space. This has been a conscious decision of the Council as it has responded to the community and recognises that a city is more than just core infrastructure and indeed is what makes Porirua such a unique place to live. This does of course come at a cost, however, when many of our Council's financial ratios such as debt and operational expenditure per capita are compared with other councils, our performance indicates fiscal restraint.

The Council faces some significant challenges to keep rates at affordable levels:

- a population base of around 56,100 but only 18,800 rateable properties to spread our costs over – compared with Kāpiti who have a similar size population but has 24,500 rateable properties.
- we have a high dependence on rates as the principle revenue source. Last year 70 per cent of our cash revenue came from rates, compared with the national average of 54 per cent.
- residents do want us to provide all our services and we are reluctant to reduce these without clear and strong direction from the community. The latest resident survey demonstrating 82 per cent of residents were either very satisfied or satisfied with the services provided.

Our high dependency on rates means that the Council has very few options available to absorb cost increases; we continue to drive internal efficiencies ($4.0 million achieved over the last three years) and revenue opportunities ($1.3 million realised over the last three years) before looking to either increase rates or lower levels of service.

The past three years has been a period of starting to address some major fiscal deficiencies in previous financial strategies:

- balancing the budget – simply put, we have been living beyond our means in the past and running deficits. This is not sustainable and the Council recognised in 2015 that it needed to move towards balancing the budget. It determined that it would progressively, over seven years, move to achieve this by 2021/22. During the deliberations as part of this LTP, Council agreed to extend the balanced budget date by a further year to 2022/23, to help ease the pressure of rate rises. This comes with some risk for potential further rate rises in 2022/23 or 2023/24 for State Highway 1 and State Highway 58 revocation depending upon discussions with NZTA.
- rating for depreciation – while we did rate for some depreciation, it was not enough and resulted in increased debt. The Council determined to progressively increase the amount of depreciation that it rated for.

In addition to these above two financial structural changes the 2015–25 LTP also reflected higher capital investment in core infrastructure, including the start of funding costs for our two link roads off Transmission Gully Motorway.

The above impacts continue into this LTP and are significant elements to the rating levels until 2022/23.

It is against this backdrop that the Council is continuing to steer a prudent course of action and adhering to the following principles:

- a prudent budget that keeps debt levels manageable, invests in future assets, provides a return in terms of public use of investment and supports intergenerational equity;
- prioritising infrastructural investment expenditure made by the Council to ensure assets are maintained and significant programmes of work are completed; and
- the Council takes the view that rates are an investment in the city and require a prudent and responsible approach to how they are spent.

Budget priorities

Balancing the budget

The Local Government Act 2002 (LGA) requires the Council to budget each year for operating revenue at a level sufficient to meeting the operating expenses budgeted for that year. This is known as the “balanced budget” requirement.

The LGA does allow the Council to budget for a deficit, if it resolves that it is financially prudent to do so.

In assessing a financially prudent decision, consideration is to be given to:

- the estimated expenses of achieving and maintaining the predicted levels of service provision set out in the Long-term Plan, including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life
- the projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life
- the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life
- the funding and financial policies adopted under Section 102.

The Council acknowledges that it runs deficits from a balanced budget perspective because it does not fully rate fund depreciation. The following fiscal levers will be used to move progressively towards achieving a balanced budget within the life of this LTP:

a. fees and charges

b. rating for depreciation

c. development and financial contributions

d. efficiencies

e. debt repayment

f. rates setting.

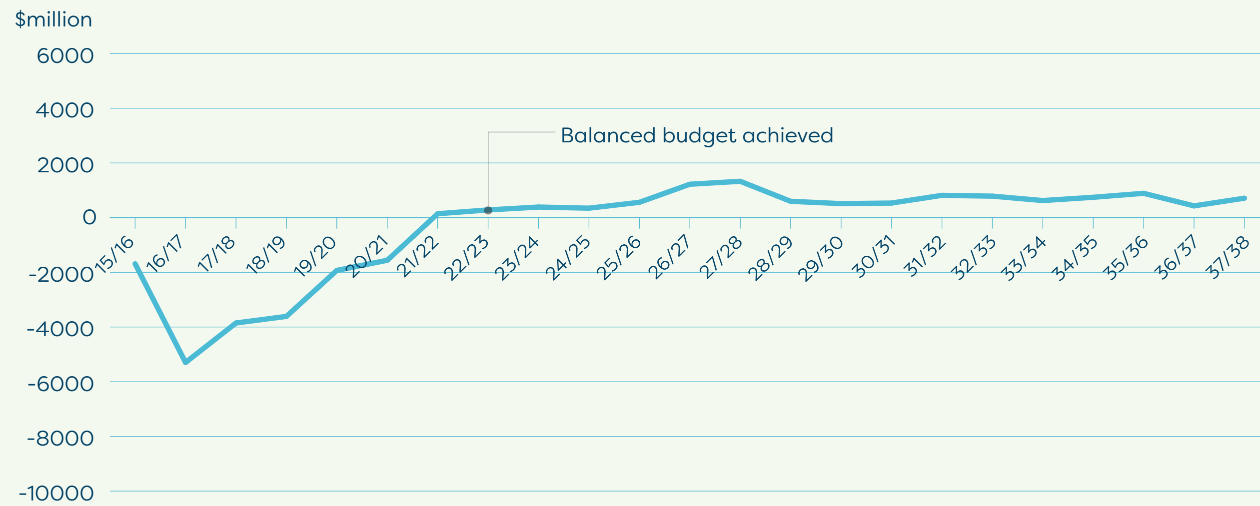
In 2014, Government introduced a number of amendments to the LGA, including the Local Government 2014 Financial Regulations, which established eight benchmarks against which all councils must report.

One of these benchmarks is the balanced budget, defined as *“Council Revenue – excluding development contributions, vested assets, gains on derivatives and revaluations of PBE as a proportion of operating expenses – excluding losses on derivatives and revaluations”.* This definition includes NZTA capital subsidies as revenue and assumes councils fully rate for depreciation.

However, as Porirua City does not fully rate for depreciation, the Council has defined **its balanced budget target** as the Local Government (Financial Reporting and Prudence) Regulations 2014 definition modified to exclude costs and gains from asset sales and the NZTA capital subsidies from the calculation of revenue.

In the past the Council has been running year-upon-year deficits which are not sustainable. From 2015/16, the Council has been reducing the amount of the annual deficit through efficiencies and increasing rates. These rate increases have been designed to bring us back into a breakeven or surplus position in 2022/23. The graph on the next page shows how this is being achieved.

Balanced budget



Porirua City balanced budget defined as Local Government (Financial Reporting and Prudence) Regulations 2014 definition modified to exclude costs and gains from asset sales and NZTA's capital subsidies from the calculation of revenue.

Section 100 and clause 14 of schedule 10 of the Local Government Act requires us to have a balanced budget for all years of the LTP. We acknowledge that we will not achieve this for all years. This is because we believe that setting rate levels to immediately achieve this would be inequitable and extremely hard on ratepayers. The Council continues to believe the gradual changes proposed will result in the best fiscal and sustainable outcome. While rates will be higher than people would like for the next few years, it will enable us to achieve the capital investment required for the city while maintaining the levels of service that residents expect.

While the previous Financial Strategy had targeted a balanced budget by 2021/22, the Council has determined it appropriate to extend this by a year to 2022/23. This has had the effect of lowering the rate level required for the first four years to under 5 per cent. The Council is very conscious about the impact of high rate levels on the community and the extension by one year does provide some relief in this regard.

