Draft Financial Strategy 2024-2034

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Summary

This section summarises Nelson City Council's Financial Strategy (the Strategy) for the Long Term Plan 2024-2034 (LTP).

We have had our fair share of challenges lately, including cost of living pressures, natural disasters and the pandemic. This Financial Strategy includes projects to help us weather these storms, so we can adapt to the challenges and thrive over the next 10 years.

During this time, we will support our community's wellbeing through transforming our city centre, fostering a healthy environment and climate resilience, and continuing recovery from the August 2022 severe weather event. We are also expecting an extra 5,000 people to be living in Nelson in 10 years' time, bringing the population up to about 60,400. Having 5,000 more people in town will boost our economy, but Council needs to make sure enough infrastructure, including housing, is in place to support the increased population.

Over recent years we have maintained relatively modest rates increases (including a 0% rise in 2020/2021) and kept our debt level to $168.8 million as at June 2023. That approach is unsustainable going forward. Council is facing a perfect storm, brought about by increasing interest rates, higher insurance costs, higher inflation costs, increases in the cost of depreciation after a revaluation of Council assets, the earthquake prone status of the current civic building, and costs associated with recovery from the August 2022 severe weather event.

Council's goal is to set affordable and predictable rates over the long term. To do this Council has to strike a balance between providing levels of service that meet customer and legislative requirements, and the public's ability to pay for these services.

Council is budgeting carefully during this time of increasing costs. That has meant finding savings where we can while continuing to pay for the essentials, including our roads, pipes, parks and buildings.

We are continuing to invest in the services that make a real difference to you and our environment.

Some specific benefits of this proposed investment include:

- Recovery from the August 2022 severe weather event that has not only repaired damaged infrastructure but has included betterment (ie building back better) to provide resilience for future weather events that will offer some security with assets being less likely to fail in future severe weather events

- The Bridge to Better infrastructure project in the inner city provides infrastructure capacity and resilience for increased city centre intensification and to revitalise Bridge Street. This project is also supported by central government funding
- The availability of land serviced, with infrastructure to support more intensive living in existing urban areas and some greenfields development, will enable housing development to keep pace with our increasing population
- Better management of all Council's forested land by transitioning away from commercial forestry over time, which will benefit recreational users and the environment
- Forming an asset-owning Council controlled organisation for the Nelson Marina, this will take the marina debt off Council's books and enable implementation of the Marina Masterplan
- Installing an all-weather turf in one of Council's reserves, estimated cost $2.7 million, subject to a 50% contribution from sports codes
- Constructing a new building for the Nelson Surf Lifesaving Club and improving other facilities at Tāhunanui Beach Reserve, estimated cost $3.3 million, subject to a 50% contribution from the Nelson Surf Life Saving Club
- Establishing an arts hub in the city centre to support the arts sector and wider community, estimated cost $1.7 million for the purchase of a building
- Extending the east-west cycle way link, estimated costs $4.9 million
- Developing and implementing a Council Climate Change Strategy
- Detailed design, consenting and construction of the Atawhai rising main between 2024-2033, estimated cost $58.7 million.

For a greater understanding of the maintenance and renewal of our infrastructure and new infrastructure projects, please refer to our Infrastructure Strategy available on Council's website nelson.govt.nz.

To fund Council's work, our annual rates revenue rises cap will remain at Local Government Cost Index (LGCI) plus 2.5% and an allowance for growth. The rates rises are projected to be 8.2% in 2024/25 plus $300 including GST per separately used or inhabited part of a rating unit (SUIP) for the Recovery targeted rate, 5.4% in 2025/26, 4.8% in 2026/27 and average 3.3% for the remaining 7 years. Our debt cap will increase from a 175% debt to revenue ratio to a 200% debt to revenue ratio. The net debt level at 30 June 2025 is projected to be $248 million and to be $526 million by 30 June 2034.

The ten year forecast capital expenditure was $645 million (including inflation, excluding vested assets and the joint business units) in the Long Term Plan 2021-2031. This is proposed to increase to $1.041 billion in the Long Term Plan 2024-2034 Consultation Document, of which $436 million is for renewals. Overall capital expenditure is proposed to increase by $396 million. This significant capital expenditure programme reflects the need to undertake renewals, meet growth needs and it reflects the greatly increased costs of doing the work.

The forecast operational expenditure is proposed to increase from $169.9 million in 2023/24 to $177.3 million in 2024/25, rising to $250.7 million at the end of the 10 year period in 2033/34.

Council has seen very large infrastructure valuation increases during the last four years. At 30 June 2023, our assets were worth $2.4 billion, compared with $1.6 billion in 2019. It is not affordable for current ratepayers to fully fund the increased depreciation on the revaluations in one step, as it would add a further 9.3% onto rates in the 2024/25 year. Therefore, Council has chosen to phase in the depreciation funding over the 10 years of the Long Term Plan. Council plans to fully fund depreciation by 2034. This ensures that current users of infrastructure pay their fair share of the costs of wear and tear on our assets.

