

## Notice of Meeting:

I hereby give notice that an ordinary Meeting of the Council will be held on:

**Date:** Thursday 27 July 2017  
**Time:** 9.30am  
**Meeting Room:** Council Chamber  
**Venue:** Municipal Building, Garden Place, Hamilton

Richard Briggs  
Chief Executive

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# Council OPEN AGENDA

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### Membership

Chairperson	Mayor A King
Deputy Chairperson	Deputy Mayor M Gallagher
Members	Cr M Bunting
	Cr J R Casson
	Cr S Henry
	Cr D Macpherson
	Cr G Mallett
	Cr A O'Leary
	Cr R Pascoe
	Cr P Southgate
	Cr G Taylor
	Cr L Tooman
	Cr P Yeung

**Quorum:** A majority of members (including vacancies)

**Meeting Frequency:** Monthly – or as required

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Lee-Ann Jordan  
Governance Manager

**20 July 2017**

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## Purpose

The Council is responsible for:

1. Providing leadership to, and advocacy on behalf of, the people of Hamilton.
2. Ensuring that all functions and powers required of a local authority under legislation, and all decisions required by legislation to be made by local authority resolution, are carried out effectively and efficiently, either by the Council or through delegation.

## Terms of Reference

1. To exercise those powers and responsibilities which cannot legally be delegated by Council:
  - a) The power to make a rate.
  - b) The power to make a bylaw.
  - c) The power to borrow money, or purchase or dispose of assets, other than in accordance with the Long Term Plan.
  - d) The power to adopt a Long Term Plan or Annual Plan, or Annual Report.
  - e) The power to appoint a Chief Executive.
  - f) The power to adopt policies required to be adopted and consulted on under the Local Government Act 2002 in association with the Long Term Plan, or developed for the purpose of the Council's governance statement, including the 30-Year Infrastructure Strategy.
  - g) The power to adopt a remuneration and employment policy.
  - h) The power to approve or change the District Plan, or any part of that Plan, in accordance with the Resource Management Act 1991.
  - i) The power to approve or amend the Council's Standing Orders.
  - j) The power to approve or amend the Code of Conduct for Elected Members.
  - k) The power to appoint and discharge members of committees.
  - l) The power to establish a joint committee with another local authority or other public body.
  - m) The power to make the final decision on a recommendation from the Parliamentary Ombudsman, where it is proposed that Council not accept the recommendation.
  - n) The power to amend or replace the delegations in Council's *Delegations to Positions Policy*.
2. To exercise the following powers and responsibilities of Council, which the Council chooses to retain:
  - a) Resolutions required to be made by a local authority under the Local Electoral Act 2001, including the appointment of an electoral officer and reviewing representation arrangements.
  - b) Approval of any changes to Council's vision, and oversight of that vision by providing direction on strategic priorities and receiving regular reports on its overall achievement.
  - c) Approval of any changes to city boundaries under the Resource Management Act.
  - d) Adoption of governance level strategies, plans and policies which advance Council's vision and strategic goals.
  - e) Approval of the Triennial Agreement.

- f) Approval of the local governance statement required under the Local Government Act 2002.
- g) Approval of a proposal to the Remuneration Authority for the remuneration of Elected Members.
- h) Approval of any changes to the nature and delegations of the Committees.

**Oversight of Policies:**

- *Corporate Hospitality and Entertainment Policy*
- *Delegations to Positions Policy*
- *Elected Members Support Policy*
- *Significance and Engagement Policy*

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**1 Apologies**

**2 Confirmation of Agenda**

The Council to confirm the agenda.

**3 Declaration of Interest**

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as an elected representative and any private or other external interest they might have.

**4 Public Forum**

As per Hamilton City Council's Standing Orders, a period of up to 30 minutes has been set aside for a public forum. Each speaker during the public forum section of this meeting may speak for three minutes or longer at the discretion of the Mayor.

Please note that the public forum is to be confined to those items falling within the terms of the reference of this meeting.

Speakers will be put on a Public Forum speaking list on a first come first served basis in the Council Chamber prior to the start of the Meeting. A member of the Governance Team will be available to co-ordinate this. As many speakers as possible will be heard within the allocated time.

If you have any questions regarding Public Forum please contact Governance by telephoning 07 838 6439.

# Council Report

Item 5

**Committee:** Council **Date:** 27 July 2017  
**Author:** Becca Brooke  
**Position:** Governance Team Leader  
**Report Name:** Council - Open Minutes to be Confirmed - 29 June 2017

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<b>Report Status</b>	<i>Open</i>
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## Staff Recommendation

That Council confirm the Open Minutes of the Council Meeting held on 29 June 2017 as a true and correct record.

## Attachments

Attachment 1 - Council Minutes - Open - 29 June 2017

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## Council

### OPEN MINUTES

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**Minutes of a meeting of the Council held in Council Chamber, Municipal Building, Garden Place, Hamilton on Thursday 29 June 2017 at 9.38am.**

#### PRESENT

Chairperson	Mayor A King
Deputy Chairperson	Deputy Mayor M Gallagher
Members	Cr M Bunting
	Cr J R Casson
	Cr S Henry
	Cr D Macpherson
	Cr R Pascoe
	Cr P Southgate
	Cr G Taylor
	Cr L Tooman

In Attendance:

- Richard Briggs – Chief Executive
- Sean Hickey – General Manager Strategy and Communications
- Lance Vervoort – General Manager Community
- David Bryant – General Manager Corporate
- Kelvyn Eglinton – General Manager City Growth
- Chris Allen – General Manager City Infrastructure
- Tracey Musty – Financial Controller
- Matthew Bell – Revenue Manager
- Kelvin Powell – City Safe Unit Manager
- Susan Stanford – Animal Control Manager
- Robyn Denton – Transportation Operations Manager
- Brendan Stringer – Legal Services and Governance Advisor
- Nigel Ward – Communications Team Leader
- Sarah Ward – Corporate Planning Programme Manager

Governance Advisors:

- Lee-Ann Jordan – Governance Manager
- Becca Brooke – Governance Team Leader
- Claire Guthrie – Committee Advisor

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*Tame Pokaia carried out a blessing and Bishop Helen-Ann Hartley read a bible reading to open the Council Meeting.*

Council 29 JUNE 2017 - OPEN

**1. Apologies**

**Resolved:** (Crs Casson/Pascoe)

That the apologies from Crs O’Leary Mallett and Yeung are accepted.

**2. Confirmation of Agenda**

**Resolved:** (Crs Bunting/Southgate)

That the agenda is confirmed.

**3. Declarations of Interest**

No members of the Council declared a Conflict of Interest.

**4. Public Forum**

No members of the public wished to speak

**5. Council Meetings Minutes - 1 June 2017**

**Resolved:** (Crs Bunting/Casson)

That Council confirm the Open Minutes of the Council Meeting held on 1 June 2017 as a true and correct record.

**6. Elected Member Briefing Notes - 15 June 2017**

**Resolved:** (Crs Tooman/Henry)

That the Council confirm the notes of the Elected Member Briefing held on 15 June 2017 as a true and correct record.

**7. Adoption of the 2017/18 Annual Plan**

The report was taken as read.

**Resolved:** (Crs Casson/Bunting)

That Council:

- a) receives the report; and
- b) adopts the 2017/18 Annual Plan.

**8. Rates Resolution to Set and Assess Rates for 2017/18**

The Revenue Manager introduced the report, noting that in conjunction with the adoption of the Annual Plan, Council was legislatively required to set and assess the rates by adopting a rates resolution.

Staff responded to questions concerning the following:

- Land/capital value,
- water rates charges, and
- Hamilton Gardens targeted rate end date.

The CE clarified that Council was being asked to adopt the Rates Resolution contained in paragraph 8 to 64 of the report.

**Resolved:** (Crs Henry/Taylor)

8. That Council:
- a) receives the report; and
  - b) sets and assesses the rates for the 2017/18 financial year (1 July 2017 to 30 June 2018) in accordance with the **Rates Resolution for the 2017/18 Financial Year** (as required by the Local Government (Rating) Act 2002) as set out in paragraphs 9 – 64 below.

9. All figures in the following sections 10 to 64 of this resolution are GST inclusive.

**10. GENERAL RATE**

11. A general rate is set and assessed on the capital value of all rateable properties in the city.
12. General rates are set under Section 13 of the Local Government (Rating) Act 2002 on a differential basis on the categories of land identified below. The rating categories are defined in the Rating Policy. The differential basis is the use to which the land is put and/or the area of the land, and in the case of the BID Commercial differential, the location of the land. The different categories of rateable land are outlined in the table below.
13. This funding mechanism covers all services of Council.
14. The total revenue sought is \$51,243,415.
15. A general rate set and assessed on a differential basis as follows:

SOURCE	DIFFERENTIAL CATEGORIES	DIFFERENTIAL FACTOR	PERCENTAGE OF TOTAL GENERAL RATES	GENERAL RATE IN THE DOLLAR OF CAPITAL VALUE (GST INCL)	RATES REVENUE (GST INCL)
General Rate	Residential	1.0000	65.00%	0.00143455	\$33,308,240
	Commercial	1.8363	27.20%	0.00263423	\$13,937,039
	BID Commercial	1.7445	6.80%	0.00250251	\$3,485,700
	Rural	0.4806	1.00%	0.00068944	\$512,436

16. Land described in Part 2 of Schedule 1 of the Local Government (Rating) Act 2002 (broadly land owned or used by societies for arts or sports) will be assessed 50% of the residential rate that applies to the land.
17. The revenue sought is \$250,489.

**18. TARGETED RATES**

19. Transitional Rate
20. The rate is set and assessed on the land value of all rateable properties in the City.
21. The transitional rates are set on a differential basis on the categories identified in the table below. The rating categories are defined in the Rating Policy. The differential basis is the use to which the land is put and/or the area of the land, and in the case of the BID Commercial differential, the

location of the land.

22. The different categories of rateable land are outlined in the table below. The total revenue sought is \$119,776,125.

SOURCE	DIFFERENTIAL CATEGORIES	DIFFERENTIAL FACTOR	PERCENTAGE OF TOTAL TRANSITIONAL RATES	TRANSITIONAL RATE IN THE DOLLAR OF LAND VALUE (GST INCL)	RATES REVENUE (GST INCL)
Transitional Rate	Residential	1.0000	63.16%	0.00681327	\$75,655,758
	Commercial	2.9791	26.93%	0.02029708	\$32,253,288
	BID Commercial	2.8301	7.07%	0.01928222	\$8,470,621
	Multi Unit Residential	1.4957	1.79%	0.01019085	\$2,144,287
	Rural Residential	0.5685	0.05%	0.00387303	\$54,408
	Rural Small	0.4190	0.75%	0.00285459	\$897,817
	Rural Large	0.1730	0.25%	0.00117857	\$299,946

23. Metered Water Rate
24. The rate is set and assessed for metered and restricted flow water supply on a differential basis to all metered rating units (as defined by Hamilton City Council's Water Supply Bylaw 2013).
25. The rate is:
- i. a fixed amount based on the nature of the connection as follows:
    - \$440 for all metered rating units (except rural receiving a restricted flow supply);
    - \$320 for rural rating units receiving a restricted flow supply.
  - ii. a charge per unit of water consumed or supplied on every metered connection in accordance with the following scale:
    - All metered rating units (except rural receiving a restricted supply) - \$1.82 per kilolitre of water supplied after the first 240 kilolitres of consumption or supply;
    - rural rating units receiving a restricted flow supply - \$1.34 per kilolitre of water supplied after the first 240 kilolitres of consumption or supply.
26. The rates contribute to the funding of the Water Distribution and Water Treatment and Storage activities.
27. The total revenue sought is \$9,060,864.
28. Commercial and Rural Non-metered Water Rate
29. The rate is set and assessed on non-metered Commercial and Rural properties which are connected to or have a water supply available. The rate is \$440 per separately used or inhabited part of the rating unit.
30. The rates contribute to the funding of the Water Distribution and Water Treatment and Storage activities.
31. The total revenue sought is \$266,717.
32. Access Hamilton Rate
33. The rate is set and assessed at a uniform rate per dollar of capital value on all rating units in the City (excluding 100% non-rateable and 50% non-rateable properties).
34. The Access Hamilton rate funds the work programmes and/or financing costs relating to this project as part of the Transport Network activity.
35. The rate is \$0.00018763 per dollar of capital value. The total revenue sought is \$5,750,000.
36. Business Improvement District Rates (BID)
37. The rate is set and assessed on all commercial rating units in the BID area as mapped in the Rating Policy. The rate is:
- i. BID Fixed Rate: a fixed amount of \$239 per separately used or inhabited part of a commercial rating unit within the defined area; and
  - ii. BID CV Rate: a rate per dollar of capital value required to meet the total revenue, after allowing for the total revenue raised by the BID Fixed Rate. The rate is \$0.00003309 per dollar

- of capital value.
38. The rate provides funding to the Economic Development activity.
  39. The total revenue sought is \$334,650.
  
  40. Central City Rate
  41. The rate is set and assessed on all commercial rating units within the BID area as mapped in the Rating Policy. The rate is a fixed amount of \$102.85 per separately used or inhabited part of a rating unit within the defined area.
  42. The rate provides funding to the Transport Network activity.
  43. The total revenue sought is \$125,066.
  
  44. Hamilton Gardens Rate
  45. The rate is set and assessed as a fixed amount on all rating units within the City (excluding 100% non-rateable and 50% non-rateable properties). The rate is set at \$11.50 per separately used or inhabited part of a rating unit.
  46. The rate contributes funding to develop themed gardens and infrastructure as part of the Hamilton Gardens activity.
  47. The total revenue sought is \$713,000.
  
  48. Services Category Use - Water Rate
  49. The rate is set and assessed on properties as defined as service category (see Rating Policy) and which are connected to the water supply.
    - i. a fixed amount of \$440 per separately used or inhabited part of a rating unit; and
    - ii. a rate per dollar of land value of the rating unit, set at \$0.00199025
  50. The rate provides funding towards the water distribution and water treatment and storage activities.
  51. The total revenue sought is \$114,790.
  
  52. Services Category Use- Refuse Rate
  53. The rate is set and assessed on properties defined as service category (see Rating Policy) and which are provided with refuse collection service. The rate is:
    - i. a fixed amount of \$151 per separately used or inhabited part of a rating unit; and
    - ii. a rate per dollar of land value per rating unit set at \$0.00075944
  54. The rate provides funding towards the refuse collection activity.
  55. The total revenue sought is \$47,365.
  
  56. Service Category Use -Sewerage Rate  
The rate is set and assessed on properties defined as service category (see Rating Policy) and which are connected to the sewerage network. The rate is:
    - i. a fixed amount of \$436 per separately used or inhabited part of a rating unit; and
    - ii. The rate per dollar of land value set at \$0.00238760.
  57. The rate provides funding towards the sewage distribution and sewage treatment and storage activities.
  58. The total revenue sought is \$1,010,897.
  
  59. **DUE DATES FOR PAYMENT OF RATES**
  60. The due dates for rates for the period 1 July 2017 to 30 June 2018 are as follows:

Area	Instalment 1	Instalment 2	Instalment 3	Instalment 4
North East	24 August 2017	16 November 2017	22 February 2018	17 May 2018
South East	24 August 2017	16 November 2017	22 February 2018	17 May 2018
North West	07 September 2017	30 November 2017	08 March 2018	31 May 2018
South West	07 September 2017	30 November 2017	08 March 2018	31 May 2018

**61. DUE DATES FOR PAYMENT OF METERED WATER RATES**

62. The due dates for metered water rates for the period 1 July 2017 to 30 June 2018 are as follows:

Month of Invoice	Invoice Due Date	Month of Invoice	Invoice Due Date
July 2017	20 August 2017	January 2018	20 February 2018
August 2017	20 September 2017	February 2018	20 March 2018
September 2017	20 October 2017	March 2018	20 April 2018
October 2017	20 November 2017	April 2018	20 May 2018
November 2017	20 December 2017	May 2018	20 June 2018
December 2017	20 January 2018	June 2018	20 July 2018

**63. Penalties**

64. Pursuant to Section 57 and 58 of the Local Government (Rating) Act 2002 Council authorises the following penalties that may be applied:

- a) A penalty of 10% of the amount due and unpaid on the due date to be added on the day after the due date.
- b) A penalty of 10% of the amount of any rates assessed in any previous year which remain unpaid on 6 July 2017 to be added on the day after 6 July 2017.
- c) A penalty of 10% of the amount of any rates assessed in any previous year which remain unpaid on 6 January 2018 to be added on the day after 6 January 2018.
- d) A penalty of 10% of the amount unpaid for water-by-meter rates charged to be added on the day after the due date.

9. **Local Government New Zealand Annual General Meeting 2017 - Remits for Consideration.**

The Governance Manager introduced the report. Staff responded to questions from Elected Members concerning the LGNZ remit process and clarification of the background and intent of each of the remits.

**Resolved:** (Crs Southgate/Bunting)

That Council approves the **Litter Act 1979** remit to be supported by Council's Delegate at the 2017 LGNZ AGM.

**Resolved:** (Crs Macpherson/Tooman)

That Council approves the **15% Goods and Services Tax** remit to be supported by Council's Delegate at the 2017 LGNZ AGM.

**Mayor King Dissenting.**

**Resolved:** (Crs Bunting/Macpherson)

That Council approves the **National Legislation to Manage Cats** remit to be supported by Council's Delegate at the 2017 LGNZ AGM.

**Crs Pascoe and Tooman Dissenting.**

**Motion:** (Crs Henry/Gallagher)

That Council approves the **Development of a Sugar Sweetened Beverages Policy** remit to be supported by Council's Delegate at the 2017 LGNZ AGM.

**Those for the Motion:** Councillors Gallagher, Macpherson, Bunting and Henry.

**Those against the Motion:** Mayor King, Councillors Pascoe, Tooman, Casson, Southgate and Taylor.

**The Motion was declared lost.**

Council 29 JUNE 2017 - OPEN

10. **HCC's Draft Submission to the Remuneration Authority - Local Government Review Consultation (Part 2)**

The Legal Services and Governance Advisor introduced the report, noting that the submission was in relation to proposals that the Remuneration Authority were looking to put in place immediately. The longer term proposals concerning the framework for remuneration of Elected Members would be considered in a later submission this year. Staff were proposing one change to the draft submission sent on 13 June 2017 to ask the Remuneration Authority to re-consider the timing of the determination release so that it was better aligned with the financial year reporting processes.

**Resolved:** (Crs Macpherson/Pascoe)

That the Council:

- a) retrospectively approves HCC's draft submission dated 13 June 2017 to Part 2 of the Remuneration Authority's consultation document – *Local Government Review*, subject to the changes highlighted in Attachment 1 to this staff report.
- b) requests that:
  - i. the Chief Executive advise the Remuneration Authority of any other changes made to HCC's submission at the 29 June 2017 Council meeting;
  - ii. the approved submission be uploaded to the Council's website;
  - iii. the Chief Executive review the Elected Members Support Policy, assess if any changes are required to align this Policy with the Authority's 2017/18 determination and report back to the Council in September 2017.

**Cr Casson Dissenting.**

**11. Finance Committee - Amending Terms of Reference**

The Chief Executive introduced the report, noting that a change to the Finance Committee Terms of Reference was recommended to address a disconnect regarding monitoring of financial Key Performance Indicators (KPIs) of the organisation at the Finance Committee and the non-financial KPIs in the other Committees. Returning the responsibility for both financial and non-financial KPIs would provide Elected Members with a more comprehensive view of Council's 10 Year Plan Performance.

The Chief Executive undertook to hold a briefing to discuss with Elected Members how this would work in practice.

**Motion:** (CrS Southgate/Bunting)

That Council:

- a) receives the report; and
- b) approves changes to the terms of reference for the Finance Committee, Growth and Infrastructure Committee, and Community and Services Committee to delegate to the Finance Committee responsibility to monitor financial and non-financial reporting against Council's 10 Year Plan.

**Those for the Motion:** Mayor King, Councillors Gallagher, Pascoe, Tooman and Casson.

**Those against the Motion:** Councillors Macpherson, Bunting, Henry, Southgate and Taylor.

**The Motion was declared tied.**

**Mayor King exercised his casting vote as Chair for the motion.**

**The motion was declared carried on the casting vote of the Chair.**

**Resolved:** (CrS Southgate/Bunting)

That Council:

- a) receives the report; and
- b) approves changes to the terms of reference for the Finance Committee, Growth and Infrastructure Committee, and Community and Services Committee to delegate to the Finance Committee responsibility to monitor financial and non-financial reporting against Council's 10 Year Plan.

Council 29 JUNE 2017 - OPEN

**12. Approval of Amended Hamilton Public Transport Joint Committee Terms of Reference and Project Agreement.**

The Governance Manager introduced the report, noting that the references to the 'Strategy and Policy Committee' on pages 140 and 141 of the agenda, would be changed to the 'Growth and Infrastructure Committee'.

Cr Macpherson as Deputy Chair of the Hamilton Public Transport Joint Committee, noted that the Committee felt that it was appropriate to include members from Waipa and Waikato District Councils on matters relating to satellite services.

**Resolved:** (Crs Macpherson/Tooman)

That Council approve the following recommendation from the Hamilton Public Transport Joint Committee:

That:

- a) the membership of the HPTJC be amended to include a member from Waipa and Waikato District Councils on matters relating to satellite services; and
- b) the HPTJC project agreement be varied and the Terms of Reference amended to accommodate the change in membership.

**13. Recommendations to Council from Audit and Risk Committee Meeting -13 June 2017**

**Resolved:** (Crs Casson/Pascoe)

**Audit NZ Proposal to Conduct Audits for the 2017, 2018 and 2019 Financial Years.**

That Council:

- a) approves the proposal letter; and
- b) authorises the Mayor to sign the proposal letter on Council's behalf.

**Audit NZ Engagement and Arrangements Letter**

That Council:

- a) approves the Audit Engagement letter and Audit Arrangement letter; and
- b) authorises the Mayor to sign the proposal letter on Council's behalf.

**14. Recommendation to Council from the Growth and Infrastructure Committee Meeting - 20 June 2017**

**Resolved:** (Crs Casson/Bunting)  
 That Council:

- a) approves the amendment to clause 6.1 of the Hamilton Tradewaste and Wastewater Bylaw 2016 so that it refers to section 177 of the Local Government Act 2002; and
- b) approves the amended Hamilton Tradewaste and Wastewater Bylaw 2016.

**15. Resolution to Exclude the Public**

**Resolved:** (Crs Bunting/Casson)  
**Section 48, Local Government Official Information and Meetings Act 1987**

The following motion is submitted for consideration:  
 That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Recommendation to Council from Audit and Risk Committee Meeting - Public Excluded - 13 June 2017	) Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987	Section 48(1)(a)
C2. Appointment of External Member for Audit & Risk Committee	)	

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

Item C1.	to maintain legal professional privilege	Section 7 (2) (g)
Item C2.	to protect the privacy of natural persons	Section 7 (2) (a)

**The Meeting went into a Public Excluded session at 11.43am.**

**The Meeting was declared closed at 12.36pm.**

# Council Report

Item 6

**Committee:** Council **Date:** 27 July 2017  
**Author:** Becca Brooke  
**Position:** Governance Team Leader  
**Report Name:** Extraordinary Council - Open Minutes to be Confirmed - 4 July 2017

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<b>Report Status</b>	<i>Open</i>
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## Staff Recommendation

That Council confirm the Open Minutes of the Extraordinary Council Meeting held on 4 July 2017 as a true and correct record.

## Attachments

Attachment 1 - Extraordinary Council Minutes - Open - 4 July 2017

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## Extraordinary Council

### OPEN MINUTES

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Minutes of a meeting of the Council held in Council Chamber, Municipal Building, Garden Place, Hamilton on Tuesday 4 July 2017 at 1.05pm.

#### PRESENT

Chairperson	Mayor A King
Deputy Chairperson	Deputy Mayor M Gallagher
Members	Cr M Bunting
	Cr J R Casson
	Cr S Henry
	Cr D Macpherson
	Cr G Mallett
	Cr A O'Leary
	Cr R Pascoe
	Cr P Southgate
	Cr G Taylor
	Cr L Tooman

In Attendance:	Richard Briggs – Chief Executive
	Kelvyn Eglinton – General Manager City Growth
	Blair Bowcott – Executive Director Special Projects
	Chris Allen – General Manager City Infrastructure
	San Murray – General Manager Tourism, Major Events and Venues
	Sean Hickey – General Manager Strategy and Communications
	David Bryant – General Manager Corporate
	Karen Saunders – City Growth Business Manager
	Andrew Parsons – City Development Manager
	Nigel Ward – Communications Team Leader
	Nicola Walsh – Communications Advisor

Governance Advisors:	Lee-Ann Jordan – Governance Manager
	Becca Brooke – Governance Team Leader
	Amy Viggers – Committee Advisor

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Council 4 JULY 2017 - OPEN

1. **Apologies**  
**Resolved:** (Crs Bunting/Taylor)

That the apology from Cr Yeung is accepted.

2. **Confirmation of Agenda**

**Resolved:** (Cr Casson/Mayor King)

That the agenda is confirmed.

3. **Declarations of Interest**

No members of the Council declared a Conflict of Interest.

4. **Public Forum**

There were no public forum speakers

5. **Resolution to Exclude the Public**

**Resolved:** (Crs Casson/Mallett)

**Section 48, Local Government Official Information and Meetings Act 1987**

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Growth Update	) Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987 )	Section 48(1)(a)

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

Item C1.	to enable Council to carry out commercial activities without disadvantage to enable Council to carry out negotiations	Section 7 (2) (h) Section 7 (2) (i)
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**The meeting went into public excluded session at 1.05pm.**

*During the Public Excluded session of the meeting, a resolution was passed to make the Growth Update report, and council decisions concerning the report public following the Government HIF announcement made on 11 July 2017. The afore mentioned report and minutes are attached as appendix 1 to these minutes.*

**The meeting was declared closed at 3.30pm.**



**Committee:** Council

**Date:** 04 July 2017

**Report Name:** Growth Update

**Author:** Blair Bowcott

<b>Report Status</b>	<i>This report is taken as a publicly excluded item to enable Council to carry out commercial activities without disadvantage; AND to enable Council to carry out negotiations.</i>
<b>Strategy, Policy or Plan context</b>	<i>Council Financial Strategy Hamilton Urban Growth Strategy Future Proof Growth Strategy Hamilton Plan Partly Operative District Plan Growth Funding Policy 2015-2025 Long Term Plan 30 Year Infrastructure Strategy</i>
<b>Financial status</b>	<i>There is budget to continue participating in the Housing Infrastructure Fund (HIF) process. If Council is successful in its HIF application (the next stage), and accepts an allocation, there will be impacts on Council's current Long Term Plan (LTP) and Financial Strategy, and consultation will be required before any commitments can be agreed.</i>
<b>Assessment of significance</b>	<i>Having regard to the decision making provisions in the LGA 2002 and Council's Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

## 1. Purpose of the Report

- To seek Council approval to finalise and execute a **non-binding** Heads of Agreement to develop the Housing Infrastructure Fund (HIF) detailed business case and associated funding agreements for the Peacockes growth area with the Ministry of Business Innovation and Employment (MBIE), New Zealand Transport agency (NZTA) and Council.

### 3. Executive Summary

4. Council submitted three **non-binding** HIF funding proposals in the form of indicative business cases to MBIE on 30 March 2017.
5. The HIF evaluation panel assessed all three Hamilton City Council proposals and has decided to select the Peacocke business case to proceed to the next stage of the HIF process. The Peacocke application is for indicative funding of \$182m net (comprising gross spend \$272m, less assumed NZTA subsidy \$90m).
6. The decision by the HIF evaluation panel to select Peacocke was based on the fact that it was a more transformational project for the city and sub-region that would lead to greater housing delivery outcomes.
7. A public announcement on all successful HIF applications across New Zealand will be made by the Prime Minister and senior Cabinet Ministers in Hamilton on 11 July 2017. This report and the outcome of the HIF applications **need to remain confidential until that date**.
8. Council will be required to finalise and execute a **non-binding** Heads of Agreement (HOA) with MBIE and NZTA. The HOA outlines how Council, MBIE and NZTA will work together over the next phase of the HIF application process. The HOA does **not bind** Council to any funding arrangements. **The HOA is not a HIF agreement**.
9. The purpose of the HOA is to outline what is required to complete a HIF agreement (being a detailed business case focusing primarily on the financial and commercial elements of the funding proposal), along with the milestones and timeframes for the next phase. It will outline the form of any HIF loan agreement and NZTA funding agreement. This is in line with previous reports to Council on the process.
10. It is recommended that delegation be given to the Chief Executive to negotiate and execute the final non-binding Heads of Agreement with MBIE and NZTA, to complete all necessary work in relation the final business case and to negotiate funding agreements with private developers and NZTA.
11. The indicative funding proposal for Peacocke needs to be incorporated into the 2018-28 Long Term Plan.
12. Staff will continue to liaise with Elected Members throughout the HIF process and the detailed business case and funding agreements will come to Council for consideration and approval.

### Recommendations from Management

That Council:

- a) receives the report;
- b) approves a **non-binding** Heads of Agreement to develop the Housing Infrastructure Fund (HIF) detailed business case and associated funding agreements for the Peacockes growth area with the Ministry of Business Innovation and Employment (MBIE), New Zealand Transport agency (NZTA) and Council;
- c) delegates to the Chief Executive authority to work with MBIE and NZTA to refine, then finalise and execute the **non-binding** Heads of Agreement;
- d) notes that the **non-binding** Heads of Agreement will reflect the parameters of the HIF application submitted to MBIE on 31 March 2017 for the Peacockes growth area;

- e) notes that the Chief Executive will prepare as part of the next stage of the HIF application a detailed business case, negotiate funding agreements and prepare any necessary public consultation material for the consideration and approval of Council;
- f) delegates to the Chief Executive authority to conduct any **non-binding** commercial negotiations with Government representatives and private developers in this next phase, consistent with the HIF application submitted to MBIE for the Peacockes growth area;
- g) notes that the growth assumptions in the 2018-28 Long Term Plan will incorporate the HIF funding arrangements for the Peacocke growth area;
- h) requests the Chief Executive report to the 27 July 2017 Council meeting on the opportunities to advance work associated with the Peacocke growth cell ahead of the HIF detailed business case and associated funding agreements being finalised (including proactive land purchase, investigations and design of capital works) subject to any works advanced being retrospectively included in the HIF funding arrangements;
- i) notes that Council will have further opportunities to consider information on the HIF application and its implications for the 2018-28 Long Term Plan; and
- j) makes this report and the Council decisions public following the government HIF announcements on 11 July 2017.

### 13. Attachments

- 14. Attachment 1 - HIF Report to Council 28 March 2017
- 15. Attachment 2 - Draft Heads of Agreement Housing Infrastructure Fund

### 16. Background

- 17. On 28 March 2017 Council approved the submission of applications to the Housing Infrastructure Fund (HIF). The report is [linked here](#) (and attachments 6-8) and the application consisted of three business cases as follows:
  - i. Rotokauri application \$91m net HIF funding (Comprising gross spend \$154m, less existing 2015-25 Long Term plan budget \$30m and assumed NZTA subsidy \$33m)
  - ii. Peacocke application \$182m net HIF funding (Comprising gross spend \$272m, less assumed NZTA subsidy \$90m)
  - iii. Combined Rotokauri and Peacocke application \$273m net HIF funding (Comprising gross spend \$426m, less existing 2015-25 Long Term Plan budget \$30m and assumed NZTA subsidy \$123m)
  - iv. Note all amounts are in 2017 dollars
- 18. For ease of reference and to avoid repeating content, the report to 28 March 2017 Council (excluding appendix) is included in Attachment 1.
- 19. The applications were submitted to the Ministry of Business Innovation and Employment (MBIE) on 31 March 2017.
- 20. Subsequent to this date MBIE sought additional information on the applications, and then met with staff to discuss the HIF applications and conduct a site visit to both growth cells.
- 21. The HIF applications have been evaluated by an independent panel and a recommendation made to the appropriate government ministers.

22. We have been advised by MBIE that the Peacocke HIF application has been selected to proceed to the next stage of the HIF process, while the Rotokauri and Combined Rotokauri/Peacocke HIF applications have been declined.
23. A public announcement on all successful HIF applications across New Zealand will be made by the Prime Minister and senior Cabinet Ministers in Hamilton on 11 July 2017. This report and the outcome of the HIF applications **need to remain confidential until that date**.
24. MBIE have complimented Hamilton on the quality of its HIF bids, citing that all three were compelling and made strong cases to be supported.
25. MBIE have explained the reasons why the Peacocke HIF application was chosen ahead of the Rotokauri and Combined Rotokauri/Peacocke applications were:
  - The opening of the Peacocke cell is a transformational project for the city
  - To open up the Peacocke growth cell requires a substantial amount of lead infrastructure, especially the bridge/roading network, and the HIF funding arrangement is designed exactly for this scenario
  - Peacocke provides a longer term yield of houses
  - Peacocke provides wider sub-regional benefits and advances strategic relationships with regions south of Hamilton (i.e. to a wider area than just to Hamilton, especially once the major transport connections are in place)
  - Growth in the Peacocke area balances the city in terms of growth areas relative distance to the CBD
  - NZTA have indicated that they will advance the timing of the Southern Links transport network by five years (from 2030 to 2025), if the Peacocke growth cell is accelerated under the HIF agreement.
  - MBIE and NZTA staff have indicated that in terms of the transportation elements of the Peacocke proposal it is unlikely that significant amounts of new analysis is needed for the final business case phase.

## 26. Heads of Agreement

27. The initial draft of the **non-binding** Heads of Agreement (HOA) is included at Attachment 2.
28. The HOA outlines how Council, MBIE and NZTA will work together over the next phase of the HIF application process. The HOA does **not bind** Council to any funding arrangements. **The HOA is not a HIF agreement.**
29. The purpose of the HOA is to outline what is required to complete a HIF agreement (being a detailed business case focusing primarily on the financial and commercial elements of the funding proposal), along with the milestones and timeframes for the next phase. It will outline the form of any HIF loan agreement and NZTA funding agreement. This is in line with previous reports to Council on the process.
30. The HOA attached is an early draft document (it was provided on 28 June 2017) and MBIE have indicated they want to work with all Councils that have been selected for the next phase of HIF to refine the document prior to it being executed. The HOA will be **non-binding** on Council and execution of this document does not mean that Council has agreed to finalise a HIF. Council will be required at a later date to consider and approve the final business case and any funding agreements with MBIE and NZTA.

31. It is proposed that the Chief Executive work with MBIE/NZTA and the other councils selected to progress their HIF applications to refine and finalise the MOU. This process may include obtaining the appropriate legal and financial advice.

### 32. Options for further advancement

33. The intention of the HIF application was to accelerate the delivery of housing land and dwellings in the city to meet the growth projected in the coming years.
34. The time to complete the HIF detailed business case, funding agreements, private developer agreements, any public consultation and ultimately Council and government approval will extend into 2018. There is an opportunity to advance work associated with the Peacocke growth cell in 2017/2018 ahead of the HIF being finalised to ensure that Council will reduce any critical path timeframes in this complicated growth project. This advance work could include proactive land acquisition associated with the critical gateway infrastructure (this is a significant risk to timeframes as it may trigger first rights obligations with Tainui, and there are multiple land owners), investigations such as geotechnical work and detailed design of projects.
35. The areas of work that could be advanced will be identified in a report to the 27 July 2017 Council meeting, along with an estimated financial cost to advance these projects. It will be important to get the approval of MBIE and NZTA that any advanced works related to the HIF application can be retrospectively included in the HIF funding arrangements.

### 36. Financial and Resourcing Implications

37. The financial treatment of the HIF was described in the report to Council on 28 March 2017. In summary the HIF represents a 10 year interest free loan, with the water related debt being "on balance sheet" as a sub-ordinated loan, while the transport related debt is initially "off balance sheet" but progressively is recognised as debt by council over the course of the 10 year period through a transport subsidies funding offset agreement. The 10 year payback period does not commence from the finalisation of the agreement, but is staggered over the phasing and payment for the infrastructure works.
38. The accounting treatment for transport projects has been clarified since the 28 March 2017 report and the financial impact on debt is now more favourable than that modelled in the HIF application, due to the transport debt being initially "off balance sheet."
39. The HIF application and the previous report to Council both identified a substantial amount of work is required to firm up the financial arrangements of the HIF, and the risks and implications for Council. This includes negotiations with developers over their commitment to a partnership and contribution to growth costs, calculation of development contributions, implications on the 2018-28 Long Term Plan and Financial Strategy, and how Council can mitigate its risks.
40. The next stage of the HIF process (comprising the detailed business case and funding agreements), which the HOA will outline, will specifically focus on:
- The financial terms of the HIF,
  - Financial implications for Council (especially debt, repayment profile, development contributions, debt ratios and any impact on rates),
  - Private developer negotiations, and
  - How Council will mitigate its risks.

41. Extensive conversations will be required with MBIE and NZTA representatives on the terms of the HIF and content of the detailed business case. Both organisations have requested regular attendance at Council project meetings on the HIF.
42. At the same time as the detailed business case is being developed, commercial negotiations will occur with private developers to achieve a level of financial and new dwelling commitment that meet the requirements sought by the government and Council. This is to ensure that Council's financial risk is mitigated, and that new houses are delivered at an accelerated rate in accordance with the intention of the HIF.
43. The HIF discussions over the next six months align well with the 2018-28 Long Term Plan process and will enable an informed discussion on the HIF and the growth scenarios for Council to consider alongside the other considerations of the Long Term Plan.

#### 44. Timeframe for Next Stage

45. It is our intention to progress the detailed business case, private developer negotiations, private developer agreements and consequential funding agreements with MBIE and NZTA as quickly as possible. Our current target is to have these finalised for consideration by Council in October 2017.
46. Factors that will influence the timeframe include the outcome of the central government elections (and consequential impact on Ministers for HIF), the engagement and agreement with private developers and the financial modelling of the HIF in parallel with the 2018-28 Long Term plan deliberations.
47. The extent and requirements of any public consultation are still to be finalised. The timing of this consultation may depend on the links to the 2018-28 Long Term Plan and to what extent any consultation is reliant on decisions and information from the draft Long Term Plan.

#### 48. Risk

49. The report to Council on 28 March 2017 (paragraphs 154-162) described the non-financial and financial risks associated with the HIF.
50. These risks are unchanged, and it was always the intention of the HIF application process to address and mitigate each of these risks in this next stage. That is the purpose of the detailed business case, developer negotiations and discussion on the funding agreements.

#### Signatory

Authoriser	Kelvyn Eglinton, General Manager City Growth
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**Committee:** Council **Date:** 28 March 2017  
**Report Name:** Government's Housing Infrastructure Fund - Final Proposal from Hamilton City Council **Author:** Luke O'Dwyer

<b>Report Status</b>	<i>Open</i>
<b>Strategy, Policy or Plan context</b>	<i>Council Financial Strategy Hamilton Urban Growth Strategy Future Proof Growth Strategy Hamilton Plan Partly Operative District Plan Growth Funding Policy 2015-2025 Long Term Plan 30 Year Infrastructure Strategy</i>
<b>Financial status</b>	<i>There is budget to continue participating in the Housing Infrastructure Fund (HIF) process. If Council is successful in its HIF application, and accepts an allocation, there may be potential impacts on Council's current Long Term Plan (LTP) and Financial Strategy, and consultation will be required before any commitments can be agreed.</i>
<b>Assessment of significance</b>	<i>Having regard to the decision making provisions in the LGA 2002 and Council's Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

**1. Purpose of the Report**

2. To explain recent growth and urban development initiatives (including Government decisions) that have the potential to impact Council functions and finances and how Hamilton grows in the future;
3. To seek Council approval to submit a **non-binding** Housing Infrastructure Fund (HIF) proposal to the Ministry for Business Innovation and Employment (MBIE), consisting of three indicative business cases, to fund new lead strategic infrastructure in the Peacockes and Rotokauri growth areas.

**4. Structure of the Report**

5. This report is comprised of three parts.
6. The first part is an executive summary.
7. The second part provides a brief overview of recent growth and urban development initiatives potentially impacting Council and the future growth of Hamilton.

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8. The third part addresses in detail our participation in one of these initiatives – the HIF. The HIF is a funding tool announced by Government in mid-2016 to accelerate housing delivery in high growth areas. While the HIF is an opportunity, it also presents some challenges for Council.
9. At the time of completing this report, the business cases that need to be submitted to MBIE as part of the HIF proposal had not been fully completed.
10. The three business cases will be circulated to elected members shortly after this report has been issued. Given the extremely tight timeframes associated with the HIF process, the business cases will continue to be refined up until submission. (Attachments 6-8)
11. Nevertheless, the substantive analysis and key results associated with the business cases have been completed and are included in this report for elected member's information to inform and assist with their decision making obligations.
12. Relevant matters of strategic importance from the business cases that are of relevant from a governance perspective are included in this report.
13. The final details in the business cases will be consistent with the content of this report with respect to benefits, costs of risks associated with the HIF proposal and what is being asked for in terms of decision making.
14. The HIF proposal is being conducted under a formal tender/procurement process and must be lodged with MBIE by 31 March 2017.

#### 15. Part 1 - Executive Summary

##### What is the HIF and what is trying to solve?

16. Recent Government initiatives have been implemented to address growth and funding challenges facing many parts of New Zealand.
17. The HIF is one tool developed by Government to assist local government solve these growth and funding challenges.
18. Hamilton is a high growth area of increasing importance to Government given we are the fourth largest city in New Zealand with a strong economy and a growing population.
19. Hamilton's importance as a major urban centre has been confirmed by being included as a high growth area in the National Policy Statement for Urban Development Capacity (NPS-UDC), and through the recent confirmation of a Housing Accord with the Minister for Building and Construction. The NPS-UDC will require Council to ensure enough zoned land is available to meet demand as our population grows.
20. **Even without access to the HIF, Council will need to fund future growth cells as part of the next Long Term Plan (LTP) to accommodate anticipated future population growth.** This is standard business for Council where Council has previously funded lead strategic infrastructure to facilitate urban development via the opening of new growth cells (such as in Rototuna).

##### The HCC HIF application is for \$273 million

21. A **non-binding** HIF proposal is recommended for \$273 million (2017 dollars) for road, water, waste water and stormwater infrastructure for Peacocke and Rotokauri growth areas. Approximately \$182 million is for Peacockes, and \$91 million is for Rotokauri. The proposal consists of three business cases – a joint Peacockes and Rotokauri business case, a business case just for Peacockes, and a business case just for Rotokauri.
22. The previous Council confirmed its participation in the HIF process by endorsing the preparation of an indicative HIF proposal on 25 August 2016.
23. Council submitted an indicative HIF proposal on 2 December 2016 seeking \$240 million (2015 dollars, before inflation, New Zealand Transport Agency (NZTA) subsidy or existing LTP allocations) to fund growth infrastructure in the Peacockes and Rotokauri growth cells.
24. The HIF eligibility criteria specifies that lead in growth strategic infrastructure necessary to enable urban development can only be sought through the HIF process.