Key drivers to achieve the outcomes desired

Depreciation

Principle

1. Depreciation is recognition of the current use of the asset by residents and ratepayers.
2. Depreciation is a charge that today's ratepayers should meet as it provides the funds for renewal of the asset. Applied like this it recognises the key issue of intergenerational equity and will ensure that future generations are not left with an unsustainable fiscal burden.
3. The Council will steadily increase the amount of depreciation that is rate funded.
4. Debt will be used where funds from depreciation, capital subsidy and development contributions are insufficient to meet the capital programme expenditure.

Logic

Depreciation spreads the capital cost of assets over their useful lives, so that each generation of ratepayers pays for their fair share of use of the asset. By not rate funding, it places an unfair burden on future ratepayers, who have to pay for the asset replacement.

Rate funding depreciation supports the intergenerational equity principle whereby everyone who benefits from use of the asset pays their fair share over the assets' useful life.

By rating for depreciation, we are providing cash to fund the capital renewal programme.

	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
All activities (except roading)	78%	79%	80%	81%	82%	83%	84%	85%	86%	87%
Roading	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%

Years	28/29–32/33	33/34–37/38
All activities (except roading)	88%–92%	93%–97%
Roading	50%	50%

Rate funding for depreciation

In 2015 the Council determined to move towards fully rating for depreciation. It determined that a prudent approach was to progressively increase from rating for 75 per cent of all assets by 1 per cent each year. As we start this LTP we are now at rating for 78 per cent of all non-roading assets as set out in the table above.

With our roading assets, it is not necessary to rate-fund fully for depreciation of this asset class. As we receive a NZTA capital funding subsidy on our roading assets, we only need to provide funding for "our share" of the expenditure. Rate funding to a maximum of 50 per cent for our roading assets has been determined by the Council to be appropriate.

Debt

Principle

1. Debt is a fiscal tool to achieve intergenerational equity.
2. Debt to fund capital (and where rated depreciation is not available) will typically be raised and repaid over a 20–25 year period.
3. The financial impact of new debt (interest and debt repayments) will require to be reflected in rate levels.
4. Debt is a tool that helps manage risk.

Logic

A certain level of debt is considered prudent financial management. Debt is a key component of recognising intergenerational equity. The 2018/19 level of rates provides for the interest cost for $94 million of debt.

Having no debt (without stopping capital expenditure) places an unacceptable burden on current ratepayers as it would require rates to increase significantly. Similarly, unlimited debt is not a sensible approach.

The actual level of debt is a decision based upon the capital requirements, the impact of the servicing of the debt (interest charge) on rates, and the ability to repay principal. The first four years of the LTP see significant increase to debt to support the link roads and additional capital expenditure projects associated with a change in risk profile. As a result of this concentration, the Council has decided not to commence repayment of this new debt until 2020/21, after which debt repayment is factored into the rates requirements.

Existing policy limits provide guidance in relation to the amount of debt the Council can raise and are as follows:

Limit	2016/17 Annual Report	Projected 2018/19	Peaking in 2022/23
Ratio of debt to operating income current limit 250%	65%	106%	123%
External interest as % of operating income limit 20%	4.1%	5.3%	6.5%

Debt levels and borrowing limits

It is Council policy to offer security for its borrowings by way of a charge over its rates through its Debenture Trust Deed. The Council joined the Local Government Funding Agency (LGFA) as a Guarantor Borrower in June 2014, and has since secured long-term funding of $62 million through the LGFA at attractive margins. It has also secured longer term funding of existing debt through private placements. This borrowing facility is seen by the Council as a very low risk/high benefit option.

The LTP increases the city's debt over the first 10 years of the LTP from $95.6 million to a projected maximum of $134.9 million in Year 5 (2022/23) and back to $114.4 million in Year 10 (2027/28). This maximum is well within the policy limits set.

The table below demonstrates that the Council is operating well within the acceptable limits as contained in the Treasury Risk Management Policy:

		18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28
Year		1	2	3	4	5	6	7	8	9	10
Debt ($million)		102.1	123.0	131.2	131.9	134.9	134.9	127.4	121.1	118.3	114.4
Ratio of debt to operating income	Limit 250%	106	124	132	127	123	119	108	101	97	92
External interest as a % of operating income	Limit 20%	5%	6%	7%	7%	7%	7%	6%	6%	6%	5%

		2028/29–2032/33	2033/34–2037/38
Year		**11–15**	**16–20**
Debt ($m)		113.2–121.9	122.7–97.8
Ratio of debt to operating income	Limit 250%	88%–86%	82%–59%
External interest as a % of operating income	Limit 20%	5%–5%	5%–4%

The increase in the Council's debt is the result of funding major infrastructural renewal. For example, water supply, stormwater, wastewater reticulation and roading, as well as work associated with the construction of two link roads for Transmission Gully Motorway. These major capital projects estimated to cost $454.6 million will be funded from rates, loans, development contributions and cash reserves.

Notwithstanding raising the level of debt during the Long-term Plan, the Council will still have the capacity to raise additional debt in the event of a major failure or significant event during this period. However, to do so would result in an increase in rates above the limits set in the Long-term Plan for the servicing of such additional loans.

The Council has carefully considered the timing of its capital programme and the associated borrowing requirements to ensure that this best meets the needs of current and future generations.

Intergenerational equity

Principle

1. Intergenerational equity will ensure that present and future generations of ratepayers will be treated fairly with neither bearing an unnecessary share of debt or rate burden.
2. Rating for both depreciation and debt repayment are major fiscal tools the Council will use to ensure both transparency and intergenerational equity.
3. The Council endorses the concept of intergenerational equity and it will be a factor considered when developing annual and long-term plans to ensure an appropriate balance of cost and benefit for present and future generations.

Operating surplus (deficit)

The LTP indicates a forecast accounting operating surplus being achieved for each year of the Long-term Plan. The operating surpluses reflect the accounting position as meeting all the Public Benefit Entity – International Public Sector Accounting Standards (PBE – IPSAS) reporting standards. It does not, however, represent our cash position.

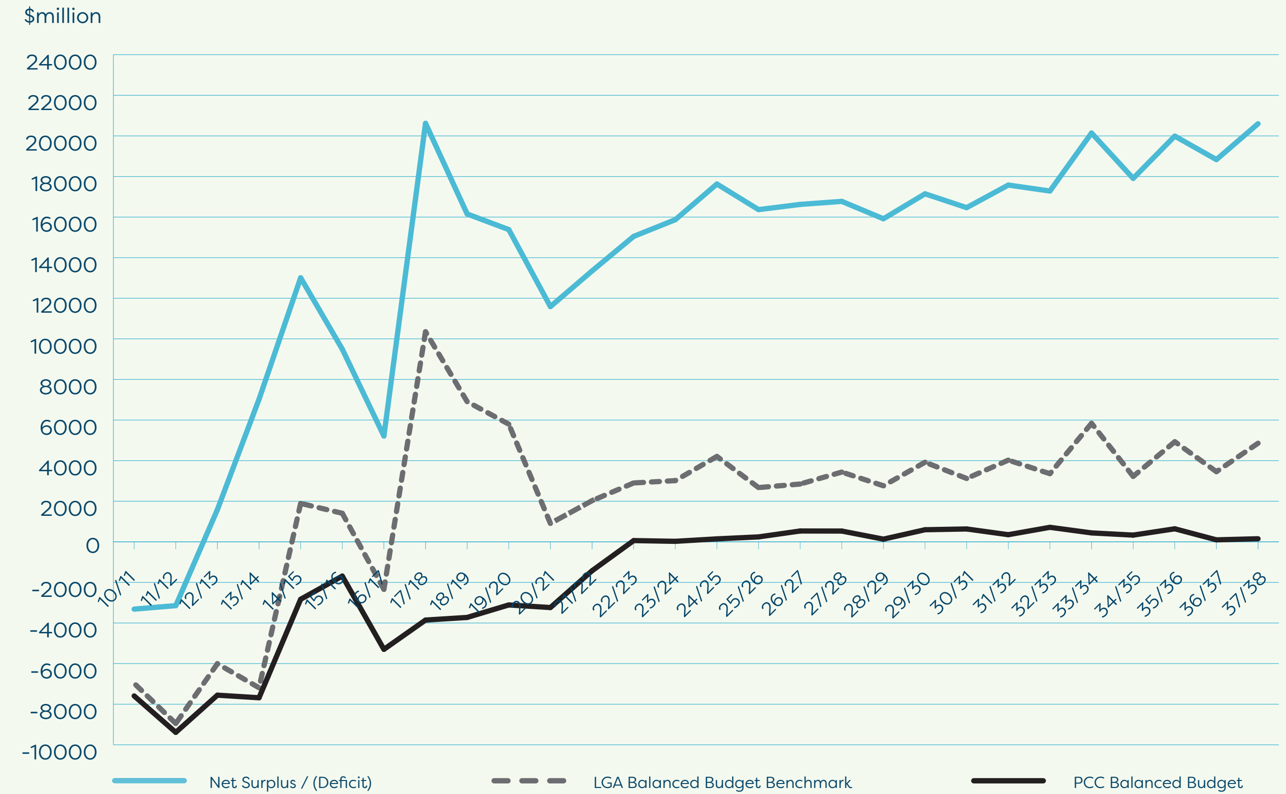
Summary of the forecast income statements for 2018–38