Our debt will still be well controlled, serviceable through our income streams and will keep interest payments manageable. Debt headroom will be available earlier in the Long Term Plan to respond to emergencies caused by natural disasters.

This Strategy has been prepared assuming that there will be a continuing provision of water services by Council.

The Strategy and Context

Vision and Priorities

This Financial Strategy supports our work to make our vision a reality:

> *Whakatū Nelson is a creative, prosperous, and innovative city. Our community is inclusive, resilient, and connected – we care for each other and our environment.*

The Strategy also supports Council’s strategic priorities for the Long Term Plan 2024-2034:

- *Support our communities to be prosperous, connected, and inclusive*
- *Transform our city and commercial centres to be thriving, accessible and people-focused*
- *Foster a healthy environment and a climate resilient, low-emissions community*

Council must, under the Local Government Act 2002, manage its revenues, expenses and assets, liabilities, investments and general financial dealings prudently. We must manage these in a manner that sustainably promotes the community's current and future interests.

The Financial Strategy demonstrates how Council will:

- Provide for growth in our region and manage changes in land use
- Ensure that the level of rates and borrowing are financially sustainable and are kept within pre-set limits
- Be accountable for maintaining the assets that we own on behalf of the community
- Fund network infrastructure and maintain our levels of service
- Obtain pre-set returns on financial investments and equity securities
- Give securities on borrowing.

The overall direction of this Strategy is to:

- Keep the overall rates increases to the Local Government Cost Index (LGCI) + 2.5% and an allowance for growth across the LTP
- Manage our work programme to remain within a debt to revenue ratio of 200% (previously 175%).

In preparing the LTP and this Strategy, Council has considered:

- Service levels, costs of these services, and money required to achieve these services
- Priorities for expenditure across all activities, including capital expenditure on network infrastructure
- Setting rates and charges across the full 10 year period of this LTP and how to minimise these while achieving the targeted levels of service
- The level of debt that current and future ratepayers would need to fund
- The level of growth and changes in use of land that are expected over the next 30 years and beyond.

Overall, Council considers this LTP to be financially sustainable and will support the most important services to residents, businesses and visitors.

Providing for levels of service and meeting additional demand

Council assessed the funding requirements to meet the levels of service proposed for each activity and considers that the proposed capital and operating expenditure is sufficient to achieve the planned levels of service.

Council continues work to reduce greenhouse gas emissions and achieve its emissions targets, and to adapt to climate change hazards. Climate change is embedded across all our activities, it is now a critical part of business as usual.

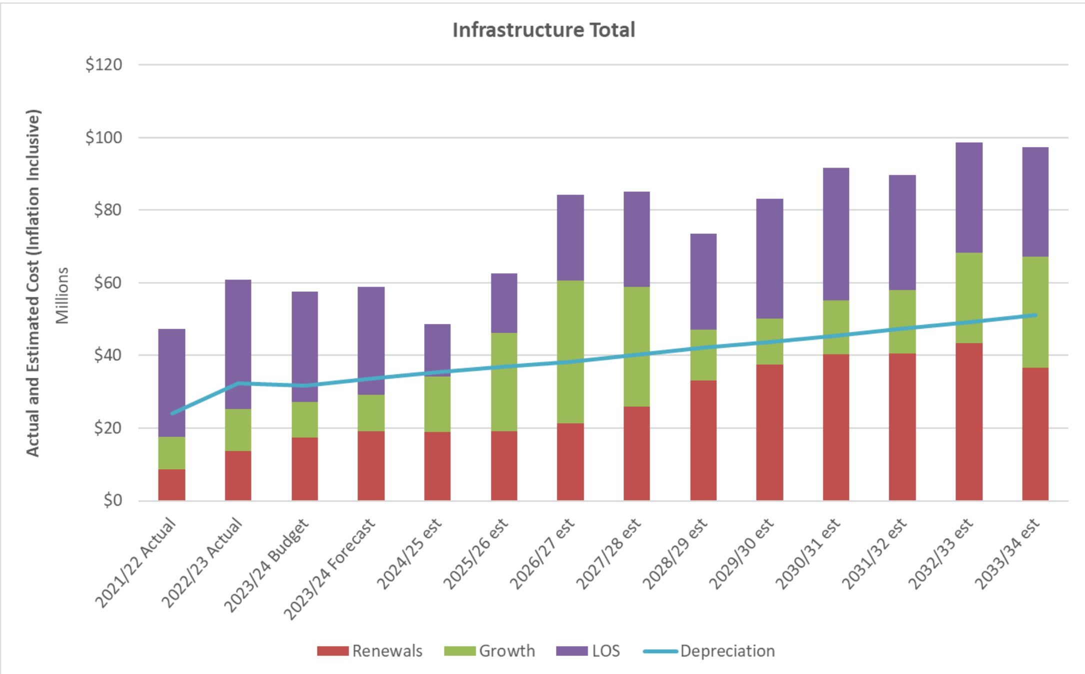
Major capital expenditure planned to maintain or increase levels of service includes projects mainly in the following Council activities:

- Transport
- Water supply
- Wastewater
- Stormwater
- Flood protection, including adaptation to climate change
- Parks and Active Recreation, including an all-weather sports turf, new and improved Tāhunanui Beach facilities
- Social – including an Arts Hub.