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25. Feedback on Council's proposal was received from MBIE on 22 December 2016 and Council was confirmed as being eligible to progress to the final round of the HIF process.
26. A proposal in the form of three indicative business cases has been prepared in accordance with MBIE tender requirements (Attachment 6-8).
27. The proposal seeks funding for a bridge, associated arterial road and water and waste water infrastructure for Peacockes, and a floodway and an arterial road network for Rotokauri.
28. Significant additional consequential capital expenditure for local infrastructure for both growth cells would also be likely required over the full (approximate 20 year) development timeframe estimated to be \$480million (Rotokauri \$80m, Peacocke \$400m). These are **not included** in the HIF proposal.
29. Future estimated operational costs of \$300,000 per annum per growth cell for the HIF funded infrastructure are also **excluded** in the HIF proposal.
30. Further, the HIF proposal does not cover any community infrastructure (such as land for reserves, sports fields, playgrounds, public toilets), and these infrastructure elements and costs for each growth cell will be significant, but are unknown at this time.
31. These important infrastructure elements for each growth cell would need to be factored in as part of the next LTP.
32. Indicative business cases prepared in support of each proposal (as required by MBIE) demonstrate a positive benefit/cost ratio (BCR) of approximately 19 for both Peacockes and Rotokauri over a 30 year period. This means that for every \$1 of funding received under HIF, a wider economic return to the city of approximately \$19 could be achieved.
33. A benefit-cost ratio is one way to summarize the overall value for money of a project or proposal on an economic basis. A BCR is the ratio of the benefits of a project or proposal. The higher the BCR the better the investment from an economic perspective.

**Council should stay involved in the HIF process**

34. The HIF represents a good opportunity for Council to secure advanced funding for important growth infrastructure.
35. The primary benefit to Council and the City of a successful HIF application is that it would bring forward major growth infrastructure to enable new housing construction in two greenfield cells in Hamilton when compared to current Long Term Plan (LTP) settings, funded by interest free loans from the government for a maximum of 10 years.
36. This advanced HIF funding would also create new greenfield land supply and is vital for Hamilton meeting its future National Policy Statement – Urban Development Capacity (NPS-UDC) obligations for residential supply.
37. The HIF presents a formal (yet **non-binding**) mechanism by which Council can directly engage with central Government on addressing growth funding and housing delivery issues through a partnership approach.
38. Even so, there is a degree of uncertainty around the HIF allocation process in terms of refining key information, understanding full financial impacts and economic benefits, mitigating risks and in terms of what form any financial assistance to Council may take.
39. Given the length of time associated with the full HIF process (through to early 2018), Council has an opportunity to assess and model HIF related impacts concurrently during the development of the next LTP, and recommend to government alternatives that would reduce the impact on Council's financial strategy.
40. For these reasons, and noting that submitting a proposal **does not bind** Council to any future commitments, and that irrespective of the HIF framework the challenge of funding growth related infrastructure remains, there is merit in staying involved in the HIF process until its conclusion.

**HIF benefits accrue to Hamilton as a whole, while costs are born by Council.**

41. MBIE have established the tender parameters, assessment criteria and minimum requirements for eligibility for HIF funding assistance.

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42. The primary analytical tool set out in the tender process is for eligible councils to undertake indicative business cases to determine benefit cost ratios (BCR) based on existing processes designed and used by NZTA and Treasury. This analysis must be undertaken for Council to apply for HIF funding.
43. The indicative business cases reveal extremely favourable BCR's for both Peacockes and Rotokauri, indicating a positive economic return to Hamilton and the sub-region if HIF funding was received.
44. Despite this economic return, there are a number of risks associated with the HIF process, especially in terms of impacts on Council's financial strategy.
45. Even though the BCR's for both Peacockes and Rotokauri are high and represent a potentially good return on investment, it is important to note that these benefits accrue to Hamilton as a whole and the wider sub-region as opposed to just Council over a 30 year period.
46. The main cost impact associated with the current HIF structure and any potential allocation is a likely breach of our existing Financial Strategy, especially debt to revenue ratios, and the need for increased revenue to fund the capital expenditure programme required to open the new growth cells.
47. Ultimately, any decision made by Council will need to balance and evaluate the differing financial parameters associated with funding growth, with or without the HIF. That is, understanding that receiving a HIF allocation is a short term, interest free loan, to be repaid by Council, after a 10 year period where wider benefits for an investment into growth infrastructure accrue to Hamilton as a whole over a longer time scale.

**Which option is better?**

48. The best option under the MBIE process can only be determined by a benefit cost ratio. Even so, from Council's perspective there are other considerations to determine which option is best.
49. From a benefit cost ratio perspective, all three options are very similar.
50. From a housing delivery perspective, a combined HIF option advancing both Rotokauri and Peacocke growth cells yields more dwellings, while Peacocke by itself delivers more dwellings than Rotokauri.
51. From a Council debt and financial strategy perspective, Rotokauri is more affordable under current LTP parameters.
52. From a Hamilton Urban Growth Strategy perspective, Rotokauri Stage 1 is planned to be developed ahead of Peacockes.

**There are options available – HIF is a long process that needs to be considered in tandem with the next LTP**

53. Despite these potential benefits, there are a number of risks to Council in receiving the HIF allocation being sought.
54. These risks have been identified through standard Council risk management processes and appropriate caveats to mitigate these risks have been included in our funding proposal.
55. Primary risks identified include financial, delivery, development commitment and information certainty risks.
56. Due to the compressed timeframe imposed by MBIE, some aspects of the analysis informing our understanding of costs, benefits, and impacts on the Council's finances arising from the final proposal are likely to alter through more detailed investigations in the next phase of the HIF process.
57. Despite these risks, Council should continue to participate in the HIF process as our final submission is non-binding and Council can withdraw from the HIF process at any time. Ongoing participation in the HIF process will not result in any immediate impacts on our debt profile nor have any rates implications.

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58. Staying involved in the HIF process enables Council to continue to be formally engaged with MBIE and government ministers exploring alternative financial and delivery arrangements which have the potential to reduce the risks that exist under the current HIF structure including alternative options, such as:
  - Crown Owned Special Purpose Vehicle;
  - CCO of Council funded by the Crown on a non-recourse basis to Council (risk sits with Crown);
  - A Crown-funded entity similar to the Crown Fibre Holdings model used for the broadband fibre rollout;
  - Extended repayment periods beyond 10 years to match the actual timing of new dwellings being constructed;
  - A FAR offset model where debt is off balance sheet;
  - Government suspensory loan with debt waived as development expectations achieved.
59. If submitted, a decision on Council's HIF proposal will be made by MBIE before the end of June 2017.
60. **There are a number of additional decision making opportunities for Council before any final acceptance of a funding allocation under HIF needs to be made.** We are currently at stage two of a five stage process.
61. If the current HIF application is accepted by the Government (by June 2017), Council will have until December 2017 to finalise detailed business cases that are required to be completed before any funding can be allocated to Council. At the same time, Council will be required to consult the community on any application to the HIF, given the scale of the change to the current LTP.
62. During this next phase, Council will have sufficient time to complete substantially detailed and robust investigations on the financial and commercial aspects of any HIF allocation, and to better understand, and further mitigate, risks associated with the HIF, including any implications throughout the development of the 2018-2028 LTP.
63. As such, any final decision by Council to accept any HIF allocation can only be made as part of integrating potential HIF impacts during the wider LTP planning process, and after receiving and considering public submissions.
64. The final stage of the process would be for Council to approve a final agreement with the government, expected to be early 2018.
65. Staff will report back to Council on the outcome of MBIE's evaluation and on the next phases of the HIF process later in the year.

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**Recommendation from Management**

That Council:

- a) receives the report;
- b) approves the submission of a **non-binding** application to the Housing Infrastructure Fund, including approving three business cases, to advance lead strategic infrastructure funding for the Peacocke and Rotokauri growth cells subject to the caveats and alternative funding proposals outlined in this report;
- c) notes that the three business cases will seek Housing Infrastructure Funding as follows:
  - (i) Rotokauri application \$ 91m (net HIF funding)
  - (ii) Peacocke application \$182m (net HIF funding)
  - (iii) Combined Rotokauri and Peacocke application \$273m (net HIF funding)

noting that these applications to the Housing Infrastructure Fund are based on 2017 dollars and are net of assumed NZTA subsidy of \$123m, net of assumed 2015-25 funding allocation of \$30m and exclude inflation;
- d) delegates to the Chief Executive authority to refine and edit the three business cases subject to the parameters outlined in this report, up to formal submission on 31 March 2017;
- e) delegate to the Mayor authority to sign all tender documentation associated with the proposal for formal submission to the Ministry of Business Innovation and Employment (MBIE);
- f) delegates to the Chief Executive authority to conduct any necessary **non-binding** commercial negotiations with government representatives consistent with the HIF proposal submitted to MBIE, including progressing the alternative proposals;
- g) notes that Council will have further opportunities to consider information on the HIF application and its implications for the 2018-28 Long Term Plan.

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**66. Attachments**

67. Attachment 1 - Housing Infrastructure Fund Proposal Rotokauri Residential Growth: Business Case Overview
68. Attachment 2 - Housing Infrastructure Fund Proposal Peacocke Residential Growth: Business Case Overview
69. Attachment 3 - Housing Infrastructure Fund Proposal Rotokauri and Peacocke Combined Residential Growth: Business Case Overview
70. Attachment 4 - Capital expenditure associated with the HIF Bid
71. Attachment 5 - Impact on the debt to revenue ratio as a result of the HIF bid
72. Attachment 6 - Government's Housing Infrastructure Fund - Indicative Proposal - Rotokauri **(Under Separate Cover)**
73. Attachment 7 - Government's Housing Infrastructure Fund - Indicative Proposal - Peacocke **(Under Separate Cover)**
74. Attachment 8 - Government's Housing Infrastructure Fund - Indicative Proposal - Rotokauri and Peacocke combined **(Under Separate Cover)**

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75. **Part 2 – Recent growth challenges and initiatives impacting Council**
76. Introduction
77. Many New Zealand cities and regions have recently experienced accelerated rates of urban growth and house price rises.
78. This growth has also put pressure on infrastructure delivery to ensure there is an adequate supply of serviced land to moderate the rate of house price inflation.
79. Addressing these issues has been a focus of central government policy initiatives since 2012. In summary, the range of policy interventions enacted by Central Government include:
- The Housing Accord and Special Housing Areas Act (allowing for the creation of Special Housing Areas);
  - Reforms to the Resource Management Act to streamline plan making and consenting functions;
  - Investigations by the Productivity Commission into how housing and urban development markets function to better understand the dynamics of housing affordability;
  - The creation of the National Policy Statement on Urban Development Capacity to require Councils in high growth areas to always ensure there is enough feasible, zoned and serviced land for residential and employment uses;
  - The creation of the Housing Infrastructure Fund;
  - Investigating the formation of Urban Development Authorities
80. Throughout these reforms, the local government sector has been in close dialogue with central government around infrastructure affordability and the extent to which the current regulatory frameworks assist in expediting growth.
81. The creation of the HIF is one policy initiative by Central Government that acknowledges it needs to do more to work in partnership with local government by assisting in the financing of growth infrastructure to accelerate housing delivery.
- 82. Why is funding infrastructure important?**
83. One of the biggest challenges facing local government is the timely funding and delivery of infrastructure needed to support urban development.
84. This challenge also applies to Hamilton where we have zoned and structured planned most of the urban areas of the City, but under current LTP settings, are unable to fund all of these areas to unlock their full growth potential.
85. The challenge of ensuring that an adequate land supply is maintained has been re-enforced by the release of the National Policy Statement on Urban Development Capacity (NPS-UDC) by Government requiring Council to ensure there is enough feasible, zoned and serviced land for residential and employment uses.
86. The NPS UDC is requiring Council to have a sufficient supply of development capacity to meet the demand in the short (1-3 years), medium (10 years) and long term (30 years).
87. A comprehensive report outlining Council's residential supply and related growth challenges under the new NPS UDC was tabled on [30 August 2016](#).
88. In that report it was outlined how Council has invested sufficiently in zoning and strategic infrastructure to enable developer ready land to be brought to the market in the short and medium term to meet the growth requirements for new dwellings.
89. For the short to medium term 10 year period this means that the Hamilton Urban Area must have development capacity of 20% over the Statistics NZ medium projections to take account of the likelihood of higher than anticipated growth and that not all capacity will be developed in to sections.
90. When applying the 20% contingency this equates to 11,638 dwellings over the remaining 9 years of the 2015-25 10-Year Plan or 1,293 dwellings per year. **These dwelling estimates were revised upwards subsequent to the report presented on 30 August 2016 to reflect the latest growth trends to reflect forecasting changes made by Statistics NZ in December 2016.**

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91. Council investment to date meant at the time of that report there was 4 years of greenfield development capacity remaining. Council has approved budget investments in the 2015-25 LTP to add a further 7 years of developer ready land in greenfield areas by 2025. **Given the recent revision in growth projections, the remaining development capacity will be less than these numbers.**
92. In addition, the August 2016 report found that there is also 16 years of developer ready land in infill areas (supported by the capital investments approved in the existing 2015-25 LTP).
93. Council has invested in the priority growth cells (Rototuna, Peacockes Stage 1, Rotokauri Stage 1 Industrial) taking a just in time investment approach to make efficient use of previous infrastructure investments. Further, Council has invested in land use (zoning) and infrastructure planning for the next priority growth cells (Rotokauri Stage 1 residential, Peacockes Stage 2) and worked with developers wishing to develop in advance of Councils infrastructure timing.
94. The demands of the NPS-UDC mean that significant lead strategic infrastructure funding decisions are likely to be required for Rotokauri stage 1 and Peacockes Stage 2 during the preparation of the next LTP to ensure enough residential land can continue to be brought on line to accommodate anticipated future growth in Hamilton.
95. These funding decisions will need to be made, irrespective of whether or not Council participates in the HIF process.
96. Funding infrastructure to enable the development of future growth cells is a core business for Council.
97. Past funding decisions by previous Council administrations enabled the opening of and development of new growth cells across the City, including Rototuna, Western Heights and parts of Ruakura and Peacockes.
98. Accordingly, any future decision to fund undeveloped areas of Hamilton is consistent with the City building function and responsibilities that sit with Council.
99. The risks of not funding new growth cells that have been identified in the Hamilton Urban Growth Strategy, and structure planned and zoned through the Party Operative District Plan, in a timely and strategic way, include:
  - potential increases in house prices through limited supply of dwellings to meet demand;
  - reduced economic growth resulting from a potential erosion of Hamilton's competitive advantages in the availability and affordability of residential land for dwellings;
  - the loss of control around the pace and scale of urban growth resulting from having to address unforeseen plan changes and any consequential litigation arising from these processes;
  - private developer provided infrastructure that does not provide capacity beyond that of the individual development, subsequently vested in Council and potentially costing more to the city in the longer term to operate and maintain.

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### 100. Part 3 – the Housing Infrastructure Fund

101. Background
102. On 3 July 2016 the Government announced a new \$1 billion HIF for local government. The fund is available to areas that are classified as "high-growth" under the National Policy Statement on Urban Development Capacity (NPS-UDC), which includes Hamilton.
103. The outcome sought by the government via the fund is to increase the pace at which housing supply is made available and to increase housing yield beyond what is otherwise planned.
104. The HIF is a one-off contestable interim fund to bring forward the transportation, water and other strategic infrastructure required for new housing.
105. The previous Council resolved on 25 August 2016 to prepare and submit an indicative proposal to the HIF based on advancing the Peacockes growth cell.

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106. Council submitted its indicative proposal to the Ministry of Business Innovation and Employment (MBIE) on 2 December 2016. A copy of the indicative proposal was tabled at the Growth and Infrastructure Committee meeting held on 14 February 2017.
107. The total funding sought in the indicative proposal was \$240 million for lead strategic infrastructure (2015 dollars before inflation and net of NZTA subsidy and LTP funding) for transport and three waters infrastructure in the Peacockes and Rotokauri areas.
108. These areas were selected as they have been identified as strategic growth areas under the Hamilton Urban Growth Strategy and are structure planned and zoned and have, in some instances, infrastructure corridors or features consented and / or designated.
109. Further, these areas provide the best opportunity to unlock significant housing development to satisfy the key criteria associated with the HIF assessment framework, and were also areas of the City where key landowners and developers were able to provide written support to actually construct new housing should HIF funding be secured.

110. What problem is HIF is trying to solve?

111. The HIF was established to accelerate housing supply in growth Councils over and above business as usual settings under existing LTP funding arrangements.
112. Previous investigations by the Productivity Commission in to land and housing markets have indicated that supply side zoning measures on their own may not be sufficient to ensure houses can be delivered in a timely way, and that adequate and timely funding for new growth infrastructure is a key issue that growth council's need assistance.
113. The creation of the HIF is a tacit acknowledgement by Government that a partnership is required to assist local authorities in the urban development process to ensure housing markets function efficiently and timely as possible. Specifically the HIF was developed to mitigate the financial barriers for councils to fund lead strategic infrastructure development necessary for urban growth.
114. The HIF is only one tool to assist with addressing the growth issues facing Council.

**115. Overview of the HIF process**

116. The HIF process has been structured by MBIE as a standard commercial tender.
117. All tender timeframes, requirements and conditions have been issued by MBIE and these tender parameters have defined the deliverables that Council staff has been working towards completing and are the subject of this report.
118. The tender requirements stipulate that each participating Council must submit indicative business cases in accordance with the NZTA business case model, along with a summary table, before the final tender submission date of 31 March 2017.
119. Council has complied with these tender requirements, and the findings of the business cases are documented in this report.

**120. Benefits of the Housing Infrastructure Fund**

121. The HIF process represents a unique opportunity for Council to obtain one off advance funding for growth related infrastructure when compared to existing LTP funding arrangements.
122. The benefits of this advance funding largely accrue to Hamilton and the sub-region as a whole from additional housing and new urban growth.
123. The direct costs of any funding allocation would be carried primarily by Council, with the biggest cost being a potential breach in our Financial Strategy, depending on any financial mitigation that could be deployed throughout the development of the next LTP.
124. From a purely financial perspective the HIF is an interest free loan to Council over a 10 year period.
125. The interest free component of the HIF will generate significant interest savings when compared to normal banking/financial arrangements for a similar amount of money that would be allocated under normal LTP settings.

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126. The funding received under the HIF would create the potential for Council to;
- stimulate new greenfield housing development,
  - facilitate more housing choice in terms of greenfield options,
  - enable future economic and population growth, and
  - bring forward the economic benefits of infrastructure investment where those benefits could be realized over a longer time period.
127. Further, any HIF allocation would assist Council satisfying its NPS-UDC obligations relating to residential land supply.
128. The HIF opportunity also enables Council to work towards achieving some Hamilton Plan community outcomes - namely the goals of becoming New Zealand's third city economy, providing outstanding infrastructure, and access to affordable housing.
129. The Government acknowledges there is problem with growth funding and is interested in working in partnership with local government in resolving ongoing infrastructure funding issues in New Zealand. Staying involved in the HIF process enables Council to continue to be at the forefront of working to solve these issues.

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### 130. Overview of the final proposal documents

131. The final proposal being submitted to MBIE (in accordance with their tender requirements) consists of the following three elements:
- One indicative business case and summary table for funding infrastructure in the Peacockes and Rotokauri growth cells (that is, a combined case);
  - One indicative business case and summary table for funding infrastructure in Peacockes only;
  - One indicative business case and summary table for funding infrastructure in Rotokauri only.
132. A summary of each business case was ready at the completion of this report and has been included as Attachments 1 – 3.
133. Each indicative business case prepared must follow the NZTA standard business case approach.
134. A business case is a standard appraisal methodology established by Government to assist decision making for large scale procurement and funding projects that have a value greater than \$10 million. It is typically used by a number of agencies (such as NZTA, MBIE, DHB's, Defence) for significant projects to understand not only accounting and financial costs but the wider economic costs and benefits arising from investment.
135. HCC also has its own business case methodology to understand investment and procurement value prior to committing funding of large capital projects, which is similar to the NZTA approach.
136. The indicative business cases prepared as part of our tender submission address five distinct elements of decision making. These include strategic, economic, financial, commercial and management aspects. Each business case looks at the potential impacts of the HIF allocation when compared to the status quo (that is, current LTP settings) to understand if the potential investment and financial allocation made by Government represents value for money. Broadly, each element of the business cases prepared for our HIF submission address the following areas:
- The strategic case examines if the investment is optimised against the strategic business needs and existing arrangements of Council;
  - The economic elements examine the investment options from a purely wider economic benefits perspective beyond the investment needs of the organisation;
  - Financial and commercial elements help to determine the feasibility of the investment and the Management case outlines how the project will be delivered and managed in a practical sense.
137. For the HIF process MBIE have made it clear that a high degree of detail was expected for the Economic and Strategic elements of the each business case, and our business case preparation

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has ensured this is the case. Greater detail on the financial and commercial elements will be required in the next stage of the process. Further, MBIE also require additional, specific HIF criteria related to be addressed in the business cases to demonstrate if a return on investment to Government can be achieved.

**138. Benefit cost ratio results**

139. The combined output of the business cases is what is referred to as Benefit Cost Ratio (BCR).
140. A BCR is a proxy that enables investment decision makers to determine whether an investment represents value for money across broad economic measures and enables a standard way to assess tenders by MBIE.
141. The higher the BCR, the better the investment from a wider societal and economic perspective. Our analysis indicate that the benefits of any HIF investment accrue to Hamilton as a whole but the costs are born by Council in terms of debt impacts. In summary, the BCR results indicate:
- A BCR for Rotokauri Stage 1 of 18.91
  - A BCR for Peacocke Stage 2 of 18.80
  - For both scenarios (that is, a combination of both), a BCR of 18.83.
142. For each option, the BCR's reveal that large one off capital investments represent the bulk of the costs (e.g., a floodway in Rotokauri and a bridge for Peacockes). The benefits are largely derived from the economic activity generated by housing construction and subsequent household expenditure. There are also transport benefits network wide.
143. These transport benefits have been noted by NZTA during the formation of our final HIF proposal where NZTA have confirmed Point of Entry status for Peacocke and Rotokauri transport elements. This is significant and indicates clearly that our projects are strongly endorsed by the NZTA as being projects worthy of NZTA funding assistance.
144. Despite the above, the benefits that would accrue to Council in terms of rates revenue and development contributions are less substantive.
145. The BCR numbers indicate that for every \$1 invested an economic return of approximately \$19 could be anticipated over a 30 year period. Anything over a BCR of 1 indicates that an investment can be considered on an economic basis.

**146. Housing delivery results**

147. For Rotokauri HIF single proposal, the programme of works outlined in the HIF proposal will accelerate growth in the development of Stage 1 of Rotokauri, which will yield 1,610 dwellings within 10 years and 2,787 dwellings within 30 years. The 1,610 dwellings built in Rotokauri within 10 years will meet 13% of the projected future demand for housing in Hamilton in 2025.
148. For Peacocke the HIF single proposal programme of works will accelerate growth which will yield 3,153 dwellings within 10 years and 8,103 dwellings within 30 years. This will provide 26% of projected future housing demand in Hamilton by 2025.
149. A status quo scenario under existing LTP settings for Rotokauri and Peacocke would deliver 1440 dwellings over 10 years which is 13% of projected future demand for dwellings in 2025.
150. Under the combined HIF proposal for both Peacockes and Rotokauri, approximately 4,700 dwellings will be built within 10 years which represent 39% of new housing demand.
151. In addition, the average infrastructure spend per dwelling built in both growth cells is estimated to be approximately \$58,780 within 10 years, and approximately \$25,700 within 30 years. These figures do not represent indicative development contributions, and are just aggregated costs divided by dwelling yields across both growth cells.
152. The best option in terms of accelerating future housing delivery to accommodate anticipated population growth is to fund both proposals.
153. The next best option, in terms of meeting the demand for dwellings is Peacockes as HIF funding essentially opens up the whole growth cell, whereas Rotokauri funding only opens Stage 1 and delivers a smaller yield.

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**154. Non-financial risks**

- 155. Non-financial risks associated with the HIF are identified in the table below with proposed bid mitigations.
- 156. These mitigations will be included as HIF conditional acceptance conditions for Council.

<i>Non-financial risk</i>	<i>Proposed mitigation / acceptance condition</i>
Securing developer commitment and resultant housing construction	Proposal submitted on the basis that final funding is subject to an agreed Private Developer Agreement (PDA) between Council and development partners addressing the following: <ul style="list-style-type: none"> <li>• Confirmation of clear housing construction targets,</li> <li>• contributions are known,</li> <li>• caveats and appropriate payment clauses are included to allow for any substantial downturn in economic circumstances,</li> <li>• Letters of Intent to be provided by development partners.</li> </ul>
Aligning HIF allocation with Local Government Act (LGA) and Land Transport Management Act (LTMA) processes	Final proposal submitted on the basis that it is subject to consultation with the community over the priority of advancing other capital projects in the LTP, including any consequential impact on debt and rates. Final proposal submitted on the basis that any changes to the Regional Land Transport Plan need to occur before funding is received.
Delivery risk	Creation of a new standalone HIF delivery team within Council and the formation of tailored industry best practice contractual and delivery arrangements.
Information	Due to the compressed timeframe imposed by MBIE, some aspects of the analysis informing our understanding of costs, benefits, and impacts on the Council's finances arising from the final proposal are likely to alter through more detailed investigations in the next phase of the HIF process. Mitigated through the additional time and investigation phase of the next stage of the HIF process.

**157. Financial risks**

- 158. While there are financial benefits from receiving a HIF allocation (primarily in terms of interest payments saved from the fact the HIF would be interest free), there are potential issues with how any HIF allocation may impact Council's current Financial Strategy.
- 159. The specific issue arising from receiving any HIF allocation relates to how any HIF debt will be treated both on the balance sheet and in terms of financial debt ratios, the level of increased revenue received by Council, the repayment arrangements and future commitments (especially for the transport activity) and how development contributions will be levied.
- 160. Any funds advanced under the HIF will be repaid through a combination of development contributions, private developer agreements, rates and refinancing to debt raised through current funding mechanisms (predominantly via the Local Government Funding Agency).
- 161. The table below includes the main financial risks and the proposed mitigation/bid acceptance conditions relating to them, which will be included in the final bid documentation:

<i>Financial risk</i>	<i>Proposed mitigation / acceptance condition</i>
Contingency costing	Project costs to be reviewed every 3 years to enable project updates for better project information (e.g. design, geotechnical conditions, inflation assumptions, changes in land value).
Lack of consequential and necessary infrastructure funding	The HIF proposal does not include any allowance for consequential upsize and operating expenditure for local infrastructure, no ongoing operating expenditure, and no allowance for community

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	infrastructure. Mitigation measures include the use of alternative funding arrangements, changes to service delivery and / or increased revenue as part of any future LTP considerations.
Financial reporting of HIF in Council accounts	Bid acceptance conditional on final accounting treatment of HIF fund to be agreed by all local sector stakeholders. Currently, there are different views on accounting treatment from the Local Government Funding Agency, credit rating agencies, NZTA and the Office of the Auditor General.
Development Contribution (DC) funding uncertainty	Final bid acceptance based on receiving confirmation that DC's can be legally collected under the HIF structure.
Impacts on financial strategy	HIF allocation would potentially result in a breach of the financial strategy with regard to debt to revenue ratios. Mitigation measures include the use of alternative funding arrangements, changes to service delivery and/or increased revenue.

162. In terms of the development contribution (DC) modeling undertaken at this stage of the HIF process it is worth noting there were significant limitations on understanding future cash flows from expected new urban development. Nevertheless, an estimate of increased DC revenue is included in the business case and there is a high level of risk associated with this assumption. This risk will be managed through the detailed business case preparation, LTP development, DC modelling and private development agreements.

### 163. Impacts on current Financial Strategy

164. A summary of the financial amounts included in the HIF application is as follows:

Peacocke	Total 2017 Dollars
Gross Capital Spend for HIF Capital Expenditure	\$272m
NZTA Subsidy Assumed	(\$90m)
Existing 2015-25 LTP Budget	(\$0)
HIF Application	\$182m

Rotokauri	Total 2017 Dollars
Gross Capital Spend for HIF Capital Expenditure	\$154m
NZTA Subsidy Assumed	(\$33m)
Existing 2015-25 LTP Budget	(\$30m)
HIF Application	\$91m

Combined Peacocke and Rotokauri	Total 2017 Dollars
Gross Capital Spend for HIF Capital Expenditure	\$426m
NZTA Subsidy Assumed	(\$123m)
Existing 2015-25 LTP Budget	(\$30m)
HIF Application	\$273m

165. Staff analysis indicates that the current proposal under the existing HIF structure would result in a substantial impact on the debt profile and financial strategy for Council.
166. Attachment 4 to this report indicates the analysis done to date of impacts arising from any HIF allocation on capital expenditure.
167. Attachment 5 also indicates the analysis done to date of impacts arising from any HIF allocation on our debt to revenue profile which is a core part of the current Financial Strategy.
168. The assumptions behind this analysis are also included in the attached graphs.
169. In summary, Rotokauri on its own has less impact on the financial strategy with respect to debt to revenue profile.

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170. Even so, it is worth noting that that these assessment are based on existing LTP and annual plan settings and do not reflect any of the matters to be considered as part of the 2018-28 LTP (e.g. additional revenue, levels in service changes in and timing around expenditure or new services, such as Founders Theatre).
171. If HIF debt exceeds Council's existing debt to revenue ratio policy, and assuming rates remain as projected in the LTP, Council will exceed financial covenants and limits imposed by the Local Government Funding Agency and the Local Government (Financial Reporting and Prudence) Regulations 2014 (2014 Regulations).
172. The Local Government Funding Agency (LGFA) has formally advised Council that if it breaches the financial covenants applicable to Council in the LGFA documents, then it is likely that Council would be required to repay all debt owed to LGFA. The impact of exceeding the debt-to-revenue ratio could see a downgrading of the Hamilton City Council's credit rating and an associated increase in borrowing costs. This cost increase would affect not only any new debt, but also the cost of any debt that was refinanced.
173. While the LGFA debt could well be refinanced by Council, it will inevitably come at a higher cost.
174. To maintain a prudent Financial Strategy, under a successful HIF bid Council will need to consider balancing, reducing or delaying all forms of expenditure, raise additional revenue or alter maximum debt ratios.
175. The key financial ratios for Hamilton City Council show that the organisation (in providing for its community and growth) is already at the high end for debt. Bringing the identified package of works for Peacockes and Rotokauri forward from the HIF will change this debt profile.
176. This situation is exacerbated because Council would need to bring these projects forward in order to satisfy our obligations for land supply under the NPS-UDC.
177. Progressing discussions with MBIE on alternative funding structures to fund lead strategic infrastructure instead of the current HIF model could result in financial solutions to mitigate this risk.
- 178. Financial treatment of projects relating to water supply, wastewater and stormwater**
179. The HIF proposal as it currently stands indicates that any allocation would be treated as subordinated debt (repaid after other debt) repayable within 10 years.
180. Council and the Local Government Funding Agency (LGFA) and the rating agencies look at total debt and do not differentiate between classes of debt.
- 181. Future HIF Repayment (Transport)**
182. The HIF proposal is that the projects would be funded by NZTA as subsidised projects at HCC's current Funding Assistance Rate (FAR) of 51%. In the future, HCC's repayment obligation to government will be equal to the total value of the HIF application less any subsidy approved by NZTA. The repayment mechanism would be via NZTA subsidy on future subsidized works from future years until the total foregone subsidy is equal to the HIF.
183. There are differing views as to whether any HIF funding would be treated as a debt in Council's books and therefore retain the existing debt issues. Nonetheless, a future reduction in FAR subsidy will need to be reflected in Council's books.
184. Of concern under this arrangement is that Council may not receive enough FAR subsidy in 10 years to offset the initial receipt
185. There is also uncertainty as to whether this funding structure provides a lawful mechanism to levy development contributions.

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**186. Alternative funding proposals**

187. Over the last six months discussions among high growth councils have been progressing concepts of alternative financial arrangements and structures that would allow accelerated delivery of waters and transport infrastructure for new housing development without undue impact on balance sheets.
188. A range of different options have been considered, with the preferred outcome revolving around the creation of a Crown-owned Special Purpose Vehicle (SPV). As part of the process, engagement occurred with Treasury and other Government officials.
189. In summary, a SPV would result in new infrastructure constructed and managed by a crown entity with Council effectively buying shares in the entity, and thus, the infrastructure, as development rolled out in each of growth cells over time.
190. HCC staff see merit in the SPV proposal and it is a viable financial delivery alternative that senior staff will continue to explore with MBIE officials throughout the HIF process.
191. If the HIF fund is established on a basis consistent with the SPV concept then it has the ability to transform HCC's financial situation. Unfortunately, in its current format it is likely to compound them.
192. Other alternative funding proposals worthy of consideration, and which will be put forward in our final proposal include the following:
- The Crown debt funding a CCO of Council on a non-recourse basis to Council, and the CCO owning the infrastructure assets that enable the HIF goals to be achieved (other than roads that would ordinarily vest in the Crown). The debt would be repaid with development contributions, payments from developers and rates, but the Crown would take the risk that timing of those payments was not sufficient to repay the debt at the end of the 10 year period. The debt and assets could be brought onto Council's balance sheet if financial ratios could be met on a pro forma basis. The debt of the CCO would need to be excluded from the LGFA financial covenants;
  - A Crown equity funding a vehicle that is owned by either the Crown or Council and otherwise on the same terms as above. The repayment mechanism would be akin to the government's Crown Fibre Holdings model, which would mean that government would take the risk that housing sales did not meet expectations and therefore funding was not available to purchase all of the government's shares.
  - A combination of the two options above, that permits private funding and allows charges for use of the relevant assets (e.g. toll roads/bridges or charges for availability).
  - All parties satisfying themselves that the FAR funding and offset is not accounted for as debt to Council. In addition, FAR eligible works (transport operating and maintenance, renewals, capital projects) for which the offset applies could occur as early as year 2 of the 10 year payback period. Council would debt fund these projects, undoing much of the benefit of the FAR funding from the perspective of Council's financial position and so some consideration of delaying these offsets until or beyond the end of the 10 year period should be considered.
  - Extended payment periods and cashflows tied to related cashflows being received by Council (e.g. developer contributions for sections sold in the growth cells being used to repay the government).
  - The creation of a suspensory loan whereby the Government loans Council the necessary funds and waives loan conditions if development expectations are realised.

**193. Legal issues**

194. Preliminary legal advice indicates that the Local Government Act (LGA) requires local authorities to manage their "revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community." (Section 101 LGA).

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195. Local authorities are free to decide what this means. However, the Local Government (Financial Reporting and Prudence) Regulations 2014 (the 2014 Regulations) require reporting against various benchmarks; and failure to achieve these measures indicates to central government that the local authority may not be financially prudent. As a result, central government may exercise its powers of intervention contained in Part 10 of the LGA.
196. However, these regulations only require disclosure of Council's performance against these benchmarks - there are no direct (legal) consequences for breaching the benchmarks.
197. The Resource Management Act 1991 requires that district plans give effect to any national policy statement, in this case the NPS-UDC.
198. However, for the purposes of the HIF, there is no link between the NPS-UDC/District Plan and Council's operations. Therefore, Council's district plan could give effect to the NPS-UDC but not enable the growth to be carried out by not building infrastructure to those growth cells. While this leaves Council open to criticism, there does not appear to be a clear legal link between the two.
199. This is consistent with Council's current practice not to commit to expand its infrastructure network simply at the request of developers.
200. Accordingly, there is no conflict between the two pieces of legislation, and neither will be breached by HCC whether HCC chooses to participate in the HIF, or whether it does not.
201. However, there is a greater risk that the Crown will exercise its Part 10 rights if participation in the HIF causes breaches of the financial prudence benchmarks in the 2014 Regulations.
- 202. Proposed caveats/bid acceptance conditions**
203. The terms and conditions included in the MBIE tender documentation do not prevent councils from withdrawing their proposals at any time up to the point that legally binding funding or loan agreements have been signed (expected to be early 2018).
204. Accordingly, while Council should take the process seriously, the Council will not be bound until formal legal agreements are signed.
205. While this is an important safeguard for Council, a list of caveats and bid acceptance conditions will be included in our HIF submission to MBIE that outlines and dimensions the key concepts around risk and alternatives identified in this report (such as financial and non-financial mitigation risks, and alternatives funding proposals).
- 206. Alternative proposal options**
207. Alternative proposal options that were considered included making a single HIF submission for either just Rotokauri, or just Peacockes.
208. However, there is strategic merit in submitting a final, non-binding proposal for both areas. Importantly, Council's proposal seeking funding for both growth cells is non-binding.
209. Further, the benefit cost ratios results from the business cases indicate there is significant benefit in seeking funding for both projects as opposed to seeking funding for just one project.
210. Submitting a proposal that covers both Rotokauri and Peacocke leaves Council in a better negotiating position should HIF financial arrangements change, or for Council to make a final decision, if needed, on funding a single growth cell especially since the relationship between any HIF funding and how it can be integrated in the next LTP is not fully understood at this time.
- 211. Next steps in the HIF process**
212. The HIF proposals will be evaluated from April 2017 and a final decision on funding is likely to be made by the end of June 2017.
213. If our proposal is successful, funding will be confirmed in principle and Council will need to develop detailed business cases before December 2017.
214. Final funding will only be released to Council once this work is completed and final agreements entered into, and would not be received until early 2018.

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215. Conclusion

- 216. Considering and prioritizing the costs to Council and the community associated with opening new growth cells and providing lead strategic infrastructure is a significant decision.
- 217. Council will hold many discussions to debate the provision of infrastructure and funding of growth cells as part of the wider 2018-28 LTP deliberations. Council will also debate levels of service, community infrastructure provision and asset management plan recommendations during the LTP development process. Nonetheless, Council needs to investigate all options presented to it to meet the challenges and opportunities associated with supporting growth and the provision of land for dwellings supported by lead strategic infrastructure.
- 218. The submission of a proposal to HIF **does not bind** Council to any future commitments, and irrespective of the HIF framework the challenge of funding growth related infrastructure remains. As a consequence there is merit in staying involved in the process until its conclusion and continue discussions with the government on new partnership models to fund growth infrastructure.
- 219. Ultimately, any decision made by Council will need to balance and evaluate the differing financial parameters associated with funding growth, with or without the HIF. That is, understanding that receiving a HIF allocation is a short term, interest free loan, to be repaid by Council, after a 10 year period where wider benefits for an investment into growth infrastructure accrue to Hamilton as a whole over a longer time scale.

Signatory

Authoriser	Kelvyn Eglinton, General Manager City Growth
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## HEADS OF AGREEMENT

### Housing Infrastructure Fund:

[xxxxx] (the 'Proposal')

#### Parties

Between: **Ministry of Business, Innovation and Employment ('MBIE')**  
 And: **New Zealand Transport Agency ('NZTA')**  
 And: **[xxxxx] Council (the 'Council')**

#### Background:

- A. The Housing Infrastructure Fund (HIF) has the overall objective of accelerating short- and medium-term supply of new housing in high-growth urban areas. The HIF provides short to medium-term funding whilst territorial authorities work on finding more suitable and sustainable long-term models for financing and funding infrastructure. The HIF is not intended to function as a funding or financing mechanism for a future or potential urban development authority.
- B. The HIF is also designed to assist high-growth territorial authorities to meet their targets under the National Policy Statement on Urban Development Capacity (NPS-UDC). However, the HIF does not form part of the NPS-UDC and is not dependent on it, nor does it form part of any possible or proposed urban development legislation.
- C. Territorial authorities have applied for funding to bring forward specific transport and water infrastructure projects that will enable land to be used for new housing.
- D. It is the intention that HIF funding for transport infrastructure projects will be managed by the New Zealand Transport Agency (NZTA) through the National Land Transport Fund (NLTF). Having the transport infrastructure managed this way maintains the integrity of the National Land Transport Programme and meets Land Transport Management Act 2003 requirements. It also makes best use of transport expertise within government, ensuring integration in the planning and construction of transport infrastructure in a way that takes into account network effects.
- E. It is the intention that projects for water supply, wastewater and stormwater ('three waters') infrastructure will be funded through interest-free subordinated loans, which will be repayable to the Crown within ten years.
- F. The HIF allocation process was set out in the Housing Infrastructure Fund Call for Final Proposals (February 2017).
- G. In a contestable process, the Council submitted an Indicative Business Case, which was accepted as part of an *in-principle* HIF portfolio by the Minister of Finance, the Minister of Transport and the Minister for Building and Construction (the 'Ministers') on [Date].
- H. This document sets out the process and key principles for implementation phase of the process, in which MBIE and the NZTA will work with Council to finalise a Detailed Business Case (DBC) and the terms and conditions of the interest-free loan facility agreement and the bilateral funding agreement for frontloading through the

National Land Transport Fund (the 'Funding Agreements'). Upon completing a DBC to the satisfaction of Ministers, the parties may enter into the Funding Agreements.

**Key milestones**



**1 Interactions with other agreements**

- 1.1 This HoA recognises that there are existing relationships between the parties. This HoA seeks to build on and leverage existing relationships and formal agreements, not to replace them.
- 1.2 The following formal relationship agreements are noted:
  - 1.2.1 [TBC]

**2 Roles**

- 2.1 The Council as applicant will prepare the DBC. Support and guidance will be provided by MBIE and NZTA.
- 2.2 MBIE will prepare the loan facility agreement for the three waters infrastructure for agreement with the Council.
- 2.3 NZTA will prepare the funding agreement for the transportation infrastructure for agreement with the Council.
- 2.4 **MBIE representatives** covering this agreement are:
  - 2.4.1 Leigh Halstead, Manager of HIF Commercial Unit.  
Mob: 021 835 776  
Email: [Leigh.Halstead@mbie.govt.nz](mailto:Leigh.Halstead@mbie.govt.nz)
- 2.5 **NZTA representatives** covering this agreement are:
  - 2.5.1 [TBC]
- 2.6 The **Council representatives** covering this agreement are:

Heads of Agreement

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Initials

2.6.1 [TBC]

### 3 Requirements for Parties

- 3.1 All parties to agree the scope, content level of detail and the timeframe for preparation of the DBC and Funding Agreements, as set out in Clause Five of this agreement, for the MBIE and NZTA evaluation and approval processes.
- 3.2 All parties to together in accordance with the principles set out in Clause Four this agreement.
- 3.3 The Council will meet its own costs for preparing the DBC, unless:
- 3.3.1 in the case of the three waters component, if the DBC is accepted by MBIE and a loan signed the Council may use part of this funding to recover the costs of completing the DBC.
- 3.3.2 in the case of the transport component, NZTA may provide funding for the development of the transport component of the DBC.

### 4 Principles

- 4.1 The parties agree to work together and communicate to prepare the DBC and Funding Agreements, in a manner that reflects the following principles:
- 4.1.1 *Work collaboratively* - Each party will endeavour to work together willingly and cooperatively for the preparation of a high quality fit for purpose DBC and Funding Agreements to meet the objective of the HIF.
- 4.1.2 *Communication, openness, inclusiveness, information sharing and no surprises* - Each party will endeavour to keep the others advised of issues that may affect one party as a result of activities by the other, share information that will assist the preparation of a high quality and fit for purpose DBC, and work to meet the objective of the HIF.
- 4.1.3 *Acting in good faith* - Every effort will be made by the parties to achieve the implementation of this Agreement and the objectives of the HIF and that each party will act in good faith in meeting its responsibilities under this Agreement.

### 5 Deliverables and Timeline

- 5.1 The key deliverables under this agreement are:
- 5.1.1 An agreed DBC scope by xxx
- 5.1.2 An agreed DBC by xxx
- 5.1.3 An agreed loan facility agreement – Housing Infrastructure Fund by xxx
- 5.1.4 An agreed bilateral funding agreement – Frontloading through the National Land Transport Fund by xxx

#### 5.2 The DBC Scope

- 5.2.1 The parties note that the DBC will have multiple audiences and be used for several purposes, internal and external to the Parties.
- 5.2.2 The parties will agree the DBC's scope, point of entry, content, and level of detail.

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**5.3 The Detailed Business Case**

- 5.3.1 The parties agree that the DBC be prepared in accordance with the agreed DBC scope, varied by agreement.
- 5.3.2 The parties agree that the DBC prepared using established Treasury and NZTE methodologies.
- 5.3.3 The parties agree that the DBC will address the expected impact of housing development of the transport system, Council's progress and expectations in securing development agreements, how and when the investment in infrastructure will result in the supply of houses, and how Council intends to fund repayment of the interest-free loans and reduced future FAR contributions.
- 5.3.4 Final DBC to be approved by MBIE and NZTA.

