FINANCIAL STRATEGY - 9 YEAR PLAN 2025-34

Department: Finance

EXECUTIVE SUMMARY

1 A Financial Strategy provides a guide for considering proposals for funding and expenditure, it makes transparent the overall effects of proposals on services, rates, debt and investments, and is a document required as part of the 9 year plan.

2 This report seeks Council approval of the draft Financial Strategy, at Attachment A, for the purpose of public consultation for the 9 year plan 2025-34.

RECOMMENDATIONS

That the Council:

a) **Approves** the draft Financial Strategy for consultation as part of the 9 year plan 2025-34.

b) **Authorises** the Chief Executive Officer to make any amendments to the draft Financial Strategy, as a result of this meeting for the purposes on consultation on the 9 year plan 2025-34.

BACKGROUND

3 Section 101A (1) of the Local Government Act 2002 (LGA) requires all councils to prepare and adopt a Financial Strategy. The purpose of a Financial Strategy is:

- To facilitate prudent financial management by providing a guide for considering proposals for funding and expenditure; and
- Provide a context for consultation, by making transparent the overall effects of proposals on services, rates, debt and investments.

DISCUSSION

4 Council must, as part of its 9 year plan, prepare and adopt a Financial Strategy for all of the years covered in the plan.

5 Section 101A (3) of the LGA sets out the information that must be contained in a Financial Strategy and includes statements on:

- Factors that will have a significant impact on the 9 year plan, e.g. change in population, land use, and capital expenditure;
- Limits on rate increases and debt;
- Ability to provide and maintain levels of service, and meet additional demands within the rate and debt limits;
- Policy on giving securities for debt;
- Objectives for holding investments; and
- Targets for investment returns.

6 The factors that may have a significant impact on the 9 year plan have been identified as climate change and achieving the goal of making Dunedin City net carbon neutral by 2030, 3 water reform, and the impact of a high growth scenario in terms of population, land use, and capital expenditure.

7 Balancing increasing costs and affordability have been considered in proposing a limit on rate increases.

8 The ability to provide and maintain levels of service, and meet additional demand for services, e.g., providing essential infrastructure for growth, has been provided for in the 9 year plan draft operating and capital budgets, within the rate and debt limits proposed.

9 Information on giving securities for debt, objectives for holding investments and targeted investment returns are summarised from Council's Treasury Risk Management Policy.

10 The draft Financial Strategy has been prepared with Three Waters included throughout the 9 year period.

OPTIONS

11 Council is required to have a Financial Strategy for consultation as part of the 9 year plan. Options have not been presented but Council is able to modify the draft Financial Strategy.

NEXT STEPS

12 The draft Financial Strategy, with any amendments will be finalised for public consultation as part of the Supporting Documents for the 9 year plan.

13 Key elements of the Financial Strategy will be incorporated into the Consultation Document, including commentary on the proposed limits for debt and rate increases.

Signatories

Author:	Carolyn Allan - Chief Financial Officer
Authoriser:	Sandy Graham - Chief Executive Officer

Attachments

	Title	Page
A	Draft Financial Strategy	

SUMMARY OF CONSIDERATIONS

Fit with purpose of Local Government

This decision enables democratic local decision making and action by, and on behalf of communities, and promotes the social, economic, environmental and cultural well-being of communities in the present and for the future.

Fit with strategic framework

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	✓	☐	☐
Economic Development Strategy	✓	☐	☐
Environment Strategy	✓	☐	☐
Arts and Culture Strategy	✓	☐	☐
3 Waters Strategy	✓	☐	☐
Future Development Strategy	✓	☐	☐
Integrated Transport Strategy	✓	☐	☐
Parks and Recreation Strategy	✓	☐	☐
Other strategic projects/policies/plans	✓	☐	☐

The 9 year plan contributes to the objectives and priorities of the strategic framework as it describes the Council's activities, the community outcomes, and provides a long term focus for decision making and coordination of the Council's resources, as well as a basis for community accountability. The Financial Strategy is a key component of the work to support the development of the 9 year plan.

Māori Impact Statement

The adoption of Te Taki Haruru, the DCC's Māori Strategic Framework signals Council's commitment to mana whenua and to its obligations under the Treaty of Waitangi. Mana whenua and Māori will be involved in engagement with the 9 year plan 2025-34 consultation process.