We are also using operating expenditure to maintain our existing assets and respond to legislative requirements.

The graph (figure 1) outlines the infrastructure capital spend by year, including what expenditure is primarily driven by level of service (LOS) improvements, by growth and by renewals.

Figure 1: Infrastructure spend by primary driver



Supporting our growing population

The assumptions section of the LTP describes Council's population estimates. We are expecting an extra 5,000 people to be living in Nelson in 10 years' time, bringing the population up to about 60,400. The rate of increase for the

LTP is expected to be medium, slowing over time due to structural population ageing.

Based on these figures, we expect there will be a need for approximately another 2,800 – 2,900 homes in our city, along with associated new commercial and industrial buildings. This growth in housing and business development creates demand for additional capacity in our infrastructure. Housing affordability is a concern for residents trying to buy homes in our city. If we don't provide the infrastructure needed to service land for housing development, housing affordability will decline further.

Growth underpins land use planning, infrastructure developments, where and when new services or facilities are required, and how much things will cost. We plan to invest in the infrastructure needed to provide for growth, including planned intensification within the existing urban area. Our Infrastructure Strategy 2024-2054 outlines our infrastructure maintenance, renewal and development proposals.

Council takes a medium growth approach in applying population growth estimates in its infrastructure planning, which are updated as new data becomes available.

We will borrow to fund the growth related infrastructure work and repay the debt primarily through levying development contributions[1] on subdivision developments. The graph above (figure 1) outlines the infrastructure capital spend by year, including what expenditure is primarily driven by growth.

More information is set out in the draft Development Contributions Policy, which is available on Council's website. Information on projects with a growth component is included in the schedules attached to the proposed Development Contributions Policy.

The costs of meeting demand for services as a consequence of growth have been included in the LTP.

Any variance between the budget and actual Development Contributions received for each activity will be stated in the Annual Report. In the short term, between Long Term Plans, any shortfall or surpluses are offset by higher or lower borrowings (serviced by rates). These variances flow through to the three yearly Development Contributions recalculations.

[1] Development contributions are a fee charged on for new developments to contribute to the costs of building the infrastructure needed to support them.

Table 1: Summary by activity of growth component of capital projects and development contributions payable

Activity Greenfield	$ per HUD (excl. GST)	Brownfield $ per HUD (excl. GST)
Stormwater[2]	$7,500	$7,500
Wastewater	$8,240	$8,240
Water supply	$4,310	$4,310
Transportation	$3,210	$3,210
Community infrastructure	$2,030	$2,030
Infrastructure Development Contribution Totals	$25,290	$25,290
General reserves[3]	$1,660	$1,660
Neighbourhood Reserves (Greenfield) – Sites outside the urban boundary	$15,689	NA
Neighbourhood Reserves (Intensification) – Sites inside the urban boundary	NA	$280
Reserves Development Contribution Totals	$17,349	$1,940
Total Development Contribution	$42,639	$27,230

Land use changes

Although some population increases can be accommodated from improved and more intensive land use which is already zoned for residential and business use, there is a requirement to provide further land for houses and businesses. A change in land zoning requires using the Resource Management Act 1991 processes to change the Nelson Resource Management Plan.

Council has notified Plan Change 29 which introduces more flexibility around housing policies and rules, while ensuring that natural hazard risks are appropriately managed and historic heritage is protected. The changes are proposed in response to population growth and demand for housing in the region. Proposed Plan Change 29 assists in implementing intensification of residential areas within Nelson City. We received over 800 submissions on the Plan Change. Council has yet to decide the next steps on the proposal.

[2] This includes flood protection capital projects that have a growth-related component within the stormwater collection and management development contribution, and where each relevant flood protection project is required, at least in part, to collect or manage stormwater run-off from developments or to protect developments from stormwater run-off.

[3] General Reserves includes the land and the improvements to that land.

Council was part way through a full review of the Draft Nelson Plan (Whakamahere Whakatū Nelson Plan). However, we paused the review due to the uncertainty created by Government legislative and policy changes.

Other factors

In addition to those outlined above, the following factors will also be important:

Urban area

- Nelson City Council covers a relatively compact urban area and a small rural area. This means that the funding of services is largely provided by general rates rather than through rates targeted at separate communities.

External factors

- These are factors outside our control that have an impact on how we fund our activities. For example, changes in road and transport funding provided by central government affect what projects we carry out.

Affordability

- Many residents have low incomes and rates affordability is an important focus for many households. The cost of living crisis has exacerbated the affordability issue. Council looks for every opportunity to reduce costs while not setting back Nelson’s progress.

Goods and services

- The cost of goods and services that we provide may increase at a higher rate than the Consumer Price Index (CPI). For example, roading costs are dependent on oil based products.