**5.4 Loan Facility Agreement – Housing Infrastructure Fund**

- 5.4.1 The **Loan Facility Terms Sheet** is contained in **Schedule One** to this Agreement.
- 5.4.2 Final agreement to be approved by Ministers.

**5.5 Funding Agreement – Frontloading through the National Land Transport Fund**

- 5.5.1 The draft **Bilateral Funding Agreement** is in **Schedule Two** to this Agreement.
- 5.5.2 Final agreement to be approved by NZTA Board or delegate.

**6 Key Features of the Implementation Process**

- 6.1 **Inputs.** The inputs from parties to assist the Council with the development of the DBC and funding agreements are:
  - 6.1.1 MBIE [TBC with each council]
  - 6.1.2 NZTA [TBC with each council]
- 6.2 **Tracking Progress.** The parties agree that MBIE and NZTA be invited to attend all meetings of the [project steering group] in an advisory capacity in order to discuss progress towards completion of the DBC and funding agreements as set out in this Agreement. MBIE and NZTA will receive copies of all papers for the meeting.
- 6.3 **Phased review.** The parties agree an intent that the Detailed Business Case will be reviewed as each section is materially completed.

**7 Organisation Structure**

- 7.1 Organisational Structure

Role	Council	MBIE	NZTA
Team Leader:	TBC	Leigh Halstead	TBC
Funding Agreement:	TBC	Leigh Halstead	TBC
DBC Preparation	TBC	Leigh Halstead	TBC

**8 Communications**

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- 8.1.1 Communication on all matters outside the parties and their Ministers relating to this Agreement, to performance and to activities undertaken in terms thereof, shall be by agreement of the parties.
- 8.1.2 No party gives any representation or warranty with respect to any information other than that it has the right to disclose such information.

**9 Confidentiality**

9.1 Confidential Information means:

- 9.1.1 all information and materials relating to or arising from this Agreement in any form whatsoever,
- 9.1.2 information which is by its nature confidential or which the discloser advises the recipient is confidential and includes the terms of this Agreement, and
- 9.1.3 includes anything disclosed before the date of this Agreement.

9.2 Confidential Information does not include:

- 9.2.1 information which at the date of this Agreement is in the public domain or subsequently enters the public domain without fault on the part of the recipient,
- 9.2.2 information that is received in good faith by the recipient from a third party,
- 9.2.3 information which is at the date of this Agreement, independently developed by, or already properly in the possession of, the recipient and which the recipient can demonstrate by written record to be previously known to the recipient.

9.3 The recipient of Confidential Information shall:

- 9.3.1 keep it in the recipient's possession and treat it as confidential regardless of when disclosed,
- 9.3.2 not use any Confidential Information belonging to the other party for any purpose other than as required in terms of this Agreement,
- 9.3.3 only disclose Confidential Information to employees, officers or professional advisers on a need to know basis and shall be liable to the discloser for any breach by those persons of these confidentiality obligations.

9.4 The restrictions in this paragraph do not apply where disclosure is required by law or by a government agency or governmental authority.

9.5 The parties acknowledge that any breach of this confidentiality obligation may result in damages for which monetary compensation would not be an adequate remedy and that the affected party is entitled to specific performance or injunctive relief in addition to any other remedies at law or in equity.

**10 Liability**

10.1 Neither party shall be liable to the other for any costs, liability, damages, loss, claims or proceedings of whatever nature arising out of this Agreement other than those strictly specified within this Agreement.

**11 Disputes**

11.1 If a dispute arising out of this Agreement occurs between the parties, then the parties will in good faith try to resolve that dispute.

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**12 General**

- 12.1 This Agreement is governed by New Zealand law and the parties submit to the non-exclusive jurisdiction of the courts of New Zealand.
- 12.2 This Agreement may be signed in counterparts, including by facsimile or email, all of which when read together shall constitute one and the same document.
- 12.3 Only clauses nine, ten, eleven, twelve and thirteen in this Agreement are legally binding on the parties and those paragraphs shall survive termination of this Agreement.
- 12.4 The date of this Agreement shall be the date that the last person signed.
- 12.5 No variation to this Agreement shall be effective unless it is in writing and signed by all the parties to this Agreement.

**13 Termination**

- 13.1 This Agreement shall terminate once the DBC and funding agreements has been approved and finalised by the parties.

Signed by xxxxxxx	Signed by xxxxxx	Signed by xxxxxxx
_____	_____	_____
Signature	Signature	Signature
_____	_____	_____
Name of authorised signatory	Name of authorised signatory	Name of authorised signatory
_____	_____	_____
Position	Position	Position
_____	_____	_____
Date	Date	Date

## Schedule One: Housing Infrastructure Fund Facility Term Sheet

### Housing Infrastructure Fund Facility Term Sheet

The terms set out in this term sheet are indicative only and do not constitute an offer to arrange, or a commitment to finance, the Facility. The provision of the Facility is subject to due diligence and satisfactory documentation.

#### PARTIES

<b>Borrower:</b>	[Council]
<b>Financier:</b>	Her Majesty the Queen in right of New Zealand acting by and through the Minister of Finance and the Minister for Building and Construction

#### FACILITY

<b>Facility Limit:</b>	[\$#]
<b>Purpose:</b>	To fund in [full][part] projects for water supply, waste water and storm water to be undertaken by the Borrower that have been approved by the Financier.
<b>Availability Period:</b>	[#]
<b>Repayment:</b>	Each Drawing must be repaid according to an agreed repayment schedule and must be fully repaid on its Termination Date. The repayment schedule will take into account the expected cash receipts from any development contributions, targeted rates and portion of general rates that the Borrower can expect from the project.
<b>Termination Date:</b>	10 years from the date of each Drawing.
<b>Drawings:</b>	Drawings will be made not more frequently than quarterly and the minimum Drawing will be \$[figure commensurate with the project budget].

#### FINANCE DOCUMENTS

<b>Finance Documents:</b>	Finance Documents include: <ul style="list-style-type: none"> <li>(a) facility agreement between the Borrower and the Financier; and</li> <li>(b) security documents (including intercreditor arrangements with LGFA).</li> </ul>
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#### SECURITY

<b>Security:</b>	<p>The Borrower will grant security over rates set or assessed by the Borrower under the Local Government (Rating) Act 2002 and any rate arising under section 115 of the Local Government Act 2002. That security may take the form of security stock issued under an applicable and acceptable Debenture Trust Deed.</p> <p>This security will be subordinated to the security held by the LGFA and other senior security holders in respect of the Borrower.</p>
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<b>OTHER TERMS</b>	
<b>Initial conditions precedent:</b>	<p>The conditions precedent to the first Drawing will include, without limitation:</p> <ul style="list-style-type: none"> <li>• execution of the Finance Documents;</li> <li>• an officer's certificate from the Chief Executive of the Borrower;</li> <li>• legal opinion;</li> <li>• [evidence of the purpose to which the proceeds of the first Drawing will be applied;]</li> <li>• approved Detailed Business Case;</li> <li>• where relevant project is being part-funded by the Borrower, evidence of availability of that funding;</li> <li>• a copy of the development budget consistent with the Detailed Business Case;</li> <li>• a copy of the construction contract;</li> <li>• a quantity surveyor's/consultant engineer's report in respect of the development, the development budget, the construction contract and the construction contractor;</li> <li>• [other;]</li> <li>• no Material Adverse Effect;</li> <li>• payment of the legal costs;</li> <li>• searches and enquiries; and</li> <li>• other information and documents.</li> </ul>
<b>Conditions precedent to each Drawing:</b>	For each Drawing, the Borrower must be in compliance with the conditions precedent described in Schedule 1.
<b>Representations and warranties:</b>	The Borrower will make representations and warranties in respect of the matters described in Schedule 2.
<b>General, negative and information undertakings:</b>	The Borrower will give undertakings consistent in respect of the matters described in Schedule 3.
<b>Events of Default and Events of Review:</b>	The Finance Documents will contain events of default and events of review in respect of the matters described in Schedule 4. Occurrence of an Event of Default will result in a default fee of an amount equal to 5% of the amount in default being payable to the Financier, and will be payable within 30 days of the occurrence of the Event of Default. Failure to repay a Drawing on its Termination Date will result in that Drawing accruing interest at a rate equal to the applicable interest rate under the Borrower's LGFA funding arrangements plus a margin of 3.50% per annum.
<b>Other standard provisions:</b>	The Finance Documents will contain the standard provisions relating to, amongst other things, GST, illegality, indemnities, set off, etc.
<b>Legal fees:</b>	The Borrower will pay its own costs in connection with the negotiation, preparation and execution of the Finance Documents.
<b>Assignment:</b>	<p>The Borrower may not assign its rights under the Finance Documents without the prior written consent of the Financier.</p> <p>The Financier may assign its rights under the Finance Documents, at its sole discretion.</p>
<b>Confidentiality:</b>	Each party agrees not to disclose to any other person the existence or contents of any Finance Document, or any information provided by another party in connection with a Finance Document which is not publicly

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(2)

**Governing law:**

available, subject to agreed exceptions (including *Official Information Act 1982* requests or *Local Government Official Information and Meetings Act 1987* requests.  
New Zealand law.

Item 6

Attachment 2

EARLY DRAFT as at 28 June 2017

Attachment 1

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**Schedule 1: Drawdown conditions precedent**

1. Receipt of drawdown notice.
2. Drawdown date is during the Availability Period.
3. The amount of the Drawing, when added to all outstanding Drawings, does not exceed the Facility Limit.
4. No Event of Review, Event of Default or potential Event of Default.
5. Representations and warranties correct and not misleading.
6. The Financier is satisfied that all authorisations necessary for the Drawing have been obtained.
7. Drawing complies with any restrictions in Finance Documents.
8. Receipt of quantity surveyor certificate confirming, amongst other things:
  - (a) the cost to complete;
  - (b) that all invoices to be paid from the Drawing are validly payable and are provided for in the approved budget;
  - (c) the estimate completion date;
  - (d) that all previous Drawings have been applied in connection with the approved budget; and
  - (e) where relevant project is being part-funded by the Borrower, availability of the Borrower's share of relevant costs.
9. Receipt of all other information and documents requested by the Financier.

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**Schedule 2: Representations and warranties**

1. Status.
2. Capacity.
3. Power and authority.
4. Enforceability of Finance Documents.
5. Priority of security.
6. No conflict with laws or other documents.
7. Accounts comply with the *Local Government Act 2002*.
8. No event of default or event of review.
9. [Certificate of exemption from resident withholding tax].
10. Compliance with the *Local Government Act 2002*.

Attachment 2

Attachment 1

EARLY DRAFT as at 28 June 2017

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**Schedule 3: Undertakings**

**General covenants**

1. Apply all Drawings for the Purpose.
2. Notify the Financier of:
  - (a) an event of default or event of review;
  - (b) each change to an authorised representative;
  - (c) invalidity or unenforceability of a Finance Document;
  - (d) any Material Adverse Effect; and
  - (e) any event of default, event of review or breach of financial covenant (however described) in respect of any other funding arrangements of the Borrower (including those with the LGFA).
3. Performance of obligations under Finance Documents.
4. Provide information relating to Financial Statements and financial position.
5. Provide the Financier with all information provided to the Trustee.
6. Keep proper accounts.
7. No change to Detailed Business Case without the Financier's prior written consent.

**Information undertakings**

8. Provide audited annual Financial Statements.
9. Provide unaudited half-yearly Financial Statements.

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**Schedule 4: Events of Default and Events of Review**

**Events of Default**

1. Failure to pay.
2. Breach of undertaking.
3. A receiver or statutory manager is appointed.
4. An Enforcement Event occurs.
5. Finance Document becomes void, invalid or unenforceable.

**Events of Review**

6. The occurrence of any event of default, event of review or breach of financial covenant (however described) in respect of any other funding arrangements of the Borrower (including those with the LGFA).

Attachment 2

Attachment 1

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(7)

**Schedule 5: Definitions**

In this document:

**Debenture Trust Deed** means the debenture trust deed made by the Borrower, under which certain of the Borrower's indebtedness may, from time to time, be secured by the issuing of security stock.

**Detailed Business Case** means the detailed business case for the project prepared by the Borrower using Treasury and NZTA methodologies and approved by the Financier.

**Enforcement Event** has the meaning given to it in the Debenture Trust Deed.

**Financial Statements** means the audited financial statements the Borrower is required to produce pursuant to sections 98 and 99 of the *Local Government Act 2002*.

**LGFA** means the Local Government Funding Authority.

**Material Adverse Effect** means a material adverse effect on:

- (a) the validity or enforceability of all or a provision of a Finance Document; or
- (b) the Financier's rights or remedies under any Finance Document; or
- (c) the ability of the Borrower to observe or perform its obligations under a Finance Document; or
- (d) the assets, operations, condition (financial or otherwise), business or prospects of the Borrower.

**Trustee** means the trustee under the Debenture Trust Deed.

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Attachment 2

**Schedule Two: Housing Infrastructure Fund NZTA NLTF advance**

[INSERT COUNCIL]

NEW ZEALAND TRANSPORT AGENCY

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**BILATERAL FUNDING AGREEMENT IN  
RESPECT OF**

**PROJECT XXX**

**AS PART OF THE HOUSING  
INFRASTRUCTURE FUND / NATIONAL  
LAND TRANSPORT FUND  
FRONTLOADING INITIATIVE**

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*EARLY DRAFT as at 28 June 2017*

Item 6

Attachment 1

(1)

AGREEMENT dated of 2017

PARTIES

[INSERT COUNCIL] ("THE COUNCIL")

NEW ZEALAND TRANSPORT AGENCY ("THE TRANSPORT AGENCY")

(Collectively referred to as the "the Parties")

INTRODUCTION

- A. [Project XXX is a proposed new *[insert description of Project]* running between....
- B. Construction of Project XXX is currently programmed by [XX Council] to be completed by *[insert approx date]*. Because Project XXX has been identified as a key infrastructure project needed to accelerate residential development, it has been put forward for funding from the Housing Infrastructure Fund (HIF).
- C. The HIF is a Crown fund established to address short to medium term funding constraints facing councils in High Growth Urban Areas. The aim of the HIF is to enable councils in High Growth Urban Areas to accelerate key infrastructure projects in order to unlock unrealised development potential.
- D. On *[insert date]* the Transport Agency Board confirmed that Project XXX is eligible for *in principle* funding through the National Land Transport Fund (NLTF), which is a prerequisite for HIF funding, subject to the following conditions: *[if any]*.
- E. On *[insert date]* the Ministers of Finance and Transport approved Project XXX *in principle* for funding from the HIF, subject to the following conditions: *[if any]*.
- F. HIF funds will be channelled through the NLTF (via a Crown loan to the NLTF), and provided to [XX Council] with the intention of accelerating the construction of Project XXX as set out in this Agreement. The Accelerated Funding of Project XXX will be balanced by reduced financial claims by the Council on a number of specified projects/programmes over a period of [XX years]. Together, Project XXX and the projects/programmes specified by the Council, form the Total Package of Works.
- G. The purpose of this Agreement is to record the understandings reached by the parties.

THE PARTIES AGREE THAT:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions: In this agreement, unless the context indicates otherwise:

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(2)

**Accelerated Funding** means that the Agency funds the Council's Local Share of Project XXX in addition to the Financial Assistance Rate for Project XXX. The result is that the Transport Agency will fund the entire Total Capital Cost of Project XXX.

**Commencement Date** means the date of execution of this agreement.

**Confidential Information** means information that:

- a. is by its nature confidential;
- b. is marked by either Party as 'confidential', 'in confidence', 'restricted' or 'commercial in confidence';
- c. is provided by either Party or a third party 'in confidence';
- d. either Party knows or ought to know is confidential; or
- e. is of a sensitive nature or commercially sensitive to either Party.

**Cost Scope Adjustment** means a permanent change in cash-flow for a project. A cost scope adjustment can be either an increase in cost, or a reduction.

**National Land Transport Programme/NLTP** means the national land transport programme adopted under section 19A of the Land Transport Management Act 2003.

**National Land Transport Fund/NLTF** means the national land transport fund established under section 10 of the Land Transport Management Act 2003.

**Total Capital Cost** means the total cost of developing and completing an infrastructure project, including design, construction and property acquisition components. For the avoidance of doubt, costs must relate to the building or improvement of a transport asset, therefore costs associated with operating the asset are not included.

**Local Share** means the funding that the Council must contribute towards the Project.

**Delegation** means that the decision-maker(s) for each of the respective Parties has the appropriate authority to make a decision on behalf of the Party they represent.

**Housing Infrastructure Fund/HIF** means the fund established by Cabinet to assist high-growth councils facing financial constraints to finance infrastructure needed to unlock residential development.

**High Growth Urban Area** as defined in the National Policy Statement on Urban Development Capacity.

**Funding Agreement/Agreement** means this Funding Agreement between the Parties.

**Funding Assistance Rate/FAR** means Funding Assistance Rate as set under s 20C of the Land Transport Management Act 2003.

**Funding Period** means the period of time specified in clause 5 of this agreement, within which the Transport Agency will provide NLTF funding (at the usual agreed upon Financial Assistance Rate) for the Total Package of Works, including Project XXX.

**Total Package of Works** means the Package of Works and Project XXX.

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(3)

**Package of Works** means the NLTF activities nominated by the Council, and specified in **Schedule 1** of this Agreement, for which the Council will make reduced financial claims to balance the Accelerated Funding of Project XXX.

**Representative** means the nominated representative of a party.

1.2 **Interpretation:** In this agreement, unless the context indicates otherwise:

- (a) **Defined Expressions:** expressions defined in the main body of this agreement have the defined meaning in the whole of this agreement including the Introduction;
- (b) **Headings:** section, clause and other headings are for ease of reference only and will not affect this agreement's interpretation;
- (c) **Negative Obligations:** an obligation not to do anything includes an obligation not to suffer, permit or cause that thing to be done;
- (d) **Parties:** references to parties are references to parties to this agreement;
- (e) **Plural and Singular:** the singular includes the plural and vice versa;
- (f) **Persons:** references to persons include references to individuals, companies, corporations, partnerships, firms, joint ventures, associations, trusts, organisations, governmental or other regulatory bodies or authorities or other entities in each case whether or not having separate legal personality;
- (g) **Notices etc:** references to one party notifying another, or agreeing or objecting to any matter, means such party notifying, agreeing or objecting in writing;
- (h) **Payment:** references to, or obligations in this agreement which require, payment of money will be a reference to, or deemed to be an obligation requiring, payment of money in immediately available cleared funds;
- (i) **Dollars and \$:** references to **dollars** and **\$** are references to New Zealand dollars and all amounts payable under this agreement are payable in New Zealand dollars;
- (j) **Monetary Amounts:** all monetary amounts are stated exclusive of GST and in New Zealand currency, and all amounts payable by a party under this agreement are to be paid in that currency;
- (k) **Schedules:** the schedules to this agreement and anything in those schedules have the same effect as if set out in the body of this agreement;
- (l) **Sections, Clauses and Schedules:** references to sections, clauses and schedules are references to this agreement's sections, clauses and schedules; and
- (m) **Statutes and Regulations:** references to any statutory provision include any statutory provision which amends or replaces it, and any subordinate legislation made under it.

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## 2. PURPOSE OF AGREEMENT

- 2.1 The purpose of this Agreement is to record the Parties' agreement in relation to:
- (a) The funding arrangements necessary to enable Accelerated Funding of Project XXX ; and
  - (b) The timeframes within which the arrangements set out in this Agreement are expected to operate.

## 3. PARTIES' RESPONSIBILITIES

- 3.1 The Transport Agency will provide to the Council, the Local Share of the agreed Total Capital Cost of Project XXX, in addition to Financial Assistance Rate level of subsidy.
- 3.2 The Council will, over the Funding Period, reduce its financial claims from the NLTF in respect of the Package of Works specified in **Schedule 1**, by a monetary amount equal to the Local Share of the agreed Total Capital Cost of Project XXX.
- 3.3 The Parties will review, and where necessary amend, the Package of Works specified in **Schedule 1** from time to time, to ensure that within the Funding Period, the reduced claims in respect of the Package of Works equals the Local Share of the agreed Total Capital Cost of Project XXX.

## 4. FUNDING

- 4.1 Under normal circumstances if the Transport Agency agrees that an activity qualifies for NLTP funding, the Transport Agency will fund the project's Total Capital Cost at an agreed upon Financial Assistance Rate. The residual amount is paid by the Council and is called Local Share.
- 4.2 In this case, to give effect to the purpose of the HIF to accelerate key infrastructure projects, the Transport Agency agrees to fund the Council's Local Share in addition to the Financial Assistance Rate for Project XXX, which means the Transport Agency will fund the entire Total Capital Cost of Project XXX. This is specified as follows:
- Total Capital Cost = Total Capital Cost\*FAR+ Local Share.**
- 4.3 For avoidance of doubt, the Transport Agency will approve Cost Scope Adjustments as per normal procedure. A Cost Scope Adjustment may increase or decrease Local Share.
- 4.4 In return, the Council agrees to reduce its financial claims in respect of the Package of Works during the Funding Period by a monetary amount equivalent to the Local Share of Project XXX. This is specified as follows:

**For any given financial year throughout the Funding Period:**

- A = agreed Council funding in the NLTP.**  
**B = Reduced financial claims for Package of Works.**  
**C = actual funding paid out to the Council.**

$$C = A - B$$

- 4.5 The reduced financial claims for the Council's Package of Works may occur over one or more years throughout the Funding Period. This is subject to the condition that the Local Share of the Total Capital Cost of Project XXX and the reduced amount of funding for the

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Package of Works must balance each other out, before the conclusion of the Funding Period. This is specified as follows:

- B =** reduction in claims for the Package of Works that Council will make in any given year.  
**E =** Cumulative reduction in funding for Package of Works, that Council will make over the Funding Period.

So that:

$E = B(1) + B(2) + \dots + B(n)$  where  $n < \text{funding period}$ .

- 4.6 The Local Share of the Total Capital Cost of Project XXX should be equal to the total reduction in claims for the Package of Works over the Funding Period.

Local Share of Project XXX = E

- 4.7 For the avoidance of doubt, this agreement concerns financial grants, which require no repayment. Therefore interest costs are not applicable to this agreement.

## 5. FUNDING PERIOD

- 5.1 The Parties agree that the Funding Period for the Total Package of Works will be [XX years] from the Commencement Date of this Agreement.
- 5.2 The Funding Period may only be amended with the mutual agreement of both Parties. The Agency may be required to seek Transport Agency Board and/or Cabinet approval before agreeing to amend the Funding Period.

## 6. PACKAGE OF WORKS

- 6.1 Project XXX is one component of the Total Package of Works nominated by the Council to balance the Accelerated Funding of Project XXX.
- 6.2 At the conclusion of the Funding Period, the Transport Agency will be in the same financial position in regards to NLTF funding of Council activities as it would have been had it not provided Accelerated Funding for Project XXX.
- 6.3 The Package of Works is specified in **Schedule 1** to this Agreement.
- 6.4 The Package of Works may be amended from time to time, with the mutual agreement of both Parties, to ensure that within the Funding Period of the Total Package of Works, the reduced claims for projects within the Package of Works equals the Local Share of the agreed Total Capital Cost of Project XXX. The Parties agree to negotiate in good faith any necessary variations to this Agreement in order to update **Schedule 1**.

## 7. FUNDING AGREEMENT CONDITIONAL

- 7.1 This Funding Agreement is conditional on:
- (a) the Transport Agency Board approving NLTF funding for Project XXX; and
- (b) the Ministers of Finance and Transport approving Project XXX for inclusion in the final programme of HIF proposals; and

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- (6)
- (c) the Council fulfilling any conditions placed on it by the Transport Agency Board or the Ministers of Finance and Transport; and
  - (d) the drawdown of HIF funds into the NLTF for Project XXX.
- 7.2 The Transport Agency will provide written confirmation to the Council once the conditions in 7.1(a), (b) and (d) have been fulfilled.
- 7.3 Nothing in this Funding Agreement shall be taken as an undertaking that NTLF funding for Project XXX will be provided or in any way bind the Transport Agency Board to approve NTLF funding for Project XXX.
- 7.4 The Council will provide the Transport Agency with written confirmation that it has fulfilled any conditions in accordance with 7.1(c), and approved Project XXX with the appropriate level of delegation by *[insert date]*.
- 7.5 Upon receipt of the written confirmations required under clauses 7.1 and 7.3 by the Parties, this Funding Agreement shall become binding on the Parties.
- 7.6 If the written confirmation in clause 7.1 is not received on or before *[insert date]* this Funding Agreement shall terminate, unless it is otherwise extended.
- 7.7 If the written confirmation in clause 7.3 is not received on or before *[insert date]* this Funding Agreement shall terminate, unless otherwise extended.
- 7.8 In the event of termination under clause 7.5 or 7.6 the Parties will bear their own costs of this Funding Agreement. For the avoidance of doubt, this clause 7.7 shall survive the termination of this Funding Agreement.
- 8. REPRESENTATIVES**
- 8.1 Each party will appoint and notify the other party in writing of its Representative, and of any change in its Representative.
- 8.2 The role of a Representative will include:
- (a) To represent the interests of its party under the Funding Agreement and deal with the other party in respect of all matters arising out of this Agreement;
  - (b) To act as a single channel for all communications with the other parties in relation to this Agreement.
- 9. TERMINATION OF AGREEMENT**
- 
- 9.1 Once confirmation has been received under clauses 7.1 and 7.3 and this Funding Agreement has become binding under clause 7.4 this Agreement may only be terminated by agreement between the parties or by contract completion, as specified in this Agreement.
- 9.2 Contract completion will be the conclusion of the Funding Period, at which point the cumulative reduction in financial claims for the Package of Works will equal the Council's Local Share of the Total Capital Cost of Project XXX.

HIF - DRAFT Heads of Agreement 2017-06-28 (Word Version)

(7)

**10. DISPUTE RESOLUTION**

- 10.1 The Parties will endeavour to resolve any disputes by full and frank discussion in good faith.
- 10.2 If there is any dispute between the Parties as to the application of this Agreement to any situation, or actions that ought to be taken under it, that is not able to be resolved at the operational level, then the matter will be elevated to the appropriate Tier 2 Managers in the Parties' organisations.
- 10.3 If the Tier 2 Managers are unable to resolve the matter that has been elevated to them within a reasonable period as agreed by the Parties, the matter will be elevated to the Parties' Chief Executives.
- 10.4 If a resolution cannot be agreed within a reasonable period of referral to the Chief Executives then the matter may be referred to an independent expert appropriately qualified for the matter in dispute and who is agreeable to both parties, setting out the details of the matter to be referred for determination and the reasons the parties do not agree.
- 10.5 The expert shall, as soon as possible, issue his or her decision on the matter. In making the decision, the expert shall be entitled to seek further information and hear from the parties as he or she sees fit. The determination of the independent appropriately qualified expert shall be final.

**11. CONFIDENTIAL INFORMATION**

- 11.1 The parties acknowledge that, while this agreement is in force, they may acquire Confidential Information regarding the other party. Where a party to this agreement comes into possession of Confidential Information, that party and its officers, employees, agents and contractors:
- (a) Will only be permitted to use the Confidential Information to the extent necessary to enable the party to carry out its obligations under this agreement; and
  - (b) Will not disclose the Confidential Information to any third party without the prior written consent of the relevant party, unless required by law to do so.

**12. MEDIA RELEASES AND PUBLIC ANNOUNCEMENTS**

- 12.1 Notwithstanding the right for the media to report on any public meeting, both parties, prior to release, will agree to any media release in relation to the works covered by this Funding Agreement.
- 12.2 The Transport Agency shall identify the Council as a contributing partner in relation to any public statements and in written publications relating to the project.
- 12.3 The Council shall identify the Transport Agency as a contributing partner in any public statements and in written publications relating to the project and will comply with the Transport Agency's branding requirements.

HIF - DRAFT Heads of Agreement 2017-06-28 (Word Version)

(8)

13. GENERAL

- 13.1 **Severance:** If at any time any provision of this agreement is or becomes unenforceable, illegal or invalid for any reason whatsoever, such provision will not affect the enforceability, legality, validity or application of any other provision of this agreement and any such provision will be deemed to be severed from this agreement without affecting the validity of the remainder of this agreement.
- 13.2 **Assignment:** Neither party may assign any of its rights or obligations under this agreement without the prior written consent of the other party, whose consent may be withheld in the absolute discretion of that party, and granted on such reasonable terms and conditions as it sees fit.
- 13.3 **Variations:** Amendments to this agreement will not be effective unless they are in writing and are signed by a duly authorised representative of each party.
- 13.4 **Further Assurances:** Each party will make all applications and execute all applications, notices, agreements, deeds and other documents and do all other acts and things as may be necessary to implement and to carry out, its obligations under and, the intent of, this agreement.
- 13.5 **Counterparts:** This agreement may be executed in any number of counterparts (including facsimile or scanned PDF counterpart), each of which shall be deemed an original, but all of which together shall constitute the same instrument. No counterparts shall be effective until each party has executed at least one counterpart.

SIGNATURES

EARLY DRAFT as at 28 June 2017

HIF - DRAFT Heads of Agreement 2017-06-28 (Word Version)

Attachment 1

(9)

Item C1

SIGNED for and on behalf of NEW ZEALAND  
TRANSPORT AGENCY under delegated  
authority:

\_\_\_\_\_

XXX

Transport Agency Tier 2 Manager

SIGNED for and on behalf of [THE COUNCIL]  
under delegated authority:

\_\_\_\_\_

XXX

Chief Executive

Attachment 2

Item 6

EARLY DRAFT as at 28 June 2017

HIF - DRAFT Heads of Agreement 2017-06-28 (Word Version)




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## Extraordinary Council

### PUBLIC EXCLUDED MINUTES

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Minutes of a meeting of the Council held in Council Chamber, Municipal Building, Garden Place, Hamilton on Tuesday 4 July 2017 at 1.05pm.

#### PRESENT

Chairperson	Mayor A King
Deputy Chairperson	Deputy Mayor M Gallagher
Members	Cr M Bunting
	Cr J R Casson
	Cr S Henry
	Cr D Macpherson
	Cr G Mallett
	Cr A O'Leary
	Cr R Pascoe
	Cr P Southgate
	Cr G Taylor
	Cr L Tooman

In Attendance:	Richard Briggs – Chief Executive
	Kelvyn Eglinton – General Manager City Growth
	Blair Bowcott – Executive Director Special Projects
	Chris Allen – General Manager City Infrastructure
	San Murray – General Manager Tourism, Major Events and Venues
	Sean Hickey – General Manager Strategy and Communications
	David Bryant – General Manager Corporate
	Karen Saunders – City Growth Business Manager
	Andrew Parsons – City Development Manager
	Nigel Ward – Communications Team Leader
	Nicola Walsh – Communications Advisor

Governance Advisors:	Lee-Ann Jordan – Governance Manager
	Becca Brooke – Governance Team Leader
	Amy Viggers – Committee Advisor

---

Council 4 JULY 2017 - PUBLIC EXCLUDED

**C1. Government's Housing Infrastructure Fund**

The General Manager City Growth and Executive Director Special Projects advised Council that the business case concerning the Peacocke's area, put forward by Hamilton City Council for funding to the Housing Infrastructure Fund (HIF) panel, had been selected due to the transformational effect it would have on Hamilton City. The Rotokauri proposal was not selected by the panel for funding.

The next step was for Council to execute a non-binding Heads of Agreement with MBIE and NZTA which would provide clarity on the financial aspects of the HIF. Staff responded to questions from Elected Members concerning the financial terms of the HIF and implications/risk for Council.

**Resolved:** (Mayor King/Cr Macpherson)

That Council:

- a) receives the report;
- b) approves a **non-binding** Heads of Agreement to develop the Housing Infrastructure Fund (HIF) detailed business case and associated funding agreements for the Peacockes growth area with the Ministry of Business Innovation and Employment (MBIE), New Zealand Transport agency (NZTA) and Council;
- c) delegates to the Chief Executive authority to work with MBIE and NZTA to refine, then finalise and execute the **non-binding** Heads of Agreement;
- d) notes that the **non-binding** Heads of Agreement will reflect the parameters of the HIF application submitted to MBIE on 31 March 2017 for the Peacockes growth area;
- e) notes that the Chief Executive will prepare as part of the next stage of the HIF application a detailed business case, negotiate funding agreements and prepare any necessary public consultation material for the consideration and approval of Council;
- f) delegates to the Chief Executive authority to conduct any **non-binding** commercial negotiations with Government representatives and private developers in this next phase, consistent with the HIF application submitted to MBIE for the Peacockes growth area;
- g) notes that the growth assumptions in the 2018-28 Long Term Plan will incorporate the HIF funding arrangements for the Peacocke growth area;
- h) requests the Chief Executive report to the 27 July 2017 Council meeting on the opportunities to advance work associated with the Peacocke growth cell ahead of the HIF detailed business case and associated funding agreements being finalised (including proactive land purchase, investigations and design of capital works) subject to any works advanced being retrospectively included in the HIF funding arrangements;
- i) notes that Council will have further opportunities to consider information on the HIF application and its implications for the 2018-28 Long Term Plan; and
- j) makes this report and the Council decisions public following the government HIF announcements on 11 July 2017.

*A copy of the report and minutes concerning the above item would be made available as Appendix 1 of the open minutes for this meeting.*

*The meeting adjourned 2.33pm – 2.46pm prior to the debate on the above matter.*

**The meeting was declared closed at 3.30pm.**

# Council Report

Item 7

**Committee:** Council

**Date:** 27 July 2017

**Author:** Lee-Ann Jordan

**Position:** Governance Manager

**Report Name:** Elected Member Briefing Notes (Open) - 5 July 2017 - To be confirmed

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<b>Report Status</b>	<i>Open</i>
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## Staff Recommendation

That Council confirm the notes of the Elected Member Briefing held on 5 July 2017 as a true and correct record.

## Attachments

Attachment 1 - Elected Member Briefing Notes - Open - 5 July 2017

## Elected Member Briefing Notes – 5 July 2017

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<b>Time and date:</b>	5 July 2017
<b>Venue:</b>	Council Chamber, Hamilton City Council
<b>In Attendance:</b>	Mayor King, Deputy Mayor Gallagher, Crs Bunting, Henry, Macpherson, Mallett, Pascoe, Southgate
<b>Apology for Full Session:</b>	Crs Yeung, Tooman, O'Leary, Casson, Taylor

### Apology for Part Session

### Discussion

The briefing session covered the following topics in the open session:

- Event Sponsorship Fund

There were a number of key points arising from the discussions:

#### 1. Event Sponsorship Fund

*(Presentation was provided)*

The General Manager Venues, Tourism and Major Events gave a presentation on the Event Sponsorship Fund and the 2017/18 application round. He explained the process that operated in the previous triennium and discussed options for evaluating applications for the 2107/18 round as well as the proposed approach for 2018/19 and beyond. Elected Members indicated their preference for management to assess the applications and bring their recommendations to the Community and Services Committee for a final decision.

The General Manager responded to questions related to:

- Whether there was a budget for attracting major events to the city (there was not)
- The fund for community grants and how Council supported small community events over and above this fund
- The current state of coordination and transparency between HCC and other funders
- Financial and funding arrangements for major events in the stadia.

# Council Report

Item 8

**Committee:** Council

**Date:** 27 July 2017

**Author:** Lee-Ann Jordan

**Position:** Governance Manager

**Report Name:** Elected Member Briefing Notes (Open) - 6 July 2017 - To be confirmed

<b>Report Status</b>	<i>Open</i>
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## Staff Recommendation

That Council confirm the notes of the Elected Member Briefing held on 6 July 2017 as a true and correct record.

## Attachments

Attachment 1 - Elected Member Briefing Notes (Open) - 6 July 2017

## Elected Member Briefing Notes – 6 July 2017

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<b>Time and date:</b>	6 July 2017
<b>Venue:</b>	Committee Room 1, Hamilton City Council
<b>In Attendance:</b>	Mayor King, Deputy Mayor Gallagher, Crs Henry, Taylor, Macpherson, Tooman, Casson, Pascoe, O’Leary, Bunting, Mallett, Southgate
<b>Apology for Full Session:</b>	Crs Yeung
<b>Apology for Part Session</b>	Crs Bunting, Southgate

### Discussion

The briefing session covered the following topics in the **open** session

- Risk Workshop
- District Plan
- Waterworld Renewals Project and Seismic Upgrade
- Ruakura Growth Cell

There were a number of key points arising from the discussions:

#### 1. Risk Workshop (Presentation was provided)

The General Manager Corporate Services and the Risk Manager presented a workshop on Council’s material risks. The workshop was also attended by the External Chair of the Audit and Risk Committee, Paul Connell and the recently appointed external member to the Audit and Risk Committee, Keiran Horne. The aim of the workshop was to review the updated draft list of material risks facing Council, as determined by the senior leadership team, and make any changes to that list as deemed appropriate. Included in this activity was a review of each material risk’s “description” and the “triggers” that could cause this risk to materialise. The final list will be used by staff to prepare a risk analysis and evaluation of the identified material risks and then prepare and implement risk mitigation plans. Council’s Audit & Risk Committee will then monitor the implementation and ongoing effectiveness of these risk mitigation plans.

The workshop attendees agreed the following material risks were key to be monitored by Council’s Audit & Risk Committee:

1. Failure to create and maintain a safe environment for HCC workers resulting in a serious harm or fatal incident.
2. Failure to create and maintain a safe environment for the public resulting in a serious harm or fatal incident.
3. Incorrect investment (timing and/or amounts) results in the unexpected failure of critical assets (loss of service levels).
4. Failure to respond adequately during a civil defence emergency results in undue harm to members of the community and delays in restoring the city to an operational standard.
5. Inappropriate access and/or use of Council information or ratepayer data, or inability to operate Council systems due to a cyber-attack resulting in reputational, legal and financial damage and potentially loss of service continuity.

6. Lower than desired reputation of Hamilton contributes to sub-optimal economic and social outcomes for the city and its community.
7. Inaccurate data, weak or incorrect analysis leading to inaccurate growth forecasts, financial and non-financial modelling and untimely responses to trends resulting in inappropriate levels of investment in public assets.
8. Failure to respond effectively to major business interruptions due to poor business continuity planning or response capabilities. *(The Audit & risk Committee was asked to decide whether this should be merged with Failure of Critical Assets).*
9. Council financials are not suitably robust to meet the pressures of a growing city / Failure of Council's Financial Strategy. *(Accepted as a material risk but the Chief Executive asked to reword).*
10. Failure to fully understand and respond to the communities expectations.

## 2. District Plan

*(Presentation was provided)*

The Economic Growth and Planning Unit Manager presented an overview of the purpose and statutory process for developing a District Plan and summarised the work Council had undertaken over multiple years to arrive at the Partly Operative District Plan. Staff responded to questions from Elected Members concerning:

- Issues related to lack of 'user-friendliness' of the Plan and related costs for 'household' customers (rather than developers)
- Application of the RMA and notification processes
- Appeals process and the use of independent commissioners
- Section 32 review and alignment to the REEP
- Monitoring of consents into compliance and opportunities for Elected Members to be advised of bigger issues related to Plan changes.

## 3. Waterworld Renewals Project and Seismic Upgrade

*(Presentation was provided)*

The Acting Unit Manager Community Development and Leisure took Elected Members through a no-surprises presentation on changes to scope and proposed budget for the renewal project for Waterworld. Representatives of Sport Waikato were in attendance. The presentation covered the timeline from the start of the project to the current time, setting out the changes to design and scope that had arisen as various additional components or conditions had been identified. The Acting Unit Manager Community Development and Leisure and the General Manager Community responded to questions related to:

- Anticipated timing for required decisions and closure of the pool for the renewals work
- Alignment to the 10 Year Plan process
- Progress of the Mayoral Forum towards establishing an approach to regional funding
- Likelihood of continuing shifts in the benchmark for seismic integrity
- Swim lane space capacity
- Other options for pool facilities e.g. Rototuna and stand-alone covered pool at Waterworld.

Staff were requested to provide further information on alternative options to Elected Members.

**4. Ruakura**

*(Presentation was provided)*

The Project Manager District Plan Review provided the briefing with the background to the development of Ruakura and an update on the plan change process. She responded to questions from Elected Members on:

- Temporary road closures and long term traffic flows around and through the Ruakura site
- Board of Inquiry process
- Hamilton City Council interest in potential development of land on the other side of Ruakura currently in Waikato District Council but on the city boundary.

# Council Report

Item 9

**Committee:** Council

**Date:** 27 July 2017

**Author:** Mayor Andrew King

**Position:** Mayor

**Report Name:** Chair's Report (Open) - 27 July 2017

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<b>Report Status</b>	<i>Open</i>
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## Attachments

Attachment 1 - Chair's Report - Open - 27 July 2017



## Chair's Report

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### Waterworld

Council staff are to bring a report on the options for renewals for Waterworld to Council at next month's Council meeting. This report will outline four options including aligning the decision to the 10 year plan process.

At the briefing to elected members on the 12<sup>th</sup> of July 2017 from PWC, it was made very clear that Council is in an extremely difficult financial position and that there is a significant funding gap forecasted out over the remaining years of the current 2015/2025 10 Year Plan (the indication from PWC is that the funding gap will be even larger heading into the current 10 Year Plan period). Within this current 10 Year Plan there will be a number of (potentially) equally important projects competing for the same funding and in my view it is wrong to isolate out one aspect of spend from the rest. Therefore, the consideration of Waterworld renewals needs to be undertaken as part of the current 10 Year Plan to ensure that Elected Members have a balanced perspective on where best to invest our scarce funding.

I acknowledge there is some risk of failure however this needs to be balanced against the entire 10 Year Plan priority spend.

### Recommendation

That the Council:

- a) receives the report; and
- b) approves the deferral of the Waterworld report scheduled to be brought to the 19 October 2017 Council meeting so that any decision can be aligned to the 2018-2028 10 Year Plan process.

# Council Report

**Committee:** Council **Date:** 27 July 2017  
**Author:** David Bryant **Authoriser:** Richard Briggs  
**Position:** General Manager Corporate **Position:** Chief Executive  
**Report Name:** Financial Strategy Assessment - External Review

<b>Report Status</b>	<i>Open</i>
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## Purpose

1. To present PricewaterhouseCooper's (PwC) Financial Strategy Assessment and inform Council of their findings.

## Staff Recommendation

That Council receives the report.

## Discussion

2. On 7 March 2017 Council's Chief Executive provided Council with a Financial Outlook presentation.
3. In that presentation he highlighted that whilst the current Financial Strategy was fit for purpose for both the 2012 and 2015 Long Term Plan periods, he was concerned that the recent growth of the city presents a new and significant funding challenge to Council.
4. The Chief Executive engaged PricewaterhouseCoopers to verify the information presented and provide further analysis relating to the growth funding challenge. He also asked PwC to assess whether Council's current Financial Strategy was still appropriate in light of these challenges.

## Financial

5. It was agreed with PricewaterhouseCoopers that the cost of producing this report would be no more than \$150,000. After reviewing the initial draft it was determined that further work was required to fully understand the impact of growth and the resulting funding challenge facing Council. A further \$30,000 was set aside for this additional piece of work.