	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	32/33	37/38
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**15**	**20**
Operating surplus/ (deficit) ($000)	16,154	15,384	11,589	13,346	15,049	15,871	17,630	16,368	16,624	16,774	17,284	20,599
Less vested assets, development contributions, & revaluations	9,246	9,586	10,681	11,319	12,148	12,856	13,423	13,695	13,775	13,337	13,926	15,740
LGA – balanced budget benchmark	**6,908**	**5,797**	**908**	**2,027**	**2,901**	**3,016**	**4,207**	**2,673**	**2,848**	**3,437**	**3,358**	**4,859**
Less costs/ gains on asset sales & NZTA subsidy	10,632	8,906	4,145	3,453	2,839	2,990	4,062	2,430	2,314	2,906	2,642	4,706
Balanced budget	**(3,725)**	**(3,109)**	**(3,237)**	**(1,426)**	**62**	**26**	**146**	**243**	**534**	**531**	**715**	**152**

Understanding an operating deficit

Although the Council has an operating surplus for the period of the LTP the Council is continuing to run a balanced budget **deficit** until 2021/22 and break even from 2022/23 as shown in the table and graph below:

Forecasted Income



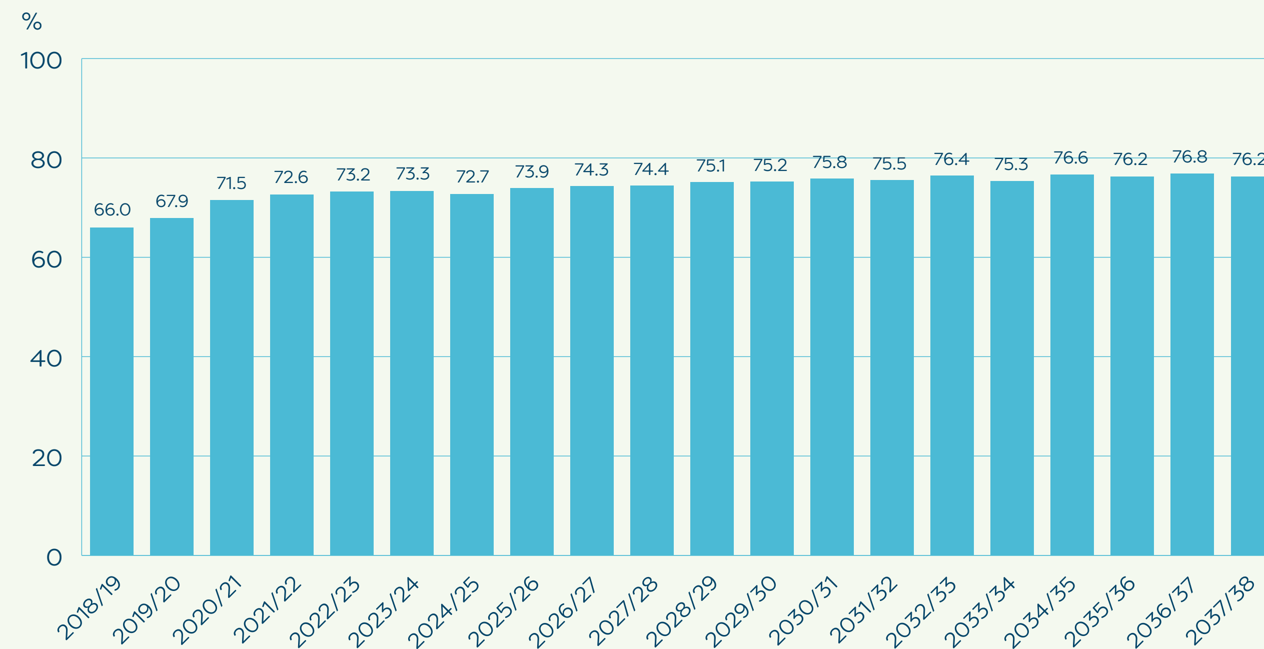
The accounting surplus (in blue) includes non-cash items such as "income" from vested assets and the impacts of revaluations of our assets.

Part of the income we receive is from NZTA in the form of a subsidy for expenditure on our roading network. This subsidy is to cover both operating and capital expenditure. The capital component needs to be spent on capital items and is not available to meet the day-to-day operational costs of the Council. This is why we exclude these capital subsidies in our calculation of Porirua City's balanced budget.

Rates revenue

The Council has a high dependency on rates as its principal source of income. The graph below shows this dependency over the 10 years of the LTP trending slowly upwards. The Council would need to create further dividend yielding investments, such as investment properties, or move into other profitable revenue generating areas for this trend to change.

Rates is the amount required to provide the services to residents and ratepayers after allowing for other income, such as fees and charges, grants and subsidies.



Note: The lower figure in Year 1 results from an increase in subsidies from NZTA arising from the construction aspect of two link roads for the Transmission Gully Motorway. The link road subsidies are in the first two years.

The Council is forecasting that its operating expenditure will increase from $83.4 million to $158.4 million, a 90 per cent increase, between 2018 and June 2038. These increases are a result of:

Growth – there are or will be more households in Porirua (based on growth assumptions of 1 per cent per annum of the Plan)

Depreciation and interest payments – the increased capital expenditure programme means corresponding increases in costs in these cases

Price increases – inflation and the factors that influence it will mean that it costs more to do business. It is forecasted by BERL that costs in general for the local government sector could increase by 63 per cent over the same 20-year period.

Rates and rate increases

The LGA requires the Council to quantify its limits on rates and rate increases.

The Council believes that the Local Government Cost Index (LGCI) is the most appropriate index to reflect the cost increases the Council is subject to. It further believes that the LGCI is the benchmark upon which residents and ratepayers can compare the level of rates that the Council sets each year. The LGCI is independently determined by BERL and is widely used by councils throughout New Zealand. BERL index numbers do assume a constant volume impact and only represent the "price" increase over time for the same level of activity. As the Council is constantly faced with increased volumes of assets it has to manage, the impact on rates will always be greater than the BERL increases.

It is important to distinguish between the increases in rate revenue from year to year and the average rate increase. Our revenue increases reflect not only the impact of rate increases to the average ratepayer, but it also includes rate revenue received from the growth in new rateable properties each year – currently running around 1 per cent per annum.