Sustainability

The Financial Strategy considers matters of sustainability and financial resilience over the 9 year period.

Zero carbon

Zero carbon implications are discussed in the draft Financial Strategy.

LTP/Annual Plan / Financial Strategy /Infrastructure Strategy

The financial limits will impact directly on the development of the 9 year plan, including the level of capital works that could be undertaken over the 9 year period, and levels of service provided.

Financial considerations

The Financial Strategy sets rate and debt limits that inform the development of the 9 year plan work programmes.

Significance

The Financial Strategy is considered significant in terms of the Council's Significance and Engagement Policy and will be consulted on as part of the 9 year plan process.

Engagement – external

There has been no external engagement in the development of the draft Financial Strategy.

SUMMARY OF CONSIDERATIONS
Engagement - internal   Various departments have been consulted on in the preparation of the Financial Strategy, including finance and corporate leadership.
Risks: Legal / Health and Safety etc.   There are no identified risks.
Conflict of Interest   There are no known conflicts of interest.
Community Boards   The Financial Strategy underpins the 9 year plan budget and will be of interest to Community Boards, as many operating and capital matters relevant to Community Boards are in the draft 9 year plan.

Financial strategy | He rautaki pūtea

At a glance

Gross Debt Limit:	250% of revenue

Rate increases limited as follows:

Year 1:	limited to no more than 15%
Years 2 – 3:	limited to no more than 10% per annum
Year 4:	limited to no more than 8% per annum
Year 5:	limited to no more than 7% per annum
Years 6 – 9:	limited to no more than 6% per annum

Balanced budget: Forecast total operating surplus is greater than zero from Year 2 of the plan.

Council aims to ensure everyday costs of running the city can be funded from the everyday revenue (excluding any non-recurring/non-cash items) consistently by the end of Year 3.

The following liquid assets held by Council will be retained as a partial hedge against gross debt:

- Waipori Fund
- Investment Property Portfolio
- Interest-bearing shareholder advance to Dunedin City Holdings Limited (DCHL).

Income from Group companies is limited to $5.9 million annually, being the current interest earned from the interest-bearing shareholder advance to Dunedin City Holdings Limited ($112.0 million), and a dividend of $9 million per annum for the first two years and $11 million per annum from year three onwards.

The financial landscape

When the last 10 year plan 2021-31 was prepared, the COVID-19 pandemic had created some unique financial challenges that the 10 year plan had to deal with. Since that time, the financial landscape has changed, and the city is now facing different financial challenges. In the intervening four years, national economy has been subject to high inflation and increasing costs that have impacted the DCC's finances. At the same time, changes to central government environment have meant there have been different challenges that Councils across the country have to deal with to carry out local government functions.

Since the adoption of the 10 year plan 2021-31, the DCC has made a substantial investment in infrastructure, both above and below ground, to build resilience and cater for the projected population growth, as set out in the last Financial Strategy. The challenges and impacts of climate change remain serious and significant for Ōtepoti Dunedin. The recent heavy rainfall and flooding in October 2024 highlighted the importance of continuing to focus on reducing emissions and improving resilience of the city to extreme weather events and long-term climatic changes. Ōtepoti Dunedin is growing, and it is still predicted to experience high population growth over the next 9 years to reach 146,100 by 2034.

It is important that the DCC focuses on continuing that investment to ensure the city has reliable and resilient network infrastructure for our water and transport services, while providing the infrastructure needed to cater for our growing city and looking after the assets that the DCC has. In developing work programmes and capital projects, the DCC tried to strike a balance, taking into account affordability, debt and the impact on rates.

The DCC is planning to invest $1.856 billion on capital projects over the next 9 years. Of this $1.100 billion is dedicated to renewals, with $0.867 billion provided to replace key three waters and transport infrastructure, building the resilience of these essential assets. $684 million will be invested in new capital projects that will improve the city, and $71 million will be used to build new three waters and transport infrastructure needed for the growth of our city.

What might impact us over the next 9 years

There are a number of factors that may impact on what and how much the DCC does, and how services are delivered over the next 9 years. These are discussed below.