## Risk

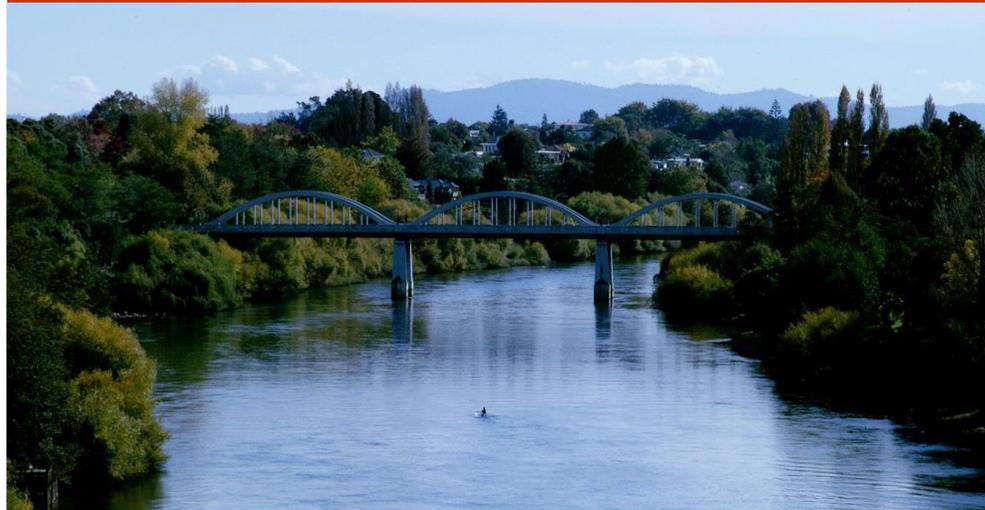
6. This report is for information purposes only and therefore no risks are present.

## Attachments

Attachment 1 - Financial Strategy Assessment

# *Hamilton City Council* Financial Strategy Assessment

20 July 2017



**pwc**

Richard Briggs  
Chief Executive  
Hamilton City Council  
Garden Place  
Hamilton



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20 July 2017

Dear Richard,

In accordance with your instructions as confirmed in our engagement letter dated 4 April 2017, we report on Hamilton City Council (the "Council" or "HCC").

This report has been prepared for the purposes of bringing clarity and independent opinion to the recent financial performance of HCC, the challenges created by growth, including the upfront infrastructure expenditure required by Council to facilitate growth and also the suitability of the current financial strategy given the level of growth projected.

Our principal findings and conclusions are set out in this report. Details of the scope and approach to our work are included in the report. A glossary of terms and abbreviations follows this letter.

We point out that our scope was developed collaboratively and the limitations of the financial forecast information received have resulted in variations, including more or less emphasis, on elements of the scope as our work was undertaken. Accordingly, this report may not have identified all matters that might be of concern to you.

We will not accept any duty of care (whether in contract, tort (including negligence) or otherwise) to any person other than you, except under the arrangements described in the Letter of Engagement and Terms of Business.

If you require any clarification or further information, please do not hesitate to contact Brent Goldsack on 021 756 154.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Brent Goldsack', written over a circular scribble.

Brent Goldsack  
Partner

A handwritten signature in black ink, appearing to be 'Justin Liddell', written in a cursive style.

Justin Liddell  
Partner

## *Glossary of terms used in this document*

<b>Term</b>	<b>Explanation</b>
<b>2017/18</b>	Financial year ending 30 June 2018
<b>DCs</b>	Development Contribution Revenue
<b>HUEs</b>	Household Unit Equivalents or dwellings
<b>10YP</b>	Ten Year Plan
<b>Adjusted 2015 10YP</b>	2015 10YP– including 2016 Actual result, 2017 Annual Plan forecast result and certain other specific adjustments
<b>LTP</b>	Long Term Plan used interchangeably with 10YP
<b>AMP</b>	Asset Management Plan
<b>Must – from AMPs</b>	“Must” projects are about looking after the assets Council has to meet agreed levels of service, legal compliance and addressing issues of higher risk
<b>Should – from AMPs</b>	“Should” projects are also about delivering agreed levels of service, but have some discretion. They also include the minimum requirements to provide for city growth
<b>Operating Revenue</b>	Rates income + activity income (i.e. excludes DC revenue, capital subsidies and vested assets)
<b>Adj. Operating Revenue</b>	Rates income + activity income + 35% DC revenue (i.e. excludes 65% DC revenue, capital subsidies and vested assets) <b>(Revised Approach)</b>
<b>Total Costs</b>	Operating expenses + personnel costs + depreciation + interest
<b>Operating Surplus / (Deficit)</b>	Operating revenue less total costs

## *Glossary of terms used in this document (continued)*

<b>Term</b>	<b>Explanation</b>
<b>Adj. Operating Surplus / (Deficit)</b>	Adjusted operating revenue less total costs ( <b>Revised Approach</b> )
<b>Developer Led</b>	The 2015 10YP and infrastructure modelling assumes that Rotokauri and Peacocke growth cells are developer led which means developers come to Council and negotiate infrastructure solutions collaboratively over a longer time period.
<b>Accelerated program</b>	The accelerated program assumes Council drive the development. This will deliver infrastructure faster but at a higher cost as land is assumed to be purchased for roads and infrastructure purposes.
<b>Growth</b>	Includes all ratepayer volume growth (HUEs) and includes an allocation of 1 July 2015 assets (and therefore depreciation) and opening debt (and therefore interest) and is used in the Council's DC modelling. This captures the portion of 1 July 2015 assets and debt relating to future growth capacity.
<b>Level of Service or LoS</b>	Improving the amenities or services of the city.
<b>Business as Usual or BAU</b>	Assuming no future growth in the rate paying base from 1 July 2015
<b>bps</b>	Basis points
<b>LGFA</b>	Local Government Funding Agency
<b>NIDEA</b>	National Institute of Demographic and Economic Analysis
<b>HIF</b>	Housing Infrastructure Fund

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# *Executive Summary*

**Item 10**

**Attachment 1**

## Key Presentation Points

- 1 This report is based on the adjusted 2015 10YP and information available as at the current date, not the draft 2018 10YP.
- 2 Growth in Hamilton City is occurring far quicker than the 2015 10YP envisaged.
- 3 In 2017/18 (already in progress) Council is forecasting a \$12.1m Net operating deficit under the Revised Approach.
- 4 If Council was to achieve a breakeven Net Operating Surplus / (Deficit) in the current 2017/18 year (under the Revised Approach) it would require a \$12.1m revenue increase / cost reduction (equivalent to an additional 7.9% rate increase on top of the 3.8% forecast in the 2015 10YP).
- 5 The strategy set a targeted debt to revenue ratio of 200% compared to the LGFA limit of 250%. To allow headroom for civil emergencies and unplanned events Council considers that a prudent limit is 230%.
- 6 Although a 11.7% rate increase (an additional 7.9% on the 3.8% forecast in the Adjusted 2015 10YP) would achieve a breakeven Net Operating Surplus / (Deficit), there is still a funding gap to be addressed in the future.
- 7 There are a number of funding mechanisms available to fund the discretionary items
- 8 Peacocke growth cell will achieve NIDEA Low growth projections but will require additional support from Government, NZTA and Private Developers to align the cost per section at Peacocke to that of alternative locations.

## Summary of Key Issues

*The current financial strategy implemented in 2012, and reaffirmed in 2015, was appropriate at the time, given high debt and low growth, and Council is in a better financial position as a result. However, in order for the everyday costs of running the city to be met by everyday revenues in the 2017/18 year (current year in progress) a \$12.1m revenue increase / cost reduction (equivalent to an additional 7.9% rate increase on top of the 3.8% forecast in the 2015 10YP) or combination of both would be required*

### Introduction

The growth of Hamilton City presents a significant funding challenge to Council who are considering all options to meet the challenge.

The issue of funding growth was raised by the Chief Executive in a presentation delivered in March 2017 and the purpose of this report is to:

1. Verify the work undertaken by Council in relation to the suitability of the current financial strategy to meet the challenge; and
2. Illustrate the size of the funding challenge and the various components.

Our work was based on the Adjusted 2015 10YP which is currently being updated, along with the supporting Long Term Infrastructure Strategy, through the 2015 10YP program of work.

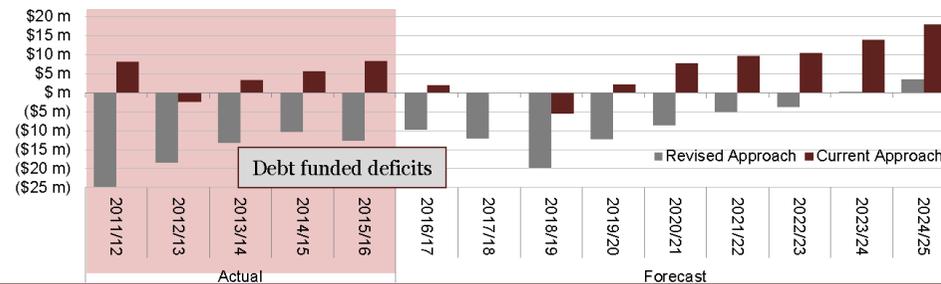
However, Council Management has confirmed that the total quantum of the unfunded challenge is likely to increase, therefore the outdated information does not negate the key messages identified throughout this report.

### Current Financial Strategy

- The financial strategy implemented in 2012, and reaffirmed in 2015, was appropriate at the time and Council is in a better financial position as a result.

- The strategy set a targeted debt to revenue ratio of 200% compared to the LGFA limit of 250%. To allow headroom for civil emergencies and unplanned events Council considers that a prudent limit is 230% which has been adopted throughout this report when illustrating debt capacity.
- We recommend that the measure of Net Operating Surplus / (Deficit) should be revised to ensure that the everyday costs of running the city will be met from everyday revenues.
  - The recommended measure, referred to as the 'Revised Approach' excludes all vested assets, capital subsidies and 65% of DCs.
- In 2017/18 (already in progress) council is forecasting a \$12.1m Net operating deficit under the Revised Approach.
- If Council was to achieve a breakeven Net Operating Surplus / (Deficit) under the Revised Approach in the current 2017/18 year it would require a \$12.1m revenue increase / cost reduction (equivalent to an additional 7.9% rate increase on top of the 3.8% forecast in the 2015 10YP), or a combination of both.
- In addressing debt funded deficits under the Revised Approach, with the funding challenge in mind, it should be noted that \$1.00 of revenue delivers \$2.30 of debt capacity (prudent limit), compared to dollar for dollar benefit for cost savings.
- Council should be aware that not aligning the everyday cost to run the city with operating revenues means that it has been effectively funding operating deficits with debt which will impact the level of debt capacity available to meet future funding challenges.

Net Operating Surplus / (Deficit) - Current Approach vs. Revised Approach



### Summary of Key Issues

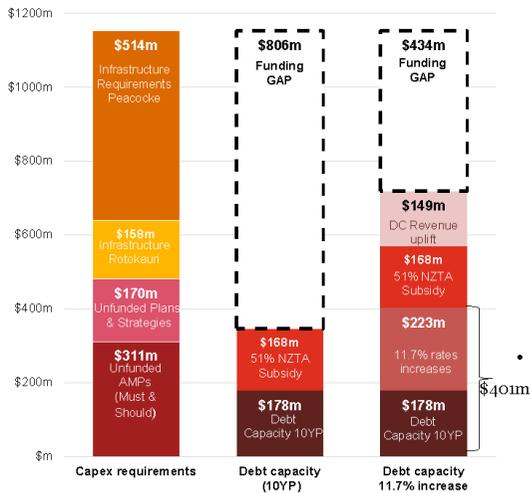
*The estimated funding gap to 2024/25 of \$806m is directionally correct but based on outdated information. Addressing the gap will likely require the use of many options available to achieve desired outcomes, whilst considering financial prudence requirements and minimising the financial impact on ratepayers. Given debt capacity and other funding constraints, a robust prioritisation framework will be required to balance competing priorities*

#### Future Funding Challenge

It should be noted that the asset management plans and infrastructure modelling is being updated as part of the 2018 10YP program of work.

However, Management has confirmed that the illustrated funding gap to 2025 of \$806m detailed below is directionally correct.

Funding Gap to 2025 (Based on 2015 10YP)



- The funding gap includes the following components:
  - The unfunded portion of Asset Management Plans being \$311m;
  - Unfunded Plans and Strategies being \$170m; and
  - The unfunded capital expenditure required to accelerate both Rotokauri and Peacocke growth cells.
- This illustrative funding gap would be reduced, holding all other Adjusted 2015 10YP assumptions constant, to \$434m after considering:
  - The debt capacity forecast in the Adjusted 2015 10YP (\$178m);
  - A 11.7% (7.9% on top of 3.8% forecast) rates increase in 2017/18 (year in progress) would create a further \$223m of debt capacity;
  - NZTA subsidies at 51% of growth related transport expenditure (\$168m); and
  - Increasing forecast DC revenue to align with the current DC modelling (\$149m).
- The actual funding gap will be based on updated information under the 2018 10YP program of work and will require discussion, prioritisation and consequential moderation of budgets.

#### Funding New Growth Cells

- The Hamilton Urban Growth Strategy has identified Rotokauri and Peacocke as the next growth cells (greenfield supply).
- Infrastructure modelling has converted NIDEA low population growth projections to dwellings and allocated this to catchment areas, illustrated on page 37.
- In order to deliver sufficient greenfield supply by 2022 to meet projected demand, Council would need to commence construction of the strategic lead infrastructure in the short-term.
- Initial indications are that Peacocke is significantly more expensive than Rotokauri which is mainly attributed to transport costs.
  - We note that Rotokauri has the benefit of the NZTA funded Te Rapa By Pass connecting the catchment area to the City.
- It is likely that a significant increase in the financial contribution from Private Developers and Central Government is required to align the cost per section at Peacocke to that of alternative locations.
- The HIF application and 2018 10YP process will closely examine the cost of new greenfield growth cells. The analysis and debate will need to consider all growth cell costs, including community infrastructure and not just water and transport.

# *Financial Analysis to 2025*

**Item 10**

**Attachment 1**

### Summary of Key Issues

The current financial strategy implemented in 2012 was appropriate at the time, given high debt and low growth, Council is in a better financial position as a result. However, in order for Total Costs to be met by Adj. Operating Revenue (Revised Approach), a \$12.1m increase in revenue or decrease in costs is required (equivalent to an 11.7% rates increase, being an additional 7.9% rate increase on top of the 3.8% forecast in the 2015 10YP)

The financial strategy implemented in 2012 was appropriate at the time and Council is in a better financial position as a result.

- HCC has increased debt capacity by \$115m, to \$122m over the five year period to 30 June 2016 (based on 230% debt/revenue).

It is recommended that the measure of Net Operating Surplus / (Deficit) should be revised to ensure that the everyday costs of running the city will be met from everyday revenues.

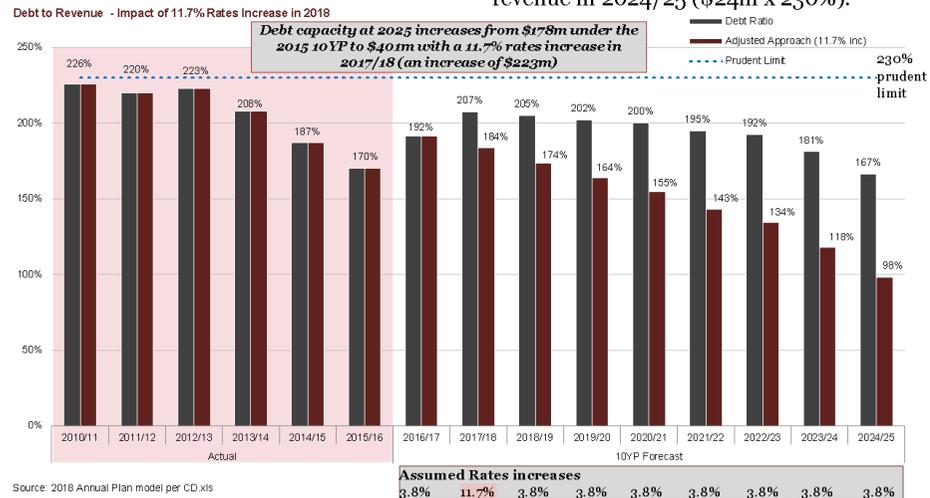
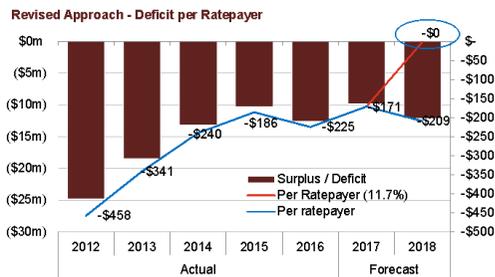
- The recommended measure, referred to as the 'Revised Approach' excludes all vested assets, capital subsidies and 65% of DCs.

A \$12.1m increase in revenue or reduction in costs is required to achieve a break even Net Surplus under the Revised Approach.

- Council may decide that a greater increase is required to meet the challenge posed by growth. Future rates increases, i.e. the current 3.8% pa, then become about funding inflationary cost increases, level of service demand and growth.

If achieved through an 11.7% rates increase, holding all other Adjusted 2015 10YP assumptions constant, debt capacity would increase by \$223m to \$401m by 2024/25 (based on 230% debt/revenue).

- The debt capacity is created through the cumulative revenue increase of \$167m applied to debt and a further \$56m of debt capacity based on the \$24m increase in revenue in 2024/25 (\$24m x 230%).



Source: 2016 Annual Plan model per CD.xls

3.8%	11.7%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
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**Background** – The Chief Executive recently highlighted to Council the need to revise the current financial strategy in order to address the significant funding challenges posed by growth related infrastructure requirements

**PwC View** – *Following a period of sustained population growth and with growth projections signalling continued high levels of growth the significant infrastructure capital expenditure required to open new residential growth cells appears to be required sooner than the 2015 10YP predicted*

**Background**

The current financial strategy was set in 2012 and reaffirmed in 2015 with the focus on ‘balancing the books’ with the three key objectives being:

1. **Hold annual rates** increases to 3.8% through to 2025 following an initial 8.0% increase in 2012.
2. **Balance the books** – to live within its means.
3. **Managing debt** – a targeted debt to revenue ratio of 200% by 2020 was set to balance rates affordability with the need to create debt capacity to enable infrastructure spend in the future.

Following a period of higher than average growth and a forecast of similar growth in the foreseeable future the growth related infrastructure capital projects appear to be required sooner than anticipated in setting the 10 year forecast under the 2015 10YP.

This issue, amongst others, was highlighted to Councillors during the presentation delivered by the Chief Executive in March 2017.

**Scope**

Our scope as agreed with Council, is summarised as follows:

1. Verify the appropriateness of the current financial strategy and results to 30 June 2016.
2. Define the current measure of Net Surplus / (Deficit) and whether it is fit for the future.
3. Highlight the current funding constraints and the size of the funding challenge for the 2018 10YP, including:

- The unfunded Asset Management Plans (AMPs);
- The unfunded Plans and Strategies which have largely been developed since the 2015 10YP was set; and
- The funding of infrastructure required to open new residential growth cells to meet population growth projections.

**Local Government Funding Agency (LGFA)**

The LGFA was incorporated in December 2011 and specialises in financing the New Zealand local government sector. It was established to raise debt on behalf of local authorities on terms that are more favourable to them than if they each raised debt directly.

The key debt covenant is that **debt cannot exceed 250% of revenue**.

Revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).

In practice the limit is less than 250% as Council is required to have adequate head-room for civil defence emergencies and disasters.

Therefore Council has advised that a debt to revenue ratio of 230% is in effect the maximum that can be utilised. Our report measures debt capacity based on the 230% ratio.

**Adjusted 2015 10YP** – The current 2015 10YP is adjusted to include the 2016 actual result, 2017 Annual Plan and a number of other adjustments

**Long Term Plan (10YP)**

The 10YP covers a 10 year forecast period, and is re-forecast every 3 years by Hamilton City Council.

The financial strategy, and as a result the Revenue and Financing Policy, is set by the 10YP to fund the level of expenditure forecast over the 10 years.

Work has commenced on the 2018 10YP.

**30 Year Infrastructure Plan**

Council is also required to prepare a 30 year infrastructure forecast to ensure that the long-term outlook is available and considered when Councillors make 10YP funding decisions.

The first 10 years of the infrastructure plan is aligned to the 10YP.

**Adjusted 2015 10YP**

The basis of this report and our analysis is on the Adjusted 2015 10YP, the key adjustments being:

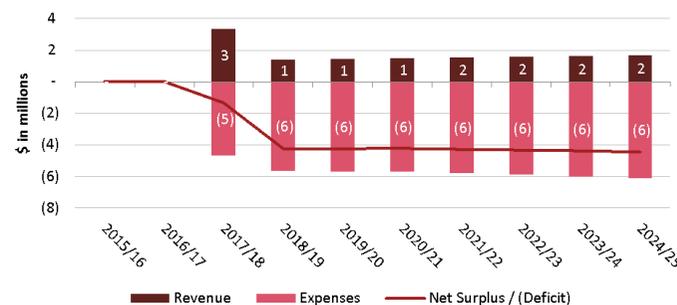
- Inclusion of the actual result for the year ended 30 June 2016;
- Inclusion of the draft Annual Plan (AP) for the year ending 30 June 2017; and
- Other adjustments as summarised at Appendix 3.

**PwC View** – Management is in the process of updating all of the financial information forming the basis of this report as part of the 2018 10YP programme of work. Discussions in relation to infrastructure and Asset Management Plans have confirmed that updates will not negate the underlying issues identified

**Forecasting Methodology**

The Council 10YP modelling is high-level, with the original 2015 10YP adjusted as follows:

**2015 10YP Adjustments**



Source: 2018 Annual Plan model per CD.xls

The adjustments are mainly driven by higher than forecast growth and resetting the budget years based on actual and annual plan forecasting.

A schedule of adjustments is detailed at Appendix 3.

The other key assumptions include:

- Inflation – split by: Operating expenses, Personnel and Capex.
- Rates – volume growth (dwellings or rating base) and price (rates increases).

Please refer to Appendix 4 for details of these assumptions.

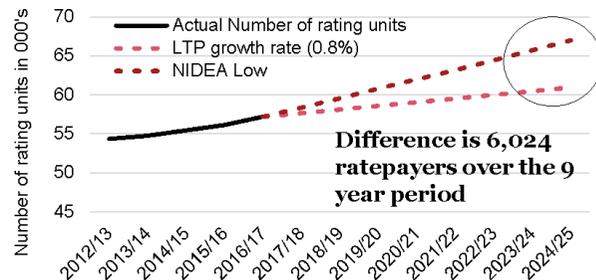
**Adjusted 2015 10YP** – The population growth rates actually experienced since 2015 and presently forecast are significantly higher than was forecast at the time in the 2015 10YP. The current forecast for growth is to be addressed by Council through the adoption of NIDEA Low population growth projections for the 2018 10YP

**PwC View** – The 0.8% growth rate included in the 2015 10YP is significantly less than the 1.3% average growth experienced over the last five years and is inconsistent with the infrastructure modelling which risks inconsistent messaging from Council

**Rating Units - Actual and Forecast**

in 000's	Actual					Forecast								
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	
<b>Number of rating units- 2015 10YP</b>														
Residential	48.9	49.2	49.9	50.6	51.6	52.0	52.4	52.9	53.3	53.7	54.1	54.6	55.0	
Commercial	4.3	4.3	4.4	4.4	4.4	4.4	4.4	4.5	4.5	4.6	4.6	4.6	4.7	
Rural	0.6	0.7	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	
other	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	
<b>Total</b>	<b>54.3</b>	<b>54.8</b>	<b>55.4</b>	<b>56.1</b>	<b>57.2</b>	<b>57.6</b>	<b>58.1</b>	<b>58.6</b>	<b>59.0</b>	<b>59.5</b>	<b>60.0</b>	<b>60.5</b>	<b>60.9</b>	
<i>2015 10YP growth assumption</i>		0.8%	1.2%	1.3%	1.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	
<b>Number of rating units- NIDEA Low</b>														
Residential	48.9	49.2	49.9	50.6	51.6	52.7	53.7	54.9	56.0	57.0	58.2	59.3	60.5	
Commercial	4.3	4.3	4.4	4.4	4.4	4.5	4.6	4.7	4.7	4.8	4.9	5.0	5.1	
Rural	0.6	0.7	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	
other	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	
<b>Total</b>	<b>54.3</b>	<b>54.8</b>	<b>55.4</b>	<b>56.1</b>	<b>57.2</b>	<b>58.3</b>	<b>59.5</b>	<b>60.8</b>	<b>62.0</b>	<b>63.2</b>	<b>64.4</b>	<b>65.7</b>	<b>67.0</b>	
<i>Growth rate based on NIDEA Low</i>		0.8%	1.2%	1.3%	1.9%	2.0%	2.1%	2.1%	2.0%	1.9%	2.0%	2.0%	1.9%	

**Growth in number of rating units**



**Growth Assumptions**

- The growth rate in the number of ratepayers assumed in the Adjusted 2015 10YP is 0.8%, this equates to approximately 500 by number.
- The infrastructure and DC modelling is based on much higher numbers, aligned to the NIDEA Low forecast.
  - NIDEA Low has average HUE growth (dwelling or ratepayer) of 1,232 per year.
- It is our understanding that HCC has agreed to adopt the NIDEA Low population growth forecast all forecasting going forward, including the 2018 10YP which will address this inconsistency.

**Adjusted 2015 10YP** – Improved Net Surplus results are forecast (excluding vested assets) which is driven by the 3.8% pa rates price increase which is greater than inflationary cost increases forecast

**PwC View** – The 2015 10YP includes conservative growth in the rating base (increased number of ratepayers) and also prudent DC revenue projections both of which are to be updated in the 2018 10YP programme of work

#### Profit and Loss - 2015 Adjusted 10YP

\$ in 000's	Actual	AP	LTP Forecast							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
<b>Revenue</b>										
Rates (excluding metered water)	139,339	145,578	152,516	158,900	166,205	173,849	181,845	190,210	198,958	208,110
Revenue from Activities	62,325	54,699	56,319	58,262	59,776	61,206	62,771	64,895	67,673	69,948
Capital Subsidies	5,508	4,676	4,873	8,208	8,309	10,130	8,344	7,494	6,762	7,268
Vested assets	34,274	8,531	8,535	8,639	8,706	8,774	8,843	8,913	8,981	9,052
Development Contributions	23,832	11,027	11,141	9,215	9,464	9,734	10,025	10,339	10,677	11,041
Other Contributions	407	1,749	1,785	161	167	170	176	182	188	193
Sundry	120	149	99	100	106	103	104	111	108	109
Interest received	2,369	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
<b>Total revenue</b>	<b>268,174</b>	<b>228,409</b>	<b>237,268</b>	<b>245,484</b>	<b>254,733</b>	<b>265,966</b>	<b>274,108</b>	<b>284,144</b>	<b>295,347</b>	<b>307,720</b>
<b>Expenditure</b>										
Other Expenditure	(79,357)	(67,444)	(71,196)	(77,807)	(75,163)	(77,597)	(79,385)	(83,312)	(86,433)	(89,743)
Personnel	(64,042)	(68,700)	(70,847)	(72,653)	(74,667)	(76,733)	(78,957)	(81,481)	(84,414)	(87,268)
Interest	(21,713)	(22,257)	(22,524)	(24,831)	(25,432)	(26,134)	(26,655)	(27,185)	(27,272)	(26,294)
Depreciation	(60,416)	(59,412)	(64,120)	(67,052)	(68,653)	(68,931)	(70,550)	(72,759)	(74,348)	(77,392)
<b>Total Expenditure</b>	<b>(225,528)</b>	<b>(217,813)</b>	<b>(228,687)</b>	<b>(242,343)</b>	<b>(243,914)</b>	<b>(249,396)</b>	<b>(255,548)</b>	<b>(264,737)</b>	<b>(272,466)</b>	<b>(280,697)</b>
<b>Net Surplus/(Deficit)</b>	<b>42,646</b>	<b>10,596</b>	<b>8,581</b>	<b>3,141</b>	<b>10,819</b>	<b>16,570</b>	<b>18,560</b>	<b>19,408</b>	<b>22,880</b>	<b>27,023</b>
Less: Vested assets	(34,274)	(8,531)	(8,535)	(8,639)	(8,706)	(8,774)	(8,843)	(8,913)	(8,981)	(9,052)
<b>Current Approach</b>	<b>8,372</b>	<b>2,065</b>	<b>46</b>	<b>(5,498)</b>	<b>2,113</b>	<b>7,796</b>	<b>9,717</b>	<b>10,494</b>	<b>13,899</b>	<b>17,971</b>

#### 2016 Actual

Other expenditure includes:

- \$4.5m contributed to the Ministry Of Education for the Rototuna Sports Complex which is non recurring; and
- A \$4.5m provision for the remediation of a landfill, again non-recurring.

#### Other comments

- The loss in 2018/19 is attributed to the \$7.4m cost to purchase wheelie bins for ratepayers; and
- A \$3.0m reduction in 2016/17 parking revenue as Council look to offer free parking in the CBD.

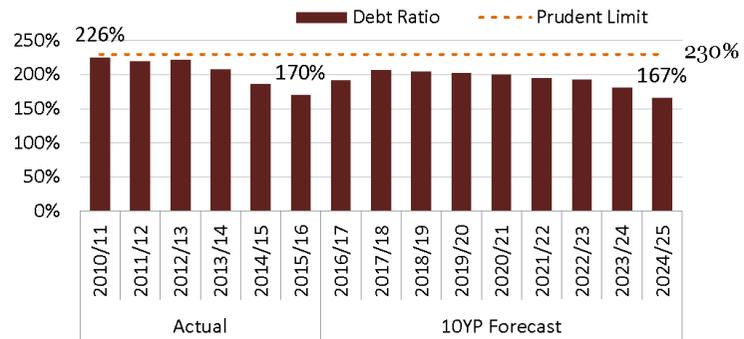
**Financial Strategy** – The financial strategy was set in 2012 following a period of low growth and with Council having just \$7m debt capacity

**PwC View** – The financial strategy was appropriate at the time given the low rates of growth and limited debt capacity. Debt capacity has increased by \$115m over the 5 year period despite operating deficits totalling \$48m

**Current Financial Strategy**

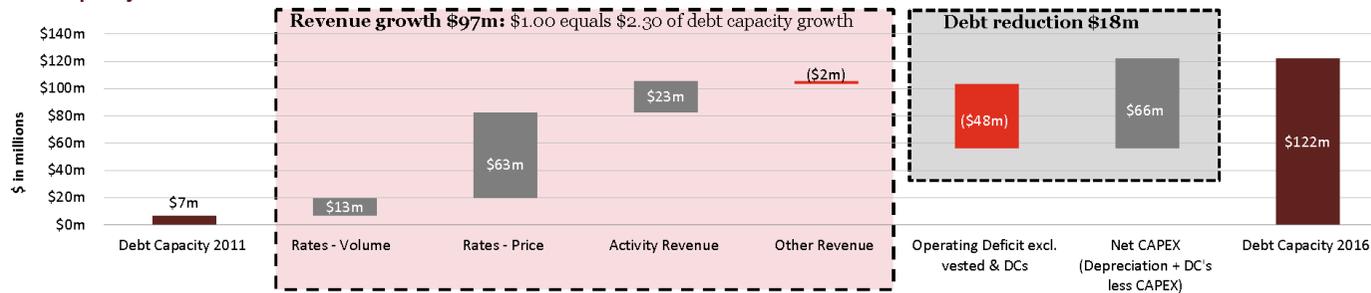
- The financial strategy was appropriate given debt was at 226% of revenue in 2010/11. The LGFA debt covenant of a maximum of 250% was introduced in 2011/12.
- Based on a prudent 230% limit, debt capacity has increased from \$7m at 30 June 2011 to \$122m at 30 June 2016, an increase of \$115m.
- Illustrated in the bridge below is how the increase was achieved, being:
  - \$97m created through revenue growth (\$42m actual revenue growth multiplied by 230%)
  - \$66m of debt reduction driven by positive net cash flow from depreciation recovered through rates and asset sales plus DC revenue being \$66m higher than actual capital expenditure over the period; offset by
  - Operating deficits of \$48m after excluding vested assets and DC revenue.

**Debt to Revenue - Adjusted 2015 10YP**



Source: 2018 Annual Plan model per CD.xls

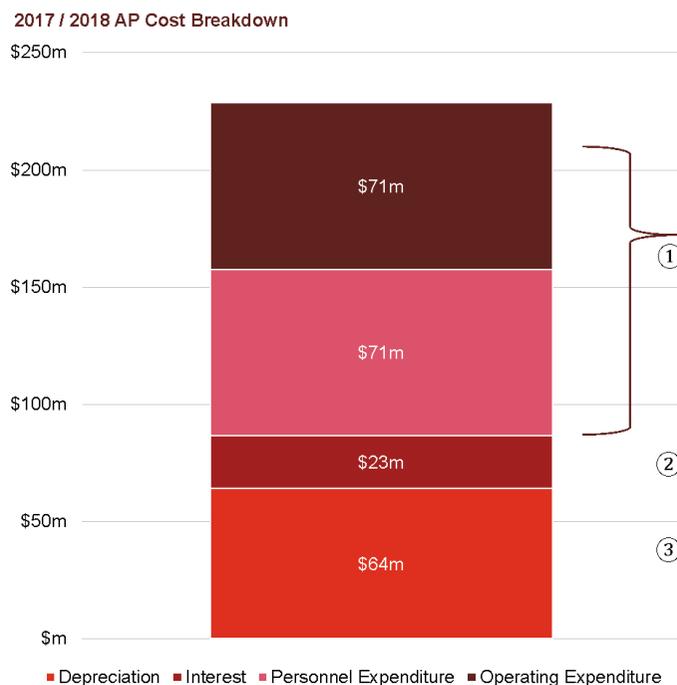
**Debt Capacity - 2011 to 2016 Actual**



Source: 2018 Annual Plan model per CD.xls

**Measure of Net Surplus / (Deficit) (1 of 6)** – Total costs forecast in 2017/18 are \$229m whilst income from rates, activities, interest and 35% of DC revenue total \$217m

**PwC View:** *The costs to run the city should be met by Adj. Operating Revenue which excludes capital subsidies and 65% of DC revenue. If deficits occur under this measure it will impact Council's ability to fund future renewals and growth Capex due to decreased debt capacity*



Source: 2018 Annual Plan model per CD.xls

In our view Operating Income should cover the full cost to run the city. This is explained below:

**1. Operating Expenses and Personnel Costs**

- Operating expenses and Personnel costs represent the direct cash costs required to run the city.

**2. Interest Expense**

- Interest costs relate to total Council debt. A portion of this debt relates to historical growth related Capex on which DC revenue is collected. Per DC Modelling, 35% of DC revenue relates to the total estimated interest cost over the life of delivering the growth cell. Therefore this interest component, is included in Adj. Operating Revenue under the Revised Approach.

**3. Depreciation**

- The purpose of depreciation is to recognise the consumption of the asset over its useful life.
- Depreciation is a mechanism to fund the future replacement of existing assets (renewals).
- On a long-run basis substantially all Council assets will need to be renewed which is evident with the current level of unfunded AMPs.

**Impact of Debt Funded Deficits**

If Adj. Operating Revenue (rates, activity charges, 35% DC revenue) does not cover total costs then deficits will, in time, effectively be debt funded.

The extent to which deficits are debt funded will impact the debt capacity available for Council to fund Renewals (existing assets) and growth Capex in the future.

**Measure of Net Surplus / (Deficit) (2 of 6)** – The current Council measure includes DC revenue which masks the true operating result as DC revenue is the recovery of capital expenditure along with the estimate of the resulting interest costs

**PwC View** – We recommend Council adopt the Revised Approach in measuring Operating Surplus / (Deficit) to assist them in meeting the future challenges of a growing city

**Measures of Net Surplus / (Deficit)**

Item	Explanation	Included in surplus / (deficit)		
		Annual Report	Current Approach	Revised Approach
<b>Revenue</b>				
Rates	Income levied from ratepayers	✓	✓	✓
Activities	Direct user charges	✓	✓	✓
Operating Subsidies	Contributions to the annual operating and maintenance costs of existing assets.	✓	✓	✓
Capital subsidies	Predominately transport related growth transport, no maintenance subsidies included. Corresponding costs are capitalised on the balance sheet	✓	Excludes major subsidies	✗
DC revenue	DC revenue is effectively the recovery of historic and future capital expenditure and interest costs. The Capital expenditure costs are capitalised on the balance sheet, the inclusion of 35% is to offset interest paid and recognised in the P&L.	✓	✓	✓ 35% only
Vested assets	Transfer of developer led infrastructure to Council. (No cash or monetary receipt).	✓	✗	✗

Source: Annual financial statements and PwC Calculations

A key objective of the current financial strategy was to ‘balance the books’ by 2016, this was defined as having an operating surplus’ and is included in the annual financial statements.

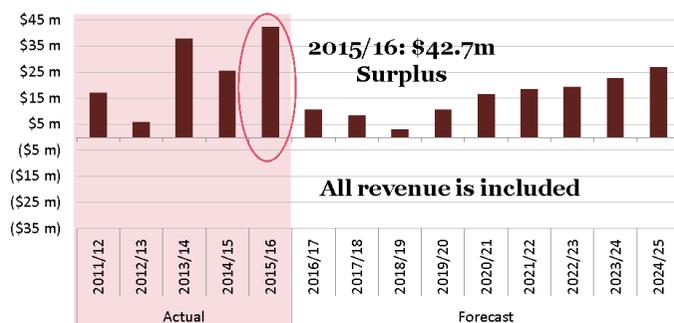
The measure adopted by Council (referred to as the Current Approach) removed vested assets and also significant one-off capital subsidies (substantially all subsidies), such as those received on the Ring Road Project. We consider that the inclusion of DC revenue in this measure masks or clouds the operating result, for example DC revenue was \$24m in 2016 resulting in Council presenting a surplus of \$8.4m, if we remove 65% of DC revenue (capital recovery component) and all capital subsidies there would be a \$12.6m deficit.

It is our view that the Revised Approach should be adopted as it excludes all capital recovery revenue streams (65% of DC revenue and Capital subsidies) leaving operating expenses to be funded by Adj. Operating Revenue.

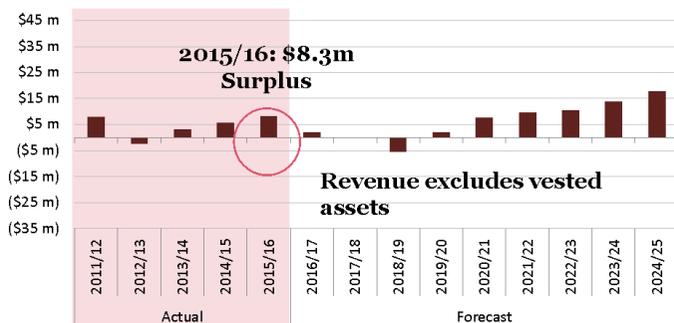
**Measure of Net Surplus / (Deficit) (3 of 6)** – The current measure of Net Surplus / (Deficit) includes DC revenue and some capital subsidies with a surplus forecast in the current 2017 year under the draft annual plan of \$2.0m

**PwC View** – *The Revised Approach should be adopted as the measure of Net Surplus / (Deficit). This approach excludes vested assets, capital subsidies and approximately 65% of DC revenue and effectively matches Adj. Operating Revenue with operating costs, allowing depreciation to pay for renewals and capital revenue to fund growth*

**Annual Report Approach - Net Surplus / (Deficit)**



**Current Approach - Net Surplus / (Deficit)**

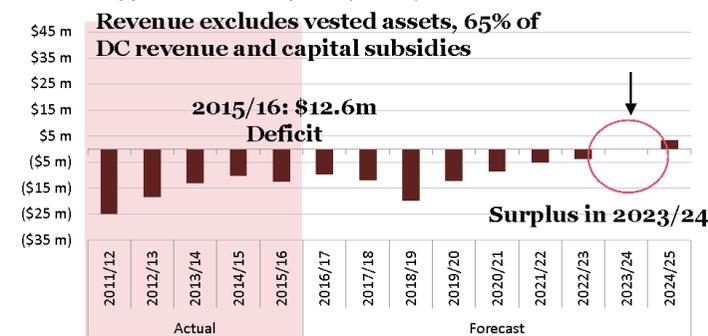


Source: 2018 Annual Plan model per CD.xls

**Measure of Net Surplus / (Deficit)**

- The financial strategy looked to reduce deficits as historically Council has borrowed to run the city.
- The Revised Approach shows considerable improvement with deficits of \$25m in 2011/12 reducing to \$10m in 2014/15 and \$13m (including \$9m of one-off unbudgeted costs) in 2015/16.
- It is our view that in addition to vested assets the measure should exclude:
  - 100% of capital subsidies; and
  - Approximately 65% of DC revenue. The inclusion of 35% recognises that DC charges include the recovery of interest which is recognised through the P&L as an expense.
- These items are excluded as the corresponding costs are capital in nature and sit on the balance sheet.

**Revised Approach - Net Surplus / (Deficit)**

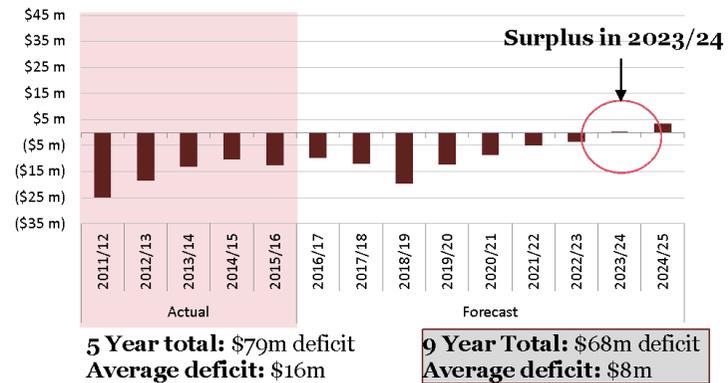


**Measure of Net Surplus / (Deficit) (4 of 6)** – Net cash flow has been positive \$19m in the last 5 years which is in contrast to the forecast for the next 9 years with a cash deficit of \$119m mostly attributable to forecast capital expenditure

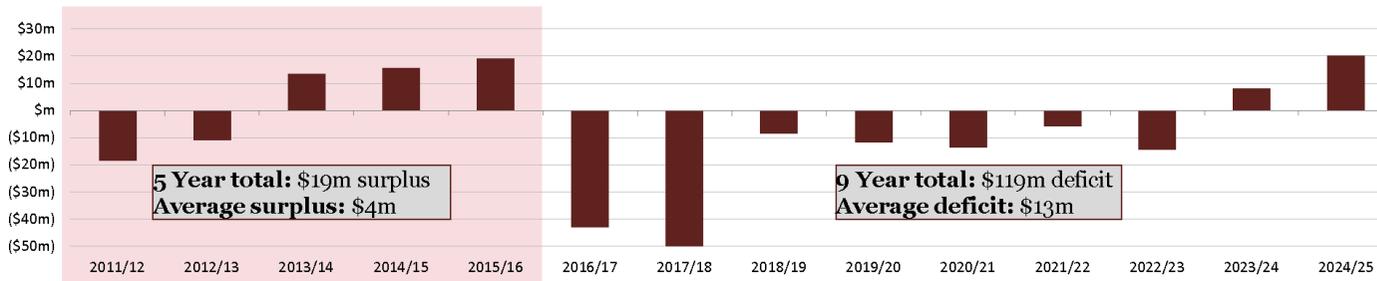
**PwC View** – A change in measure and financial strategy is required as the capital expenditure outlook appears significantly different to 2012 when the strategy was set and 2015 when the 10YP was adopted. Council should ensure debt capacity is available through revenue growth and surplus driven debt reduction

- Under the Revised Approach the Adjusted 2015 10YP forecasts an average deficit of \$8m over the 9 years to 2025, with small surpluses forecast in 2023/24 and 2024/25.
- The total cash deficit over the 9 year period is forecast at \$119m in contrast to the \$19m cash surplus recorded in the 5 years to 2016.
- The unfunded AMPs, Plans and Strategies and growth related infrastructure requirements detailed later in this report, in addition to the capital expenditure forecast in the Adjusted 2015 10YP, indicates that a change in the measure and transition to a breakeven net surplus position may be required now.
- Please refer to the following page for an illustration of the rates increase required to achieve a breakeven Net Surplus position.