The Council has determined its rate increases based upon the levels of service it wants to provide and the capital programme. These increases also reflect the principles and issues referred to earlier in this Strategy.

Over the next five years, the Council will progressively move to achieving a balanced budget.

While changes in rate levels actually vary each year, this can lead to significant movements between years. While we tend to treat our capital programme as a programme to be delivered over time and accept that the amount each year will almost certainly vary to that budgeted annually but it will be delivered over the length of the LTP. We have not, to date, viewed rates in the same way.

The Council believe that smoothing of rate changes year-upon-year is a better approach and provides more certainty to residents.

In this regard Council is proposing that the rate level for the next five years i.e. until we achieve a balanced budget in 2022/23 – be at the same level. The Council will manage the overs and unders in its costs and revenue within the set amounts. The only time the set rate level would change would be if an unforeseen and significant circumstance was to arise. At that point, the Council would consult with residents on the proposed rate change.

Once a balanced budget is achieved, the annual rate increases are expected to be significantly lower as shown in the table on the next page.

Rates projection

	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	32/33	37/38
Year(s)	1	2	3	4	5	6	7	8	9	10	15	20
Rates income ($million)[1]	63.51	67.31	71.33	75.60	80.11	83.12	86.03	88.87	90.65	92.46	108.48	125.45
Average rate increase[2]	4.98%	4.98%	4.98%	4.98%	4.98%	2.75%	2.50%	2.30%	1.00%	1.00%	2.25%	1.50%
LGCI benchmark	2.0%	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.60%

Note:
1. These figures include inflation but exclude GST.
2. These figures do not take into account additional income from new properties in the city each year. Property growth is assumed to be 1 per cent annually.

The total rates requirements for each year of the LTP is as indicated in the table above. It is believed that this level of rate increase will meet the levels of service that the Council provides.

Levels of service

A key determinant of the Council's costs relates to the levels of service that is provided to ratepayers and residents. Whether it's the ability to provide clean water or the frequency the grass in the parks is cut, levels of service have been established for all the Council activities. The annual residents' satisfaction survey 2017 indicated that overall satisfaction with the levels of the Council services was 82 per cent.

Generally there is a trend of demand for increasing service levels, rather than reducing them, from ratepayers and residents alike.

The Council has, as part of the development of the LTP, looked at all of its levels of service – both operational and capital – and also the costs of the delivery. While it has made savings and identified areas where better delivery for the same money could occur, the Council has decided not to reduce any levels of service as a means of lowering rates without significant support from ratepayers and residents. Over the past few years, the Council has made a number of suggestions to reduce service levels and therefore rate levels, but feedback from the community **has not** supported service reductions.

To significantly lower rates by way of stopping activities or reducing levels of service would require quite major changes far beyond what the community has indicated an appetite for.

The Council is also not disposed to look at reductions in levels of service for the core infrastructure areas – three waters and roading.

Longer-term looking at such things as water meters, would likely result in lower water usage and therefore rates, or different delivery methods of waste services is worth consideration but these are long-term decisions that need considerable lead time and will not in the short-term see lower rates.

During the last few years, the Council conducted a number of service reviews (under Section 17A of the LGA) as it indicated it would do in the 2015–25 LTP. These reviews did result in improvement areas being identified, but they did not indicate other delivery methods that would be more cost effective. These findings were similar to reviews undertaken by neighboring councils.

State Highway 1 and State Highway 58

Once Transmission Gully Motorway is complete, then NZTA will look to hand ownership of the existing state highway routes to the Council. This means that Porirua City would assume responsibility for all maintenance and capital works for these roads.

While we have started negotiations with NZTA over the revocation process (revocation needs to be determined no later than two years after Transmission Gully Motorway opens by 2023/24), we are only at the early stages and the values and costs and terms of the transfer from NZTA are yet to be determined.

Therefore it has been agreed by the Council that it is not practical (or even possible) to incorporate any of the resulting financial impacts into this LTP but would expect the financials will be understood sufficiently to incorporate the impacts into the 2021–41 LTP.

By way of example, as a local road we do not need to maintain the four lane section of State Highway 1 as four lanes nor to the same standard that a State Highway would require. While Transmission Gully Motorway is being built as a non-toll highway, should that change then the use of State Highway 1 is likely to also change and that may also impact ownership and/or maintenance arrangements.

The ownership of these two roads will likely see the value of our asset base increase significantly. While we do not know the exact values, they are estimated to be in the order of $300 million to $375 million. The majority of this will represent "land", so only the non-land component would be depreciated and impact upon the Statement of Comprehensive Income and our surplus or balanced budget.

Council's investments

The Council's Treasury Risk Management Policy requires that funds are invested in a way that the Council maintains the liquidity of its investments, such that cash is available when needed. The Council's balance sheet (Prospective Statement of Financial Position) indicates a build-up of investments that represent the (cash) amount equivalent to the reserves the Council holds.

Apart from its cash investments, the Council does not hold large investments, because it prefers not to expose itself to the risks of equity investments. The three small shareholdings it holds relate to the Council being able to optimise the value of owning the shares to contribute to achieving goals and objectives for the city.

The Council has a small property portfolio where it seeks to achieve market returns, which are in turn applied to the Council's general funds.

During the last triennium, the Council commenced a review of its land holdings and determined to dispose of a number of parcels of land. While a sale programme exists, it relates primarily to reserve land which involves a complex and time consuming process to dispose of. The revenue from the disposal is not anticipated to be significant and will need to cover the costs (including staff time) of disposal. Net proceeds are taken into account for debt calculations but are not included in the rates calculation.

Long-term view

The LGA requires councils to prepare a LTP covering 10 years. This Council has determined that it will develop its LTP covering a 20-year horizon.

This approach will provide residents with a better appreciation of the capital requirements the city is facing over a longer period than previously and also aligns better with our asset management plans and Infrastructure Strategy – both of which take a 30 year view.

Clearly the numbers presented between years 11 and 20 are estimates and a number of projects in the outer years may in fact occur in a different year than currently shown. Never the less it does show residents how lumpy some of our renewal programmes are, and how these drive future debt levels.

A 20 year horizon also enables the Council to have a more realistic capital programme upon which to reflect its development contributions levies to better support the growth-funding-growth principle.

Asset management issues

Porirua City Council has assets of over $1.2 billion.

The vast majority of these are associated with our core infrastructure.

Our Infrastructure Strategy aims to meet three principle objectives:

- to make sure we meet our agreed levels of service for Water, Wastewater, Stormwater, Roading, Property, Solid Waste, and Parks
- to make sure future growth is serviced, while improving the state of our environment over time
- to ensure our services remain affordable.

Porirua became a city just over 50 years ago. A significant amount of our core infrastructure was built in the 50s – 70s and their condition reflects both the age and the types of materials used at the time.

Our Infrastructure Strategy looks to progressively improve the overall condition and accommodate likely growth in an affordable a manner as possible. We also need to address resilience issues as we look forward. In the three waters area in particular we are investing to improve the supply of water to provide greater certainty of supply in the case of a major earthquake. We are also looking to improve the levels of service in the stormwater network to address the effects of change in climate and the more frequent and concentrated major rainfall events we are experiencing.

The 2018–38 LTP has financial provision to spend $772.5 million on capital projects over the next 20 years. Of this we are proposing to invest $187 million over the next 10 years and a further $268 million in years 11–20 on our three waters and roading infrastructure alone.