3 Waters Reform

The delivery of three waters services (water supply, wastewater and stormwater) is undertaken within a complex system of legislative and regulatory requirements. Local government three waters sector has been undergoing a period of substantial change since July 2020 when the then Government launched the Three Waters Reform programme to change the way three waters are delivered. This legislative change would have seen the Council's three waters services transferred to a new regional entity by July 2026.

The new Government introduced a new reform programme, called 'Local Water Done Well', which has required the DCC to reassess how it would intend to deliver water services. The work the DCC has done over the past four years has prepared the city for this change, and the city is well placed.

The DCC is currently undertaking a thorough investigation and evaluation of three base models for water service delivery, which were shortlisted by Council in November 2024. Council will be presented with further analysis on the shortlist in February 2025 to assist Council to decide in principle on their preferred model for the future delivery of water services and other reasonably practical options. Regardless of the actual model adopted by Council, Council's control of three waters under the new settings will likely look dramatically different, given the introduction of wide reaching and comprehensive regulation.

In the meantime, the provision of water services remains a priority. This 9 year plan has been prepared with three waters services included throughout the 9 year period, while continuing to work on how this service will be delivered in the future.

Changes to the purposes of local government
The Government has announced plans for legislative changes to the purpose of local government, calling for more focus on delivering core services. The DCC has made a substantial investment in infrastructure, both above and below ground in recent years, to build resilience and cater for the projected population growth. This places the DCC in a good position to respond to anticipated legislative changes.

Climate Change and Zero Carbon
The impacts of climate change are important risks for the DCC to consider in long-term planning for the city. The effects of climate change are already being felt, both locally and globally, increasingly posing risks to community health and wellbeing, infrastructure and the natural environment. Extreme weather events are becoming more frequent. There is a clear need to ensure city's infrastructure and planning can meet the challenges.

To minimise the negative impacts of climate change, the DCC must work to reduce our emissions (mitigation), while also preparing for the likely impacts of climate change (adaptation). These are closely connected – successful adaptation will only be possible if emissions are also reduced to limit the severity of climate change.

The DCC has been progressing work on climate change through two work programmes to meet climate change mitigation and adaptation planning needs: Zero Carbon and South Dunedin Future, with the latter being a collaborative adaptation programme with the Otago Regional Council.

Zero Carbon (Note this section may need to be amended following Council consideration of the Zero Carbon Investment Packages Report)
The DCC is seeking to manage and reduce emissions at two scales – DCC and the city.

At the DCC level, the target is to reduce emissions 42% from 2018/19 levels by 2030/31.

At the city level, the DCC has adopted a 'Zero Carbon 2030' city emissions reduction target, which is in two parts:

- net zero emissions of all greenhouse gases other than biogenic methane by 2030, and
- 24% to 47% reduction below 2017 biogenic methane emissions by 2050, including 10% reduction below 2017 biogenic methane emissions by 2030.

In 2024, the Office of the Auditor-General (OAG) provided recommendations related to reporting on councils' climate work. The DCC has a well-developed emissions reduction framework in line with OAG's reporting expectations as follows:

- A Zero Carbon Policy and associated guidance that is built into procurement processes, project management processes, and Council report templates.
- An Emissions Management and Reduction Plan (emissions reduction plan for the organisation) and associated emissions modelling for the period to 2030/31
- A Zero Carbon Plan (emissions reduction plan for Dunedin) and associated emissions modelling for the period to 2030/31

The level of DCC investment in emissions-reducing 9 year plan projects has implications for emissions at the both DCC and city-wide scales.

Zero Carbon modelling is currently being updated to reflect changes in Government policy (including the second national emissions reduction plan, adopted in December 2024), the change in DCC's investment timing for the long-term plan, and other relevant contextual changes. This work is not complete; however, interim findings point to challenges with the level of investment required to achieve the degree of change at the pace required to meet the city's 2030 target.

At the DCC scale, the DCC is so far tracking well towards the organisation's emissions reduction targets, having achieved a 29.7% reduction from baseline year in 2023/24. Based on modelling completed in 2023/24, it's possible that the DCC's organisational target can be achieved with projects that are in the draft 9 year plan budgets alone, without any additional investment.