Private/Public split

- Council aims to have costs and fees that are an appropriate reflection of the balance of individual benefit versus public good.

The consequences of these factors are:

- It is not financially sustainable to provide all the services and activities wanted by the community at the same time. Therefore, we have to prioritise our work programme
- We have spent the last 12 months reviewing our work programme and services to prioritise the needs of the community
- Costs to maintain and deliver our services to you will continue to increase in the foreseeable future, mainly due to inflation, managing infrastructure for growth and environmental improvement, phasing in funding depreciation, interest cost increases, and other operating cost increases associated with capital expenditure.

Financial Prudence

Council is required to ensure each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses, i.e. we must demonstrate financial prudence. We may set projected operating revenues at a different level from that required, if Council resolves it is financially prudent to do so.

In assessing a financially prudent position, we have considered:

- The estimated expenses of achieving and maintaining the targeted levels of service. This includes estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life
- The projected revenue available to fund estimated expenses associated with maintaining the service capacity and integrity of assets
- The equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life
- Council's funding and financial policies and this Financial Strategy.

During the development of the information to support the Long Term Plan, Council considered how to balance its existing asset renewal programme, levels of service, providing for growth and the recovery from the August 2022 severe weather event, and the effects of climate change.

Depreciation and renewals

Council notes that depreciation is greater than renewals and appreciates that this position is not sustainable in the long term. Our current approach is to repay debt using funding for depreciation, and we acknowledge that borrowing for renewals will need to be made when this is required.

Following the revaluation of infrastructure assets over the last four years, Council's assets have increased in value significantly. As noted above, we are proposing to phase in the depreciation impact of the increased values over the ten year period, with the aim of fully funding depreciation by 2034.

Council's Infrastructure Strategy considers how we will provide and pay for infrastructure to enable growth. This includes network developments for wastewater, stormwater, drinking water, flood protection, solid waste and transport. Planned operational and capital expenditure shown in the Infrastructure Strategy for years 2034-2054 is outside the time period of this Financial Strategy.

Debt and Rates Limits

Debt

Council understands the need to invest in infrastructure, including social infrastructure for the wellbeing of our community and to support our city to grow and develop. Increasing levels of capital expenditure, as outlined in the

Infrastructure Strategy, will lead to increasing debt levels. Because of the growth in the region and the demands for more Council-delivered infrastructure and services, Council is continually looking at how to best fund these demands while keeping rates affordable. We need to balance the need for investment now, and the ability for today's and future generations to pay for this investment.

We are increasing our debt limit to a Debt to Revenue ratio of 200% from 175% to fund this infrastructure investment. This significant capital expenditure programme reflects the need to undertake renewals, meet growth needs and it reflects the greatly increased costs of doing the work.

Table 2: Net debt, debt/revenue ratio, rates and rates cap

	Annual Plan 2023/24	LTP Year 1 2024/25	LTP Year 2 2025/26	LTP Year 3 2026/27	LTP Year 4 2027/28	LTP Year 5 2028/29	LTP Year 6 2029/30	LTP Year 7 2030/31	LTP Year 8 2031/32	LTP Year 9 2032/33	LTP Year 10 2033/34
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Net Debt	207,862	247,708	251,731	280,223	314,342	380,560	421,253	454,793	481,261	504,098	526,310
Debt to Revenue Ratio	123%	136%	133%	133%	148%	180%	186%	190%	194%	196%	198%
Total Rates Increase*	7.2%	8.2% Plus $300 Recovery Rate per SUIP	5.4%	4.8%	4.7%	4.3%	4.2%	3.2%	2.8%	2.0%	1.7%
Rates Cap	6.8%	5.4%	4.7%	4.8%	4.8%	4.7%	4.6%	4.5%	4.5%	4.4%	4.4%

** Total Rates Increase for 2024/25 excludes the $300 (incl GST) special rate for August 2022 severe weather event recovery.*

Please refer to Figure 5 on page 16 for a graph of the forecast debt by year.

Rates

We have to weigh up requests for more and improved services with keeping rates and charges affordable. To fund Council's work programme, our annual rates revenue rises cap will remain at Local Government Cost Index (LGCI) plus 2.5% and an allowance for growth. Using the LGCI rather than CPI is considered more realistic as LGCI reflects the higher local government costs realities - the cost of doing Council business.

The rates rises are projected to be 8.2% in 2024/25 plus $300 including GST per SUIP for the Recovery targeted rate, 5.4% in 2025/26, 4.8% in 2026/27 and average 3.3% for the remaining 7 years. The rates limit will be breached in Year 1 and Year 2 due to the ongoing impact of inflation and the need to repay the August 2022 severe weather event.