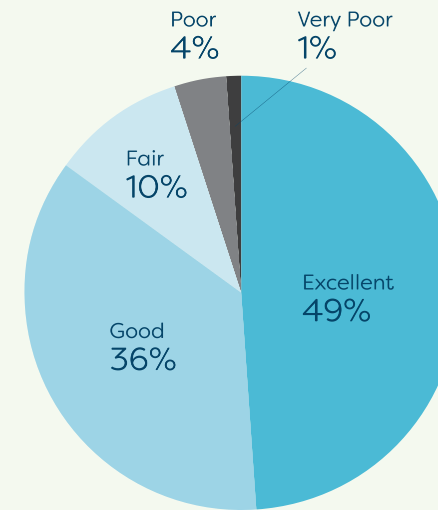
The table below includes $12.8 million of carryovers from 2017/18 of which $8.0 million relates to Transmission Gully Motorway link roads.

	2018/28	2029/38	Total 20 years
	$million	$million	$million
Renewals	138	192	330
Levels of Service (LOS)	147	175	322
Growth related	63	58	121
Total capital	348	425	773

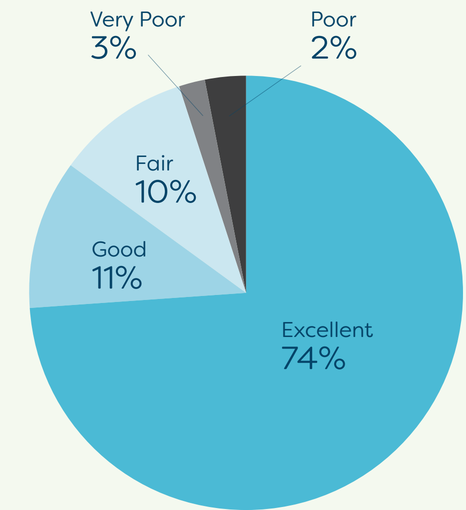
Our capital investment is based upon sound asset management plans, which are guided by our Infrastructure Strategy.

The graphs opposite indicate the condition of our core infrastructure assets. These condition assessments are coupled with our desire to improve resilience, as well as cater for growth, and drive the capital programme.

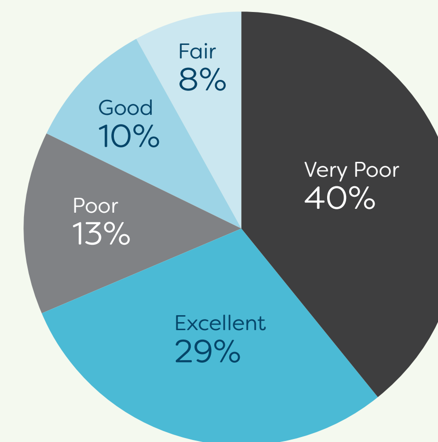
Stormwater condition by pipeline length



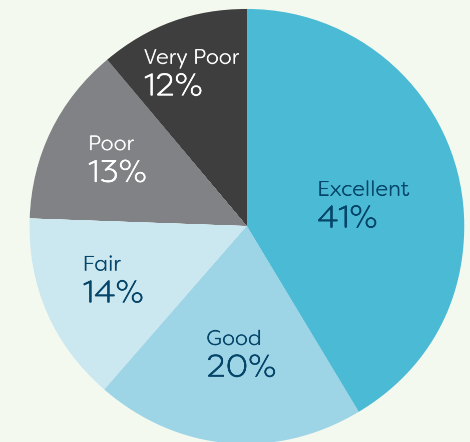
Road condition by length



Wastewater condition by pipeline length



Water condition by pipeline length



Each group of assets has an Asset Management Plan (AMP), which is a key planning tool for the maintenance, renewal and increased capacity of these assets. Renewals are the replacement programmes for existing assets. For several years, the Council has had in place a programme of monitoring and data collection with regard to the condition and performance of its infrastructure assets. In addition, information about the condition of our property assets has also greatly increased in recent times.

Linked to our capital expenditure is the amount of depreciation that is charged and rated for. As the capital spend increases, so too does the depreciation charge. Depreciation is forecast to grow from $18.6 million per annum to $45.8 million by 2038. In the second half of the LTP, depreciation charges exceed our renewals programme and this enables more debt to be retired, which results in lower interest costs and lower levels of rates.

Major projects and city milestones timeline

Years 1–30: 2018, 2023, 2028, 2033, 2038, 2043, 2048

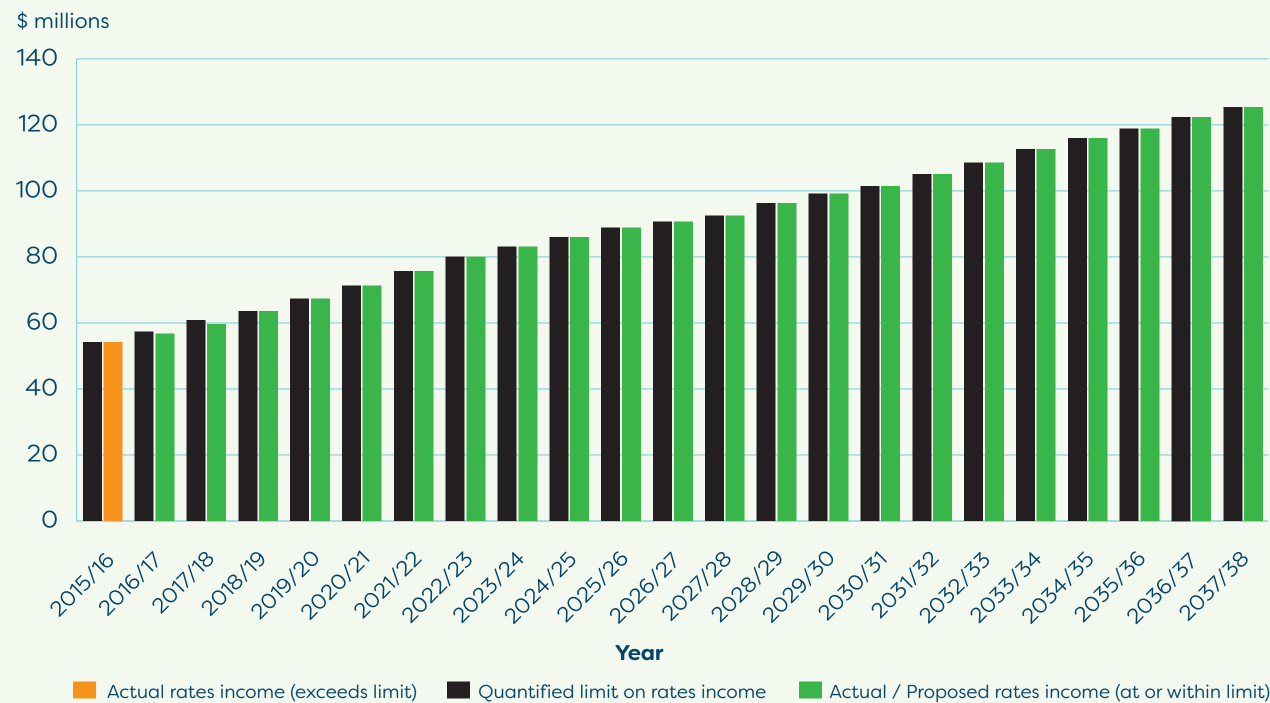
Category	Amount	Project / milestone
Water	$2.2m	Whitby Reservoir
Water	$5m	Low-level Zone Reservoir Stage 2
Water	$15.9m	Low-level Zone Reservoir Stage 1
Water	$28.9m	Water Pipeline Renewals
Wastewater	$19.7m	Local Network Improvements
Wastewater	$27.4m	Trunk Network Improvement Plan
Wastewater	$7.6m	Treatment Plant Upgrades
Wastewater	$34.5m	Treatment Plant Upgrade
Stormwater	$23.8m	CBD Flooding Improvement
Stormwater	$5.1m	CBD Wetlands
Stormwater	$5.7m	Upper Prosser Street Pipe Upgrade
Roading	$7.2m	Tg-Watangirua–Whitby New Road Connection
Roading	$1.1m / $1.1m	New Cycleways
Roading	$2.2m	Whitford Brown/Papakōwhai Intersection Upgrade
Roading	$1.63m	Te Pene Ave/Titahi Bay Road Intersection Upgrades
Parks	$1.1m	Pāuatahanui Pathway
Parks	$3m	Porirua Stream Naturalisation
Parks	$1.1m	Aotea Lagoon Stormwater
Parks	$1.8m	New Artifical Turf
Property	$5.3m	Administration Building Upgrade
Property	$8m	Eastern Porirua Revitalisation
Solid waste	Milestone	WMMP Becomes Operative
Solid waste	Milestone	Landfill Consent Renewal
Solid waste	$3.2m	New Cell (Phase 2)
Solid waste	$11.5m	New Cell (Phase 3)
Solid waste	$2.6m	New Cell (Phase 4)
Major developments		Northern Growth Area Development
Major developments		Kenepuru Landing
Major developments		Churton Park/Lincolnshire Farms
Major developments		Aotea
City & region milestones		SH1/58 Revocation
City & region milestones		Population reaches 60,000
City & region milestones		Average temperatures 1°C higher than 1995
City & region milestones		Porirua Adventure Park opens
City & region milestones		Petone To Grenada Link Roads (Wellington City)
City & region milestones		New District Plan Operative
City & region milestones		New District Plan Operative
City & region milestones		New District Plan Operative
City & region milestones		GW Natural Resources Plan Operative

