



Pre-Election Report

July 2016

Clare Hadley,
Chief Executive

**This document constitutes the pre-election report for the purposes of Section
99A of the Local Government Act 2002**



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Introduction

The 2016 Pre-Election Report provides information to promote public discussion about the issues facing Nelson City Council in advance of the upcoming elections.

The Report has a particular focus on how Council is performing financially. It contains financial information on Council's performance over the last three years as well as current year information from the Annual Plan 2016/17 and forecast information for the following three years. This shows how Council is managing its finances compared to the Financial Strategy that was adopted as part of the Long Term Plan 2015-25. It also provides information on what major projects Council expects to fund over the next three years.

Basis of preparation

This Pre-Election Report has been prepared by the Chief Executive.

It brings together information in other published Council documents. This includes Council's Long Term Plan 2015-25, Annual Plan 2016/17 and Annual Reports from 2013/14 and 2014/15. The information in the Pre-Election Report therefore reflects the policy and service delivery decisions of the current Council.

About Nelson City

Nelson has a wonderful climate, an enviable location, a positive economic outlook and a foundation of good local facilities. It's a city that has a lot to offer residents and visitors alike.

Nelson's population is projected to grow to 53,300 by 2025, at an average annual growth rate of 0.7 per cent. The proportion of the population aged 65 years and over is projected to increase from 18% in 2015 to 25% in 2025 and likely to make up a third of the population in 2045. Half of the growth in Nelson's population is projected to be driven by an increase in the population of Stoke. Population growth is expected to slow down over time.

Council has a vision and eight community outcomes to help guide its decision making and delivery of services in a way that is efficient, effective and appropriate to present and anticipated future circumstances. The vision and community outcomes can be found in the Long Term Plan 2015-25. The Significance and Engagement Policy guides how Council seeks input from and informs our community of important issues. This policy can be found on Council's website.

Council works with iwi and Maori to ensure there is a range of opportunities to contribute to Council decision-making. Iwi representatives, councillors and Council officers continue to look for ways to adapt processes to ensure they work well.

Nelson City Council collaborates with neighbouring Councils, in particular Tasman District Council to provide the best and most efficient services to our communities and on cross-boundary issues such as emergency management and the proposed joint regional landfill.



Nelson City Council covers a relatively compact urban area and a small rural area. The funding of services is largely done by a general rate across the city rather than through rates targeted at separate communities.

Council activities

Council's goal is to make Nelson an even better place. Council owns more than \$1 billion of assets and nearly \$140 million is spent each year on projects and services that help to meet that goal.

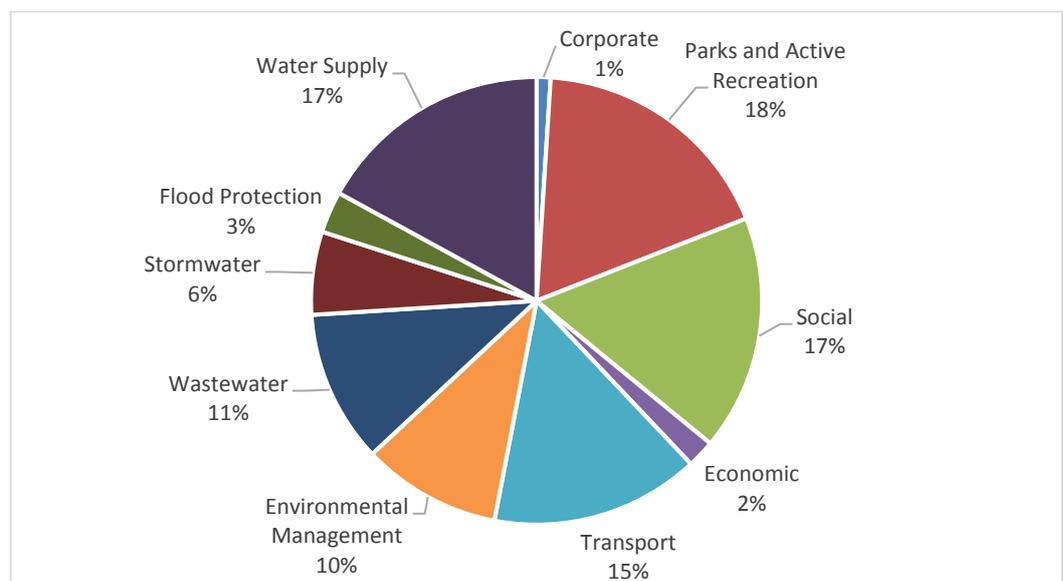
Nelson City Council is one of six unitary authorities in New Zealand, which means it has the combined responsibilities of both a regional and district council and deals with managing the environment, including matters such as flood protection, biodiversity and air quality; and the delivery of local services, for example the provision of drinking water, waste disposal, local roads, dog control and regulatory services.