The rates rises are greater than the predicted rate of inflation, reflecting:

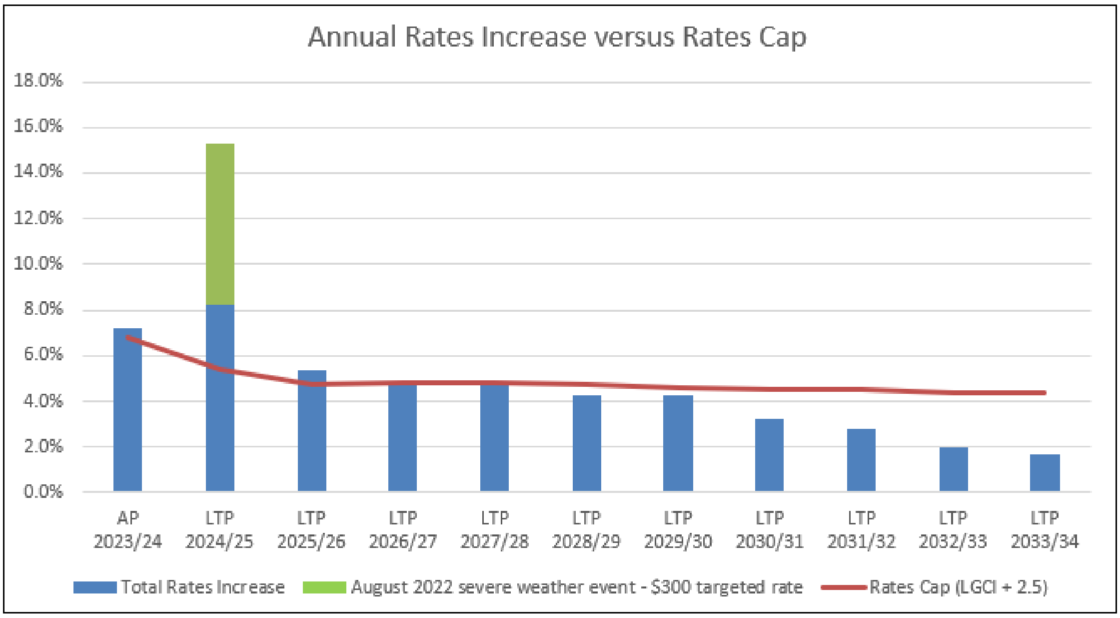
- Cost increases faced by Council, particularly for insurance and construction, which are projected to increase at a higher rate than the Consumer Price Index
- Depreciation and interest payments – the increased value of Council's assets and higher capital expenditure programme will mean that there will be a corresponding increase in depreciation and interest charges
- An increased work programme, including changes arising from new central government policies, e.g. Environmental Policy Statements, and community expectations.

Individual properties may experience smaller or larger increases depending on movements in property values, the services received and their location.

Table 3: General rates, targeted rates, total rates and total net debt

	Annual Plan 2023/24	LTP Year 1 2024/25	LTP Year 2 2025/26	LTP Year 3 2026/27	LTP Year 4 2027/28	LTP Year 5 2028/29	LTP Year 6 2029/30	LTP Year 7 2030/31	LTP Year 8 2031/32	LTP Year 9 2032/33	LTP Year 10 2033/34
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
General Rates	57,867	63,892	68,291	71,240	75,333	78,476	84,056	86,205	89,472	89,662	91,799
Targeted Rates	36,942	46,316	48,897	52,653	55,583	60,249	62,877	67,885	71,440	77,022	78,842
Total Rates	94,809	110,208	117,188	123,893	130,916	138,725	146,933	154,090	160,911	166,684	170,641
Total Net Debt	207,862	247,708	251,731	280,223	314,342	380,560	421,253	454,793	481,261	504,098	526,310

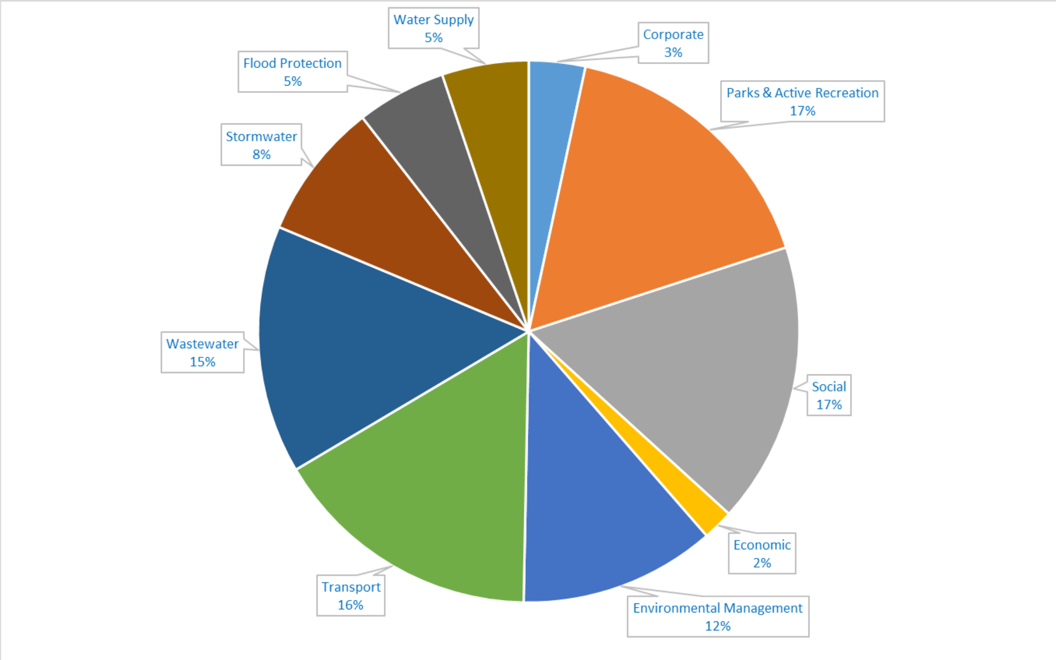
Figure 2: Annual Rates Increase versus Rates Cap