Local government benchmarks

The 2014 amendment to the LGA required councils to assess and report their performance against a set of benchmarks. This common set of benchmarks enables the readers of the LTP to be able to compare their council performance against other councils. The benchmarks and our performance against them are set out below.

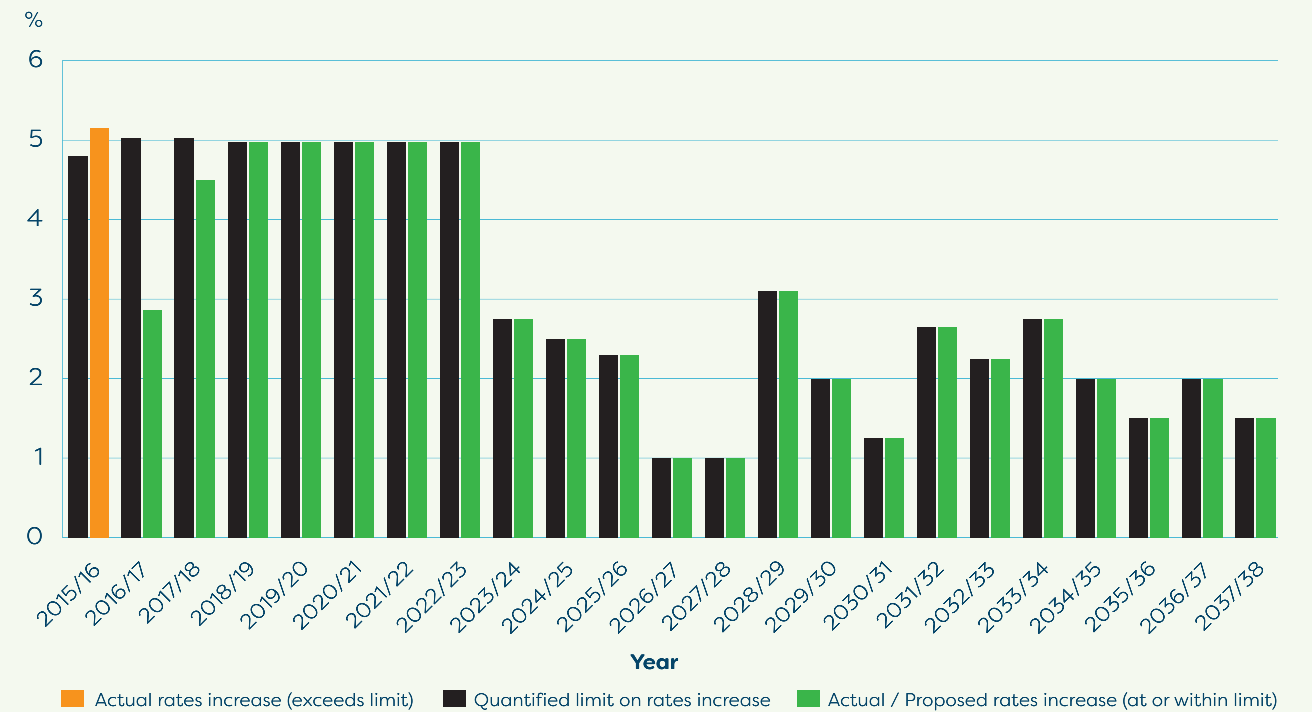
Rates income affordability

The following graph compares the Council's planned rates with a quantified limit on rates contained in the Long-term Financial Strategy included in the Council's Long-term Plan 2018–38. The quantified limit is the total rates income measured in $ million.



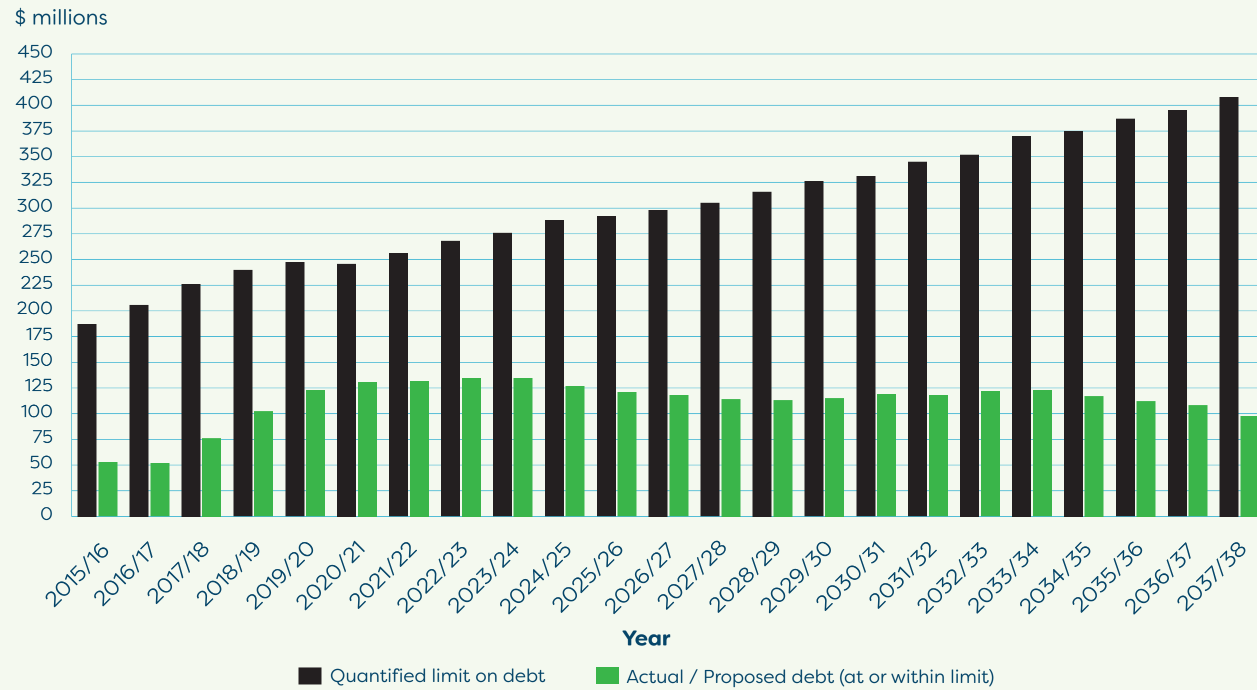
Rates increases affordability

The following graph compares the Council's planned rates increases with the quantified limit on rates increases contained in the Long-term Financial Strategy included in the Council's Long-term Plan 2018–38. The quantified limit is the average rates increase per rating unit and is measured as a percentage.