**Revised Approach - Net Surplus / (Deficit)**



**Net Cash Flow - 2012 Actual to 2025 10YP**

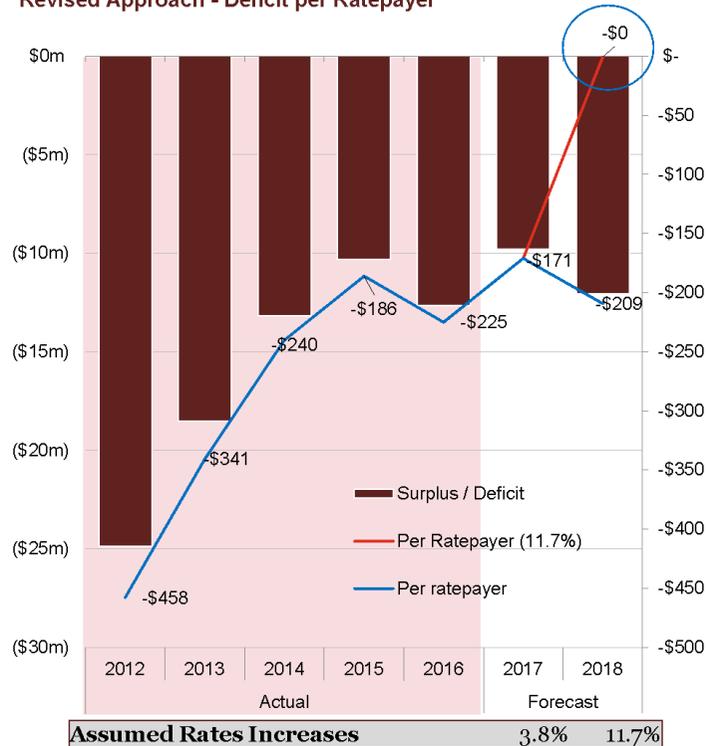


Source: 2018 Annual Plan model per CD.xls

**Measure of Net Surplus / (Deficit) (5 of 6)** – In 2011/12 the \$24.9m deficit measured under the Revised Approach equates to \$458 per ratepayer. This has reduced to \$171 per ratepayer in the 2016/17 annual plan forecast

**PwC View** – All other things being equal a \$12.1m increase in revenue or reduction in costs in 2017/18 would achieve a breakeven Net Surplus under the Revised Approach

**Revised Approach - Deficit per Ratepayer**



Source: 2018 Annual Plan model per CD.xls

- The graph opposite illustrates the Net Operating Deficits under the Revised Approach (Maroon bars) at a total level and at an average per ratepayer.
- In 2011/12 the deficit was \$24.9m which means that on average each ratepayer in Hamilton City was paying \$458 less than the cost to run the city.
- As illustrated significant improvement has been made with the deficit falling to \$9.8m or \$171 per ratepayer under the 2017/18 annual plan.

**Addressing the Deficit**

- To address the deficit in the 2017/18 year (in progress) HCC would require:
  - A one-off \$12.1m increase in revenue or reduction in costs over and above the 3.8% rates increase forecast.

**Revenue Increase**

- If the revenue increase was achieved through a 11.7% rates increase (being an additional 7.9% rate increase on top of the 3.8% forecast in the 2015 10YP), and the continuation of the 3.8% pa increase thereafter, debt capacity would increase \$223m by 2025, as follows:
  - Increased cumulative revenue of \$167m over the 8 year period; and
  - Additional rates income of \$24m in 2025 creating \$56m additional debt capacity under the 230% prudent limit.

**Cost Savings**

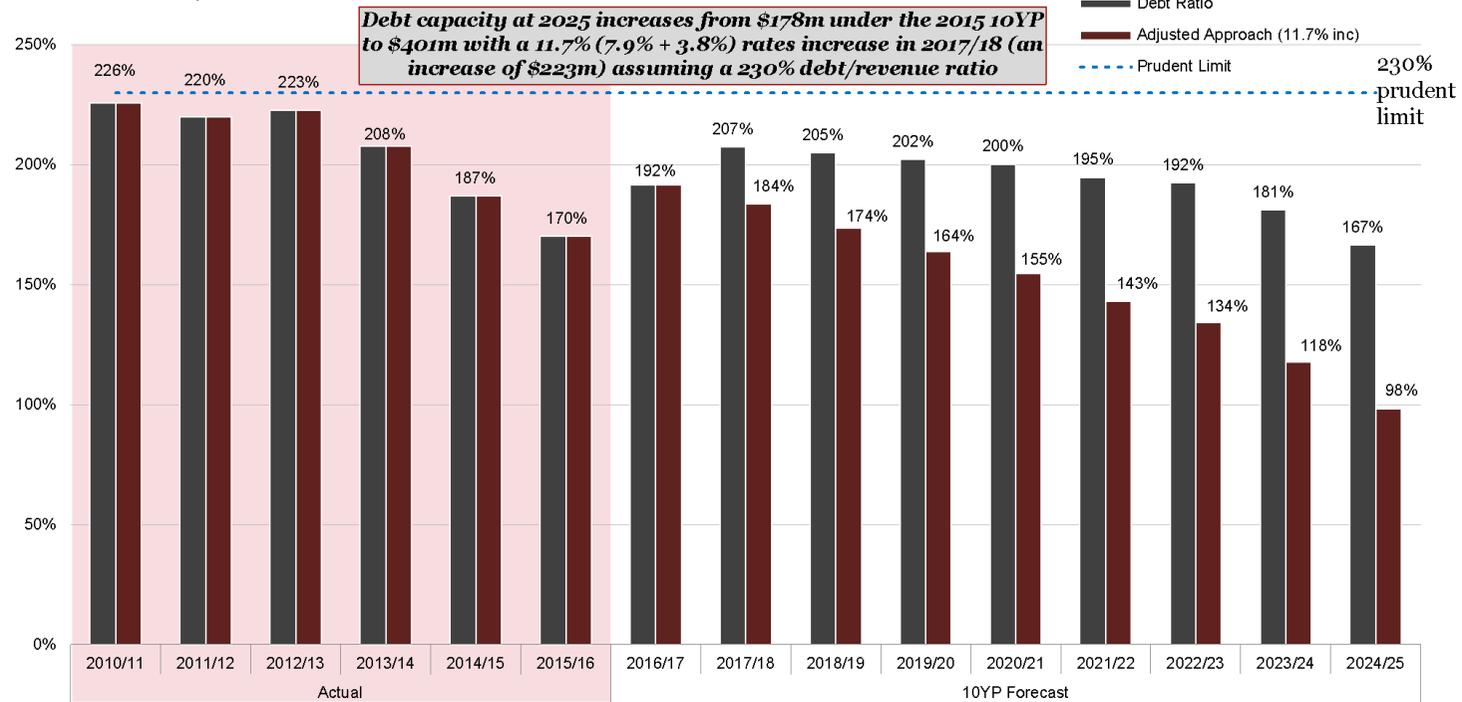
- Cost savings of \$12.1m in 2017/18 and \$58m over the eight years would need to be achieved to have a breakeven Net Surplus position.

**After a breakeven position is achieved under the Revised Approach future rates increases are no longer required to reduce deficits but instead are required to create future debt capacity to address growth funding challenges.**

**Measure of Net Surplus / (Deficit) (6 of 6)**– With a one-off rates increase of 11.7% (7.9% + 3.8%) in 2017/18, followed by the 3.8% per annum increases thereafter an additional \$223m of debt capacity would be created by 2025 compared to the current Adjusted 2015 10YP forecast

**PwC View** – The one-off 11.7% rates increase (7.9% + 3.8%) in 2017/18 would achieve a breakeven Net Operating Surplus under the Revised Approach which will ensure that debt is no longer funding the cost to run the city. This is important given the investment in growth related infrastructure on the horizon

Debt to Revenue - Impact of 11.7% Rates Increase in 2018



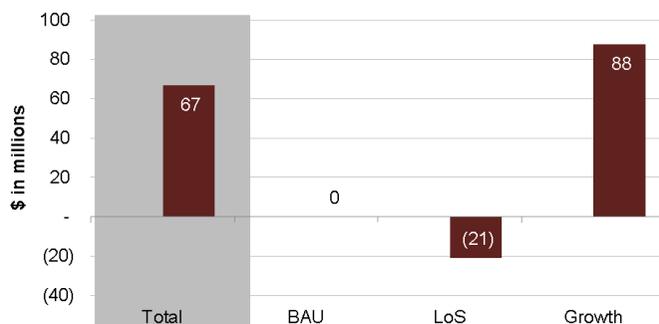
Source: 2018 Annual Plan model per CD.xls

Assumed Rates increases									
3.8%	11.7%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%

**BAU / LoS / Growth** – Growth places pressure on Council as the upfront capital expenditure requirements are predominately debt funded. The subsequent depreciation and interest charges are largely recovered from existing ratepayers

**PwC View** – BAU is cash flow positive (\$280m) through the 10 year period to 2025 whilst LoS and growth has significant negative cash flows of \$380m, which is the opposite of the profit and loss and in our view represents the true challenge of growth given funding constraints

Net Surplus / (Deficit) 2015 to 2025 - Excl. Vested Assets

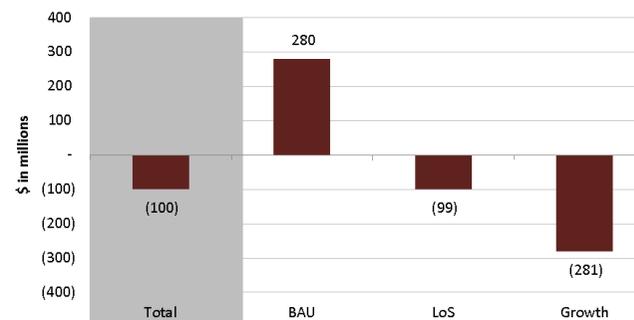


Source: 2018 Annual Plan model per CD.xls

**Profit and Loss - Net Surplus / Deficit**

- The 2015 10YP forecasts a surplus of \$67m across the 10 year period excluding vested assets.
  - Note: under the Revised Approach this is a \$80m deficit.
- The BAU result is largely breakeven over the 10YP period, this is achieved through the 3.8% pa rates increase being higher than inflation at 1.9% on Opex and personnel costs.
- The large surplus achieved by Growth is misleading in our view. The surplus includes DC revenue of \$117m and capital subsidies of \$72m the majority of which relate to the recovery of capital expenditure which is not expensed through the profit and loss but capitalised on the balance sheet.
  - Under the revised approach a deficit of \$19m would be recognised over the 10 year period.

Net Cash Flow - 2015 to 2025



Source: 2018 Annual Plan model per CD.xls

**Net Cash Flow – Cash Surplus / (Deficits)**

- A net cash outflow of \$100m is forecast across the Adjusted 2015 10YP period.
- The negative cash flow is driven by capital expenditure which totals \$910m including capital subsidies across the period of which \$369m is classified as growth related.
- LoS improvements typically involve upfront capital expenditure and subsequent increased operating costs. The capital expenditure will be recovered through depreciation and to the extent that direct user charges do not recover increased costs, including Opex, personnel and interest these will ultimately be funded by the ratepayer and likely lead to rates increases.

**Both the profit and loss and cash flow summaries are presented annually at Appendix 5 by BAU, LoS and Growth.**

# *Development Contributions*

**Development Contributions (1 of 3)** – Are intended to recover a fair and equitable portion of total cost of capital expenditure necessary to service growth over the long term

**PwC View** – *Based on the charging of DCs for future capital expenditure Council appears to have an obligation to complete growth related capital spend programs as planned, or to ensure that any variations do not result in Developers paying an inequitable proportion of total expenditure*

The Local Government Act 2002 (LGA) states the purpose of Development Contributions (DCs) is to enable territorial authorities to recover from those persons undertaking development a fair, equitable, and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term.

**Development Contributions Model (“DC Model”)**

The Council’s DC Model effectively calculates the funding allocation of capital cost and resulting interest to either DC loans or Rates loans based on project timing, HUE capacity created and projected growth rates. We note the following:

- The capital costs are based on all future infrastructure and amenity requirements in the 10 year 10YP period. All projects are allocated to a specific catchment, or to ‘citywide’.
- The DC loans, including projected interest, are then recovered from DC contributions which vary depending on catchment area. The embedded interest makes a direct comparison with the 10YP difficult.
- The allocation to the existing ratepayers (non-growth related benefit) is allocated to the rates loans. Rates loans will be repaid through the recovery of depreciation (less renewals) from ratepayers with interest costs also to be met by ratepayers.
- The DC loan, including projected interest costs, is recovered from developers based on the estimated future HUE capacity (dwellings) created by the project, with the cost per HUE or title added to the DC charge by catchment for the current year.

Step	Description
1. Estimate of Capital Cost	The capital cost is estimated by the infrastructure team and inflated based on project timing.
2. HUE Capacity created by the Project	The number of HUEs serviced by the project is calculated based on prescribed formula.
3. Projected Growth by Catchment Area	Growth projections in each catchment area are made.
4. Allocation to DC (Growth) or Rates	Based on the driver and usage of the asset the project cost is allocated to growth (DCs), or to existing ratepayers.
5. The Setting of DC charges	$\frac{\text{Total Capex} + \text{Interest}}{\text{Future Growth in HUEs per project}} = \text{Revenue year DC Charge}$

**Development Contributions (2 of 3)**– DC modelling forecasts \$692m expenditure during the 2015 10YP period relating to open projects of which \$231m (33%) has been incurred to date. A further \$266m of capital expenditure and \$196m of interest costs are forecast to 2025

**PwC View** – The capital spend program reflected in DC modelling is aligned to the Adjusted 2015 10YP. The timing in relation to new growth cells, being Rotokauri and Peacocke, is outdated and does not reflect Council's current view on population growth and residential supply requirements

**DC - Percentage Complete**

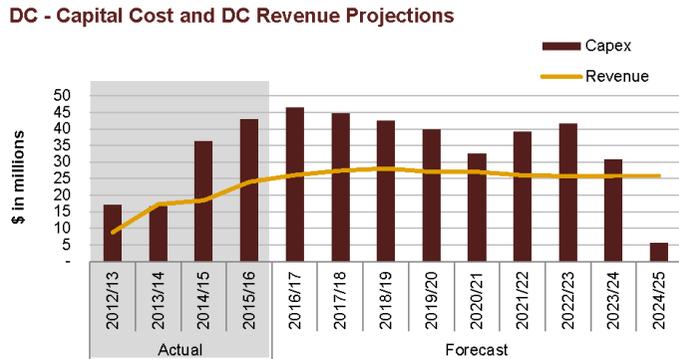
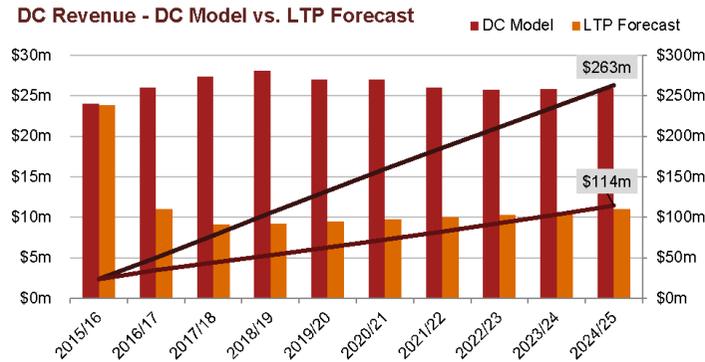
\$ in 000s	Actual (to 2015/16)				LTP Forecast Period (Remaining)				Funded by Rates		Funded by DC's		
	Capex	Interest	Total	% of Total	Capex	Interest	Total	% of Total	Total Capital Projects	Debt	% of Total	Debt	% of Total
Citywide	107,605	36,163	143,768	33%	160,004	128,017	288,021	67%	431,789	208,974	48%	261,295	61%
Infill	6,426	2,308	8,735	80%	844	1,328	2,171	20%	10,906	7,618	70%	7,270	67%
Other - SW	6,794	2,280	9,075	15%	32,465	20,320	52,784	85%	61,859	7,252	12%	39,259	63%
Peacocke	5,653	1,037	6,690	28%	6,551	10,478	17,029	72%	23,719	4,524	19%	12,204	51%
Rotokauri	11,529	4,425	15,954	25%	19,650	28,940	48,590	75%	64,544	6,912	11%	31,179	48%
Rototuna	38,288	5,321	43,609	48%	44,586	3,426	48,013	52%	91,622	17,721	19%	82,874	90%
Ruakura	577	38	615	16%	1,835	1,315	3,150	84%	3,766	592	16%	2,412	64%
Temple View	1,570	930	2,500	59%	-	1,745	1,745	41%	4,245	1,088	26%	1,570	37%
<b>Total</b>	<b>178,442</b>	<b>52,503</b>	<b>230,945</b>	<b>33%</b>	<b>265,935</b>	<b>195,569</b>	<b>461,504</b>	<b>67%</b>	<b>692,449</b>	<b>254,680</b>	<b>37%</b>	<b>438,064</b>	<b>63%</b>

Source: DC revenue - model and actual allocations 1 July 2006 - 30 June 2016.xlsx

- Council's DC Model currently has 730 open projects with total cost to Council of \$692m (net of \$100m NZTA subsidies), of which \$231m (33%) has been incurred to June 16.
- A further \$462m is forecast to be incurred in the period to 2025, of which \$196m (42%) is estimated future interest costs on the debt.
- We note that \$438m (63%) of the total expenditure is to be funded by DC's of which \$261m is attributed to Citywide benefit which means it is recovered through all new titles regardless of catchment area.
- The high proportion of interest is indicative of the long-term time horizon for the repayment of DC loans, this is further illustrated on the following page.

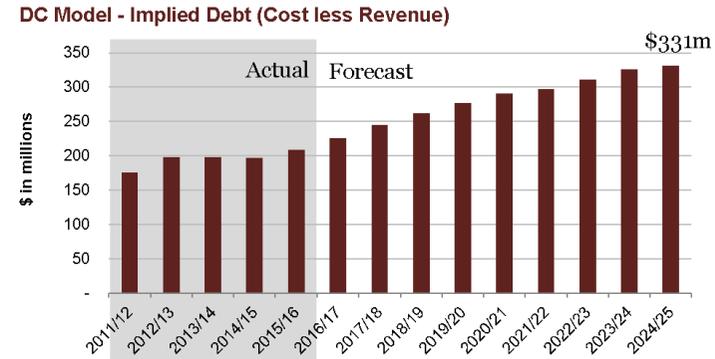
**Development Contributions (3 of 3)**– DC revenue forecast in the 2015 10YP is significantly less than the DC modelling. Management has confirmed that the 2018 10YP programme and DC Modelling will adopt the same NIDEA Low assumptions which will eliminate the disconnect

***PwC View** – Aligning the 10YP DC revenue forecasts to DC modelling and infrastructure expenditure programs is critical to ensure that Council has consistent information to assess future funding requirements and debt capacity in order to plan for the significant upfront cash investment required by growth*



Source: DC revenue – model and actual allocations 1 July 2006 – 30 June 2016.xlsx

- Illustrated opposite is DC revenue per the 2015 10YP vs. the DC model. The DC model is based on 2012 10YP growth projections. The difference is \$149m of revenue not captured in the current 2015 10YP forecast, this was a conscious decision based on conservative budgeting, potential leakage and remissions through concessions to developers.
- We understand both DC modelling and the 2018 10YP will adopt NIDEA Low population projections converted to dwellings.
- Total DC expenditure (Capex + interest) on all open projects is forecast to exceed total DC revenue by \$331m at 2025 as illustrated below.
- This is the implied debt resulting from growth allocated to Developers under DC modelling at 2024/25.
  - Actual debt may be significantly less should depreciation recovered on these assets exceed renewals as we would expect so early on in an assets life.



# *Unfunded AMPs, Plans & Strategies*

### Summary of Key Issues

*The 2018 10YP program of work will update the AMPs and consider the extent to which AMPs and Plans & Strategies will be funded alongside other funding challenges*

**The unfunded portion of the Plans and Strategies (P&S) over and above the limited amount included in the Adjusted 2015 10YP totals \$170m.**

- To what extent P&S are funded in the 2018 10YP will need to be determined against competing unfunded capital expenditure requirements.
- The viability of these plans may require significant funding from the private sector.

**The 2015 Asset Management Plans (AMPs) classify \$1,014m of capital expenditure as Must do and Should do of which \$311m is unfunded.**

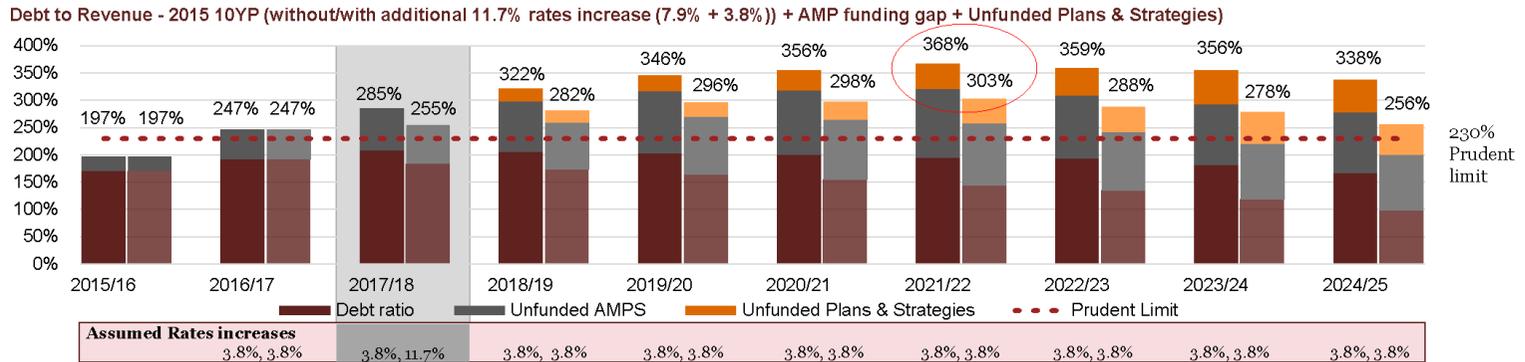
- AMPs are updated annually, \$177m of the funding gap is classified as Must do and \$134m Should do.
- The AMP plans are currently being updated by Council staff with the expectation that these numbers may increase.

**Unfunded AMPs and Plans and Strategies total \$481m and if funded under the 2015 10YP would result in debt to revenue peaking at 368% in 2023.**

- Assuming a one-off 11.7% (being an additional 7.9% increase on top of the 3.8%) rates increase in 2017/18 and then 3.8% thereafter the peak would reduce to 303% in 2021/22 as illustrated below.

**The funding requirements of both AMPs and Plans & Strategies will need to be evaluated against competing funding priorities.**

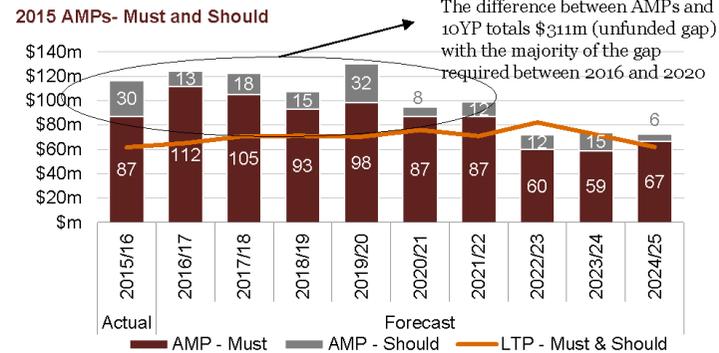
- This will require a robust evaluation of competing funding priorities (costs) and exploration as to how Council can potentially fund each specific funding element.



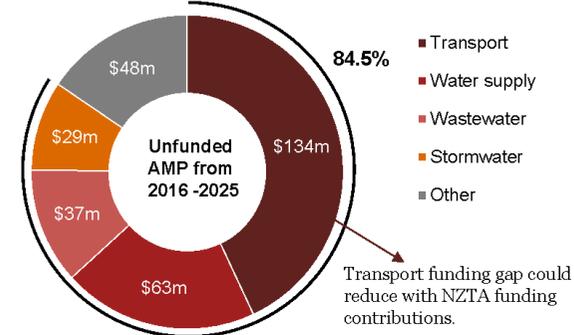
**Unfunded AMPs** – Total Must and Should Capex from the 2015 AMPs estimates \$1,014m of Capex is required by 2025 of which \$703m is funded through the 2015 10YP and \$311m is unfunded

**PwC View** – AMPs are currently being updated with Management expecting total Capex and Opex to increase. Council need to consider this funding gap in the 2018 10YP and consider what can be funded and what can be deferred based on funding constraints

- The 2015 AMPs estimates \$1,014m of capital expenditure is required by 2025 of which \$854m (84.2%) is classified as Must and \$160m (15.8%) is classified as Should.
- The 10YP includes \$677m of Capex classified as Must (79.3% of Must Capex estimated in the AMP) and \$27m of Capex classified as Should (16.6% of Should Capex estimated in the AMP).
- The unfunded gap over 2016 to 2025 totals \$311m and is mostly represented by Transport, Water Supply, Wastewater and Stormwater which represents \$263m of the \$311m gap (84.5%). We note that NZTA funding is not represented in the unfunded gap and the \$134m funding gap for transport could reduce if funding contributions are secured.
- We understand the Council is currently working on an updated AMP and note that the updated AMP is expected to have significantly larger Capex and Opex requirements than the current plan.
- A breakdown of the key AMP projects are as follows:
  - **Transport** (\$66m Must and \$68m Should)- Roothing resurfacing across city, upgrades and development for growth in Rotokauri, Peacocke and the cross city connector;
  - **Water supply** (\$36m Must and \$26m Should)- Replacement of watermains and a new structure to extract water from the Waikato river;
  - **Wastewater** (\$37m Must)- Replacement of waste water assets across city and increasing capacity; and
  - **Stormwater** (\$27m Must)- Rotokauri and Rototuna infrastructure to facilitate growth.



AMP Plans- Total unfunded gap by activity



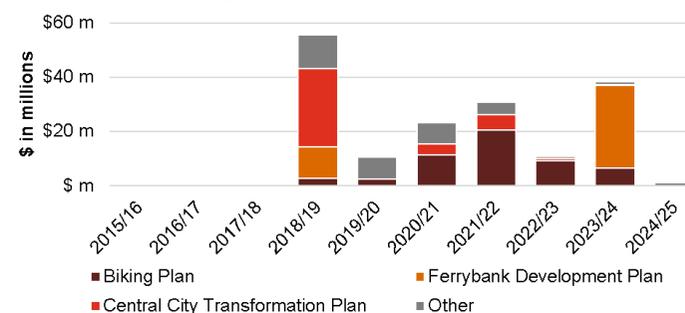
Source: 2015-25 LTP Budget and AMP Baseline Comparison for all activities - corrected for inflation.xlsx

**Unfunded Plans & Strategies** – Council has developed a number of Plans and Strategies since the 2015 10YP which require total funding of \$170m to 2025

**PwC View** – Council need to consider the level of funding committed to Plans and Strategies in the 2018 10YP with the potential for a targeted rate to be implemented to provide rate-payers with transparency of the cost

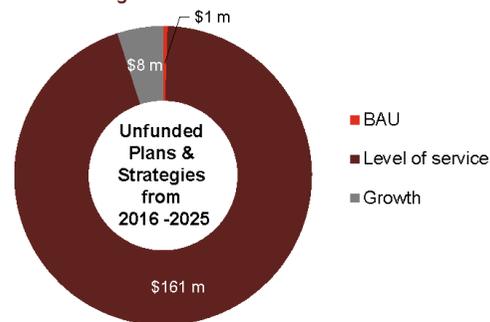
- Capex for Unfunded Plans & Strategies over the 10YP has largely been developed since the 2015 10YP and totals \$170m, of which \$161m (94.3%) is classified as Level of Service in that all ratepayers benefit from an improved city.
- There are 24 Unfunded Plans & Strategies, the 3 largest plans include:
  - **Biking Plan (\$52m)** - Various projects from 2018/19 to 2023/24 to transform Hamilton into a bike-friendly city. Examples of projects include: University route, Widening of the Hamilton river path and State Highway 3 cycle way.
  - **Central City Transformation Plan (\$39m)** - Projects mostly from 2018/19 to 2021/22 to revitalise the central city. Examples include: Upgrade Garden Place, extension of shared zone down Alexandra Street and completing the Collingwood Land redevelopment.
  - **Ferrybank Development Plan (\$42m)** - Capex in 2018/19 and 2023/24 to enable commercial, hospitality and retail development with connections to the central city and the river.
- Management has indicated that a portion of this funding will be sought from the private sector as grants or donations.
- Council will need to consider the \$170m, or a portion of it in the 2018 10YP.
- A targeted rate may be an open and transparent mechanism for funding these projects.

Unfunded plans & strategies



Source: Rates increase analysis - BAU vs Growth - v9.xlsx

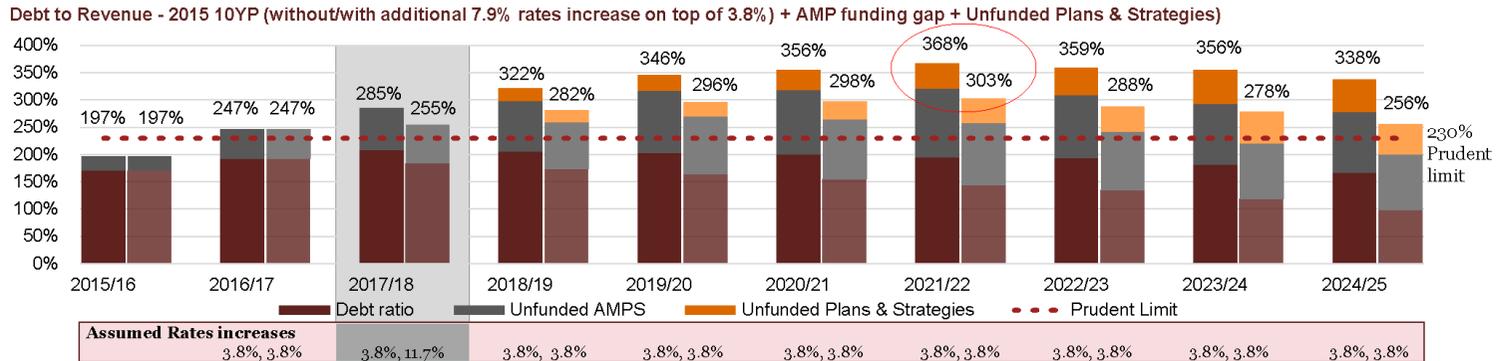
Unfunded Plans & Strategies



Source: Rates increase analysis - BAU vs Growth - v9.xlsx

**Unfunded AMPs and Plans & Strategies** – With the addition of unfunded AMPs and Plans & Strategies, a rates increase of 11.7% in FY18 reduces the peak debt to revenue ratio from 368% (2015 10YP) to 303% in 2022

**PwC View** – A one off rates increase of 11.7% (being an additional 7.9% increase on top of the 3.8%) provides \$223m of additional debt capacity over the 10YP, however, it is not sufficient to cover the addition of unfunded AMPs and Plans and Strategies with the debt to revenue ratio remaining above the 230% prudent limit



Source: 2018 Annual Plan model per CD.xls, Rates increase analysis - BAU vs Growth - v9.xlsx, 2015-25 LTP Budget and AMP Baseline Comparison for all activities - corrected for inflation.xlsx

- The above diagram presents the 10YP debt to revenue ratio with the additional debt required for unfunded AMPs and Plans & Strategies. The lighter bars on the right illustrate the impact of a one-off 11.7% (7.9% + 3.8%) increase in rates with the continuation of the 3.8% increases thereafter. We have assumed that HCC leads all the unfunded development I.e. there is no external funding.
- The debt to revenue percentages illustrated above indicates that the 200% targeted ratio under the current financial strategy is no longer suitable given the level of unfunded AMPs, Plans and Strategies and the other Capex challenges presented by growth.
- Therefore we have illustrated against the 230% prudent limit.
- We make the following observations;
  - With the addition of unfunded AMPs and Plans & Strategies, the debt to revenue ratio remains above the 230% prudent limit over the whole 10YP period and peaks at 368% in 2021/22.
  - Debt after the 11.7% rates increase and the unfunded AMPs and Plans & Strategies peaks at 303% in 2021/22.
  - The 11.7% rates increase was based on a breakeven Net Surplus position, should Council be required to fund 100% of all unfunded AMPs and Plans and Strategies further rates increases over and above the 11.7% and 3.8% increases thereafter will be required or a combination of other revenue generating and cost saving options.

Note: Revenue used for the debt to revenue ratio excludes capital subsidies, vested assets and developer contributions.

# *Growth Infrastructure*

Attachment 1

Item 10

## Summary of Key Points

*Hamilton City is in a period of strong growth and is forecasting this growth to continue throughout the 2018 10YP period. Current infrastructure modelling assumes that two new growth cells are opened, being Rotokauri and Peacocke. Rotokauri will not meet forecast demand alone, whilst Peacocke is significantly more expensive on a per section basis indicating a greater contribution from Central Government and the Private Sector is required*

### A significant portion of the 'Bow-wave' of infrastructure spend earmarked outside the 10YP period is now needed to open up new growth cells.

- The Hamilton Urban Growth Strategy has identified Rotokauri and Peacocke as the next growth cells.
- To meet the NIDEA Low population growth projections which will be adopted by Council for the 2018 10YP both Rotokauri and Peacocke are assumed to be 'open' by 2022 which requires construction to start now as both growth cells have construction cycles of up to 4-5 years.
- The majority of capital expenditure relates to transport and water services.

### Rotokauri alone will not yield sufficient dwellings in the timeframe required to meet total projected demand allocated to growth cells.

- Peacocke can meet demand to 2035/36, but is significantly more expensive based on current estimates.
- Rotokauri has the benefit of the NZTA funded Te Rapa By Pass which connects the catchment to the City.

### Peacocke is significantly more expensive with capital expenditure per section of \$73k being 2.5x greater than Rotokauri after a 51% NZTA subsidy for transport infrastructure.

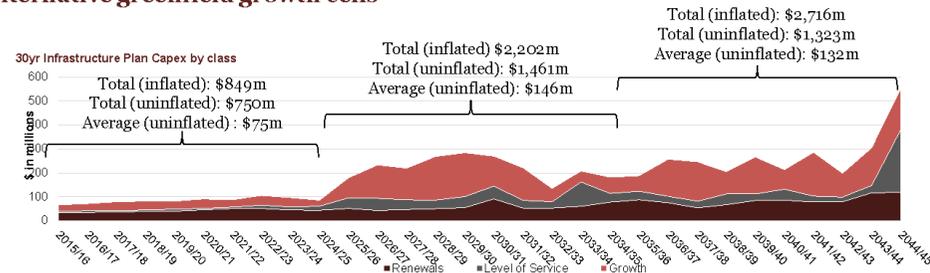
- Including NZTA subsidies it would cost \$435 per ratepayer pa to fund Peacocke on 37% of the debt compared to \$143 pa for Rotokauri (assuming depreciation of 1.5% and the interest cost of 5.5% pa)
- It appears that Peacocke will require a substantial contribution from both Central Government and Private Developers to be affordable to ratepayers and more comparable to Rotokauri.

### The HIF application process and the 2018 10YP program of work will closely examine the cost of Peacocke and alternative greenfield growth cells

- This analysis and debate will need to consider all growth cell costs including community infrastructure (minimal community cost currently included).

### The cost to Developers in funding the remaining 63% of Peacocke Capex through Development Contributions is estimated at \$75k per Dwelling.

- Under the same assumptions, which includes 51% of transport funded by NZTA and \$15k for citywide DC's, Rotokauri would be approximately \$45k. Current DC charges are \$34k for Rotokauri and \$26k for Rototuna.
- A significant uplift in DC's passed onto ratepayers through section price increases could lead to citywide property price appreciation.

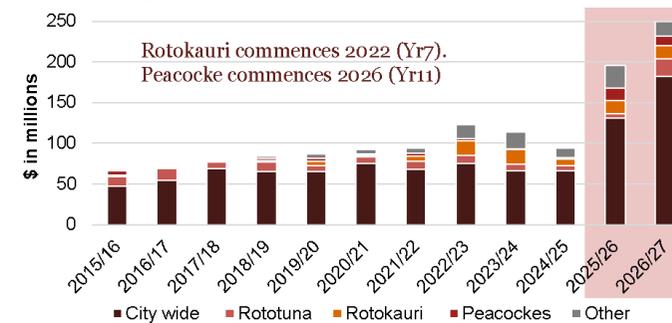


**Growth infrastructure (1 of 8)** – The 30 year infrastructure modelling reflects the 10YP forecast through to 2025. After this point it includes all estimates of replacement and growth related infrastructure for the following 20 years

**PwC View** – It appears that the Bow Wave must be addressed now with the Council unable to defer the opening of new growth cells any longer

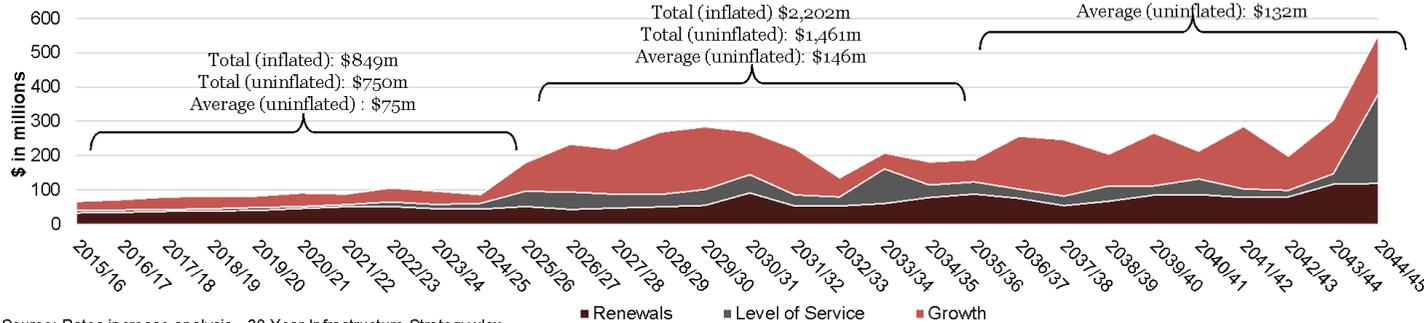
- The 10YP forecasts \$849m of Capex classified as follows: \$421m (50%) of BAU, \$90m (10%) as LoS and \$338m (40%) as growth.
- The 30 year infrastructure plan provides an estimate of the Capex requirements outside the 2015 10YP (i.e. 2026 to 2045) and although it provides an estimate, the requirements are not validated to the same extent as the 10YP spend. Management are currently updating this plan with their initial expectation Capex could increase.
- The average Capex per year (uninflated) increases from \$75m in the 2015 10YP to \$146m in the following 10 years (referred to as the 'Bow Wave' by Management) and drops to \$132m in years 20 to 30. The increase is mostly driven by growth Capex which is a significantly larger portion of overall infrastructure requirements from 2026 to 2035 (52% of total Capex) indicating deferral of growth spend to outside the 10YP.

LTP Capex by growth cell



Source: Rates increase analysis - 30 Year Infrastructure Strategy.xlsx

30yr Infrastructure Plan



Source: Rates increase analysis - 30 Year Infrastructure Strategy.xlsx  
 Note: The above graphs illustrates Capex with inflation included

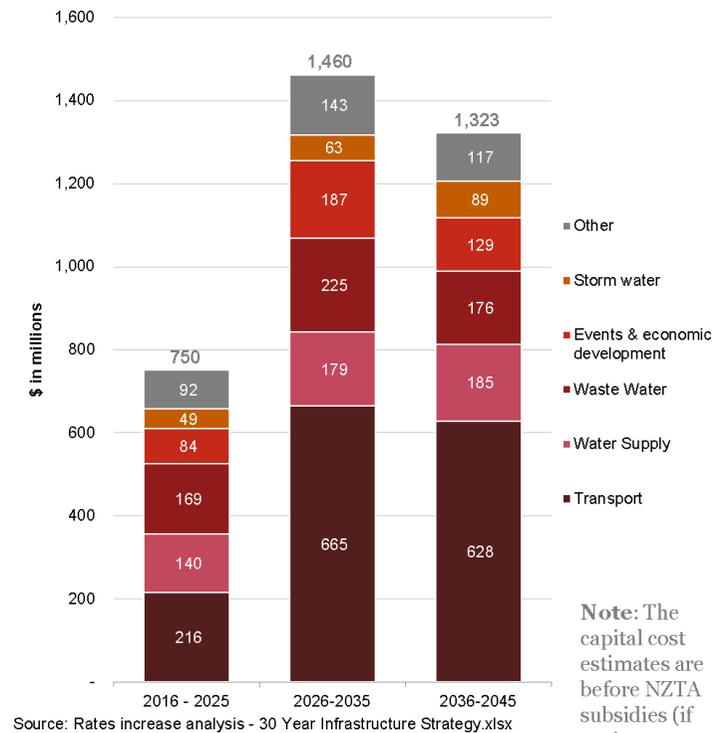
**Growth infrastructure (2 of 8)** – The significant infrastructure horizon is dominated by transport, this is driven by growth and also Citywide improvements

**PwC View** – Peacocke roading upgrades and development is the largest project in the 30 year infrastructure plan at \$268m (\$488m inflated). The Peacocke road project is \$127m more than the next largest project (before NZTA subsidies) which highlights the importance of the detailed HIF business case process

The Graph opposite presents the 30 year infrastructure Capex (uninflated) by activity. We make the following observations:

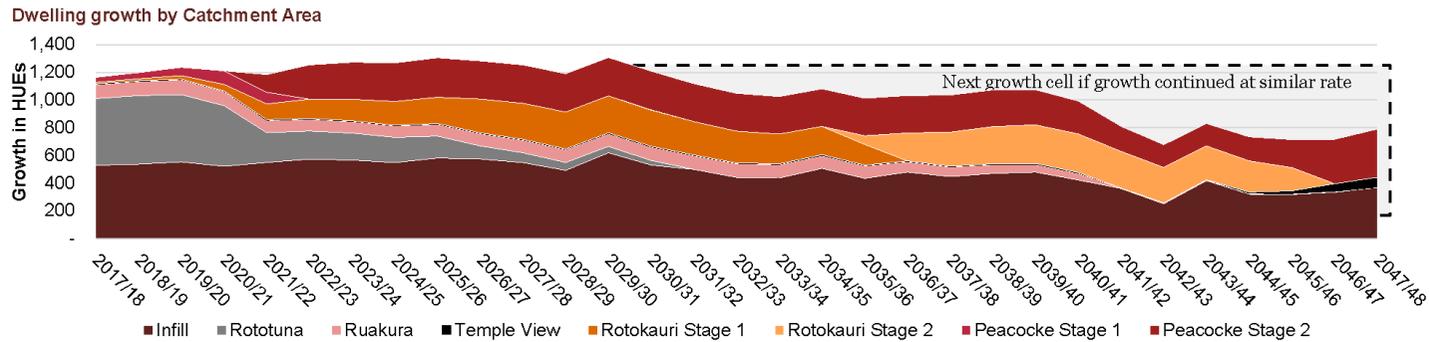
- Transport is the key driver of increased Capex spend required in the 20 years following the 10YP with Capex increasing from \$216m in the 2015 10YP to \$665m (207% increase) in the following 10 years and then decreases to \$628m (5% decrease) in years 20 to 30. Key transport projects include:
  - Roading developments in Peacocke totalling \$268m (before NZTA subsidies) the majority of which is in 2029-2030 and 2036 onwards;
  - Northern River Crossing totalling \$106m occurring mostly in years 10 to 20; and
  - Cross City Connector totalling \$94m occurring mostly in years 20 to 30.
- Capex spend across the other categories increases by 49% in the 10 years following the 10YP and decreases by 13% in years 20 to 30. Key projects in all other activities include:
  - Provision for a new water treatment plant on the Waipa River totalling \$100m which can be deferred till 2050 on the basis that water meters are installed, if water meters are not installed the plant would be required in 2034;
  - Replacement of wastewater assets that have reached their useful life totalling \$141m and occurring throughout the 30 year horizon; and
  - Replacement of watermains that have reached their useful life totalling \$93m and occurring throughout the 30 year horizon.