Where the money will go

The following diagram shows the proportion of rates anticipated to be collected for Council services over the next 10 years.

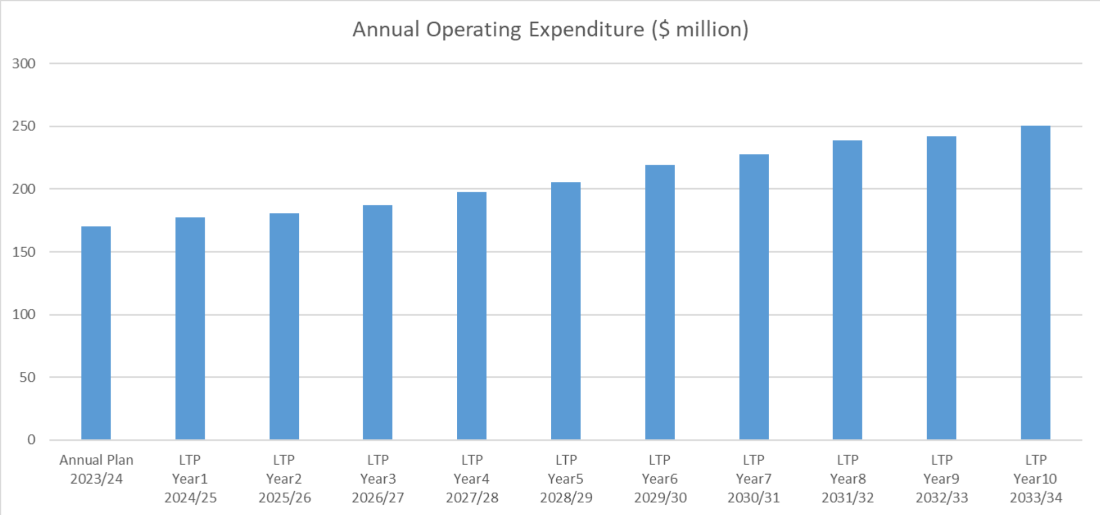
Figure 3: Rates by Council services



Note: this pie chart shows the rates requirement for all activities. Some activities have income from other sources and therefore are not included in the pie chart, for example, Solid Waste receives 100% user charges to cover operations, Corporate receives interest and dividends and Environmental Management receives building and resource consent fees and charges.

Total operating expenditure is budgeted to increase from $177 million in 2024/25 to $251 million in 2033/34, a 41% increase including inflation over the 10 years of the Long Term Plan. This is shown in the following graph.

Figure 4: Annual Operating Expenditure



Funding expenditure

Council funds operating expenditure from the following sources:

- We levy fees and charges and targeted rates as a proxy to reflect the benefit received
- We will claim for government grants or subsidies where we are providing services that are part of national programmes or where the government provides subsidies to us to provide certain services. We will also seek grants from other agencies when appropriate
- Other sources of funding include interest and dividends received and other operating revenue such as rent received
- A general rate where there is a deemed general benefit across the city.

Each activity uses different sources of funding depending on the services it delivers. All operating costs are funded, with the exception of depreciation on the NZ Transport Agency Waka Kotahi share of subsidised transport projects, phasing in of the infrastructure revaluation depreciation and some other assets. However, exceptions can be made to this approach when it is necessary to avoid significant fluctuations in rates on a year to year basis or when an operating expenditure item has multiple year benefits.

Managing risks from natural hazards

August 2022 severe weather event

In August 2022, a severe weather event caused significant damage to both public and private property in Nelson. Flooding and numerous slips impacted Council's roading and piped infrastructure network, and gravel build-up in rivers and streams was significant. The total estimated cost of the recovery is $87.2 million, with some of this to be paid for by insurance and central government. That leaves about $60 million for us to pay.

Council is having to borrow to fund the recovery costs. To repay the loans, we are proposing a uniform targeted rate of $300 (incl GST) which will apply to all SUIPs in Nelson. We think this is the most transparent way to pay for the recovery. We need to pay this off over a relatively short period of ten years because we expect more natural disasters and intense storm events to come our way in the future. But paying off this debt faster means higher costs in the short term.

Some contingency is included within the annual charge of $300 (including GST), in case of variations. In the event we pay the recovery costs off earlier, it would result in the charge being reduced in later years or ended earlier than the 10 years. A further option, if there is a surplus, would be to transfer it to the General Emergency Fund. If there are any overruns in the recovery costs it is not intended to increase the charge but to meet this from the General Emergency Fund or general rates.