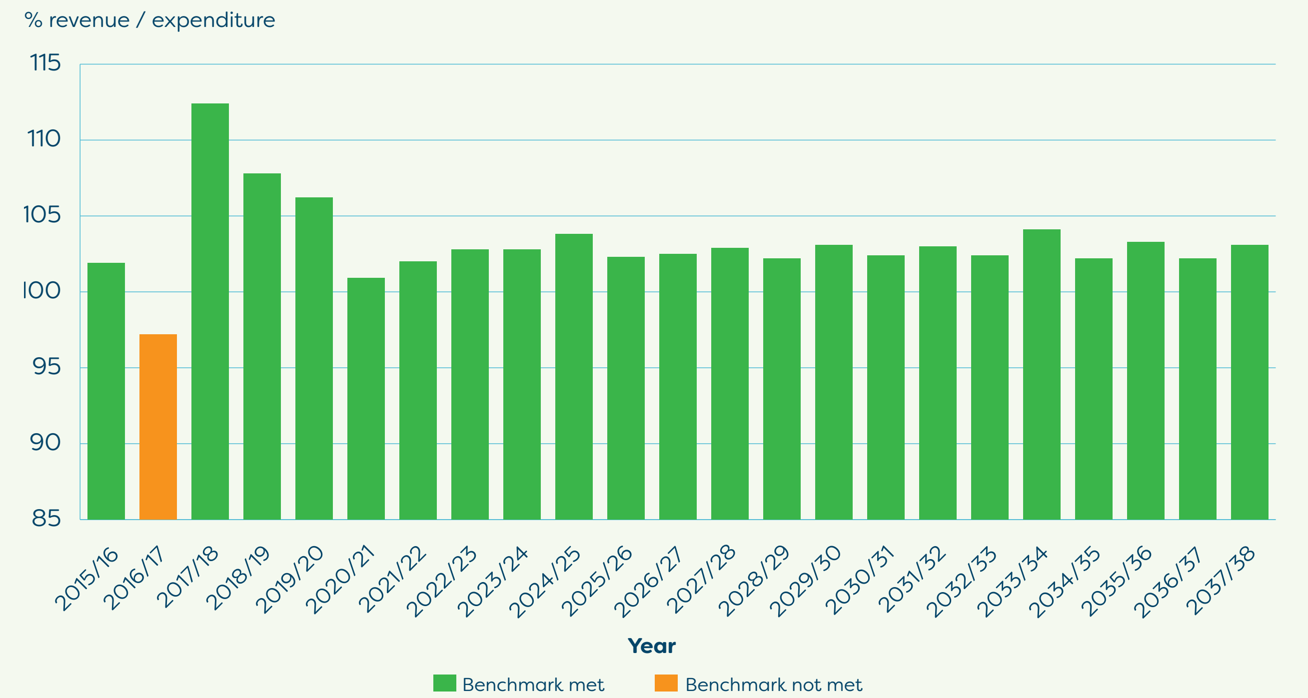
Debt affordability

The Council meets its debt affordability benchmark if its actual borrowing is within the quantified limit on borrowing. The following graph compares the Council's planned debt with a quantified limit on borrowing contained in the Long-term Financial Strategy included in the Council's Long-term Plan 2018–38. The quantified limit is based on total public debt and is measured in $ million.



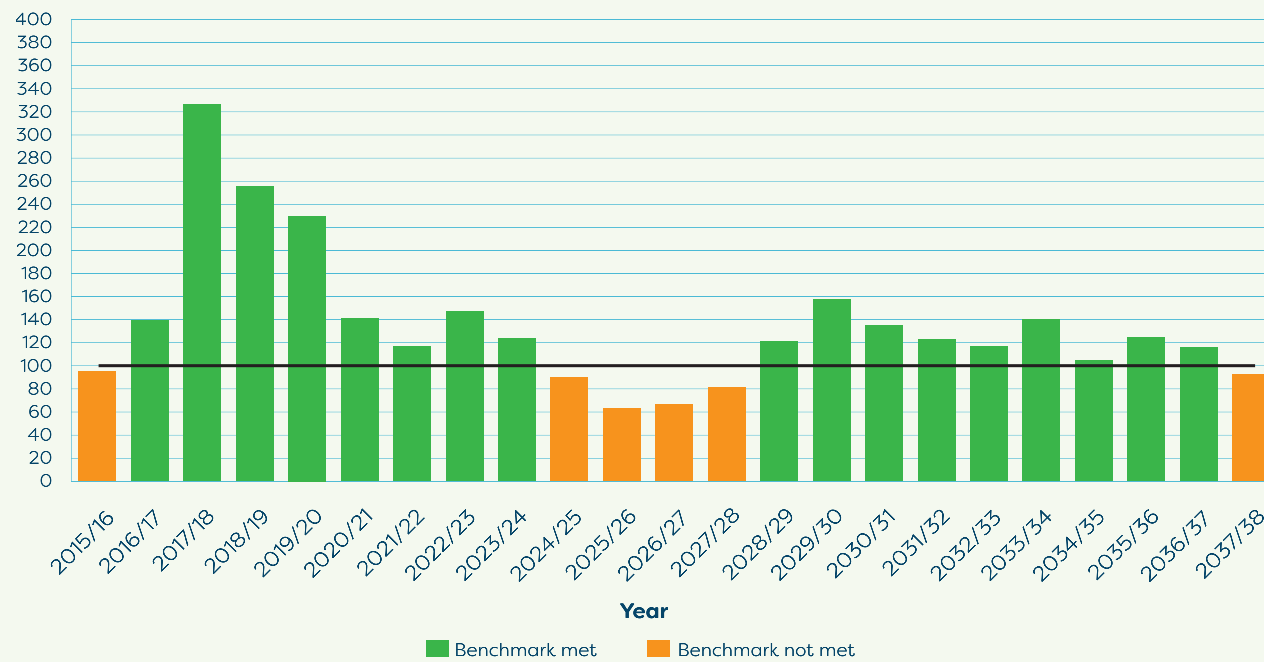
Balanced budget

The following graph displays the Council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments and revaluations of property, plant and equipment) as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant and equipment). The Council meets this benchmark if its revenue equals or is greater than its operating expenses.