Council delivers a large number and variety of services through ten activity areas. Council activities are the groups of services, projects or public goods produced or delivered by Council. Money is budgeted for projects, programmes and services under broad categories to provide comparisons, accountability and transparency in how Council funds its work and monitors how it is doing. Specific issues and what Council proposes for them over the next decade are included in the relevant activity sections in the Long Term Plan 2015-25 and Annual Plan 2016/17.

The financial information in the Long Term Plan reflects the activities and projects Council has identified as priorities and is planning to deliver over the ten years of the Long Term Plan, while keeping within its limits for rates increases and borrowing. The Annual Plan 2016/17 details any changes to Year 2 (2016/17) of the Long Term Plan.

The diagram below, taken from the Long Term Plan 2015-25, shows Council activity areas and the proportion of rates to be spent on these activity areas over the ten years of the Long Term Plan.

10 Year Rates Expenditure by Activity





Financials

Reforecast assumptions

As well as providing information from the Long Term Plan, Council has also reforecast some of its financials because of changes to the joint landfill project with Tasman District Council. Those changes affect years from 2017/18 onwards and have reduced debt slightly and altered gross income and expenditure. The reforecast shows, that the changes to the landfill project have not affected projected rates rises for those future years as the landfill account is not funded from rates.

Assumptions that remain the same as the Long Term Plan

- Forecast interest rates are assumed to be the same as those used in the Long Term Plan 2015-25 for 2017/18 onwards (5.2%, 5.2%, 5.2%). There is a risk these rates could be higher. Council has a reasonably high level of interest rate hedging in place on current debt levels to mitigate its exposure to interest rate rises. However Council is exposed to interest rate increases in relation to new debt that it takes on.
- Inflation rate assumptions are the same as for the Long Term Plan. Because the budgets have not been reworked for current inflation forecasts, the rates cap limits, including the underlying Local Government Cost Indices (LGCI), are the same as the Long Term Plan.

Financial Strategy

Council's Financial Strategy is set out in the Long Term Plan. Council must, under the Local Government Act, manage its revenues, expenses and assets, liabilities, investments and general financial dealings prudently. It must manage in a manner that sustainably promotes the community's current and future interests.

The Financial Strategy demonstrates how Council will:

- Provide for growth in the 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 it owns on behalf of the community.
- Fund network infrastructure and maintain levels of service.
- Obtain pre-set returns on financial investments and equity securities.
- Give securities on borrowing.

Council considered the likely future demand for services, what that will cost, the ability and willingness of ratepayers to pay for services and fairness in allocating rates when developing the Financial Strategy.

As a result of recent extreme weather events in December 2011 and April 2013, Nelson City Council intends to increase its Emergency Fund to \$8.9 million by the end of 2025. There is a risk that future disaster recovery costs during the next ten years could be higher than anticipated. Should this occur, Council might need to reconsider the amount put aside on an annual basis. It is important to note



that even with the reserve built up to the desired level, Council will continue to hold appropriate levels of insurance for assets. The Fund is still in deficit.

Over the ten years of the Long Term Plan, Council is forecasting capital expenditure of \$391 million, (of which \$130 million is for renewals) and operating expenditure of \$1,082 million. Council's total income, after inflation, would increase from \$99 million in 2015/16 to \$135 million in 2024/25, Year 10. Total Net Debt is forecast to peak at \$159 million during 2023/24, Year 9 of the Long Term Plan.

Funding expenditure

Council has two types of expenditure: operating and capital expenditure.

Operating expenditure is undertaken by Council as a result of performing its normal business operations. Council funds its operating expenditure from:

- Council levies, targeted rates or fees and charges on the basis of direct user pays
- Grants and subsidies received largely from central government
- Operating revenue such as interest and dividends received and rent received
- A general rate where there is a deemed general benefit across the city.