General Emergency Fund

Due to the ongoing impacts of COVID over the last 4 years including the 0% rates increase in 2020/21, the General Emergency Fund has a projected overdrawn balance at 30 June 2024 of $14.8 million. Following deliberations on the submissions or at the next Long Term Plan Council will consider how to replenish the overdrawn General Emergency Fund which will likely lead to increased rates in the later years of the Long Term Plan. Council welcomes submissions from the public on whether it should put additional funding into the General Emergency Fund during the term of this Long Term Plan, particularly in the later years where rates increases are projected to be lower.

Extreme weather events are unpredictable but expected to increase as a result of climate change. Therefore, there is a reasonably high probability of another weather event happening during the term of this Long Term Plan. However, the probability of such a severe event again is much lower. Should an event occur while the Emergency Fund has insufficient funds, Council will need to borrow to cover the shortfall, seek funding from central government and insurance claims, or reprioritise the work programme. Further borrowing would increase Council's debt levels and rates to service the additional loans. If Council reprioritises the work programme, this could impact services experienced by the community. Council may also reconsider, from time to time, the amount transferred to this Fund from rates, particularly if a significant event should occur.

Borrowing

Capital expenditure is funded in the following priority order:

- Financial Contributions and Development Contributions (if a growth project)
- Grants and subsidies, for example from NZ Transport Agency Waka Kotahi, Tasman District Council, or community groups
- Cash surpluses after meeting the costs of renewals expenditure, which arise from Council's funding of depreciation
- Loans.

Because the level of borrowing is planned to increase, the management of interest costs is very important.

Council's Treasury Management Policy includes the Investment and Liability Management Policies. These are published separately and are available on Council's website. Council has determined maximum amounts and limits of debt.

The borrowing limits table shows a comparison of the limits in the Treasury Management Policy compared with those set in this Long Term Plan. The policy limits were determined in association with Council's bankers and Treasury Advisor and the Local Government Funding Agency (LGFA). The table also shows that we are operating within the guidelines contained in the Treasury Management Policy.

Borrowing Limits

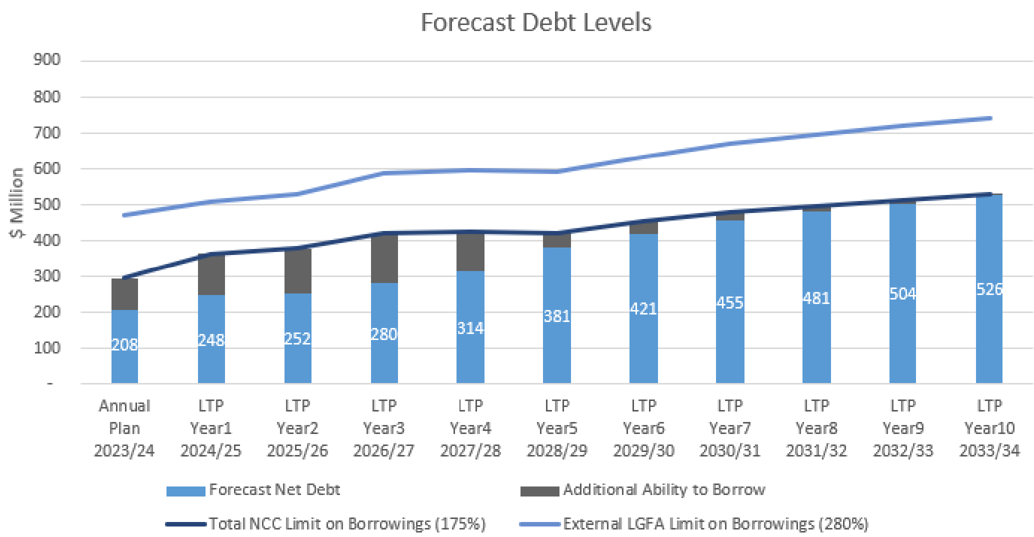
Our borrowing limits are set as:

- Net external debt[4] not to exceed 200% of total revenue[5] % (see graph below)
- Net interest expense on external debt as a % of total revenue to be less than 15%
- Net interest expense on external debt as a % of total rates income to be less than 20%.

The following graph shows that our net external debt is not expected to exceed 200% of total revenue for the ten years of the Long Term Plan.

Forecast Debt Levels

Figure 5: Forecast Debt Levels by Year



[4] Net external debt is defined as total debt less cash, term deposits and borrower notes.
[5] Total revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, and excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments and revaluations of property, plant or equipment.

The table below shows the net debt, and debt to revenue, interest on external debt to revenue, interest on external debt to rates income over the life of this plan so that they can be compared to the limits set.