**30 Year Infrastructure Plan Capex by Activity (Uninflated)**



**Growth infrastructure (3 of 8)** – Infrastructure growth modelling assumes the NIDEA Low growth rate which is significantly higher than the 2015 10YP assumptions. Management has confirmed that NIDEA Low will be adopted in the 2018 10YP

**PwC View** – With 3-5 year lead times, construction in Rotokauri and Peacocke is required immediately to meet demand assumed in the infrastructure modelling otherwise significant pressure will be applied to Rototuna and Infill



Source: V1.02 HCCResidentialModelFeb2017ByCatchment 30yr plan.pdf

- The above diagram presents the growth in HUEs assumed in the infrastructure modelling by growth cell which is based on NIDEA low and is considerably higher than the growth rate assumed in the 2015 10YP.
- The infrastructure modelling assumes that Rotokauri and Peacocke are online by 2022, this would require construction to begin immediately and be Council led, given development lead times of approximately 4-5 years.
- Delays in Rotokauri and/or Peacocke will likely accelerate the exhaustion of supply of HUEs from Rototuna well before 2030 and add increased pressure to citywide infill which Council has advised is currently assumed at the maximum infill rate.

**Dwelling Growth by Cell**

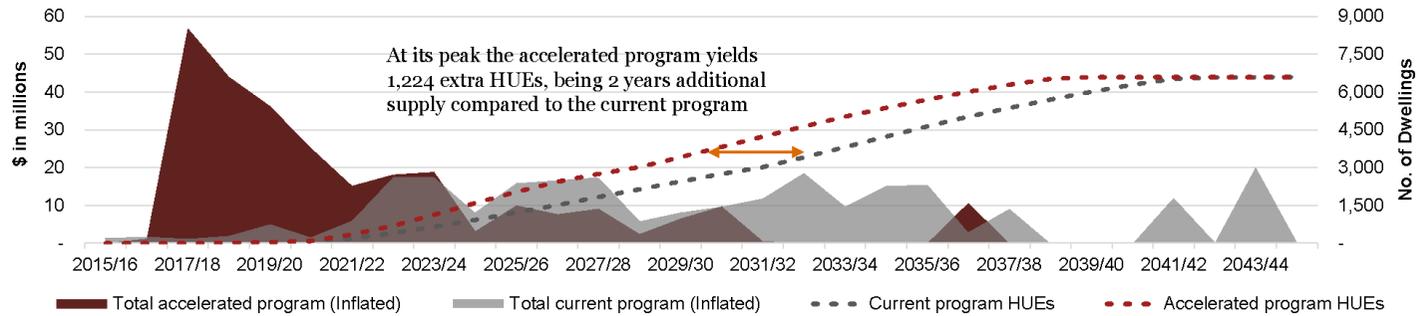
Growth Cell	2018-2022	2023-2027	2028-2032	2033-2037
<b>Existing growth cells</b>				
Infill	2,689	2,842	2,688	2,296
Ruakura	498	425	468	452
Rototuna	2,116	832	207	-
Temple View	29	29	32	31
	<b>5,332</b>	<b>4,128</b>	<b>3,395</b>	<b>2,779</b>
<b>New growth cells</b>				
Peacocke	450	1,355	1,387	1,357
Rotokauri	211	899	1,295	1,063
	<b>661</b>	<b>2,254</b>	<b>2,682</b>	<b>2,420</b>
<b>Total HUE growth</b>	<b>5,993</b>	<b>6,382</b>	<b>6,077</b>	<b>5,199</b>

Source: V1.02 HCCResidentialModelFeb2017ByCatchment 30yr plan.pdf

**Growth infrastructure (4 of 8)** – The accelerated Capex program for Rotokauri brings infrastructure spend forward to be predominantly in 2017/18 to 2023/24 and provides a HUE yield 2 years in advance of the developer led or current program

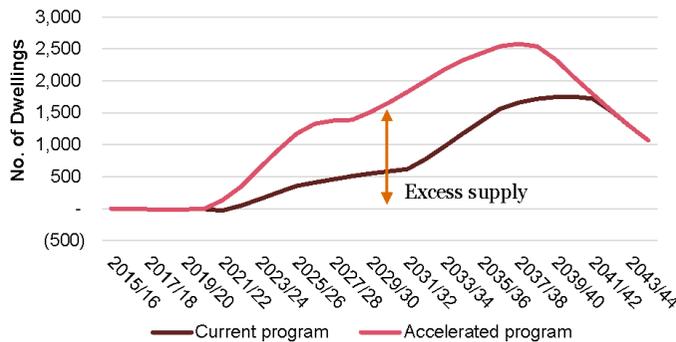
**PwC View** – The infrastructure modelling suggests that at no point under either development approach is demand materially greater than supply in Rotokauri. This suggests that the accelerated approach does not produce a material benefit which may require further investigation by Council

Rotokauri Capex- Current program vs. accelerated program



Source: Copy of accelerated rotokauri program - 14 March 2017.xls

Rotokauri Dwellings - Forecast Demand vs. Yield



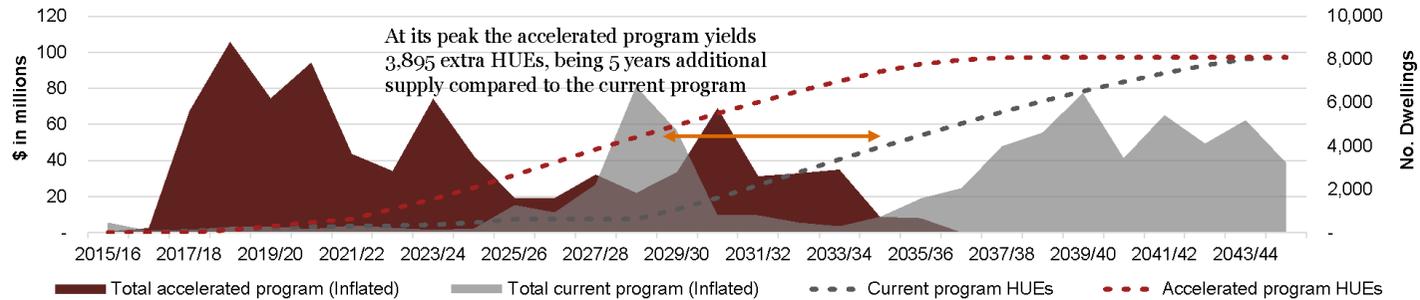
Source: Copy of accelerated rotokauri program - 14 March 2017.xls

- Council modelling suggests that both the original development timeline for Rotokauri and the accelerated program deliver sufficient dwelling numbers to meet the allocated forecast demand under NIDEA Low as presented on page 37.
- Given that both the accelerated program as well as the current program provide an excess supply of HUEs and the cost of the current program being lower than the accelerated program, it appears difficult to justify Council led accelerated development.
- However, should Peacocke, being the second growth cell assumed to open simultaneously, not proceed or be delayed, the allocation of section demand in Rotokauri may increase significantly.

**Growth infrastructure (5 of 8)** – The accelerated Capex program for Peacocke brings infrastructure spend forward 8 years earlier than the current program and delivers significantly more HUE capacity than is required under infrastructure forecasting

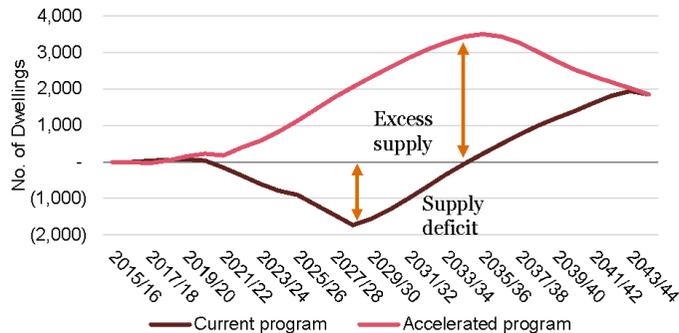
**PwC View** – The current development forecast for Peacocke does not create sufficient dwellings to meet the allocated demand forecast. However, the accelerated program creates significant excess supply suggesting that a blended development approach between the two options may be appropriate

Peacocke Capex- Current program vs. accelerated program



Source: Copy of accelerated peacockes program updated rates - 14 March 2017.xls

Peacocke Dwellings - Forecast Demand vs. Yield



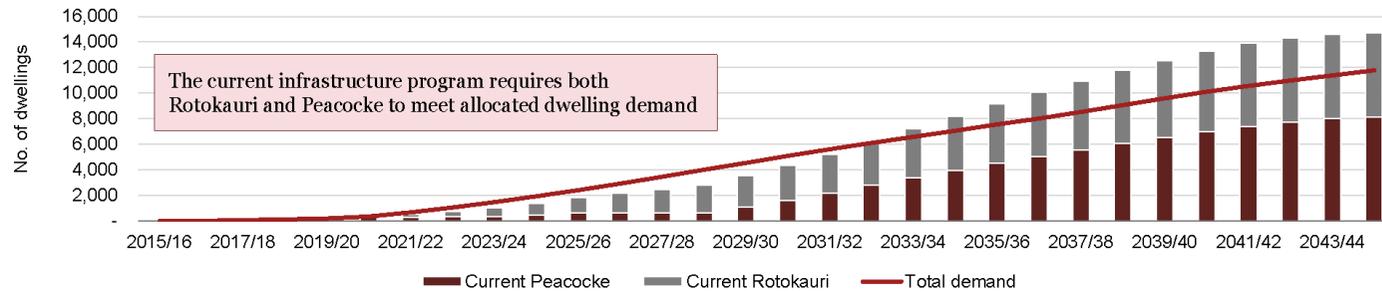
Source: Copy of accelerated peacockes program updated rates - 14 March 2017.xls

- The accelerated program delivers sufficient dwellings to meet the forecast demand (NIDEA Low) allocated to Peacocke.
- Without the accelerated program dwelling growth will have to be met from other areas, placing additional pressure on existing and / or other new growth cells.
- On a stand alone basis the accelerated program creates significant excess capacity, suggesting that a development approach somewhere between the two development programs may be possible. However, this assumes Rotokauri is opened at the same time.
- A blended approach, being accelerated Peacocke and just in time Rotokauri appears to provide sufficient dwelling volume.
- Oversupply in Peacocke may impact the yield or rate of uptake in Rototuna and city infill.

**Growth infrastructure (6 of 8)** – Based on total demand allocated to Rotokauri and Peacocke (new growth cells), Rotokauri yields insufficient dwellings to meet total demand whilst accelerated Peacocke will meet forecast demand until 2035/36 on a stand alone basis

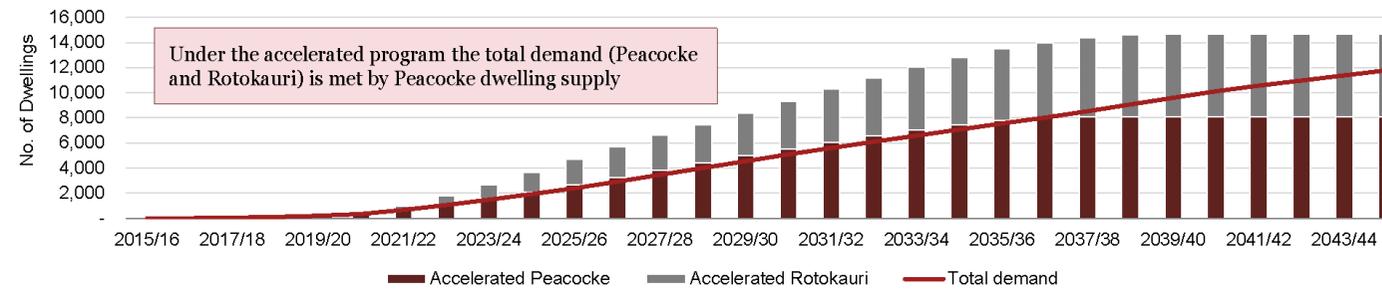
***PwC View** – Based solely on supply and demand of HUEs and ignoring costs, the accelerated Peacocke program delivers sufficient supply to 2035/36 which could allow the staging of a second growth cell to manage funding constraints*

**Current Program- HUE demand vs. supply**



Source: Copy of accelerated rotokauri program - 14 March 2017.xls and Copy of accelerated peacocks program updated rates - 14 March 2017.xls

**Accelerated Program- HUE demand vs. supply**



Source: Copy of accelerated rotokauri program - 14 March 2017.xls and Copy of accelerated peacocks program updated rates - 14 March 2017.xls

**Growth infrastructure (7 of 8)** – Whilst accelerated Peacocke will meet forecast dwelling demand until 2035/36, the Capex per dwelling at \$105k is approximately 2.5 times that of Rotokauri at \$42k. After estimated NZTA subsidies (51%) the cost to Council reduces to \$73k per dwelling for Peacocke and \$30k for Rotokauri

**PwC View** – Peacocke is significantly more expensive at approximately 2.5 times more than Rotokauri per section. Council should explore significant contributions from Private Developers and Central Government to reduce this figure or concentrate on Rotokauri and other alternatives

\$ as indicated	Rotokauri		Peacocke				
	No HIF benefit		Accelerated with HIF benefit				
	Current	Accelerated (without HIF)	Current	Accelerated (without HIF)	51% NZTA	75% NZTA	100% NZTA
Dwellings - by number	6,600	6,600	8,103	8,103	8,103	8,103	8,103
Capex (uninflated) \$m	\$165m	\$234m	\$407m	\$673m	\$673m	\$673m	\$673m
Inflation based on timing \$m	\$86m	\$42m	\$328m	\$179m	\$179m	\$179m	\$179m
Capex (Total) \$m	\$250m	\$276m	\$735m	\$852m	\$852m	\$852m	\$852m
Avg. Capex per HUE (inflated)	\$ 37,954	\$ 41,877	\$ 90,766	\$ 105,118	\$ 105,118	\$ 105,118	\$ 105,118
NZTA subsidy (51% unless stated)	\$85m	\$79m	\$262m	\$258m	\$258m	\$395m	\$527m
Capex (Total) \$m after NZTA subsidy	\$165m	\$199m	\$474m	\$594m	\$594m	\$457m	\$325m
Avg. Capex per HUE (inflated)	\$ 25,043	\$ 29,929	\$ 58,453	\$ 73,258	\$ 73,258	\$ 56,352	\$ 40,097
Capex Timing - years	2017 - 2045	2017 - 2037	2017 - 2045	2017 - 2037	2017 - 2037	2017 - 2037	2017 - 2037
Max HUE capacity reached - year	2044	2040	2045	2039	2039	2039	2039
<b>DCs</b>							
DC Loan (63%) Incl. Interest \$m	\$122m	\$199m		\$488m	\$414m	\$312m	\$218m
DCs (HUE charge) 63%	\$ 18,412	\$ 30,144	Refer to Note 1	\$ 60,225	\$ 51,059	\$ 38,492	\$ 26,926
Citywide DC Charge (est.)	\$ 15,000	\$ 15,000		\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
Total DC by Cell	\$ 33,412	\$ 45,144		\$ 75,225	\$ 66,059	\$ 53,492	\$ 41,926

Note 1: Current modelling of supply (yield of sections) is inadequate to meet demand, therefore an accurate development contribution charge cannot be calculated

Note 2: The analysis is based on inflated numbers as this best reflects cost estimates across the long delivery timeframes. The inclusion of inflation is consistent with DC modelling and means the illustrative DC on each growth cell is more accurate.

Source: Copy of accelerated Rotokauri program - 14 March 2017.xls and Copy of accelerated Peacockes program updated rates - 14 March 2017.xls

#### Assumptions

- The table above provides a breakdown of the infrastructure costs for Rotokauri and Peacocke under the accelerated and current program to 2045.
- The table also illustrates a scenario for the accelerated program with an interest free 10 year loan from the Housing Infrastructure Fund (HIF) of \$9m for Rotokauri and \$183m for Peacocke.
- We have assumed that development contributions fund half of the infrastructure Capex and we also have assumed a \$15k citywide development contribution charge.
- A NZTA subsidy of 51% of all transport costs is also illustrated.

- The Capex per dwelling for Peacocke is \$105k which is 2.5 times greater than that forecast for Rotokauri at \$42k; however
  - If 51% of all transport expenditure is funded by NZTA these costs reduce to \$73k (Peacocke) and \$30k (Rotokauri) respectively.
  - If NZTA funded 100% of Peacocke transport expenditure the cost per section decreases to \$42k.
- Peacocke, as it stands currently, will likely result in a significant rates increase for all rate payers as illustrated on the following page; and
- For the cost of Peacocke to be comparable with alternatives it appears to require significant contributions from Private Developers and / or Central Government which we understand will be considered in the HIF business case process and through the 2018 10YP process.

**Growth infrastructure (8 of 8)** – Accelerated Peacocke will cost each rate payer \$435 per annum (with a 51% HIF subsidy) to fund depreciation and interest on 37% of Capex (after Developer funded portion and NZTA subsidies), this is approximately three times greater than Rotokauri at \$143 per annum

**PwC View** – The current cost of Peacocke to Council makes it an un-economic proposition which will cost all ratepayers approximately \$435 each per year which represents a rates increase of approximately 20% to all Hamilton City ratepayers

**Illustrative Cost to Ratepayer**

	Rotokauri		Peacocke			
	Current	Accel (W/O HIF)	Current	Accel (With HIF)	Accel (With HIF)	Accel (With HIF)
NZTA Subsidy	51%	51%	51%	51%	75%	100%
Number of rate payers (2017)	57,179	57,179	57,179	57,179	57,179	57,179
Total Capex	\$165m	\$198m	\$474m	\$594m	\$457m	\$325m
<b>Cost to rate payer</b>						
Depreciation @ 1.5%	\$3.8m	\$4.1m	\$11.0m	\$12.8m	\$12.8m	\$12.8m
Interest @ 5.5%	\$3.4m	\$4.0m	\$9.6m	\$12.1m	\$9.3m	\$6.6m
<b>Total cost</b>	<b>\$7.1m</b>	<b>\$8.2m</b>	<b>\$20.7m</b>	<b>\$24.9m</b>	<b>\$22.1m</b>	<b>\$19.4m</b>
<b>Additional cost to all rate payers</b>	<b>\$125</b>	<b>\$143</b>	<b>\$362</b>	<b>\$435</b>	<b>\$386</b>	<b>\$339</b>

**Illustrative Return / Value Calculation**

\$ as indicated	Rotokauri		Peacocke	
	Current	Accel (W/O HIF)	Current	Accel (With HIF)
Number of rate payers	6,600	6,600	8,103	8,103
Rates per rate payer	\$3,000	\$3,000	\$3,000	\$3,000
<b>Return on growth cell</b>				
Rates revenue	\$19.8m	\$19.8m	\$24.3m	\$24.3m
Activities revenue (30% of rates)	\$5.9m	\$5.9m	\$7.3m	\$7.3m
<b>Total revenue</b>	<b>\$25.7m</b>	<b>\$25.7m</b>	<b>\$31.6m</b>	<b>\$31.6m</b>
Total Capex	\$165m	\$198m	\$474m	\$594m
<b>Return on Capex (Before total costs)</b>	<b>15.6%</b>	<b>13.0%</b>	<b>6.7%</b>	<b>5.3%</b>

Source: Copy of accelerated Rotokauri program - 14 March 2017.xls and Copy of accelerated Peacocke program updated rates - 14 March 2017.xls

The above table presents a **simple illustrative** calculation on the cost to each ratepayer of Hamilton City of the increased Interest and Depreciation cost of Rotokauri and Peacocke in a single year.

The HIF would defer interest costs for a portion of capital spend for a period of 10 years.

- **Depreciation** is based on 1.5% per annum of the total Capex spend. Depreciation is funded by Adj. Operating Revenue to recognise the consumption of the asset over its useful life.
- In practice the recovery of depreciation will repay borrowings on the asset less the cost of Renewal Capex, which is logically less at the start of an assets life. The repayment of debt or accumulation of cash ensure Council has sufficient funding to replace the asset at the end of its life.
- **Interest** is assumed at 5.5% and is based on 37% of the total Capex spend, being the residual debt not funded by development contributions.

The gross return on Capex (before Total Costs), detailed above illustrates a similar differential between Rotokauri and Peacocke.

- Assuming \$3,000 average rates for each Growth cell and additional activities revenue of 30% of rates the gross return on accelerated Capital Expenditure is:
  - 13.0% per annum for Rotokauri; and
  - 5.3% for Peacocke.

In our view the illustrative analysis above highlights that Peacocke is uneconomical compared to Rotokauri and Council need to either:

- Significantly reduce the cost to Council and ratepayers to deliver Peacocke through a significantly higher contribution from both Private Developers and Central Government; and
- Consider the cost of delivering alternative residential growth cells in areas where existing transport and water assets have existing capacity or lower costs to expand.

# *Funding Gap*

Attachment 1

Item 10

## Summary of Key Points

*The estimated funding gap at \$806m will require the use of all options available to achieve desired outcomes, whilst minimising the financial impact on ratepayers. Given debt capacity and other funding constraints, a robust prioritisation framework will be required to balance competing priorities and highlight consequences of decisions*

**The total 'Funding Gap' including unfunded AMPs, unfunded P&S and unfunded accelerated Rotokauri and Peacocke is \$806m after NZTA subsidies.**

- Under the 2015 10YP there will be \$178m debt capacity in 2025 and should a one-off 11.7% (7.9% + 3.8%) rates increase be made (3.8% thereafter) this would increase to \$401m (based on debt / revenue of 230%)

**Unfunded Capex will require consideration in the 2018 10YP programme of work and it is likely that the future funding requirement will be addressed through a combination of:**

- Rates Increases** – rates are significantly lower than Tauranga and Auckland. Council need to determine what level of increases are required to cover; total costs, inflationary increases to BAU, 'nice to haves' like Plans and Strategies and to fund growth?
- User Charges** – passing on a greater portion of the actual service cost directly to users of activities and services.
- Cost Savings** – are management aware of material cost saving opportunities?
- Deferrals** – what expenditure can be deferred and what consideration is required now to fund these deferred items in the future?
- Service Level Reviews** – are there services which are currently subsidised by ratepayers be provided by the private sector and therefore be closed or sold by Council?

**Increased Government Contributions and Private Funding**

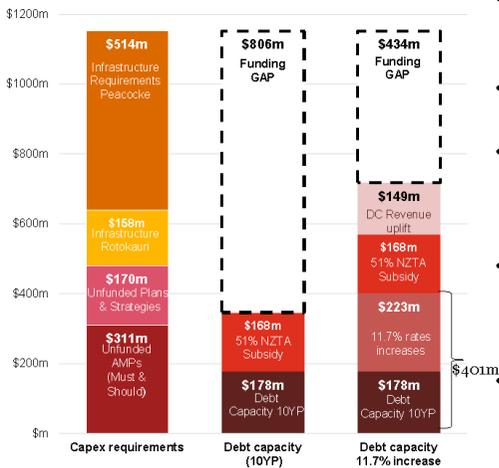
**Private Developer Agreements and increases in DC charges may be required to ensure Private Developers are paying a fair share of infrastructure whilst making a fair profit reflective of risk.**

- Land has appreciated significantly in value in recent years with no corresponding proportionate increase in DC charges. Is a step-change increase required to continue growth?

**Given debt constraints and the significant funding gap Council may need to consider alternative funding options.**

- It appears that Central Government are essential to delivering the infrastructure required to open up Peacocke and Rotokauri.
- Council may need to explore Public Private Partnership arrangements if government funding cannot be secured.
- Local Government Joint Ventures / merger of assets** – do neighbouring Council's have capacity in existing infrastructure assets in strategic areas which would lower the cost of delivery.

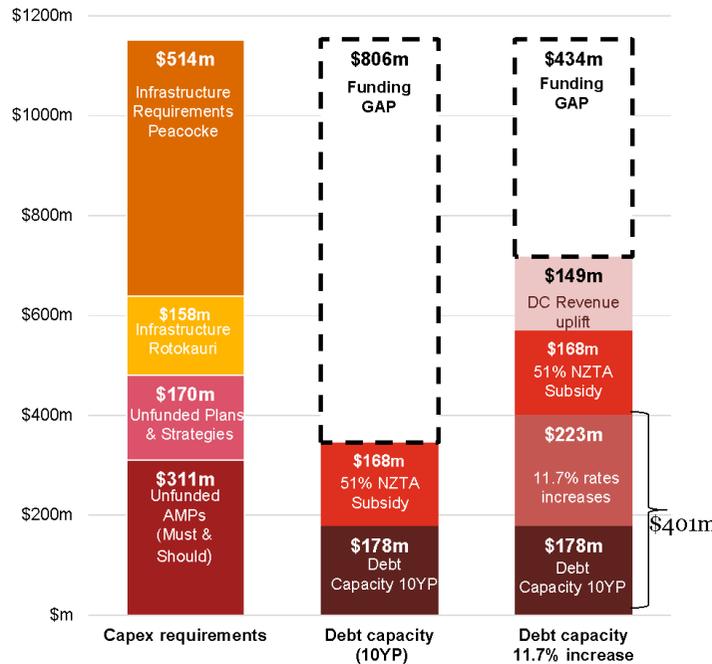
Funding Gap to 2025 (Based on 2015 10YP)



**Funding Gap (1 of 2)** – Based on 100% of all unfunded AMPs, Plans and Strategies and the accelerated development of Rotokauri and Peacocke the Funding Gap is estimated at \$806m which would reduce to \$434m following the alignment of DC revenue and a 11.7% (7.9% + 3.8%) rates increase in 2017/18 to achieve a breakeven Net Surplus position

**PwC View** – Further work is required to confirm the Funding Gap and order of priorities. Given the size of the gap and importance it appears that a funding solution will involve a combination of all options available to Council, including a significant contribution from Central Government

Funding Gap to 2025 (Based on 2015 10YP)



In assessing the \$434m funding gap (after NZTA subsidies) the following changes to the 2015 10YP forecast have been assumed:

- The illustrative one-off 11.7% (7.9% + 3.8%) rates increase in 2017/18, 3.8% thereafter, will achieve a breakeven Net Surplus under the Revised Approach and create **\$223m additional** debt capacity; and
- An additional **\$149m** of DC revenue which is based on the DC modelling projections which includes NIDEA low growth rates.
- We note that the \$311m unfunded AMPs amount may include transport and water costs captured under the acceleration of Peacocke and Rotokauri. The AMPs are currently being updated.

We note that based on the **current target ratio of 200%** of revenue the Adjusted 2015 10YP has **just \$94m of debt capacity at 2025** as detailed below. This highlights the importance of the above rates increase in creating a significant level of debt capacity whilst maintaining headroom.

- Difference between target (200%) and limit (230%) - **\$84m**
  - Capacity based on target (200%) - **\$94m**
- Total: **\$178m**

We acknowledge that it is unlikely all the unfunded components can be fully funded in the 2018 10YP, therefore Council will need to consider both the priority of competing projects and the timing of expenditure and commencement to achieve strategic objectives.

The funding GAP could be further reduced and or funded through a combination of many options as detailed below.

**Rates Increases**

Illustrated on page 48 is a comparison of HCC rates compared to Auckland and Tauranga. Hamilton rates are significantly less.

**Note:** the Rotokauri and Peacocke total Infrastructure Requirement of \$672m excludes the portion of Total Capex cost included in the 2015 10YP.

**Funding Gap (2 of 2)** – Based on 100% of all unfunded AMPs, Plans and Strategies and the accelerated development of Rotokauri and Peacocke the funding gap is estimated at \$806m. The gap reduces to \$434m with a one off 11.7% (7.9% + 3.8%) rates increase in 2017/18 (year in progress) (3.8% thereafter) and additional \$149m of DC revenue (based on DC modelling projections)

Given the pressures of growth it is inevitable that rates will need to increase to:

- a) Address the cost to run the city;
- b) A targeted rate to cover 'nice to have' expenditure such as plans and strategies, Hamilton Garden developments; and
- c) A one-off or series of rates increases to create Operating surpluses and increased debt capacity to fund the opening of new growth cells.

#### *User Charges*

Increases in direct user charges (Activity revenue) to pass on a higher and more accurate proportion of the true cost of providing these services.

#### *Cost Savings*

Management has undertaken a number of cost cutting initiatives in recent years.

What if any areas of operating expenditure can be reduced further.

#### *Deferrals*

Identify what expenditure can be deferred and for how long. If significant deferrals occur Council need to consider the financial strategy and financial position at Year 10 and the implications on expenditure deferred beyond this point.

#### *Service Level Reviews*

The closure or sale of non-core services which are subsidised by ratepayers and can be provided by the private sector.

#### *Private Developers*

With significant appreciation in land prices in recent years it is arguable that current DC charges of approximately \$30k could be increased significantly and still allow Developers sufficient profits.

**PwC View** – Rates increases appear inevitable with the communication of how proposed increases have been calculated seen as important in gaining public acceptance. It appears that the challenge of growth requires Developers to contribute an increased share of infrastructure costs and assistance from Central Government

In addition Private Developer Agreements (PDAs) are an option to work collaboratively with the private sector to ensure that the private sector is sharing in a fair level of infrastructure cost to open these growth cells and not making super profits at the expense of all Hamilton City ratepayers.

The PDA will also ensure that sections are delivered in a timely fashion to meet forecast demand.

#### *Alternative Funding Options*

- Council are currently involved in the Governments **Housing Infrastructure Fund (HIF)** application process and are seeking \$272m to contribute to Peacocke and Rotokauri.
  - Currently this is to be interest free and repaid via development contributions over a 10 year period.
- Given the issues with economic viability of the Peacocke infrastructure requirements more assistance may be required by **Central Government** to make Peacocke viable.
- With the cost of roading and transport solutions being the largest component of expenditure can **NZTA subsidies** be increased significantly and assist in making infrastructure investment by HCC viable.
- Given debt constraints and the fact that at a certain point rates increases are not tolerable there may be a requirement to explore **Public Private Partnerships (PPPs)** to deliver large infrastructure.
- Local Government **Joint Ventures / merger of assets** – do neighbouring Council's have capacity in existing infrastructure assets in strategic areas which would lower the cost of delivery.

# *Other Councils*

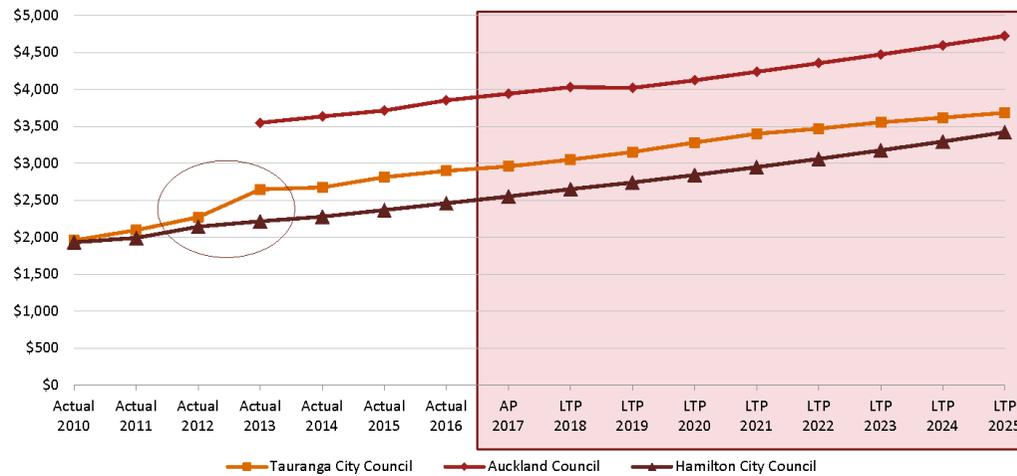
Attachment 1

Item 10

**Other Councils** – Based on analysis of total rates (residential and commercial) Hamilton’s average rates per ratepayer are significantly lower than both Auckland and Tauranga

**PwC View** – Hamilton and Tauranga’s average rates have been very similar historically, until Tauranga implemented a series of significant rate increases across 2011 to 2013

**Total Rates (Residential & Commercial) – Average per ratepayer**



- Auckland, Hamilton and Tauranga are often referred to as the ‘Golden Triangle’ due to geographic proximity and recent and forecast rates of growth.
- Hamilton rates (residential and commercial) are currently significantly cheaper than both Tauranga and Auckland after adjusting for water and refuse.
- Based on analysis of the 2017 forecast under each Council’s 10YP Hamilton rates are 13.7% less than Tauranga in 2017.
- We note that Hamilton and Tauranga were similar in 2010 and that the difference in annual rates is very similar to the one-off rates increase Tauranga passed in 2013.

**Tauranga Rates Increase**

- Tauranga implemented a series of significant rates increases as detailed opposite which included a one-off 16.5% increase in 2013.

**Note:** figures are based on **total rates income**, therefore include growth in rating base.

**Annual Increase in Rates Income**

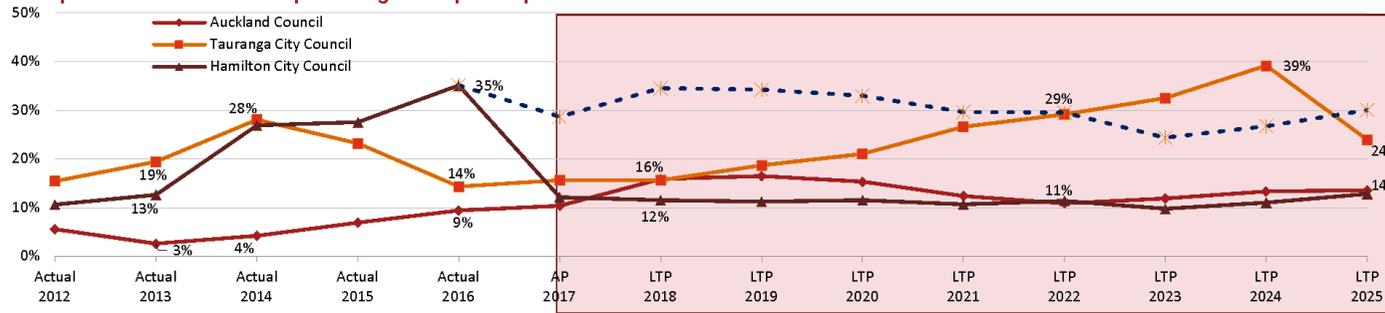
% increase	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016
Tauranga	7.1%	8.4%	16.5%	1.0%	5.2%	3.0%
Hamilton	3.1%	7.5%	3.5%	2.9%	3.9%	3.8%
Difference	4.1%	0.9%	13.1%	-1.8%	1.2%	-0.9%

Source: Tauranga and Hamilton LTP

**DC's of other Councils** – Hamilton has the highest proportion of capital expenditure funded by DC revenue relative to both Auckland and Tauranga City Council

**PwC View** – *The level of DC funding is higher than other Council's, however, it is based on an allocation of the cost of growth to developers. At current levels DC charges do not appear to inhibit developer activity, however, the estimated costs of both Rotokauri and Peacocke suggest that significant increases in DC charges may occur*

**Development contribution as a percentage of capital expenditure**



**Hamilton Development Contributions**

- DCs as a percentage of total capital expenditure has increased from 11% in 2012 to 35% in 2016. The increase appears to due to:
  - The current financial strategy of reducing debt; and
  - A significant uplift in population growth from the pre-2012 (GFC) period compared to the last five years.
- DC's are forecast to drop back to 12% in 2017, however this is due to conservative growth rates and DC forecasting.
- With reference to the dotted line, this reflects DC modelling and illustrates that Hamilton is forecasting to consistently fund approximately 30% of total Capex through DC's.

**Comparison to Other Councils**

- Tauranga has fluctuated between 14% and 28% over the historical period which appears to be driven by large fluctuations in growth related Capex vs. renewals.
- Tauranga is forecasting significant growth in DC revenue and in DC revenue as a percentage of capital expenditure, rising to 39% in 2024
- Auckland has forecast significant uplift in DC revenue with the yearly average rising from \$82m (5 years to 2016) to \$246m in the 9 years to 2025.
- However, as a percentage of total Capex it does not increase significantly due to a significant uplift in LoS and Renewal Capex over the same corresponding period.

# *Appendices*

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## *Restrictions*

This report has been prepared for the purposes of bringing clarity and independence to the recent financial performance of HCC, the challenges created by growth, including the upfront infrastructure expenditure required by Council to facilitate growth and also the suitability of the current financial strategy given the level of growth projected. This report has been prepared solely for this purpose and should not be relied upon for any other purpose. We accept no liability to any party should it be used for any purpose other than that for which it was prepared.

We acknowledge that HCC is required to make this report available to the public as HCC documentation is on public record.

However, to the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this report and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of Hamilton City Council. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

We take no responsibility for the accuracy or completeness of the underlying financial assumptions and projections. We are unable to express an opinion as to whether actual results will approximate those projected because the projections are based on estimates and assumptions regarding future events, which, by their nature, are not able to be independently substantiated. Some assumptions inevitably will not eventuate and unanticipated events and circumstances will occur. Therefore, the actual results will vary from the projections.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this report are based on information available as at the date of the report.

We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report, was not brought to our attention, or subsequently comes to light.

This report is issued pursuant to the terms and conditions set out in our engagement letter dated 4 April 2017.

## *Sources of information*

The sources of information we have relied upon are as follows:

Information source	File name
<b>Historical financial information</b>	Annual Report 2015-16 FINAL PRINTED.pdf
<b>2015 Adjusted 10YP</b>	2018 Annual Plan model per CD.xlsx
<b>30 year dwelling growth by catchment</b>	V1.02 HCCResidentialModelFeb2017ByCatchment 30yr plan.pdf
<b>Development Contribution model</b>	DC revenue – model and actual allocations 1 July 2006 – 30 June 2016.xlsx
<b>Asset Management Plan</b>	2015-25 LTP Budget and AMP Baseline Comparison for all activities - corrected for inflation.xlsx
<b>10YP Capex and Plans and Strategies</b>	Rates increase analysis - BAU vs Growth - v9.xlsx
<b>30 Year Infrastructure Plan</b>	Rates increase analysis - 30 Year Infrastructure Strategy.xlsx
<b>HIF and Accelerated Capex Program</b>	Copy of accelerated rotokauri program - 14 March 2017.xls Copy of accelerated peacocks program updated rates - 14 March 2017.xls HIF - Hamilton (Combined) Indicative Business Case FINAL 310317.pdf
<b>Auckland and Tauranga City Council</b>	Annual reports (2010-2016) and Long Term Plans (2015)
<b>Discussions with HCC Management</b>	N/A

## Schedule of Adjustments to the 2015 10YP

### Adjustments - 2015 LTP

			EFFECT OF CHANGES								
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
<b>Revenue</b>											
Rates (excluding metered water)	-	-	291	304	317	332	347	363	380	397	①
Revenue from Activities	-	-	1,234	1,255	1,281	1,309	1,339	1,368	1,395	1,428	②
Capital Subsidies	-	-	(70)	(55)	(58)	(72)	(61)	(57)	(53)	(59)	
Vested assets	-	-	(46)	(48)	(50)	(52)	(54)	(56)	(58)	(60)	
Development Contributions	-	-	2,000	-	-	-	-	-	-	-	
Other Contributions	-	-	(12)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	
Sundry	-	-	(46)	(46)	(46)	(46)	(46)	(46)	(46)	(46)	
Interest received	-	-	-	-	-	-	-	-	-	-	
	-	-	<b>3,351</b>	<b>1,409</b>	<b>1,443</b>	<b>1,470</b>	<b>1,524</b>	<b>1,571</b>	<b>1,616</b>	<b>1,657</b>	
<b>Expenditure</b>											
Other Expenditure	-	-	3,402	3,439	3,562	3,650	3,749	3,843	3,949	4,062	③
Personnel	-	-	(385)	(405)	(427)	(452)	(479)	(510)	(545)	(583)	④
Interest	-	-	(1,374)	(430)	(494)	(545)	(513)	(481)	(448)	(407)	⑤
Depreciation	-	-	3,038	3,038	3,038	3,038	3,038	3,038	3,038	3,038	⑥
	-	-	<b>4,681</b>	<b>5,642</b>	<b>5,680</b>	<b>5,692</b>	<b>5,796</b>	<b>5,890</b>	<b>5,994</b>	<b>6,110</b>	
<b>Net impact on the Surplus/(Deficit)</b>	<b>-</b>	<b>-</b>	<b>(1,330)</b>	<b>(4,233)</b>	<b>(4,236)</b>	<b>(4,222)</b>	<b>(4,272)</b>	<b>(4,319)</b>	<b>(4,378)</b>	<b>(4,453)</b>	

Source: 2018 Annual Plan model per CD.xlsx

### Explanation

1. Rates volume growth (growth in dwelling numbers) increased for draft 2018 annual plan from 0.8% to 1.2%, with rates increases (price) thereafter.
2. Revenue from activities increased to reflect 2017 actual revenue.
3. Other expenditure increased by Council due to: remuneration increases, city safe relocation costs, seismic building condition assessments and increased IT licence and support costs.
4. Cost savings following the recent CEO led restructure.
5. Interest savings based on modelling of debt and interest rates.
6. Increased depreciation following significant revaluation uplifts.

## 2015 Adjusted 10YP – Key Assumptions

### Assumptions used in 2015-25 10-Year Plan (& Base Budget)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Inflation - Opex	0.0%	1.9%	2.4%	2.6%	2.7%	2.9%	3.0%	3.1%	3.3%	3.4%
Inflation - Personnel	0.0%	1.9%	2.4%	2.6%	2.7%	2.9%	3.0%	3.1%	3.3%	3.4%
Inflation - Capex	0.0%	1.9%	2.6%	2.7%	2.8%	3.0%	3.1%	3.3%	3.5%	3.7%
Rates - growth	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Rates - increase to existing ratepayers	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Rates - Hamilton Gardens	(0.0%)	(0.0%)	(0.0%)	(0.4%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rates - Other	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest rate	5.9%	6.0%	6.0%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
Interest cost - effect of timing of Capex	\$500k									
Effect of a credit rating downgrade	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asset sales	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Rates increase analysis - BAU vs Growth - 9.xlsx

### Inflation

- Operating expenses – CPI projections
- Personnel – CPI projections
- Capex – based on BERL inflation report (September 2016)

### Rates growth

- The growth rate is outdated, refer to page 14 for the comparison to NIDEA Low which will be adopted for the 2018 10YP.
- Rates price – as per the current financial strategy annual increases of 3.8% following the initial 8.0% increase in 2012.

## BAU / Growth / LoS Allocations (1 of 2)

### BAU vs Growth

At the request of Council we have allocated the 10 year 10YP period 2015 to 2025 to the three categories detailed below.

#### 1. Business as Usual (BAU)

- The rating base and associated revenue and expenditure as at 1 July 2015.
- All capital expenditure classified as Renewals of existing assets.

#### 2. Level of Service (LoS)

- Both operating expenses and capital costs associated with improving amenities or services to the city.

#### 3. Growth

- Includes all growth in the rating base from 1 July 2015, referred to as HUEs (Dwellings).
- Also includes an allocation of opening asset values and opening debt to drive estimated depreciation and interest costs based on the DC model.
- Future capital expenditure classified as growth with the estimates of direct operating expenditure and consequential contract operating expenditure (other city activities consumed by ratepayers).