Capital expenditure is money spent in acquiring or upgrading an asset such as water or roading infrastructure and buildings. Council funds its capital expenditure in the following priority order:

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

Each activity utilises different sources of funding depending on the services it delivers.

Limits in the Financial Strategy

Council has adopted the following set of financial parameters or 'limits' which guide how it makes decisions on funding and expenditure.

Rates limits

Council has set itself a cap on rates rises each year of no more than the forecast percentage increase in the Local Government Cost Index plus 2% in each year, including rating base growth.

The inclusion of the proposed joint landfill in the reforecast has not affected rates or rates increases as proposed in the Long Term Plan 2015-25.



The rates cap and rates increase set in the Long Term Plan are included in the table below.

	2017/18	2018/19	2019/20
Rates cap	4.5%	4.6%	4.8%
Long Term Plan rates increase	2.8%	2.4%	2.2%

Rates rises are greater than the predicted rate of inflation in some years in the Long Term Plan, reflecting:

- Cost increases faced by Council, particularly for maintenance inputs, which are projected to increase at a higher rate than the Consumer Price Index.
- Depreciation and interest payments – an increased capital expenditure programme will mean that there will be a corresponding increase in depreciation and interest charges.
- Where there has been reductions in Government funding for services, but Council decides to maintain service levels.

Borrowing limits

Debt has been used to provide for critical infrastructure and our growing region. Council has set itself limits around debt levels and interest costs which it believes are financially prudent and shown in the table below.

Borrowing is seen as an appropriate funding mechanism to smooth the peaks in capital expenditure. It also enables the costs of major developments to be borne by those who ultimately benefit from the expenditure. This is known as the 'intergenerational equity principle' and means that the costs of any expenditure should be recovered from the community over the period during which benefits from that expenditure accrue.

Capital expenditure is the driver of increases in borrowings, however Council takes on more debt only when other sources of funds are not available. Council uses excess depreciation to repay debt. Managing debt in this way achieves Council's aim of inter-generational equity. It also has positive benefits for cashflow and interest management.

Since the Long Term Plan, Standard and Poor's have raised Council's credit rating from AA- to AA reflecting Council's consistently strong financial performance. This rating is reviewed annually and provides an assurance that Council's financial management is strong and continues to improve. The improved credit rating has led to reduced interest rates for Council.

The table below shows an overall improvement in the forecast against the borrowing limits compared to the Long Term Plan. This is solely due to the provisions of the proposed joint landfill arrangement with Tasman District Council.



The forecast debt ratios are within the limits set in the Financial Strategy.

	LTP			Annual Plan	Forecast		
	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Net debt	142,998	147,639	153,078	131,581	136,527	140,819	145,893
	%	%	%	%	%	%	%
Net external debt not to exceed 150% of total revenue	138.0	138.8	140.3	137.0	136.1	136.7	138.1
Net interest expense on external debt as a % of total revenue to be less than 15%	7.3	7.5	7.6	5.7	7.1	7.4	7.5
Net interest expense on external debt as % of total rates income to be less than 20%	10.6	10.9	10.9	8.1	10.6	10.4	10.5

Investments

Council has a portfolio of investments comprising:

- Equity investments
- Asset investments
- Associated organisations.

Council's main investments are shareholdings in Council Controlled Trading Organisations, commercial property and forestry investments.

The Financial Strategy sets out the following targets for returns on Council investments. The returns on these Council investments are forecast to be within the quantified targets.

Investment	Target
Port Nelson Limited	6% on average shareholder funds
Nelson Airport Limited	5% on opening shareholders funds
Nelmac Limited	7% on closing shareholders funds
Tourism Nelson Tasman Limited	No return on shareholders funds*
New Zealand Local Government Insurance Corp	No return on shareholders funds

*Wound up 30 June 2016.

Council also has approximately 650 hectares of forestry which generate a return.



Financial information in this report

The financial information in this document covers the three financial years before the year of this election, and the three years after the year of this election.

The information on past performance is from the audited annual reports of 2013/14 and 2014/15, along with an estimate of the final position for 2015/16. At the time of writing, the 2015/16 financial year has not been completed and is therefore unaudited and the estimate is subject to change.

The information looking ahead is in the first instance from the audited Long Term Plan 2015-25 for the three years 2017/18 to 2019/20.