Table 4: Net debt, net external debt, and net interest expense as a percentage of total rates income

	Annual Plan 2023/24	LTP Year 1 2024/25	LTP Year 2 2025/26	LTP Year 3 2026/27	LTP Year 4 2027/28	LTP Year 5 2028/29	LTP Year 6 2029/30	LTP Year 7 2030/31	LTP Year 8 2031/32	LTP Year 9 2032/33	LTP Year 10 2033/34
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Net Debt	207,862	247,708	251,731	280,223	314,342	380,560	421,253	454,793	481,261	504,098	526,310
Net external debt not to exceed 200% of total revenue	123%	136%	133%	133%	148%	180%	186%	190%	194%	196%	198%
Net interest expense on external debt as a % of total revenue to be less than 15%	4.4%	4.4%	5.6%	5.1%	5.6%	6.4%	6.6%	7.5%	8.6%	9.2%	9.4%
Net interest expense on external debt as a % of total rates income to be less than 20%	7.8%	7.3%	9.0%	8.7%	9.0%	9.7%	10.2%	11.7%	13.3%	14.1%	14.6%

Nelson City Council is a Guaranteeing Local Authority in the Local Government Funding Agency (LGFA). Access to the LGFA means we can achieve lower borrowing costs for our community, and therefore funding. We must ensure that our net interest to rates revenue ratio is below 30% and Net Debt to Total revenue is less than 280% in order to retain the ability to borrow through LGFA.

To fund the LTP capital works programme, net borrowings would peak at $526 million during 2033/34. The borrowing programme is within the three limits imposed under the Liability Management Policy which is available on Council's website.

Council has budgeted for average interest rates paid on loans to increase over LTP within a range between 4.43% and 5.21%.

Base interest rate assumptions use the most recent market implied 90-Day Bank Bill Rate (BKBM) curve for the next 10 years. This curve exhibits the current market pricing for the forward BKBM rate over the next 10 years. A credit margin is then added to this BKBM rate. Council's all-up interest rate cost includes the current fixed rate borrower swap hedge portfolio and assumptions regarding future credit margins. In addition to obtaining lower borrowing rates through the LGFA, we manage the cost and risk of borrowing through our Liability Management Policy.

Investments

Nelson City Council has a portfolio of investments comprising:

- Equity investments
- Asset investments
- Associated organisations.

Our Investment Policy is published separately and available on our website. It contains information on the reasons for holding these investments. Our main investments are shareholdings of Council Controlled Trading Organisations, commercial property and forestry investments as outlined below.

Target return on investments

Investment	Return
Infrastructure Holdings Ltd	Infrastructure Holdings Ltd is currently preparing its draft statement of intent for 2024/25 and is in the process of developing its dividend policy for consideration by the shareholders. The final Financial Strategy will be update with this information.
Nelmac	Either 50% of taxable profit by way of subvention payment and dividends or 50% of tax paid profit by way of dividends
Civic Financial Services Ltd	No return on shareholders' funds

We also have approximately 600 hectares of commercial forestry which generate a return, while providing recreational opportunities. We are consulting on changing our approach to forestry management through this Long Term Plan consultation process. A change in approach may impact on the return generated over the next 30 year period.

Securities for borrowing

Council's external borrowings and interest-rate risk management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. Under these Deeds, our borrowing is secured by a floating charge over all Council rates levied under the Local Government (Rating) Act 2002. The security offered by Council ranks equally or 'pari passu' with other lenders, which means on equal terms in all respects, at the same rate, or proportionately.

From time to time, with Council and Trustee approval, security may be offered by providing a charge over one or more of our assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset that it funds, for example an operating lease or project finance
- Council considers a charge over physical assets to be appropriate
- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Trust Deed.

Find out more

For further information on Council's approach to borrowing, please refer to the Liability Management Policy (part of the Treasury Management Policy) at nelson.govt.nz

Contingency funding

We build appropriate contingency funding into all our capital expenditure projects. Contingency funding manages the risk of cost escalations and covers potential cost estimate shortfalls which may arise as a result of unexpected delays, contract complexities and unforeseen conditions that may be encountered on site.

Contingency funding is used to improve our financial stability and our ability to fund projects within their budgets. When projects go through their lifecycle, and as the designs are refined, the need for contingency funding is accordingly reduced to suit.

Based on historical trends of project over and underspends, a larger contingency has been built into capital projects for the LTP 2024-2034. We have made an overall downward adjustment to the total capital programme of approximately 10% per year.

This adjustment acknowledges that we are unlikely to deliver the full work programme and to use the full amount of contingency in the programme for every project. This enables us to avoid overfunding the activities.

Variation between the Long Term Plan and actual results

Actual financial results achieved for the period covered by the Long Term Plan may vary from the information presented and the variations may be material.

This means that, while we will do our best to keep to what is set out in the Long Term Plan, there are legitimate reasons why the final results in the Annual Report at the end of each financial year might be different.

Variables include unanticipated changes in interest rates, market conditions or a disaster event. The Long Term Plan can only be a best estimate of the costs Council will face. Factors outside its control can affect project completion.

Effective Date: 1 July 2024

Legal compliance: In accordance with sections 101A of the Local Government Act 2002

Approved by: Council add date