Climate change adaptation
In terms of adapting to the impacts of climate change, Ōtepoti Dunedin faces many challenges. The city is spread across a diverse coastal and hillside landscape, which includes the reclaimed harbour edge, former coastal swamps and wetlands, steep-sided hill suburbs, and flood-prone urban water ways. This environment forms a complex hazard scape, characterised by a range of coastal, fluvial, seismic, and groundwater-related hazards. Climate change is expected to exacerbate many of these hazards, including through sea level rise, increasingly frequent and severe storm events, and rising groundwater – leading to increased flood risk for many areas.

The South Dunedin Future work programme has been progressed to develop a climate adaptation strategy for South Dunedin in partnership with mana whenua, affected communities, and other stakeholders. The South Dunedin area has been the initial focus of adaptation work, due to its location on reclaimed land, high groundwater levels, and susceptibility to sea level rise. It has around 6,500 homes, housing 13,500 people and a further 1,500 businesses.

The DCC is currently developing an approach to establishing a citywide climate resilience framework and adaptation plan for Ōtepoti Dunedin. The framework will enhance DCC's climate adaptation and resilience work, enabling a more effective citywide response to the current and anticipated impacts of natural hazards and climate change. Council will be considering options for implementation. While no budget has been provided for in the draft 9 year plan budget for the framework development, additional resources would be required, depending on Council decisions on a preferred approach to implementation.

Changing population, land use and rating base
The DCC uses projected population growth and demographic changes for a range of forward planning activities including infrastructure planning, spatial planning, the Development Contributions Policy, and the City Profile. The last 10 year plan was prepared based on a composite high-medium growth scenario, according to Statistics New Zealand (Stats NZ) data released in December 2022.

Since then, in October 2023, Stats NZ released the 2023 provisional population estimate, indicating (if confirmed) Ōtepoti Dunedin is currently growing at a high population growth rate. To reflect this and the risks of underestimating growth, the DCC has developed and used a composite high-medium growth scenario. This scenario presumes that Dunedin's growth rate will follow a high growth rate scenario (0.7% - 0.8% per year) over the next nine years (2025-34), when it could reach 146,100. From 2034 onwards, the population growth rate is predicted to return to a medium growth rate scenario (0.1% - 0.2% per year).

Ōtepoti Dunedin's population is ageing, with 24% of the population projected to be 65 years or over by 2054, compared to 19% in 2024. The age group of 75 years and over is expected to grow from 8% of Dunedin's population in 2024 to 15% in 2054.

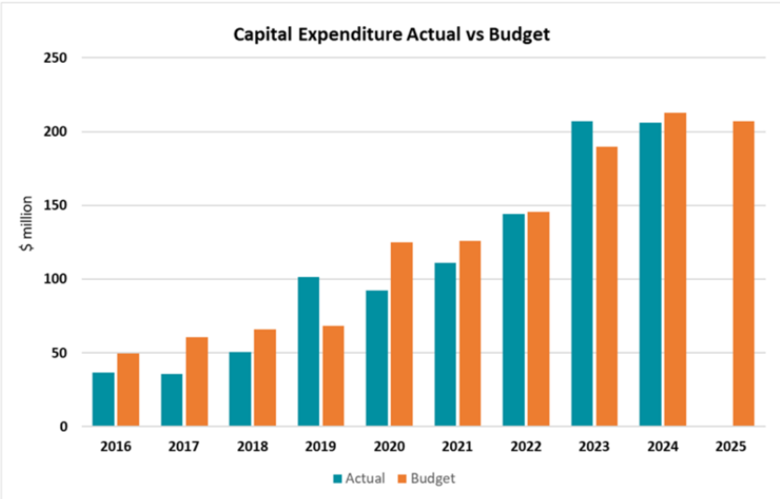
Dwellings are projected to grow from 56,900 in 2024 to 63,600 in 2054, because of population growth, an ageing population, and the changing make-up of families and households. Dwelling growth is projected to slow down between 2034 and 2054 to mirror the projected changes in the population growth rate.

Land use changes are expected to allow for housing growth. Dunedin Future Development Strategy 2024-54 has identified areas for growth and the investment needed in infrastructure to enable that growth. The capital budget includes investment of $71 million for essential water and transport services to address this.