We have also included information from the published Annual Plan 2016/17 for completeness.

For the reasons outlined in the assumptions section, Council has also reforecast the three future years 2017/18 to 2019/20.



Financial position

Statement of cash flows

The Statement of Cash Flows shows where money comes from and what Council has spent it on. The table provides information for the previous three years (2013/14 – 2015/16). If you are interested to know more, the annual reports for each year explain in greater detail what the Council delivered compared to what it planned to do, and the cost of activities and services compared to what was budgeted.

Funding Impact Statement

The Funding Impact Statement shows how money raised from rates and other sources are applied to Council spending. It shows an estimate for the 2015/16 financial year and includes information from the Long Term Plan for the next three years (2017/18 to 2019/20). Information from the Annual Plan 2016/17 for the current financial year is included, as is the reforecast information for the next three years ('Forecast').

Statement of Financial Position

The Statement of Financial Position, or 'Balance Sheet', shows what Council owns (assets) and what it owes (liabilities) at the end of the financial year. The total sum of assets less liabilities is known as 'net assets' – the net worth of Council. The table provides information for the previous three years (2013/14 and 2014/15 from the annual reports, and an estimate for 2015/16), as well as information from the Long Term Plan for the next three years (2017/18 to 2019/20). Information from the Annual Plan 2016/17 for the current year is included as is the reforecast information for the next three years ('Forecast').

These statements are presented on the following pages.



STATEMENT OF CASH FLOWS for the years ended 30 June 2014-2016

	2013/14 Actual (\$000)	2014/15 Actual (\$000)	2015/16 Estimate (\$000)
Cash Flows From Operating Activities			
Rates and Other Revenue	95,530	92,177	99,017
Interest received	112	82	410
Dividends received	3,381	2,818	2,859
Payments to suppliers and employees	(61,657)	(63,349)	(67,518)
Interest paid	(3,836)	(3,577)	(4,142)
Taxation (paid)/refunded	(108)	47	0
Net cash inflow from operating activities	33,422	28,198	30,626
Cash Flows From Investing Activities			
Sale of fixed assets	34	243	21
Sale of investments	666	826	0
Repayment of loans/advances	0	0	534
Goodwill on sale of business	0	0	0
Purchase of fixed assets	(37,196)	(29,775)	(66,383)
Purchase of intangibles	(521)	(443)	0
Purchase of investments	(83)	0	(3,649)
Loans and advances	0	0	(25)
Net cash outflow from investing activities	(37,100)	(29,149)	(69,502)
Cash Flows From Financing Activities			
Cash was provided from loans raised	36,340	24,017	42,081
Cash was applied to repayment of loans	(32,732)	(23,032)	(3,181)
Net cash inflow from financing activities	3,608	985	38,900
Net increase/(decrease) in cash held	(70)	34	24
Plus opening cash balance	408	338	372
Closing Cash Balance	338	372	396
Represented by:			
Cash and cash equivalents	338	372	396
Bank Overdraft	0	0	0
Closing Cash Balance	338	372	396



FUNDING IMPACT STATEMENT for the years ended 30 June 2016-2020

	Estimate (\$000)	Long Term Plan (\$000)			Annual Plan (\$000)	Forecast (\$000)		
	2015/16	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
Sources of Operating Funding								
General Rates, uniform annual general charges, rates penalties	41,220	45,195	46,231	47,793	43,749	45,195	46,231	47,793
Targeted rates	23,853	25,462	26,900	27,743	23,513	25,462	26,900	27,743
Subsidies and grants for operating purposes	3,666	2,815	2,969	3,133	3,202	2,815	2,969	3,133
Fees and charges	8,319	11,635	11,756	12,029	8,356	8,353	8,398	8,618
Interest and dividends from investments	3,269	3,072	3,138	3,202	3,343	3,072	3,138	3,202
Local authorities fuel tax, fines, infringement fees, and other receipts	12,673	12,225	13,035	12,874	11,806	12,225	13,035	12,874
Total Operating Funding	93,000	100,404	104,029	106,774	93,969	97,122	100,671	103,363
					0			
Applications of operating funding								
Payments to staff and suppliers	68,292	69,049	69,958	72,154	68,709	66,304	67,129	69,281
Finance costs	4,142	7,559	8,022	8,345	5,515	7,145	7,597	7,909
Other operating funding applications	0	0	0	0	0	0	0	0
Total applications of operating funding	72,434	76,608	77,980	80,499	74,224	73,449	74,727	77,189
Surplus (Deficit) of operating funding	20,566	23,796	26,049	26,275	19,745	23,673	25,945	26,174
Sources of capital funding								
Subsidies and grants for capital	6,626	3,197	2,338	2,338	2,072	3,197	2,338	2,338