The purpose of this analysis is to illustrate that both LoS and Growth put pressure on Council through:

- Upfront capital funding requirements and subsequent depreciation and interest charges to be recovered from ratepayers; and
- Increased direct and consequential operating costs.

### Profit and Loss Allocations

#### Revenue

##### Rates income

2016 actual growth has been allocated on an average rates per ratepayer basis multiplied by the growth in the ratepayer base. The remainder allocated to BAU.

The forecast allocates the growth assumption rate (0.8% pa) to growth which subsequently receives the annual 3.8% price growth thereafter.

The remainder, including 3.8% per annum rates increase is allocated to BAU.

##### Activities income

All allocated to BAU, the 10YP forecast assumes an inflationary price growth but no volumes or HUEs related growth.

It is likely that activities income will increase proportionately with population growth and there could be potential upside not forecast in the 2015 10YP.

##### Capital subsidies

Allocated across all three categories as forecast and classified by HCC across the 10YP period.

##### DC Revenue

All allocated to growth as they relate to the recovery of growth related capital expenditure.

##### Vested Assets

All allocated to growth as they are driven by greenfield property development.

##### Other

Interest, Sundry and other contributions allocated to BAU as not traceable to growth.

## BAU / Growth / LoS Allocations (2 of 2)

Profit and Loss Allocations cont.	
Expenses	
<b>Operating Expenses (Opex)</b>	<p>Operating expenditure is allocated to BAU, except where increases are identified as growth at an activity level.</p> <p>The adjusted 2015 10YP includes consequential growth Opex and contract growth Opex assumed as the result of growth capital projects.</p>
<b>Personnel Costs</b>	<p>All personnel costs have been allocated to BAU.</p> <p>The HCC assumption is that the above consequential and contract growth Opex includes the increased personnel costs relating to growth.</p>
<b>Interest</b>	<p>Interest has been allocated based on the 10YP forecast with an allocation made to growth based on the current debt attributed to growth by the HCC DC model.</p> <p>LoS and Growth interest has been calculated based on capital spend assumptions, less DC revenue and depreciation recovered per year.</p>
<b>Depreciation</b>	<p>BAU depreciation is the total per the 10YP forecast less the allocations to LoS and Growth.</p> <p>Growth has an allocation of existing assets from DC modelling which increases with capital expenditure . The depreciation rates applied are consistent with the annual financial statements.</p> <p>LoS is as above with no opening balance.</p>

## Profit and Loss Summary 2015 Adjusted 10YP

### Profit and Loss

	Actual 2016	AP		LTP Forecast						
		2017	2018	2019	2020	2021	2022	2023	2024	2025
\$ in 000's										
<b>Revenue</b>										
Rates (excluding metered water)	139,339	145,578	152,516	158,900	166,205	173,849	181,845	190,210	198,958	208,110
Revenue from Activities	62,325	54,699	56,319	58,262	59,776	61,206	62,771	64,895	67,673	69,948
Capital Subsidies	5,508	4,676	4,873	8,208	8,309	10,130	8,344	7,494	6,762	7,268
Vested assets	34,274	8,531	8,535	8,639	8,706	8,774	8,843	8,913	8,981	9,052
Development Contributions	23,832	11,027	11,141	9,215	9,464	9,734	10,025	10,339	10,677	11,041
Other Contributions	407	1,749	1,785	161	167	170	176	182	188	193
Sundry	120	149	99	100	106	103	104	111	108	109
Interest received	2,369	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
<b>Total revenue</b>	<b>268,174</b>	<b>228,409</b>	<b>237,268</b>	<b>245,484</b>	<b>254,733</b>	<b>265,966</b>	<b>274,108</b>	<b>284,144</b>	<b>295,347</b>	<b>307,720</b>
<b>Expenditure</b>										
Other Expenditure	(79,357)	(67,444)	(71,196)	(77,807)	(75,163)	(77,597)	(79,385)	(83,312)	(86,433)	(89,743)
Personnel	(64,042)	(68,700)	(70,847)	(72,653)	(74,667)	(76,733)	(78,957)	(81,481)	(84,414)	(87,268)
Interest	(21,713)	(22,257)	(22,524)	(24,831)	(25,432)	(26,134)	(26,655)	(27,185)	(27,272)	(26,294)
Depreciation	(60,416)	(59,412)	(64,120)	(67,052)	(68,653)	(68,931)	(70,550)	(72,759)	(74,348)	(77,392)
<b>Total Expenditure</b>	<b>(225,528)</b>	<b>(217,813)</b>	<b>(228,687)</b>	<b>(242,343)</b>	<b>(243,914)</b>	<b>(249,396)</b>	<b>(255,548)</b>	<b>(264,737)</b>	<b>(272,466)</b>	<b>(280,697)</b>
<b>Net Surplus/(Deficit)</b>	<b>42,646</b>	<b>10,596</b>	<b>8,581</b>	<b>3,141</b>	<b>10,819</b>	<b>16,570</b>	<b>18,560</b>	<b>19,408</b>	<b>22,880</b>	<b>27,023</b>
Less: Vested assets	(34,274)	(8,531)	(8,535)	(8,639)	(8,706)	(8,774)	(8,843)	(8,913)	(8,981)	(9,052)
<b>Revised net surplus</b>	<b>8,372</b>	<b>2,065</b>	<b>46</b>	<b>(5,498)</b>	<b>2,113</b>	<b>7,796</b>	<b>9,717</b>	<b>10,494</b>	<b>13,899</b>	<b>17,971</b>

## BAU Profit and Loss Summary

### BAU Profit and Loss

	Actual		AP		LTP Forecast					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	\$ in 000's									
<b>Revenue</b>										
Rates (excluding metered water)	138,102	142,670	148,003	152,972	158,781	164,788	171,024	177,496	184,212	191,184
Revenue from Activities	62,325	54,699	56,319	58,262	59,776	61,206	62,771	64,895	67,673	69,948
Capital Subsidies	2,998	2,629	3,115	4,263	3,476	4,006	3,509	2,944	3,976	3,754
Vested assets	0	0	0	0	0	0	0	0	0	0
Development Contributions	0	0	0	0	0	0	0	0	0	0
Other Contributions	407	1,749	1,785	161	167	170	176	182	188	193
Sundry	120	149	99	100	106	103	104	111	108	109
Interest received	2,369	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
<b>Total revenue</b>	<b>206,321</b>	<b>203,896</b>	<b>211,322</b>	<b>217,758</b>	<b>224,306</b>	<b>232,274</b>	<b>239,584</b>	<b>247,629</b>	<b>258,157</b>	<b>267,187</b>
<b>Expenditure</b>										
Other Expenditure	(79,352)	(67,444)	(71,196)	(76,659)	(73,554)	(75,276)	(76,509)	(80,018)	(82,447)	(84,653)
Personnel	(64,042)	(68,700)	(70,847)	(72,653)	(74,667)	(76,733)	(78,957)	(81,481)	(84,414)	(87,268)
Interest	(15,421)	(15,140)	(14,246)	(15,362)	(15,012)	(14,724)	(14,300)	(14,153)	(13,139)	(10,748)
Depreciation	(58,393)	(56,876)	(61,047)	(63,423)	(64,513)	(64,275)	(65,340)	(67,093)	(67,852)	(70,245)
<b>Total Expenditure</b>	<b>(217,208)</b>	<b>(208,160)</b>	<b>(217,335)</b>	<b>(228,098)</b>	<b>(227,745)</b>	<b>(231,007)</b>	<b>(235,106)</b>	<b>(242,744)</b>	<b>(247,852)</b>	<b>(252,914)</b>
<b>Net Surplus/(Deficit)</b>	<b>(10,887)</b>	<b>(4,263)</b>	<b>(6,013)</b>	<b>(10,339)</b>	<b>(3,439)</b>	<b>1,266</b>	<b>4,478</b>	<b>4,884</b>	<b>10,305</b>	<b>14,274</b>
Less: Vested assets	-	-	-	-	-	-	-	-	-	-
<b>Revised net surplus</b>	<b>(10,887)</b>	<b>(4,263)</b>	<b>(6,013)</b>	<b>(10,339)</b>	<b>(3,439)</b>	<b>1,266</b>	<b>4,478</b>	<b>4,884</b>	<b>10,305</b>	<b>14,274</b>

## LoS Profit and Loss Summary

LoS Profit and Loss	Actual	AP		LTP Forecast						
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
\$ in 000's										
<b>Revenue</b>										
Rates (excluding metered water)	0	0	0	0	0	0	0	0	0	0
Revenue from Activities	0	0	0	0	0	0	0	0	0	0
Capital Subsidies	590	461	480	650	533	617	561	475	626	610
Vested assets	0	0	0	0	0	0	0	0	0	0
Development Contributions	0	0	0	0	0	0	0	0	0	0
Other Contributions	0	0	0	0	0	0	0	0	0	0
Sundry	0	0	0	0	0	0	0	0	0	0
Interest received	0	0	0	0	0	0	0	0	0	0
<b>Total revenue</b>	<b>590</b>	<b>461</b>	<b>480</b>	<b>650</b>	<b>533</b>	<b>617</b>	<b>561</b>	<b>475</b>	<b>626</b>	<b>610</b>
<b>Expenditure</b>										
Other Expenditure	0	0	0	0	0	0	0	0	0	0
Personnel	0	0	0	0	0	0	0	0	0	0
Interest	0	(457)	(899)	(1,268)	(1,695)	(2,298)	(2,751)	(3,245)	(3,855)	(4,752)
Depreciation	0	(145)	(271)	(353)	(441)	(562)	(653)	(745)	(1,085)	(1,270)
<b>Total Expenditure</b>	<b>0</b>	<b>(602)</b>	<b>(1,170)</b>	<b>(1,621)</b>	<b>(2,136)</b>	<b>(2,860)</b>	<b>(3,404)</b>	<b>(3,989)</b>	<b>(4,940)</b>	<b>(6,022)</b>
<b>Net Surplus/(Deficit)</b>	<b>590</b>	<b>(141)</b>	<b>(690)</b>	<b>(971)</b>	<b>(1,603)</b>	<b>(2,242)</b>	<b>(2,843)</b>	<b>(3,515)</b>	<b>(4,313)</b>	<b>(5,412)</b>
Less: Vested assets	-	-	-	-	-	-	-	-	-	-
<b>Revised net surplus</b>	<b>590</b>	<b>(141)</b>	<b>(690)</b>	<b>(971)</b>	<b>(1,603)</b>	<b>(2,242)</b>	<b>(2,843)</b>	<b>(3,515)</b>	<b>(4,313)</b>	<b>(5,412)</b>

## Growth Profit and Loss

### P&L Growth

\$ in 000's	Actual	F'cast	F'cast							
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Revenue</b>										
Rates (excluding metered water)	1,237	2,908	4,513	5,927	7,424	9,060	10,821	12,714	14,746	16,926
Revenue from Activities	0	0	0	0	0	0	0	0	0	0
Capital Subsidies	1,919	1,585	1,278	3,295	4,301	5,506	4,273	4,075	2,159	2,903
Vested assets	34,274	8,531	8,535	8,639	8,706	8,774	8,843	8,913	8,981	9,052
Development Contributions	23,832	11,027	11,141	9,215	9,464	9,734	10,025	10,339	10,677	11,041
<b>Total revenue</b>	<b>61,263</b>	<b>24,051</b>	<b>25,466</b>	<b>27,076</b>	<b>29,894</b>	<b>33,075</b>	<b>33,963</b>	<b>36,041</b>	<b>36,563</b>	<b>39,922</b>
<b>Expenditure</b>										
Other Expenditure	(5)	0	0	(1,148)	(1,609)	(2,322)	(2,877)	(3,294)	(3,986)	(5,091)
Personnel	0	0	0	0	0	0	0	0	0	0
Interest	(6,292)	(6,660)	(7,379)	(8,201)	(8,725)	(9,113)	(9,604)	(9,788)	(10,277)	(10,793)
Depreciation	(2,023)	(2,391)	(2,802)	(3,275)	(3,699)	(4,094)	(4,557)	(4,921)	(5,411)	(5,877)
<b>Total Expenditure</b>	<b>(8,320)</b>	<b>(9,051)</b>	<b>(10,182)</b>	<b>(12,624)</b>	<b>(14,033)</b>	<b>(15,528)</b>	<b>(17,037)</b>	<b>(18,003)</b>	<b>(19,675)</b>	<b>(21,761)</b>
<b>Net Surplus/(Deficit)</b>	<b>52,943</b>	<b>15,000</b>	<b>15,285</b>	<b>14,452</b>	<b>15,861</b>	<b>17,546</b>	<b>16,926</b>	<b>18,038</b>	<b>16,889</b>	<b>18,161</b>
Less: Vested assets	(34,274)	(8,531)	(8,535)	(8,639)	(8,706)	(8,774)	(8,843)	(8,913)	(8,981)	(9,052)
<b>Revised net surplus</b>	<b>18,669</b>	<b>6,469</b>	<b>6,750</b>	<b>5,813</b>	<b>7,155</b>	<b>8,772</b>	<b>8,082</b>	<b>9,125</b>	<b>7,908</b>	<b>9,110</b>

## Cashflow and Debt Summary Adjusted 2015 10YP

Cashflow & debt - Total \$ in 000's	Actual	Forecast								
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net surplus/(deficit)	42,646	10,596	8,581	3,141	10,819	16,570	18,560	19,408	22,880	27,023
Less: Vested assets	(34,274)	(8,531)	(8,535)	(8,639)	(8,706)	(8,774)	(8,843)	(8,913)	(8,981)	(9,052)
Add back: Depreciation	60,416	59,412	64,120	67,052	68,653	68,931	70,550	72,759	74,348	77,392
Plus: Asset sales or other one-off receipts	4,000	-	-	18,800	-	-	-	-	-	-
Less: Capital Revenue (netted off in cap expenditure below)	(5,915)	(6,425)	(6,658)	(8,369)	(8,476)	(10,299)	(8,519)	(7,676)	(6,949)	(7,461)
Less: Capital expenditure	(66,586)	(71,544)	(79,329)	(81,912)	(82,015)	(91,033)	(87,774)	(99,578)	(93,308)	(80,601)
<b>Debt Repayment/(Net Loans Raised)</b>	<b>287</b>	<b>(16,492)</b>	<b>(21,821)</b>	<b>(9,926)</b>	<b>(19,725)</b>	<b>(24,606)</b>	<b>(16,027)</b>	<b>(24,000)</b>	<b>(12,010)</b>	<b>7,301</b>
<b>Debt</b>										
Net debt	364,889	381,381	403,202	413,128	432,853	457,459	473,486	497,486	509,496	502,195
Cash-backed reserves	34,760	33,183	32,937	35,183	35,183	35,183	35,183	35,183	35,183	35,183
<b>Total overall debt</b>	<b>399,649</b>	<b>414,564</b>	<b>436,139</b>	<b>448,311</b>	<b>468,036</b>	<b>492,642</b>	<b>508,669</b>	<b>532,669</b>	<b>544,679</b>	<b>537,378</b>
Revenue (for debt to revenue ratio)	204,560	204,175	212,720	219,423	228,254	237,328	246,896	257,398	268,927	280,360
<b>Debt/Revenue</b>	<b>195%</b>	<b>203%</b>	<b>205%</b>	<b>204%</b>	<b>205%</b>	<b>208%</b>	<b>206%</b>	<b>207%</b>	<b>203%</b>	<b>192%</b>

## Cashflow and Debt Summary - BAU

Cashflow & Debt - BAU	Actual		Forecast							
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
\$ in 000's										
Net surplus/(deficit)	(10,887)	(4,263)	(6,013)	(10,339)	(3,439)	1,266	4,478	4,884	10,305	14,274
Less: Vested assets	-	-	-	-	-	-	-	-	-	-
Add back: Depreciation	58,393	56,876	61,047	63,423	64,513	64,275	65,340	67,093	67,852	70,245
Plus: Asset sales or other one-off receipts	4,000	-	-	18,800	-	-	-	-	-	-
Less: Capital Revenue (netted off in cap expenditure below)	(3,405)	(4,378)	(4,900)	(4,423)	(3,643)	(4,176)	(3,685)	(3,126)	(4,164)	(3,947)
Less: Capital expenditure	(32,955)	(34,418)	(37,386)	(38,832)	(40,010)	(45,718)	(50,946)	(51,632)	(44,478)	(42,183)
<b>Debt Repayment/(Net Loans Raised)</b>	<b>15,146</b>	<b>13,816</b>	<b>12,747</b>	<b>28,628</b>	<b>17,421</b>	<b>15,647</b>	<b>15,186</b>	<b>17,219</b>	<b>29,515</b>	<b>38,388</b>
<b>Debt</b>										
Net debt	261,733	247,917	235,169	206,541	189,120	173,473	158,287	141,068	111,552	73,164
Cash-backed reserves	34,760	33,183	32,937	35,183	35,183	35,183	35,183	35,183	35,183	35,183
<b>Total overall debt</b>	<b>296,493</b>	<b>281,100</b>	<b>268,106</b>	<b>241,724</b>	<b>224,303</b>	<b>208,656</b>	<b>193,470</b>	<b>176,251</b>	<b>146,735</b>	<b>108,347</b>
Revenue (for debt to revenue ratio)	203,323	201,267	208,207	213,496	220,830	228,267	236,075	244,684	254,181	263,434
<b>Debt/Revenue</b>	<b>146%</b>	<b>140%</b>	<b>129%</b>	<b>113%</b>	<b>102%</b>	<b>91%</b>	<b>82%</b>	<b>72%</b>	<b>58%</b>	<b>41%</b>

## Cashflow and Debt Summary - LoS

Cashflow & debt- LoS	Actual	Forecast								
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
\$ in 000's										
Net surplus/(deficit)	590	(141)	(690)	(971)	(1,603)	(2,242)	(2,843)	(3,515)	(4,313)	(5,412)
Less: Vested assets	-	-	-	-	-	-	-	-	-	-
Add back: Depreciation	-	145	271	353	441	562	653	745	1,085	1,270
Plus: Asset sales or other one-off receipts	-	-	-	-	-	-	-	-	-	-
Less: Capital Revenue (netted off in cap expenditure below)	-	-	-	-	-	-	-	-	-	-
Less: Capital expenditure	(7,643)	(7,058)	(5,491)	(6,178)	(8,745)	(5,787)	(6,082)	(7,612)	(11,861)	(17,046)
<b>Debt Repayment/(Net Loans Raised)</b>	<b>(7,053)</b>	<b>(7,054)</b>	<b>(5,910)</b>	<b>(6,796)</b>	<b>(9,907)</b>	<b>(7,467)</b>	<b>(8,272)</b>	<b>(10,382)</b>	<b>(15,090)</b>	<b>(21,188)</b>
<b>Debt</b>										
Net debt	-	7,054	12,965	19,760	29,668	37,135	45,407	55,789	70,879	92,067
Cash-backed reserves	-	-	-	-	-	-	-	-	-	-
<b>Total overall debt</b>	<b>-</b>	<b>7,054</b>	<b>12,965</b>	<b>19,760</b>	<b>29,668</b>	<b>37,135</b>	<b>45,407</b>	<b>55,789</b>	<b>70,879</b>	<b>92,067</b>
Revenue (for debt to revenue ratio)	590	461	480	650	533	617	561	475	626	610
<b>Debt/Revenue</b>	<b>0%</b>	<b>1529%</b>	<b>2701%</b>	<b>3041%</b>	<b>5569%</b>	<b>6015%</b>	<b>8095%</b>	<b>11750%</b>	<b>11318%</b>	<b>15082%</b>

## Cashflow and Debt Summary - Growth

Cashflow & Debt- Growth	Actual	Forecast								
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
\$ in 000's										
Net surplus/(deficit)	52,943	15,000	15,285	14,452	15,861	17,546	16,926	18,038	16,889	18,161
Less: Vested assets	(34,274)	(8,531)	(8,535)	(8,639)	(8,706)	(8,774)	(8,843)	(8,913)	(8,981)	(9,052)
Add back: Depreciation	2,023	2,391	2,802	3,275	3,699	4,094	4,557	4,921	5,411	5,877
Plus: Asset sales or other one-off receipts	-	-	-	-	-	-	-	-	-	-
Less: Capital Revenue (netted off in cap expenditure below)	(2,510)	(2,047)	(1,758)	(3,945)	(4,833)	(6,123)	(4,834)	(4,550)	(2,785)	(3,514)
Less: Capital expenditure	(25,988)	(30,068)	(36,452)	(36,902)	(33,260)	(39,528)	(30,746)	(40,334)	(36,969)	(21,372)
<b>Debt Repayment/(Net Loans Raised)</b>	<b>(7,806)</b>	<b>(23,254)</b>	<b>(28,658)</b>	<b>(31,759)</b>	<b>(27,239)</b>	<b>(32,785)</b>	<b>(22,941)</b>	<b>(30,838)</b>	<b>(26,436)</b>	<b>(9,899)</b>
<b>Debt</b>										
Net debt	103,156	126,410	155,068	186,826	214,066	246,851	269,791	300,629	327,065	336,964
Cash-backed reserves	-	-	-	-	-	-	-	-	-	-
<b>Total overall debt</b>	<b>103,156</b>	<b>126,410</b>	<b>155,068</b>	<b>186,826</b>	<b>214,066</b>	<b>246,851</b>	<b>269,791</b>	<b>300,629</b>	<b>327,065</b>	<b>336,964</b>
Revenue (for debt to revenue ratio)	647	2,447	4,033	5,277	6,891	8,443	10,261	12,239	14,120	16,316
<b>Debt/Revenue</b>	<b>15943%</b>	<b>5167%</b>	<b>3845%</b>	<b>3540%</b>	<b>3107%</b>	<b>2924%</b>	<b>2629%</b>	<b>2456%</b>	<b>2316%</b>	<b>2065%</b>

# Council Report

Item 11

**Committee:** Council

**Date:** 27 July 2017

**Author:** Nick Johnston

**Authoriser:** Helen Paki

**Position:** Strategic Advisor

**Position:** Business Manager  
Community

**Report Name:** Vibrant Hamilton Trust

<b>Report Status</b>	<i>Open</i>
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## Purpose

1. To inform the Council regarding Vibrant Hamilton Trust's discussion on future use of the Trust's funds.
2. To seek Council's preference on the future use of the Trust's funds.

## Staff Recommendation

3. That the Council:
  - a) receives the report; and
  - b) confirms the Council's preference for the future use of the Vibrant Hamilton Trust funds.

## Executive Summary

4. The Vibrant Hamilton Trust (the Trust) is a Council-controlled organisation that holds funds for charitable purposes.
5. At the 27 March 2017 Trust meeting, a number of options were discussed for potential use of funds, including:
  - transfer funds to a charitable organisation
  - direct funding towards a key project
  - distribute funds through the Council's community grants scheme
  - distribute funds through a special one-off funding round
6. Trustees affirmed that the Trust was primarily interested in transformational projects with long term benefits for Hamilton and the Waikato region, particularly the proposed Regional Theatre and the ongoing development of Hamilton Gardens.
7. The Council has an opportunity to provide the Vibrant Hamilton Trust with feedback on utilisation of the funds. Utilising current funds would lead to the wind-up and liquidation of the Trust. Any decision that leads to liquidation requires Council consent.

## Background

8. The Vibrant Hamilton Trust (the Trust) is a Council-controlled organisation (CCO) and is a legal entity incorporated under the Charitable Trusts Act 1957.

9. The Trust was established on 24 August 2010 in order for the Council to utilise its share of the funds from the disestablishment of the Waikato Foundation Trust.
10. The Vibrant Hamilton Trust received \$4.671 million from Waikato Foundation Trust on 31 January 2012, and the Waikato Foundation Trust was subsequently wound up. The remaining funding from the Waikato Foundation Trust was allocated to Waipa District Council and the Waikato District Community Wellbeing Trust on behalf of Waikato District.
11. The current trustees of the Vibrant Hamilton Trust are Thomas Gibbons (Chairperson), Malcolm Brooker, Lynette Flowers, Mayor Andrew King and Lance Vervoort.
12. The objectives of the Vibrant Hamilton Trust are to:
  - promote the social, economic, environmental and cultural wellbeing of the City of Hamilton and its communities
  - relieve poverty through sustainable policies and practices
  - advance education in the city of Hamilton, particularly to promote and advance economic standards for the benefit of the public generally
  - deliver on the strategic aspirations of Hamilton City as identified by the community from time to time and endorsed by the Hamilton City Council.
13. At the 10 February 2017 Vibrant Hamilton Trust meeting, there was a discussion on the future use of the Trust's funds. At the 27 March 2017 meeting, trustees discussed options that were within the scope of the current Trust Deed, including:
14. **Option 1 – Transfer funds to a charitable funding organisation**

Under this option the Trust would pay funds to one or more organisations that provide charitable funding grants in a similar manner to the Vibrant Hamilton Trust, e.g. Trust Waikato or Momentum Foundation.
15. **Option 2 – Direct funding towards a key project**

Under this option the Trust's funds would be directed to one or more of the key projects that deliver on the strategic aspirations of Hamilton City. If the Trust directs funds to a charitable purpose that fulfils one or more of the objects of the Trust, a number of key projects would fit the criteria, including the Waikato Regional Theatre project, Hamilton Gardens development, River Plan projects, Biking Plan projects, the Zoo Master Plan and destination playgrounds.
16. **Option 3 – Trust funds to top up the Council community grants scheme**

Under this option the funds would be transferred and held in a Council reserve fund. The interest from the reserve fund would be added to the Single-Year Community Grant Fund and/or the Multi-Year Community Grant Fund.
17. **Option 4 – Trust funds to be distributed through special funding round**

Under this option the Vibrant Hamilton Trust would open a special one-off transformation project funding round, inviting applications from the community to liquidate all of the assets. This could be best achieved by establishing clear criteria and running an expression of interest process to ensure projects are feasible and meet the charitable purpose requirements.
18. At the 27 March 2017 Trust meeting, the Trust affirmed they were primarily interested in Option 2 - funding transformational projects with long term benefit for Hamilton and the Waikato Region particularly the proposed Regional Theatre and the ongoing development of Hamilton Gardens.

19. The total portfolio value is for the Trust is \$5,909,946 as of 30 June 2017. If all funds were allocated in full to another purpose, this would lead to the wind-up and liquidation of the Trust.

## Discussion

20. At the 11 April 2017 Finance Committee meeting ([Agenda](#) Pg. 20 / [Attachments](#) Pg. 79 / [Minutes](#) Pg. 3), the Committee approved the Vibrant Hamilton Trust's Draft Statement of Intent 2017/18 and resolved that a staff report is brought to Council on the 27 July 2017 on the future of the Vibrant Hamilton Trust.
21. The Council has an opportunity to provide the Vibrant Hamilton Trust with feedback on utilisation of the funds. Feedback from the Council will be presented at the Trust's scheduled meeting on 17 August 2017.
22. The Council's consent is required before the Trust can dissolve itself.

## Legal and Policy Considerations

23. Clause 7.3 of the Vibrant Hamilton Trust Deed provides the Trust with the power to wind up the Trust and to distribute the whole of the Trust Fund for the benefit of one or more of the objects of the Trust.
24. Clause 8 of the Trust Deed outlines the process to be followed in liquidating and winding up the Trust. The three relevant clauses are:
- *8.1 – The Trust may be put into liquidation if a resolution appointing a liquidator shall have been passed (with the consent of the Hamilton City Council) by a majority of the trustees present and entitled to vote at a meeting of the trustees convened for the purpose of considering such a resolution.*
  - *8.2 – The resolution to put the Trust into liquidation must be confirmed at a further meeting of the Trustees of which notice is to be given. The meeting of the Trustees must be held no sooner than the 28<sup>th</sup> day and no later than the 42<sup>nd</sup> day after the date of which the first resolution was passed and must be passed by the majority of trustees present and entitled to vote.*
  - *8.3 – All surplus assets after the payment of costs, claims, debts and liabilities shall not be paid or distributed amongst trustees of the settlor, but shall be paid or distributed to such other approved charity in New Zealand having similar objects to the trust, or for charitable purposes under New Zealand law.*

## Risks

25. In the 2016/17 financial year, the Vibrant Hamilton Trust budgeted \$300,000 to be allocated for grants towards projects that meet the Trust's objectives. Full expenditure of funds would mean the Council would lose a potential ongoing funding source.

## Attachments

There are no attachments for this report.

# Council Report

Item 12

**Committee:** Council  
**Author:** Riki Manarangi  
**Position:** Corporate Policy Specialist

**Date:** 27 July 2017  
**Authoriser:** Sean Hickey  
**Position:** General Manager Strategy and Communications

**Report Name:** Draft Easter Sunday Shop Trading Policy - Deliberations

<b>Report Status</b>	<i>Open</i>
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## Purpose

1. To seek approval from the Council on whether or not to adopt the Easter Sunday Shop Trading Policy.

## Staff Recommendation

2. That the Council approves the Easter Sunday Shop Trading Policy for adoption.

OR

3. That Council does not approve the Easter Sunday Shop Trading Policy for adoption.

## Executive Summary

4. The Shop Trading Hours Act 1990 (the Act) was amended on 29 August 2016 allowing councils, through the adoption of an Easter Sunday Shop Trading Policy (policy), the ability to enable shops to trade within all or parts of their districts/cities on Easter Sunday.
5. On 8 February 2017, the Council adopted the draft Easter Sunday Shop Trading Policy and Statement of Proposal (SOP) for public consultation commencing on 9 March 2017 to 9 May 2017.
6. 225 submissions were received during the consultation period with 159 submitters (71%) indicating that the Council should not approve a policy compared to 64 submitters (28%) that indicated that the Council should adopt a policy. Two submitters (1%) did not indicate a preference.
7. There is no obligation on the Council to approve a policy. If a policy is not approved the current legislation will apply meaning unless a shop has an exemption they will not be allowed to trade on Easter Sunday.
8. Staff consider the decision in this report has high significance and that the recommendation complies with the Council's legal requirements.

## Background

9. Legislation allowing a policy

10. The 29 August 2016 [amendment](#) to the [Shop Trading Hours Act 1990](#) (the Act) provided the Council with the power to introduce a policy to allow trading on Easter Sunday (note: there is no obligation to have a policy).
11. If a policy is not approved the current legislation will apply meaning that unless a shop has an exemption they will not be allowed to trade on Easter Sunday.
12. The policy cannot regulate the types of shops that may open; nor can it regulate their opening hours.
13. The policy can only apply to Easter Sunday. It does not impact on Good Friday which would remain a non-trading day; nor does it apply to Easter Monday.
14. If a policy is approved, Easter Sunday trading will be allowed but shops will not be required to open if they do not wish to.
15. **Engagement**
16. The Council was required to consult using the Special Consultative Procedure which requires a minimum consultation period of one month and provide a Statement of Proposal (SOP).
17. On 8 February 2017, the Council approved the [draft Easter Sunday Shop Trading Policy and Statement of Proposal \(SOP\)](#) for public consultation commencing on 9 March 2017 to 9 May 2017 (click [here](#) for the agenda and [here](#) for minutes from the 8 February 2017 Council meeting).
18. 225 submissions were received during the 9 March 2017 to 9 May 2017 consultation period. (Click [here](#) for the full submissions).
19. Two options were proposed: no policy, meaning that shop owners will not be able to choose to open on Easter Sunday; or have a policy meaning that shop owners will be able to choose to open on Easter Sunday.
20. Of the 225 submissions received during the consultation period, 159 submitters (71%) indicated that the Council should not adopt a policy compared to 64 submitters (28%) that indicated that the Council should adopt a policy. 2 submitters (1%) did not indicate a preference.
21. The key points noted from the engagement feedback were:
  - A higher number of mentions suggesting that Easter Sunday was a day of religious/cultural recognition (61) compared to those submitters who suggested that our society is made of many faiths (21).
  - A higher number of mentions suggesting that businesses will receive little commercial benefit (76) compared to those submitters who suggested that businesses should be allowed to choose (43).
  - A higher number of mentions suggesting that Easter Sunday should be a day of rest or a day with family and/or friends (134) compared to those submitters who suggested that individuals should have the choice whether to shop or not (6).
22. On 22 June 2017, the Regulatory and Hearings Committee heard 11 submitters speak to their submissions. The spoken submissions were consistent with the written submissions (click [here](#) for the agenda and [here](#) for the minutes from the 22 June 2017 Regulatory and Hearings Committee meeting).

## Discussion

23. **Enforcement of shops which open but are not allowed to**
24. The Council has no enforcement role; that role sits with the Labour Inspectorate.
25. If a shop opens but is not allowed to, the occupier of a shop is liable, on conviction, to a fine not exceeding \$1000 ([s5](#) of the Act).

26. The Labour Inspectorate has indicated that for prosecutions it has taken against non-compliant businesses, the Courts have only been prepared to fine up to \$500.
27. **Employees rights**
28. The Act also makes it clear that all shop employees can refuse to work on Easter Sunday without having to give a reason (click [here](#) for further information from Employment New Zealand).
29. Easter Sunday is not a public holiday. Therefore, if a shop is open and an employee works, an employer is not required under legislation to pay an employee time and a half and a paid day off. If an employee usually works on Sundays but the shop is closed, an employer is not required under legislation to pay an employee a paid day off.
30. **Shops allowed to open irrespective of a policy**
31. Currently some shops can remain open on Easter Sunday. These include:
- | <b>Shops that sell or is:</b>   |
|---|
| <ul style="list-style-type: none"> <li>● Food</li> <li>● Drink</li> <li>● Household items</li> <li>● Personal items, automotive fuel, lubricant, parts and accessories of a kind that people may reasonably need to be able to buy at any time (e.g. Dairy, Service Station).</li> </ul> <p>Restriction: Can open if the quantity of goods for sale is no greater than that sufficient to meet the demands of the people who live or are staying in the area where the shop is, and people travelling through the area.</p> |
| ● Goods intended to be bought as souvenirs.   |
| ● Duty free goods to people intending to take the goods out of New Zealand.   |
| ● Prepared or cooked food ready to be eaten immediately (e.g. Take away bars, restaurants, cafes).  |
| ● At any transport terminal and sells: Books; Magazines; Newspapers; Duty Free for people Departing NZ; Souvenirs   |
| ● A pharmacy.   |
| ● A shop in a premises where an exhibition/ show on agriculture, art, industry or science (e.g. museum shop).   |
| ● A garden centre.  |
32. All existing historical exemptions to shop trading restrictions remain in place such as those granted under Section 18(2) of the Shop Trading Hours Act (1977). This includes the Market Place, in Collins Road, Hamilton which can operate on Easter Sunday between 9am - 5pm.
33. **Projected Impact on trade of a policy**
34. Marketview Ltd were commissioned to provide an independent assessment of shops in Hamilton opening on Easter Sunday (See attachment 2).
35. Auckland and Tauranga are the most popular destinations for Hamiltonians during the Easter week, with nearby Waikato districts also receiving tourism from Hamilton.
36. The majority of Hamilton's visitors over Easter are either international tourists or nearby Waikato District residents.
37. The overall projected increase in Easter revenue if the policy was adopted (i.e. trading was permitted) is \$2.57million.
38. Given the retail trends in Hamilton City over the last three years, maintaining the status quo would see predicted total revenue for the week of Easter 2017 of \$58.21million.

39. Allowing shops to trade on Easter Sunday would see \$8.67m in revenue on Sunday, with corresponding decreases on other days giving a predicted total revenue for the week of Easter 2017 of \$60.78m.
40. The main areas to benefit from Easter Sunday trading would be the CBD, increasing from \$4.52million to \$4.64million in revenue over the Easter week, and the Rest of Hamilton (outside of Te Rapa/The Base and Chartwell), increasing from \$34.86million to \$37.20million in revenue over the Easter week.
41. **Position of neighbouring Councils**
42. Hauraki, Waikato and Matamata-Piako District Councils have adopted a policy to allow shops to open across their entire district as of Easter Sunday 2018. Waipa District Council is consulting on a draft policy between 13 July 2017 to 14 August 2017 and will decide whether or not to allow Easter Sunday trading in October 2017.
43. **Clarification of JPL Group's position not to trade**
44. Following a request from the Regulatory and Hearings Committee to seek more information from submitter #90 (Farmers, National Property Manager - Richard Exon) confirmation has been sought that the JPL Group (comprising Farmers, Whitcoulls, Stevens, Pascoes, Stewart Dawsons) will not trade on Easter Sunday nationwide.

### Options

45. Staff have assessed that there are two reasonable and viable options for the Council to consider.
46. If the Council approves the policy for adoption, shops in the entire (Hamilton) city will be allowed to open on Easter Sunday as of 2018 for the lifespan of the policy.
47. If the Council does not approve an Easter Sunday Shop Trading Policy, shops in Hamilton City will not be able to open on Easter Sunday unless they have an exemption (exemptions are detailed under 'shops allowed to open irrespective of a policy').

### Financial Considerations

48. This is a regular operating activity funded through the Long Term Plan.

Type of Costs	2016-2017 Year		2017-2018 Year
	Approved budget	Costs incurred	Forecast Spend
<b>Operating Expenditure</b>			
Policy Development	\$15,600	\$15,600	\$0
Engagement	\$10,000	\$9,500	\$0
Deliberations	\$1000	\$1000	\$0
Communications/Administration (If policy is adopted)	\$2000	\$0	\$1500
<b>Total Opex</b>	<b>\$28,600</b>	<b>\$26,100</b>	<b>\$1500</b>

49. There is no cost if the status quo is maintained (i.e. no policy) as enforcement of shops that open is undertaken by the Labour Inspectorate.
50. If the Council does adopt a policy, further costs include costs to communicate the decision to the public and administration costs to make the policy available to the public. The estimated forecast spend is \$1500.

### **Legal and Policy Considerations**

51. Staff confirm that both options comply with the Council's legal and policy requirements. The relevant legislation which enables the Council to adopt an Easter Sunday Shop Trading Policy is the Shop Trading Hours Act 1990.

### **Risks**

52. There are no known risks.

### **Significance & Engagement Policy**

#### **Significance and Engagement**

53. Staff considered the following factors under the Significance and Engagement Policy:

There's a legal requirement to engage with the community.

54. Staff have assessed the matter in this report to have high significance. The requirements to comply with the high significance of this decision have been addressed in the previous stage of the draft policy development process (discussed in detail under the engagement section bullet points 15-22).

#### **Engagement**

55. Staff recommend that no further engagement is required.

### **Attachments**

Attachment 1 - Draft Easter Sunday Shop Trading Policy

Attachment 2 - Easter Trading Analysis (Marketview)

First adopted:	July 2017
Revision dates/version:	Version 1
Next review date:	April 2020
Engagement required:	Special Consultative Procedure is required (Part 2, Subpart 1, 5D(2) of the Act)
Document Number	D-2303585
Associated documents:	
Sponsor/Group:	General Manager City Growth

## Draft Easter Sunday Shop Trading Policy

### Purpose and scope

1. The purpose of this policy is to enable shops to trade on Easter Sunday in Hamilton City if they wish to.
2. The Policy neither requires shops to open, or individuals to shop on Easter Sunday.

### Definitions

Definition	Detail
Council	Hamilton City Council.
Hamilton City	The area of jurisdiction of Hamilton City Council (see Map).
Shop	A building, place, or part of a building or place, where goods are kept, sold, or offered for sale, by retail; and includes an auction mart, and a barrow, stall, or other subdivision of a market; but does not include— <ol style="list-style-type: none"> <li>(a) a private home where the owner or occupier's effects are being sold (by auction or otherwise); or</li> <li>(b) a building or place where the only business carried on is that of selling by auction agricultural products, pastoral products, and livestock, or any of them; or</li> <li>(c) a building or place where the only business carried on is that of selling goods to people who are dealers, and buy the goods to sell them again.</li> </ol>
The Act	The Shop Trading Hours Act 1990

### Policy

3. Council will permit shop trading in the entirety of Hamilton City on Easter Sunday as provided for under the Act.
4. This Policy does not:
  - a. Control the types of shops that may open, or their opening hours as per the requirements of Part 2, subpart 1, 5A(1A) of the Act.
  - b. Limit Council's ability to undertake its duties, powers or functions under any other Act (i.e. the regulation of the Sale and Supply of Liquor).
  - c. Address shop employee rights which are governed by the requirements of the Act under Part 2, subpart 2, 5G-5L. For the avoidance of doubt, shop employees have the right to refuse to work on Easter Sunday.
5. Council is not responsible for the enforcement of this Policy. Enforcement is undertaken by the central government department that is responsible for the administration of the Act.

**Monitoring and implementation**

- 6. Implementation of the policy will be monitored by the General Manager City Growth.
- 7. The policy will be reviewed in response to any issues that may arise, every three years, at the request of Council or in response to changed legislative and statutory requirements (which ever occurs first).

**References**

- The policy is made under Part 2 (subpart 1) of the Act which provides Council with the ability to establish a local policy to enable shop trading on Easter Sunday.

**SCHEDULE 1 – MAP OF HAMILTON WHERE SHOP TRADING ON EASTER SUNDAY IS PERMITTED**



# HAMILTON CITY COUNCIL EASTER TRADING ANALYSIS

*26 January, 2017*



# Input Data & Definitions

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Marketview specialises in the management and analysis of electronic card transactional data as a tool for measuring and analysing the spending and behaviours of consumers. Since 2001, Marketview's transactional data has become a trusted source of market intelligence and is now used extensively by organisations throughout New Zealand. Clients include retailers - national chains through to single site stores, commercial property owners and developers, manufacturers, and local and central government.

The data is received from two main sources:

- Paymark – the largest electronic card payment network in New Zealand, covering all transactions made at merchants on this network.
- Depersonalised spending by Bank of New Zealand (BNZ) cardholders.

Through a combination of both data sources, and methodologies developed from projects completed over the last 15 years we are able to accurately quantify:

- The value of spending in the majority of business to consumer ANZSIC categories
- The source and origin of those payments (e.g. business vs. personal, domestic (by region) vs. international) to determine accurately where a cardholder is from
- The time and date of purchases
- The retail category of the merchants, as defined by 2006 Australian and New Zealand Standard Industry Classification (ANZSIC) codes.

Privacy

No personal or household data is shown or can be derived, thereby maintaining the privacy of end customers.

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Disclaimer

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# Input Data & Definitions

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The basis for this report is estimated daily real-world spending data (excluding GST) from 2014 through to 2016. This data is derived from Paymark terminal and BNZ electronic card spending, with allowances made for cash and other non-card purchases. The data includes transactions made by Hamilton residents elsewhere in New Zealand, eCommerce, and international tourism.

Transactions in Hamilton City have been classified as 'resident spending' if the customer currently lives in the Hamilton City territory (as defined by Statistics NZ, 2013). Otherwise transactions are classified as tourism-related. While this approach will misclassify transactions in some cases, (for instance spending from a customer who lives in Te Awamutu but works in the Hamilton CBD) in our experience this is a suitable approach to group spending between local residents and tourists.

Three areas of interest within Hamilton City have been identified for analysis:

- Hamilton CBD
- Te Rapa/The Base
- Chartwell

The maps on pages 6 and 16 show the boundaries of each area.