The assumptions made in preparing this 9 year plan are discussed further in the Significant Forecasting Assumptions section of the 9 year plan, including our level of uncertainty of the assumptions made, and their possible impacts.

Ability to deliver on the planned capital programme

Over the last four years, there has been a significant increase in capital investment, and the DCC has demonstrated its ability to deliver its planned capital programme. Significant investment has been made in both asset renewals and new capital projects, and this has been achieved through improved forward planning, early contractor engagement, innovative procurement strategies, and strong disciplines around project and programme management, and monitoring to ensure progress is on track. Based on our improved performance over the past four years, the DCC is confident to continue to deliver the planned capital programme presented in the 9 year plan. The graph below shows comparative actual capital expenditure against budget from 2016 to 2024.



Strategic financial limits

The financial strategy aims to provide the financial framework underlying the proposed expenditure and funding of the 9 year plan. This financial strategy is underpinned by principles of:

Financial prudence - Council services and investment in infrastructure are cost efficient and are an effective way of achieving the identified community outcomes.

Financial sustainability – The Council's activities must be financed and funded in a way that ensures Council's financial sustainability over time, in the face of risks and uncertainty.

Transparency and accountability - People who pay are aware of what they are paying for and can confirm that what is proposed has been provided.

Affordability - Council services and infrastructure that are funded by rates, user fees or through development contributions are affordable to people wanting to access these services or to develop and build here.

Fairness and Equity - Council considers who benefits or causes the costs when considering who should pay a share of these costs.

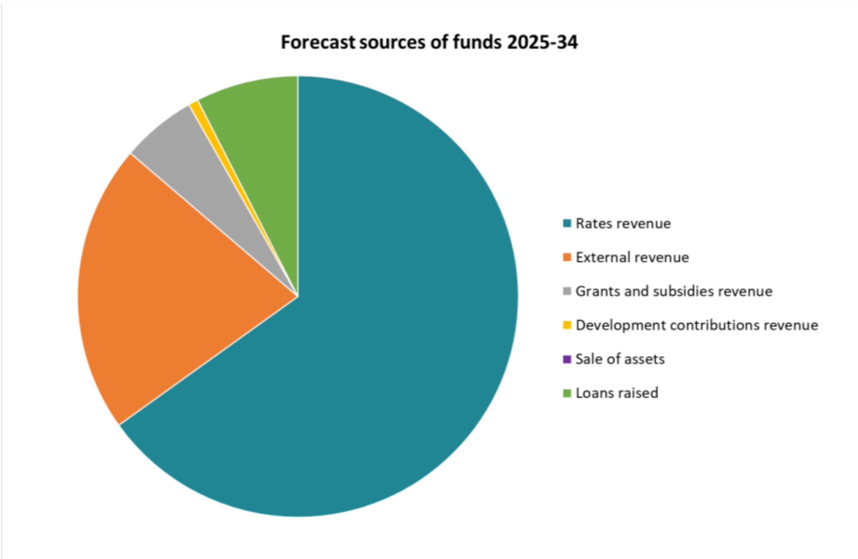
Compliance with borrowing and rates limits
The 9 year plan remains compliant with the limits for borrowing and rates throughout the 9 years.

The DCC proposes to maintain existing levels of service and meet additional demands for services within the rates and borrowing limits set.

Rates and other revenue
The DCC recognises that while rates need to be at an affordable level overall, it also needs to balance affordability with increasing costs of delivering core services. Rates are key sources of funding for council services. Challenge is balancing rate increase required to deliver the services with affordability.