	Estimate (\$000)	Long Term Plan (\$000)			Annual Plan (\$000)	Forecast (\$000)		
	2015/16	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
Development and financial contributions	2,824	2,520	2,577	2,638	2,414	2,520	2,577	2,638
Increase (decrease) in debt	38,900	9,267	4,644	5,524	20,277	8,979	4,497	5,379
Gross proceeds from sale of assets	6,021	23	25	26	22	4,223	25	26
Lump sum contributions	0	0	0	0	0	0	0	0
Total sources of capital funding	54,371	15,007	9,584	10,526	24,785	18,919	9,437	10,381
Applications of capital funding								
Capital Expenditure								
- to meet additional demand	8,545	3,962	4,706	5,659	3,856	3,962	4,706	5,643
- to improve level of service	46,848	23,120	18,467	19,939	30,433	23,147	18,495	19,974
- to replace existing assets	10,990	12,214	12,984	11,673	10,436	12,212	12,973	11,674
Increase (decrease) in reserves	(387)	240	181	10	463	4,151	(76)	(252)
Increase (decrease) in investments	8,941	(733)	(705)	(480)	(658)	(880)	(716)	(484)
Total applications of capital funding	74,937	38,803	35,633	36,801	44,530	42,592	35,382	36,555
Surplus (Deficit) of capital funding	(20,566)	(23,796)	(26,049)	(26,275)	(19,745)	(23,673)	(25,945)	(26,174)
Funding balance	0	0	0	0	0	0	0	0



STATEMENT OF FINANCIAL POSITION as at 30 June 2014-2020

	Actual (\$000)		Estimate (\$000)	Long Term Plan (\$000)			Annual Plan (\$000)	Forecast (\$000)		
	2013/14	2014/15	2015/16	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
Current Assets										
Cash and cash equivalents	338	372	396	72	75	160	371	383	386	471
Trade and other receivables	10,242	11,182	11,361	11,275	11,512	11,439	11,543	11,764	12,001	11,928
Inventories	150	128	89	35	9	9	67	41	14	15
Other financial assets	735	768	768	0	0	0	768	768	768	768
Taxation	57	0	0	0	0	0	0	0	0	0
Derivative financial instruments	15	95	95	15	15	15	95	95	95	95
Total Current Assets	11,537	12,545	12,709	11,397	11,611	11,623	12,844	13,051	13,264	13,276
Non Current Assets										
Trade and other receivables	0	0	0	3,124	2,668	2,533	0	0	0	0
Investments in Council-										
Controlled Organisations	21,183	21,183	30,619	31,493	31,493	31,493	30,619	30,619	30,619	30,619
Investment properties	960	980	999	1,056	1,084	1,114	1,018	1,045	1,073	1,103
Other financial assets	5,417	5,207	4,909	756	783	810	4,454	4,000	3,572	3,464
Intangible assets	1,771	1,682	1,682	1,771	1,771	1,771	1,682	1,682	1,682	1,682
Biological assets	5,095	5,244	4,749	5,182	5,239	5,243	5,131	5,227	5,284	5,288
Property, Plant and equipment	1,338,902	1,362,731	1,419,221	1,521,496	1,561,316	1,617,647	1,459,585	1,499,773	1,539,511	1,595,759
Derivative financial instruments	1,011	0	0	1,011	1,011	1,011		0	0	0
Total Non Current Assets	1,374,339	1,397,027	1,462,179	1,565,889	1,605,365	1,661,622	1,502,489	1,542,346	1,581,742	1,637,915
Total Assets	1,385,876	1,409,572	1,474,888	1,577,286	1,616,976	1,673,245	1,515,333	1,555,397	1,595,006	1,651,191
Current Liabilities										
Bank overdraft	0	0	0	0	0	0	0	0	0	0
Trade and other payables	13,296	12,589	12,790	14,272	14,572	14,878	12,995	13,275	13,575	13,881
Employee benefit liabilities	1,471	1,677	1,704	1,598	1,632	1,666	1,731	1,762	1,796	1,830