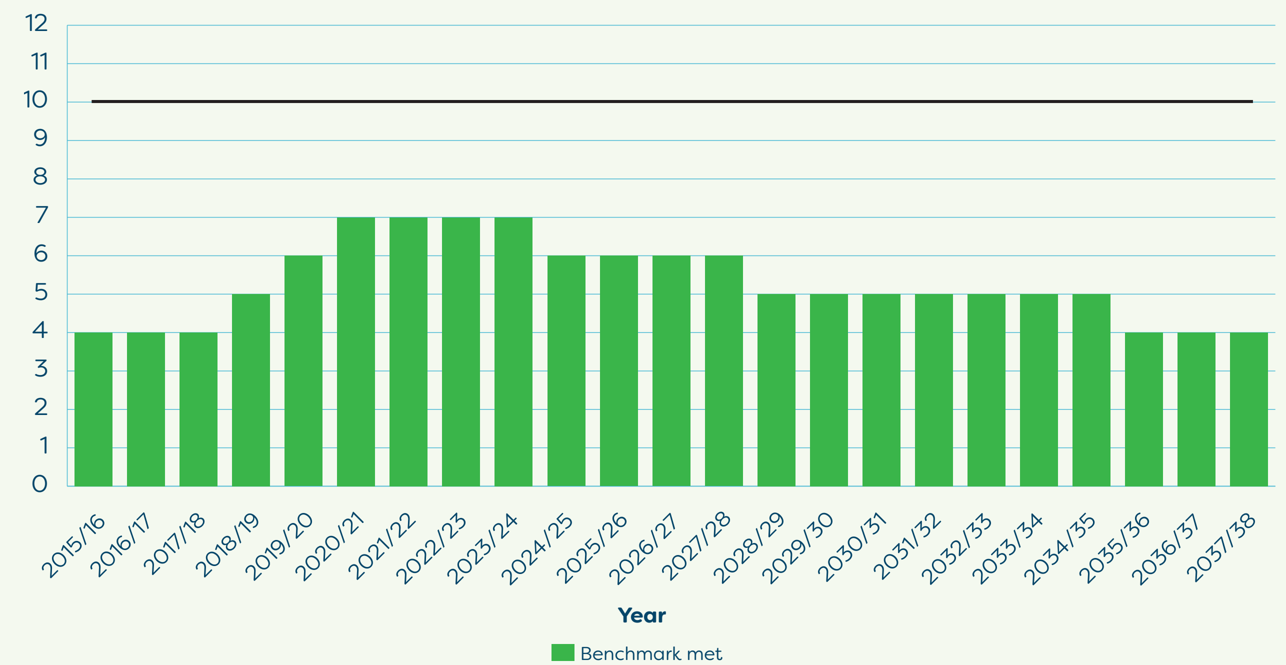
Essential services

The following graph displays the Council's planned capital expenditure on network services as a proportion of expected depreciation on network services. The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.



Debt servicing

The following graph displays the Council's planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment). Because Statistics New Zealand projects the Council's population will grow at a similar rate as the national population is projected to grow, it meets the debt servicing benchmark if its planned borrowing costs equal or are less than 10 per cent of its planned revenue.



Summary of capital expenditure

	Annual Plan 17/18 $000	LTP Year 1 18/19 $000	LTP Year 2 19/20 $000	LTP Year 3 20/21 $000	LTP Year 4 21/22 $000	LTP Year 5 22/23 $000	LTP Year 6 23/24 $000	LTP Year 7 24/25 $000	LTP Year 8 25/26 $000	LTP Year 9 26/27 $000	LTP Year 10 27/28 $000	LTP Year 11 28/29 $000	LTP Year 12 29/30 $000	LTP Year 13 30/31 $000	LTP Year 14 31/32 $000	LTP Year 15 32/33 $000	LTP Year 16 33/34 $000	LTP Year 17 34/35 $000	LTP Year 18 35/36 $000	LTP Year 19 36/37 $000	LTP Year 20 37/38 $000	Total $000
Arts and Culture	49	61	51	41	41	42	43	45	46	46	48	49	51	52	53	55	56	58	59	61	63	1,021
Aquatics and Recreation	25	103	104	107	93	95	97	99	78	80	82	84	86	89	91	94	96	99	101	104	106	1,888
City Partnerships	819	987	604	617	630	645	660	676	693	711	730	750	770	791	812	834	857	880	904	928	953	15,435
Economic Development	3,159	4,141	2,000	4,948	5,176	5,249	5,008	3,232	3,313	3,645	3,805	3,974	4,147	4,328	4,514	4,709	4,835	4,966	5,100	5,238	5,379	87,707
Emergency Management	182	441	450	194	198	203	208	213	218	224	230	236	242	249	255	262	269	277	284	292	300	5,244
Enironmental Planning and Monitoring	0	0	417	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	417
Governance	0	0	0	5	0	0	6	0	0	6	0	0	7	0	0	7	0	0	8	0	0	39
Libraries	362	369	377	386	394	403	413	423	433	445	457	469	482	495	508	522	536	550	565	580	596	9,402
Management Groups	4,328	3,358	6,872	1,877	1,913	1,985	2,033	2,052	2,133	2,189	2,216	2,309	2,371	4,724	4,325	9,774	2,601	2,709	2,782	2,817	2,934	63,974
Parks and Reserves	3,225	3,410	2,789	3,058	2,662	2,828	2,536	2,703	2,713	2,579	3,116	2,732	2,486	3,265	3,383	3,587	4,927	3,376	3,786	4,691	3,523	64,150
Property	2,365	5,265	4,041	1,428	1,857	1,800	1,287	1,394	1,336	5,753	6,642	1,690	969	1,603	1,276	2,034	2,442	1,283	1,480	1,199	1,681	46,460
Roading	26,816	20,624	16,089	6,348	5,819	5,036	5,315	7,245	4,335	4,132	5,194	5,093	5,954	4,464	6,584	4,751	9,683	5,209	7,716	6,058	8,470	144,119
Stormwater	1,460	1,291	5,478	3,188	1,554	278	249	324	877	682	1,821	3,378	3,429	5,277	4,360	4,614	4,599	3,327	6,802	7,316	4,293	63,137
Solid Waste	160	232	3,779	109	927	949	168	171	6,594	5,512	187	2,170	133	138	142	146	149	154	158	162	244	22,224
Water Supply	2,948	3,241	1,206	3,771	2,820	8,676	7,116	2,382	974	1,000	1,026	5,296	7,635	3,845	3,317	1,821	1,870	1,921	1,973	2,026	2,080	63,996
Wastewater	6,182	6,605	6,726	5,291	6,374	7,680	6,058	4,372	4,112	5,475	6,182	8,318	12,746	13,204	10,948	14,021	14,929	13,842	13,439	13,803	9,236	183,361
Total	52,080	50,128	50,984	31,366	30,459	35,870	31,198	25,332	27,855	32,478	31,736	36,548	41,507	42,523	40,570	47,231	47,849	38,650	45,157	45,275	39,858	772,574

How our capital expenditure is funded

	Annual Plan 17/18 $000	LTP Year 1 18/19 $000	LTP Year 2 19/20 $000	LTP Year 3 20/21 $000	LTP Year 4 21/22 $000	LTP Year 5 22/23 $000	LTP Year 6 23/24 $000	LTP Year 7 24/25 $000	LTP Year 8 25/26 $000	LTP Year 9 26/27 $000	LTP Year 10 27/28 $000	LTP Year 11 28/29 $000	LTP Year 12 29/30 $000	LTP Year 13 30/31 $000	LTP Year 14 31/32 $000	LTP Year 15 32/33 $000	LTP Year 16 33/34 $000	LTP Year 17 34/35 $000	LTP Year 18 35/36 $000	LTP Year 19 36/37 $000	LTP Year 20 37/38 $000	Total $000
Depreciation	14,693	13,004	10,539	9,694	10,995	12,330	9,944	9,562	8,620	8,890	11,102	15,862	13,577	14,539	14,054	15,423	17,953	16,381	17,020	16,754	17,902	264,145
Capital subsidy	14,207	10,776	8,875	4,114	3,421	2,804	2,955	4,026	2,394	2,277	2,869	2,591	3,288	2,450	3,633	2,603	5,359	2,850	4,250	3,317	4,663	79,515
Development contributions	431	287	431	1,327	1,762	2,372	2,848	2,946	3,041	3,009	2,285	1,810	1,577	1,386	1,278	1,326	1,363	1,402	1,422	1,378	1,369	34,619
Reserves & Int Capitalisation	160	1,165	4,933	82	900	921	139	148	6,581	5,628	562	97	100	104	107	110	112	116	119	122	203	22,248
Debt	22,589	24,896	26,206	16,149	13,381	17,443	15,312	8,649	7,219	12,674	14,918	16,188	22,964	24,045	21,498	27,770	23,063	17,901	22,346	23,705	15,721	372,046