# Easter Spending Behaviours

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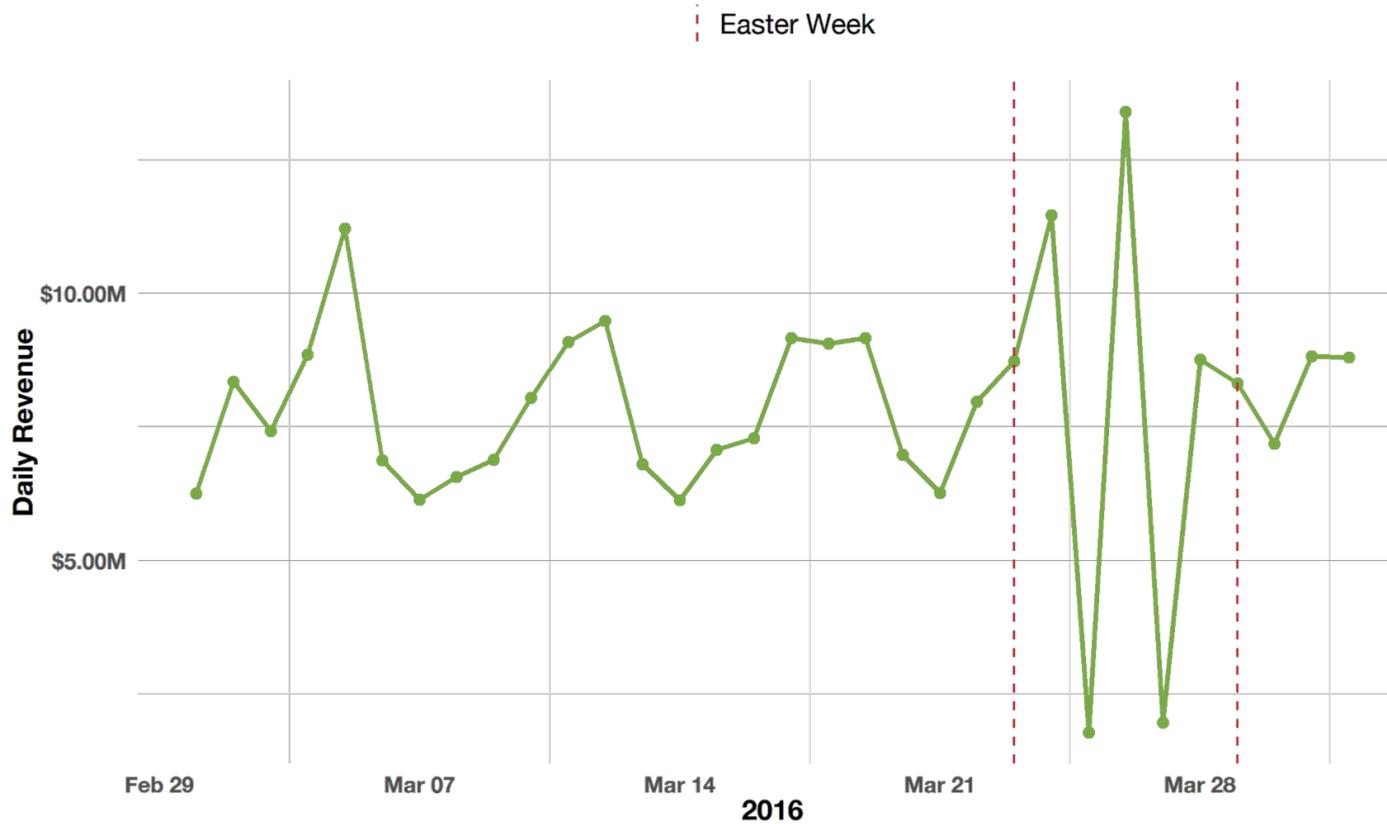
*What are the current spending behaviours and trends in Hamilton City over Easter?*

Item 12

Attachment 2

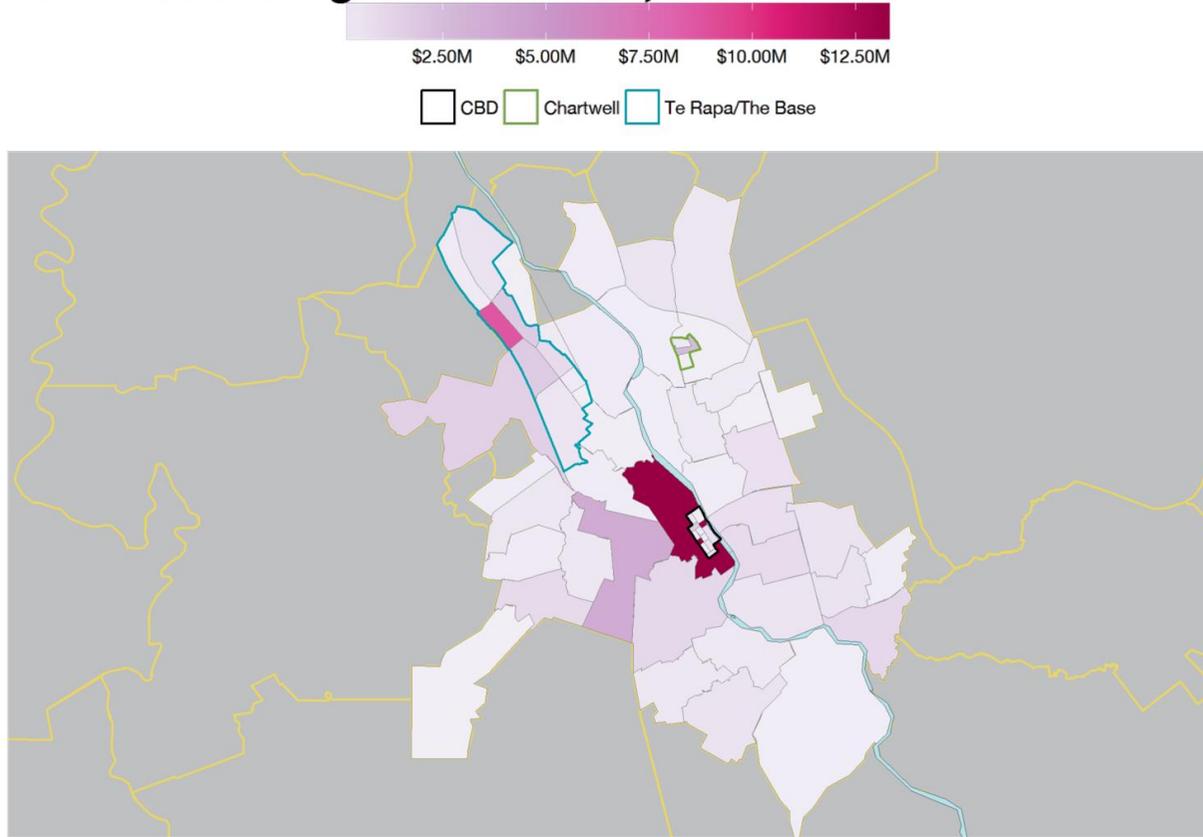
# Distinctive trading pattern over Easter week in Hamilton

## Easter 2016: Hamilton City



# High spending at The Base & City Fringe

## Revenue During Easter Week, 2016



# Solid growth in Te Rapa & Rest of Hamilton

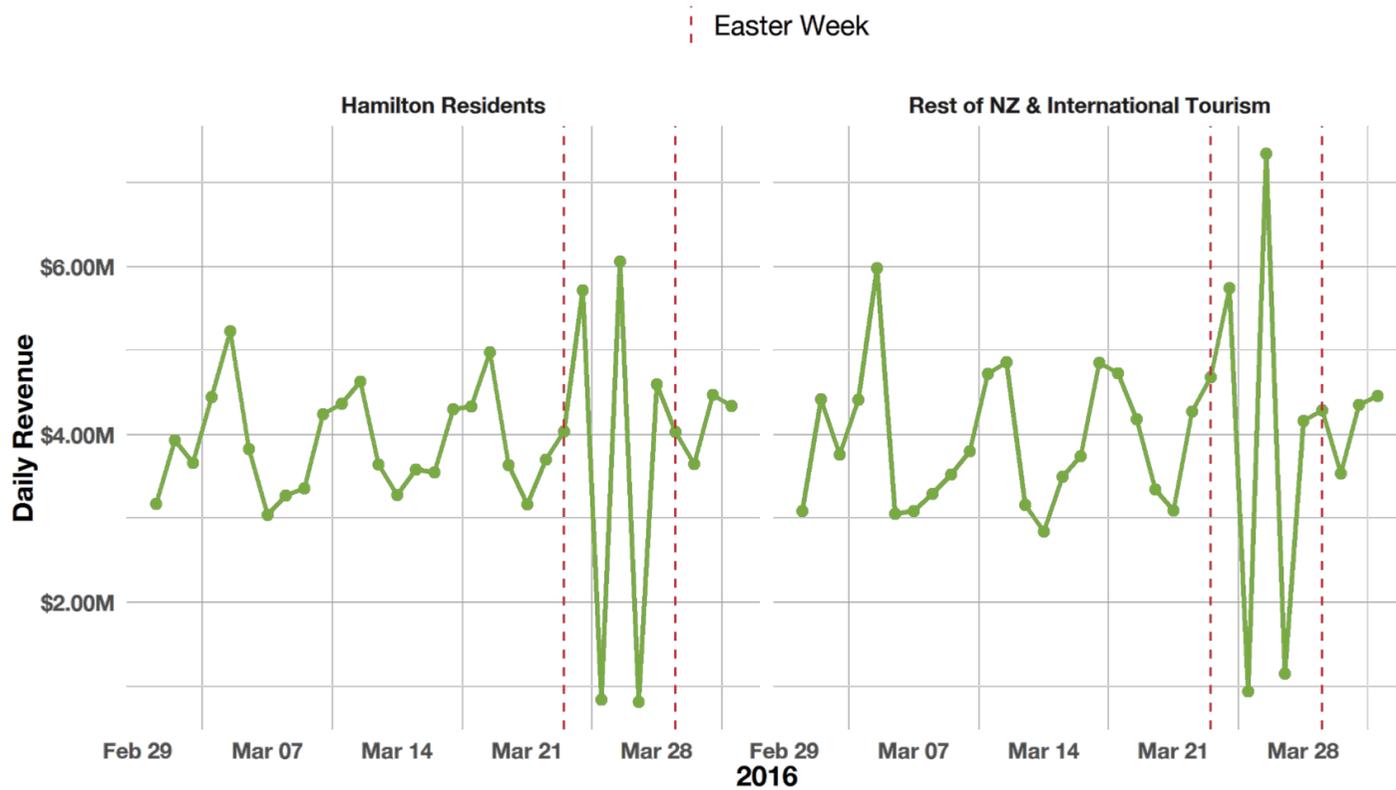
## Revenue During Easter Week, 2016

Trade Area	Easter 2014	Easter 2015	Easter 2016	Compound Annual Growth
CBD	\$3,701,031	\$3,564,869	\$4,179,055	4.1%
Te Rapa/The Base	\$13,378,805	\$13,680,174	\$15,854,049	5.8%
Chartwell	\$2,574,834	\$2,465,390	\$2,743,124	2.1%
Other Hamilton City	\$26,088,321	\$27,855,673	\$31,628,943	6.6%
<b>Total</b>	<b>\$45,742,992</b>	<b>\$47,566,107</b>	<b>\$54,405,170</b>	<b>6.0%</b>

# Strong tourism peak on Easter Saturday

## Easter 2016: Hamilton City

Local spending vs. out-of-town spending

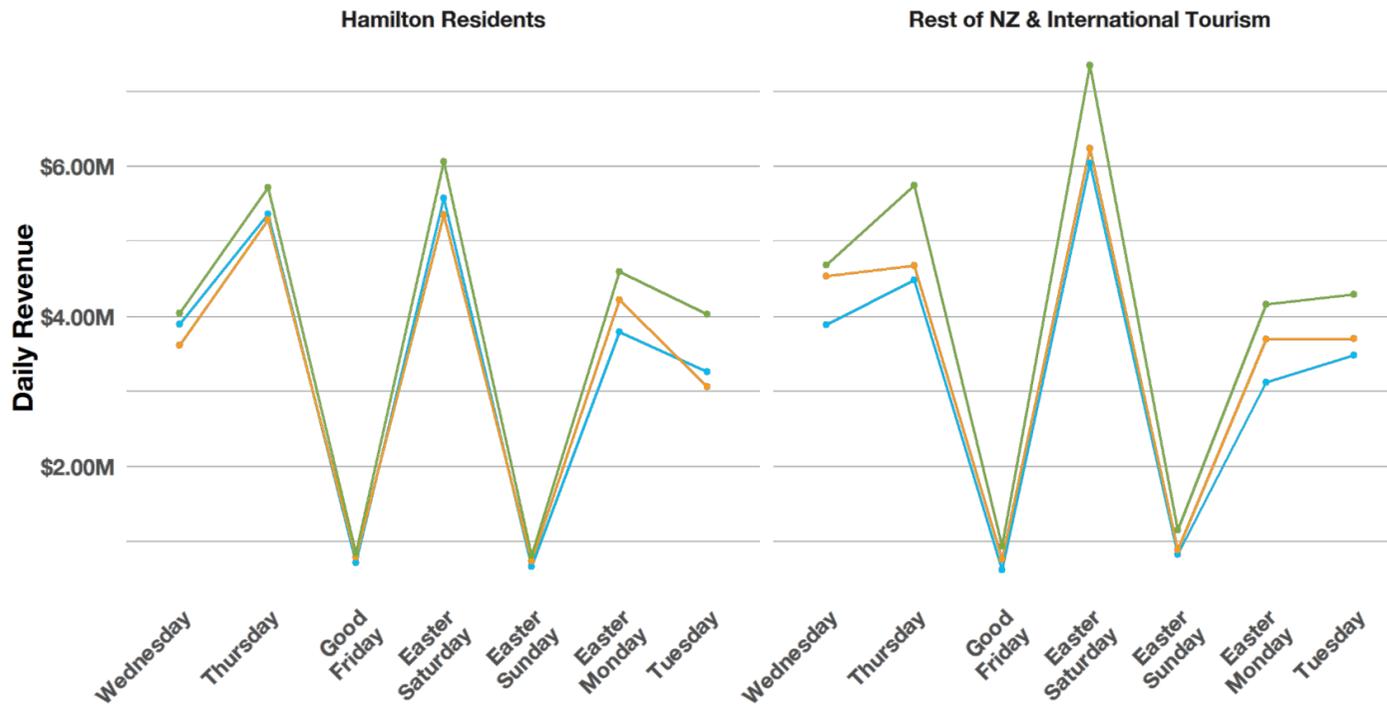


# Moderate growth from both locals and tourists

## Easter 2016: Hamilton City

3-year trends

— 2014 — 2015 — 2016





# Easter Tourism Flow

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*What is Hamilton's inflow & outflow during Easter?*

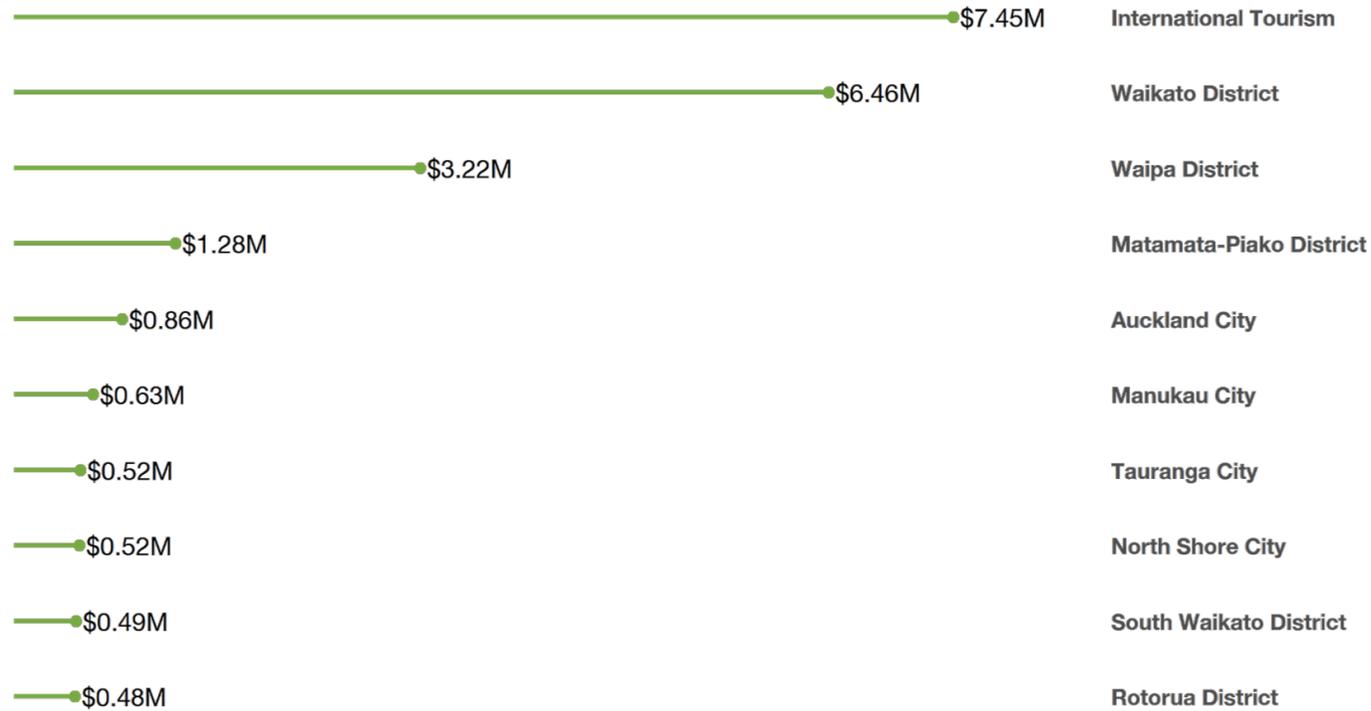
Item 12

Attachment 2

# Tourists are mainly coming from overseas or nearby districts

## Origin of Visitors to Hamilton City

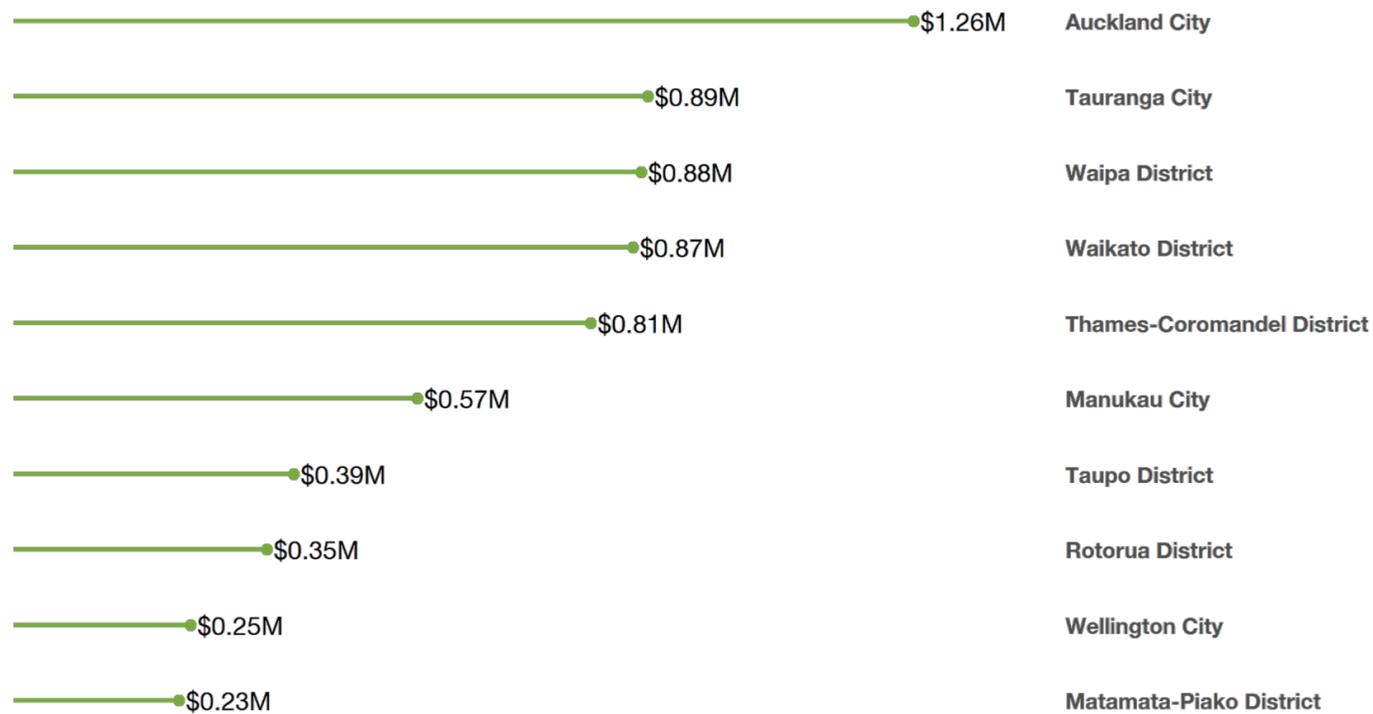
Easter 2016



# Hamilton locals are departing to Auckland, Waikato, Bay of Plenty

## Destinations of Tourists from Hamilton City

Easter 2016



# Summary

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- A characteristic spending pattern occurs during the week of Easter, with spending peaking on Thursday and Saturday.
- Te Rapa and the city fringe sees the highest revenue during this period, with solid growth in Te Rapa and the rest of Hamilton over the last 3 years.
- Spending from tourists shows a strong peak on Easter Saturday, while local spending is more evenly spread between Thursday and Easter Sunday.
- Local and tourist spending in Hamilton has grown over the last three years, most notably tourist spending on Thursday and Easter Saturday.
- Auckland and Tauranga are the most popular destinations for Hamiltonians during the Easter week, with nearby Waikato districts also receiving plenty of tourism from Hamilton.
- The bulk of Hamilton's visitors over Easter are either international tourists or nearby Waikato district residents.



# Easter Trading Scenarios

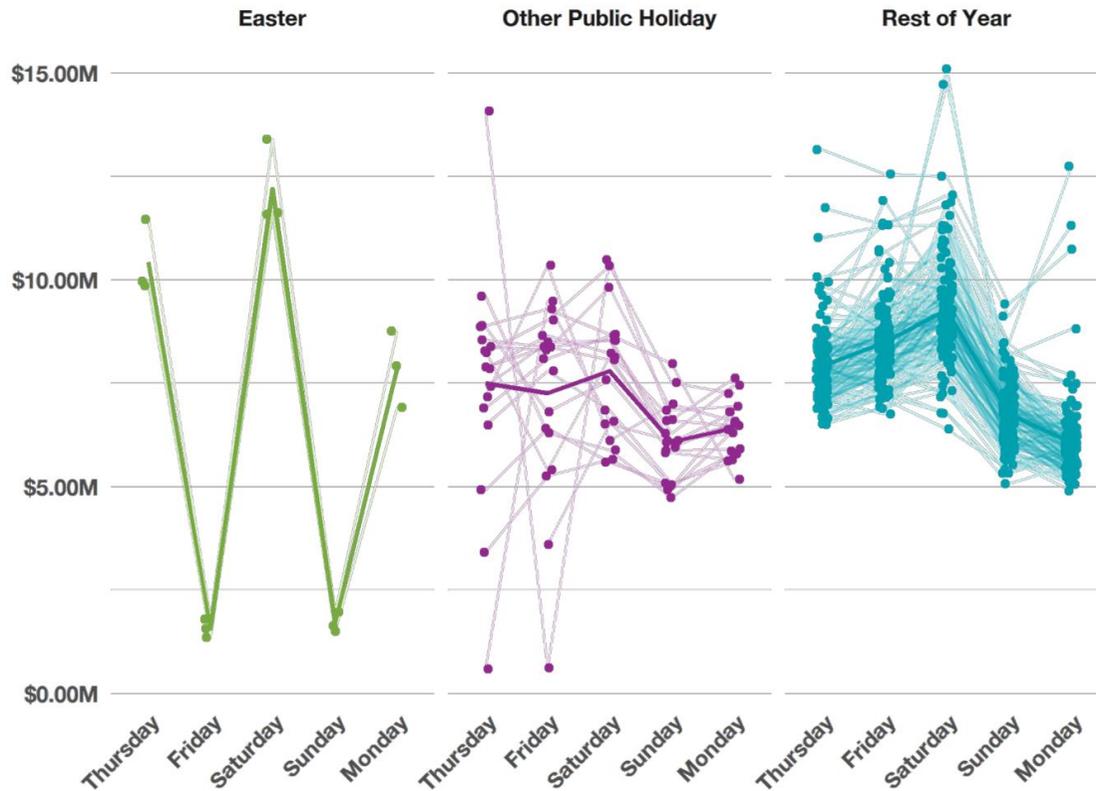
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*What are the expected outcomes for the next Easter?*

Item 12

Attachment 2

# Forecast Methodology



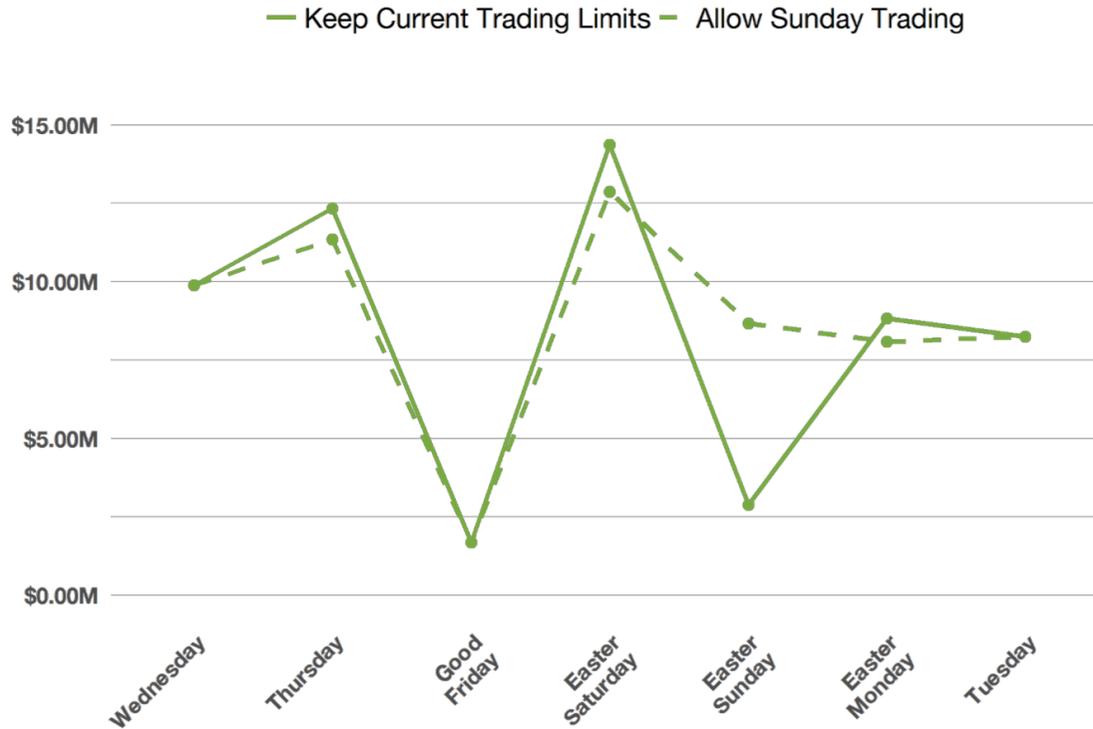
By examining the trading patterns over the weekends in Hamilton city, we can see the behaviours in spending that we should expect to see over Easter, weekends that include other public holidays, and typical weekends during the rest of the year.

Over Easter we see the characteristic spending pattern that we have observed on page 5. During other public holidays, we see a trading pattern that is much more similar to a typical weekend.

On such weekends, the spending seen on Friday, Saturday, and Monday is a strong predictor of the spending that occurs on Sunday.

# Forecast Methodology

## Predicted Easter Revenue



If trading on Easter Sunday is allowed in Hamilton, we would anticipate that there would be a slight reduction in spending on other days, but the pattern of high spending on Easter Saturday would remain.

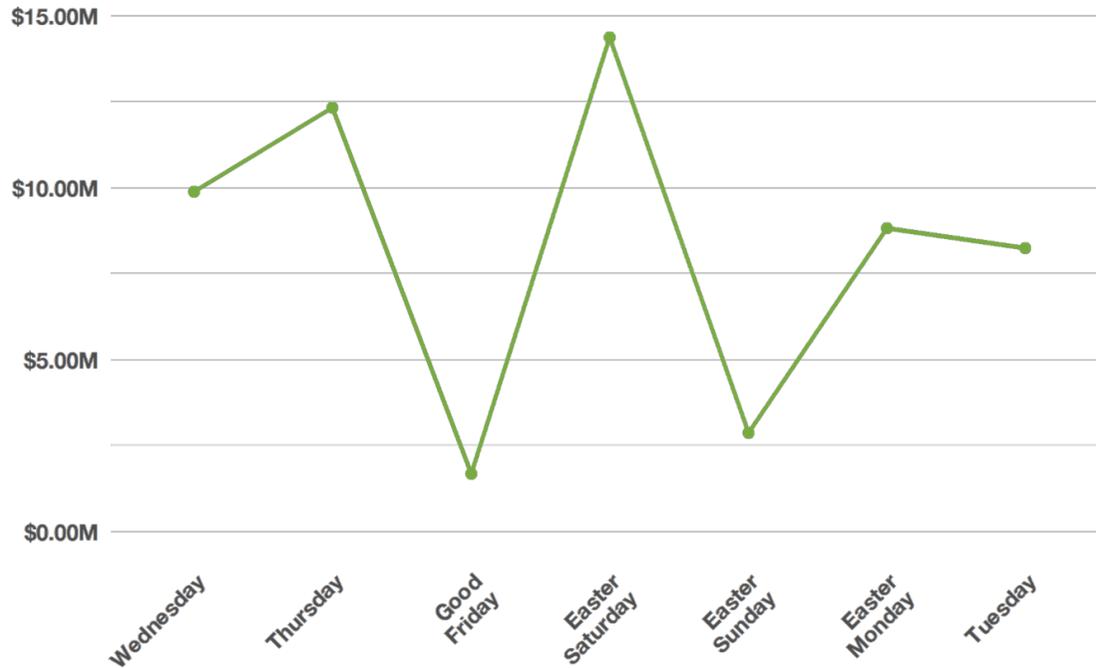
By considering the trading patterns that we have observed during other public holidays, this gives us a basis for estimating the expected trade on Easter Sunday. In addition, we have considered the retail trends over the last three years in Hamilton City regarding merchant location, customer origin, market growth, and storetype mix.

With a combination of these factors, we have developed a model to forecast the expected retail trade over Easter 2017 under the assumptions that Easter Sunday trading is either remained as-is, or allowed in all areas of Hamilton City.

# Keeping the status quo sees spending peak on Thursday and Saturday

## Predicted Easter Revenue

Assuming Easter trade restrictions remain the same

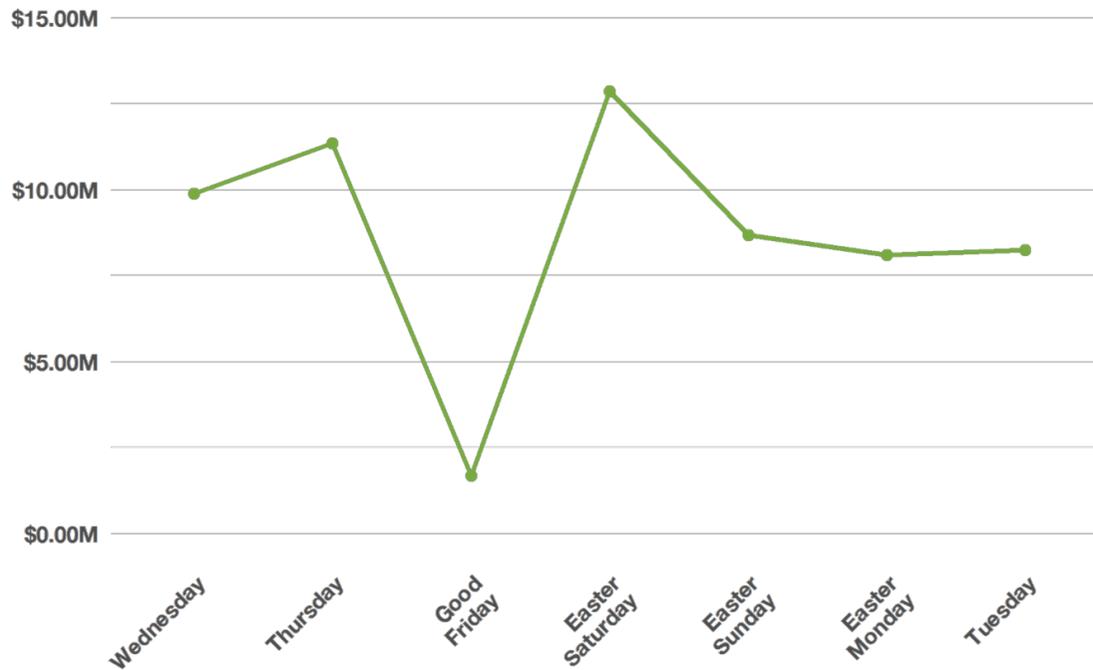


Maintaining the current Easter trading restrictions would see a predicted total revenue for the week of Easter 2017 of **\$58.21M.**

# Allowing Easter trading adds to Sunday value, reducing other days

## Predicted Easter Revenue

Assuming trading is permitted on Easter Sunday

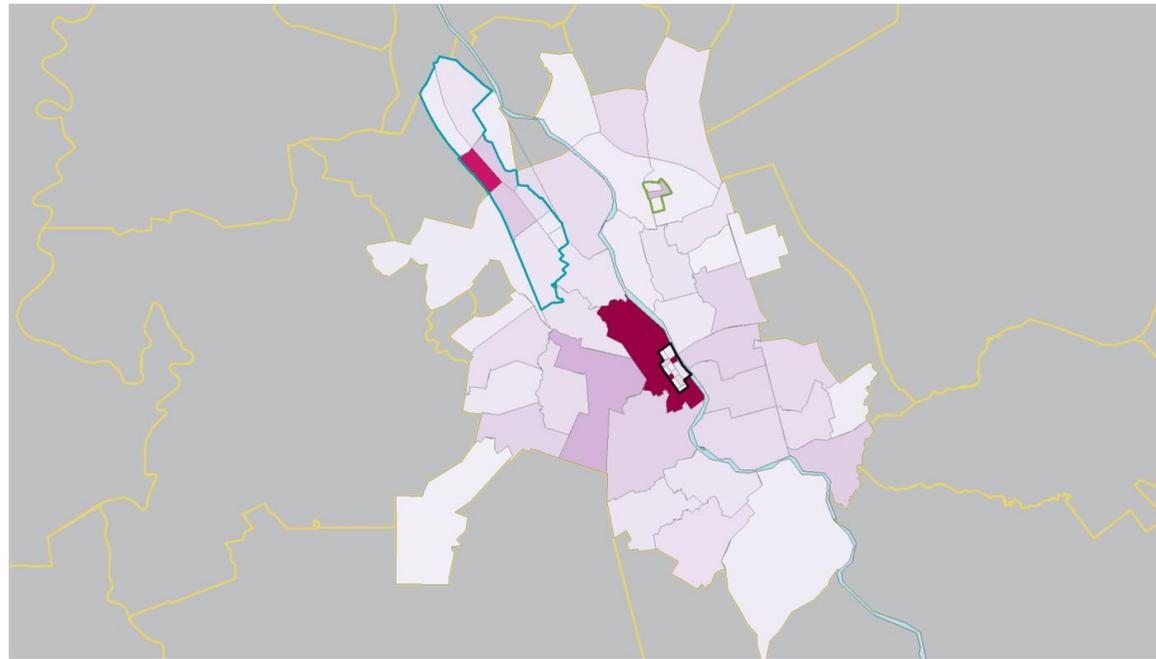


Allowing retailers to trade on Easter Sunday would see \$8.67M in revenue on Sunday, with corresponding decreases on other days giving a predicted total revenue for the week of Easter 2017 of **\$60.78M**.

# Te Rapa + CBD should be the main beneficiaries of Easter Sunday trading

## Predicted Easter Sunday Revenue

Assuming trading is permitted on Easter Sunday



# Te Rapa + CBD should be the main beneficiaries of Easter Sunday trading

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## Predicted Easter Revenue

Trade Area	Keep Current Easter Trading Limits	Allow Easter Sunday Trading
CBD	\$4,516,232	\$4,636,962
Te Rapa/The Base	\$16,011,192	\$16,101,739
Chartwell	\$2,825,381	\$2,845,502
Other Hamilton City	\$34,859,933	\$37,199,070
<b>Total</b>	<b>\$58,212,738</b>	<b>\$60,783,273</b>

# Summary

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- Given the observed retail trends in Hamilton City over the last three years, maintaining the current Easter trading restrictions would see a predicted total revenue for the week of Easter 2017 of **\$58.21M**.
- Allowing retailers to trade on Easter Sunday would see \$8.67M in revenue on Sunday, with corresponding decreases on other days giving a predicted total revenue for the week of Easter 2017 of **\$60.78M**.
- The main areas to benefit from Easter Sunday trading would be the CBD, increasing from \$4.52M to **\$4.64M** in revenue over the Easter week, and the Rest of Hamilton, increasing from \$34.86M to **\$37.20M** in revenue over the Easter week.

# Council Report

Item 13

**Committee:** Council  
**Author:** Sarah Ward  
**Position:** Senior Policy Analyst  
**Date:** 27 July 2017  
**Authoriser:** Sean Hickey  
**Position:** General Manager Strategy and Communications  
**Report Name:** 2018-28 10-Year Plan - Confirmation of Community Outcomes and Population and Household Growth Projections

<b>Report Status</b>	<i>Open</i>
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## Purpose

1. To seek approval of the Council's Community Outcomes and the population and household growth projections to be used for the development of the 2018-28 10-Year Plan.

## Staff Recommendation

2. That the Council:
  - a) approves the following 10 priorities from the Hamilton Plan as its Community Outcomes:
    - i. Our books are balanced
    - ii. The third city economy in New Zealand
    - iii. Providing outstanding infrastructure
    - iv. Strongly connected to the river
    - v. Best garden in the world
    - vi. An active, strong commercial central city with distinctive suburban villages
    - vii. An urban garden
    - viii. Access to affordable housing
    - ix. Celebrated for our arts and culture
    - x. Waikato is the capital of high performance sport
  - b) approves the National Institute of Demographic and Economic Analysis (NIDEA) low series population and household growth projections to be used for the development of the 2018-28 10-Year Plan.

## Executive Summary

3. Community Outcomes
4. Community Outcomes are required by the Local Government Act 2002, which defines them as "*the outcomes that a local authority aims to achieve in meeting the current and future needs of*

*communities for good-quality local infrastructure, local public services and performance of regulatory functions”.*

5. The Council is required to describe its Community Outcomes in the 10-Year Plan. The outcomes play a role in strategic direction setting and must be reflected in the activities we undertake to deliver services to the community.
6. The 10 priorities of the [Hamilton Plan](#) currently serve as the Council’s Community Outcomes. Staff recommend that this is reconfirmed.
7. Population and Household Growth Projections
8. Population and household growth projections are one of the building blocks of the financial forecasts in the 10-Year Plan.
9. The University of Waikato’s National Institute of Demographic and Economic Analysis (NIDEA) was commissioned by FutureProof to prepare population and household projections for the councils in the Waikato Region.
10. On 7 December 2016 the FutureProof Chief Executives Advisory Group and Strategic Implementation Management Group resolved to adopt the NIDEA low projection series for Hamilton in the FutureProof Strategy Update. This position is supported by staff and the Council’s approval is sought to continue working to this projection.
11. Staff consider the decisions in this report have low significance and that the recommendations comply with the Council’s legal requirements.

## Discussion

12. Community Outcomes
13. As part of the 2015-25 10-Year Plan, the Council adopted the 10 priorities of the Hamilton Plan as its Community Outcomes. They are:
  - i. Our books are balanced
  - ii. The third city economy in New Zealand
  - iii. Providing outstanding infrastructure
  - iv. Strongly connected to the river
  - v. Best garden in the world
  - vi. An active, strong commercial central city with distinctive suburban villages
  - vii. An urban garden
  - viii. Access to affordable housing
  - ix. Celebrated for our arts and culture
  - x. Waikato is the capital of high performance sport.
14. At a Council briefing on 10 May 2017, there was broad agreement from elected members to continue using these outcomes in the 2018-28 10-Year Plan.
15. Population and Household Growth Projections
16. The Council must approve a set of population and household growth projections to inform its 10-Year Plan and 30-Year Infrastructure Strategy. Forecasts of growth and demand are major drivers of expenditure and therefore need to be evidence-based and realistic.
17. Population and household projections are a key input for the Council’s growth model and capital programme. An agreed set of projections is required to progress this work.

18. The University of Waikato's National Institute of Demographic and Economic Analysis (NIDEA) was selected by FutureProof as the preferred provider. NIDEA prepared a low series and a medium series of household and population projections for Hamilton and other councils in the Waikato Region.
19. Staff are recommending that the Council approve the NIDEA low series for the development of the 2018-28 10-Year Plan.
20. Overall, the NIDEA low series projects an average of 1,250 new dwellings per year over the next 10 to 20 years. During the last two calendar years Hamilton has averaged 1,200 new dwellings per year, representing the highest levels of dwelling growth since before the 2008 financial crisis.
21. The main drivers of these projections are higher migration assumptions and a lower number of people per household on average. These projections are supported by detailed and comprehensive assumptions published by the University of Waikato.
22. The NIDEA medium series was discounted by staff as implausible for Hamilton. This series projects an all-time high level of growth being sustained for an unprecedented period time, projecting an average increase of over 1,400 households per annum over the next 10 years. These rates of household growth are significantly in excess of what is in evidence in Hamilton City Council's residential building consent numbers.
23. On 7 December 2016 the FutureProof Chief Executives Advisory Group and Strategic Implementation Management Group resolved to adopt the NIDEA low projection series for Hamilton in the FutureProof Strategy Update.

## Risks

24. Community Outcomes
25. If the recommendation is not approved and the Council wish to revisit Community Outcomes at this stage in the 10-Year Plan project, there is risk around the achievement of timeframes and deliverables. There are other work programmes due to get underway this month that rely on the Community Outcomes as an input.
26. If the Council does not have an agreed set of Community Outcomes, the 10-Year Plan will not be legally compliant.
27. Population and Household Growth Projections
28. If the recommendation is not approved this will cause substantial delays for the Council's growth model and capital programme, which rely on growth projections as a key input.
29. Projecting household and population growth is difficult and relies on past trends from available statistical data and broad assumptions about the future. There is inherent risk that the projections are inaccurate. If growth is significantly higher than projected, the Council risks under-investment in infrastructure, and vice versa if growth is significantly lower.
30. This risk is mitigated by:
  - Using a reputable provider with the required expertise to produce the projections.
  - Regularly monitoring and testing the projections against actual growth, i.e. through the Annual Plan process.
  - Having a robust growth modelling environment. The Council has recently invested in new sophisticated growth and development contributions models.

## Significance & Engagement Policy

### Significance

Item 13

31. Staff considered the following factors under the Significance and Engagement Policy:
  - The level of financial consequence of the proposal or decision required.  
The portion of the community affected by the proposal or decision.
32. Based on these factors, staff have assessed that the recommendations in this report have low significance.

### Attachments

There are no attachments for this report.

## Resolution to Exclude the Public

### Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Council - Public Excluded Minutes to be Confirmed - 29 June 2017	) Good reason to withhold information exists under Section 7 Local Government	Section 48(1)(a)
C2. Extraordinary Council - Public Excluded Minutes to be Confirmed - 4 July 2017	) Official Information and Meetings Act 1987	
C3. Elected Member Briefing Notes (Closed) - 5 July 2017 - To be confirmed		
C4. Elected Member Briefing Notes (Closed) - 6 July 2017 - To be confirmed		
C5. Council - Chair's Report (Public Excluded) - 27 July 2017		

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

Item C1.	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)
Item C2.	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)
Item C3.	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)
Item C4.	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)
Item C5.	to protect the privacy of natural persons	Section 7 (2) (a)