	Actual (\$000)		Estimate (\$000)	Long Term Plan (\$000)			Annual Plan (\$000)	Forecast (\$000)		
	2013/14	2014/15	2015/16	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
Taxation payable	0	0	0	0	0	0	0	0	0	0
Other Financial Liabilities	0	0	0	0	0	0	0	0	0	0
Current portion of borrowings	37,831	9,916	10,215	49,110	68,754	94,278	11,049	11,007	30,302	55,461
Derivative financial instruments	27	39	39	27	27	27	39	39	39	39
Total Current Liabilities	52,625	24,221	24,748	65,007	84,985	110,849	25,814	26,084	45,711	71,211
Non Current Liabilities										
Trade and other payables	935	878	878	0	0	0	878	878	878	878
Provisions	1,136	1,185	1,204	1,213	1,237	1,264	1,223	955	970	992
Employee benefit liabilities	313	215	218	344	352	359	222	229	236	243
Other financial liabilities	0	0	0	0	0	0	0	0	0	0
Non-current portion of borrowings	33,960	62,860	101,461	93,960	78,960	58,960	120,903	125,903	110,903	90,903
Derivative financial instruments	595	3,901	3,901	595	595	595	3,901	3,901	3,901	3,901
Total Non-Current Liabilities	36,939	69,039	107,662	96,112	81,144	61,178	127,127	131,866	116,888	96,918
Total Liabilities	89,564	93,260	132,410	161,119	166,129	172,027	152,941	157,950	162,599	168,129
Net Assets	1,296,312	1,316,312	1,342,478	1,416,167	1,450,847	1,501,218	1,362,392	1,397,448	1,432,406	1,483,063
Ratepayer's Equity										
Accumulated Balances	357,154	366,065	379,419	386,481	393,628	400,644	384,314	391,626	398,773	405,789
Other Reserves	939,158	950,247	963,059	1,029,686	1,057,219	1,100,574	978,078	1,005,822	1,033,633	1,077,274
Total Ratepayer's Equity	1,296,312	1,316,312	1,342,478	1,416,167	1,450,847	1,501,218	1,362,392	1,397,448	1,432,406	1,483,063



Major projects

Major projects that are planned to be delivered in the 2017/18, 2018/19 and 2019/20 years are included in the table below. The budgets for these major projects are presented as they are in the Long Term Plan and have not been reassessed as to timing or scope.

The costs included in the table below are for the three year period 2017/18 to 2019/20 only and might not be the total budget for the project as costs could be spread over other years. The table is not a full list of Council's projects, activities or services. For more information on Council's projects and their costs see the Long Term Plan 2015-25, Annual Plan 2016/17 and Annual Reports.

Major Project	3 Year Cost 2017/18 to 2019/20 (\$000)
Stormwater and flood protection upgrades total	23,927,955
including:	
• Upgrading the flow capacity of the Maitai River	4,491,119
• Orphanage Stream upgrades	2,434,569
• Saxton Creek upgrade	1,579,785
• Montcalm/Arrow/Washington Valley/Hastings stormwater upgrades	2,192,900
• St Vincent/Hastings Street culvert	3,201,750
Water, Wastewater, and stormwater pipe and plant renewals	7,439,464
Water meter renewals	3,535,344
Water treatment plant membrane renewals	3,246,090
Nelson North Wastewater Treatment Plant desludging	1,116,933
Neale Park pump station	3,159,570
Awatea Place new pump station	4,090,282
Tahunanui Hills stormwater upgrade - Moana Avenue to Rocks Road	1,201,769
Roading and footpath renewals	9,354,621
Parking meter renewals	1,003,215
Rocks Road cycling and walking projects	4,012,654
Stoke CBD enhancements	663,926
Provision for earthquake prone buildings remediation	1,623,045
Rutherford/ Trafalgar Park development	971,231
Elma Turner Library redevelopment	5,790,835
Nelson Nature	1,939,684

Find out more

There are a number of publications available that provide additional information, including:

- Long Term Plan 2015-25
- Annual Plan 2016/17
- Annual Reports.

All these documents are available on our website, www.nelson.govt.nz



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