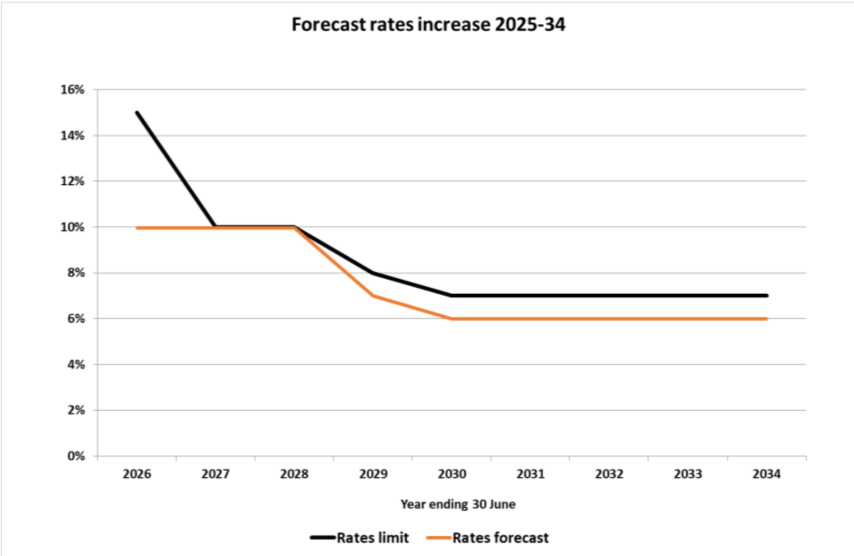
Alongside rates, the DCC has a range of other revenue sources. Fees and charges are one of the ways that the DCC can recover some of the costs of delivering an activity or services directly from those who use, and therefore benefit, from the activity or service. The DCC attempts to balance user pays with community good when it assesses that level of fees and charges to apply to certain services. How the DCC finds the balance is laid out in the Revenue and Financing Policy. In addition, some functions are debt-funded because of the long-term nature of the investment. Required funding is primarily reserved for capital projects.

The DCC's activities and services provided and investment in infrastructure will be paid for using the following sources of funds over the 9 year period.



The DCC will limit the rate increase to the following:

- Year 1: limited to no more than 15%
- Years 2 – 3: limited to no more than 10% per annum
- Year 4: limited to no more than 8% per annum
- Year 5: limited to no more than 7% per annum
- Years 6 – 9: limited to no more than 6% per annum



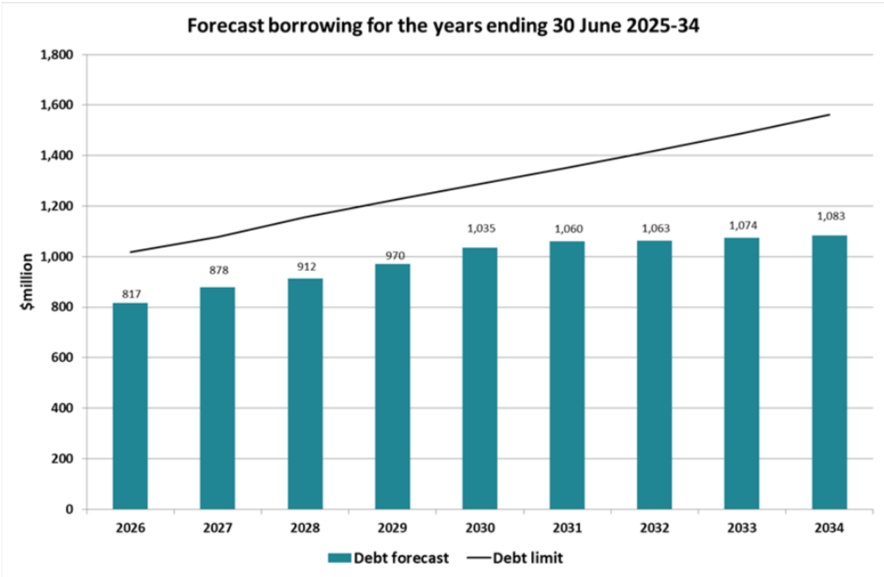
Residents on low incomes will continue to be encouraged to access the rates rebate scheme offered by central government as a means of offsetting the cost of rates. The DCC will also continue to maintain our rates remission and rates postponement policies.

Debt
The use of debt allows the financial burden of new capital expenditure to be spread across a number of financial years, recognising that the expenditure is on intergenerational assets, i.e., the assets have a long life and generate benefits both now and to future generations. This means that future users pay their fair share of the cost of the asset.

Debt is also used to fund the portion of capital renewals that is not covered by funded depreciation.

Council's debt limit is a variable amount that is calculated as a percentage of revenue. The gross debt limit is set as 250% of revenue. This means that our debt level will be responsive to change and will move in line with the level of our activities. This debt limit allows flexibility to deliver the planned capital expenditure programme, while also having capacity to fund potential unplanned events.

The following graph shows the 9 year forecast on borrowing from 2025 to 2034.



Over the 9 year period, the debt required to fund the planned capital investment does not reach the 250% of revenue limit.

Council has a credit rating at December 2024 of AA/A-1+ with a negative outlook. Credit rating is assessed annually with our current credit rating agency being Standard & Poor's. Credit rating agencies take into account matters relating to debt and expenditure against revenue, liquidity and credit risk. As Council borrows more, revenues will need to increase to ensure council remains financially sustainable.

In September 2022, both Council and its group company Dunedin City Treasury Limited joined the Local Government Funding Agency (LGFA) borrowing programme. The financial covenants with the LGFA are as follows:

- **Debt limit** - net debt for local authorities is calculated as a percentage of total revenue and must not exceed 280%. Council is required to have a minimum credit rating of A. Net debt is defined as gross debt less liquid financial assets and investments.

As at 30 June 2024, Council's net debt as a percentage of total revenue was 110.4%. Its Standard and Poor's credit rating was AA.

- **Interest limits** – net interest calculated as a percentage of total revenue must not exceed 20%. Net interest calculated as a percentage of annual rates income must not exceed 30%.

  As at 30 June 2024, Council's net interest as a percentage of total revenue was 0.3%, and Council's net interest as a percentage of annual rates income was 0.4%.

The key limit affecting our ability to borrow from LGFA and our credit rating is the debt to revenue ratio. This limit is set at 280% and ensures that the DCC maintains debt levels of no more than 2.8 times our revenue.

In this 9 year plan, Council will remain within the borrowing limits throughout the 9 years, based on the proposed capital programme supported by ongoing increases in rates revenue. Council's gross debt limit of 250% is considered financially prudent, as it sits well within the lending limits set by the LGFA.

The Council has significant liquid assets and investments to provide a partial offset to gross debt. As at 30 June 2024, these included the Waipori Fund of $103.2 million, an investment property portfolio of $110.4 million, and a Dunedin City Holdings Ltd interest-bearing shareholder advance of $112.0 million. Further detail on these assets is provided below.

Operating surplus
<u>Balanced budget</u>: Forecast total operating surplus is greater than zero from Year 2 of the plan.

The Local Government Act 2002 requires councils to have a balanced budget (operating surplus) unless it is prudent to do otherwise.

The revaluation of three waters infrastructure assets in 2022/23 resulted in a significant increase in depreciation. Since this time Council has run an operating deficit budget. The 9 year plan provides for Council achieving an operating surplus by year 2 of the 9 year plan.

<u>Everyday costs funded by everyday revenue</u>: Council aims to ensure everyday costs of running the city can be funded from the everyday revenue (excluding any non-recurring/non-cash items) consistently by the end of Year 3.

The Council also needs to ensure that the everyday costs of running the city can be funded from the everyday revenue. Everyday revenue excludes some capital expenditure funding items (e.g., Development Contributions, Non-Recurring Waka Kotahi NZ Transport Agency capital subsidies) and any non-cash income (e.g., Vested Assets, fair values gains related to the Waipori Fund investments) as these items are not 'everyday revenue' and/or cash generating. The 9 year plan will aim achieve this by year 3.

Surplus funds
Surplus funds are defined as follows:

- An operating surplus arising from everyday revenue exceeding everyday costs.
- Proceeds from the sale of an asset after the repayment of any debt associated with that asset.

In general, any surplus funds will be used to repay debt, invest in new projects for the city, and/or help pay for priority projects.

In deciding to dispose of an asset, the Council may consider the option of using the proceeds to invest in an income generating asset (e.g., Waipori Fund) rather than pay down debt. The Council would elect to do this at the time of the approval to dispose, having considered the cost of borrowing compared to the potential returns on income generating assets at the time of sale.

Security for debt
Council's policy is to give rates as security for debt. Most of our borrowing will be done through our group company Dunedin City Treasury Limited.

Strategic asset investment

In our last 10 year plan, the DCC acknowledged that Dunedin's infrastructure networks i.e., water and transport services, have been neglected in the past. Over many years there has been insufficient investment in their maintenance and renewals, and as a result, the DCC has found ourselves in catch up mode, where significant work is needed to ensure reliability of our basic infrastructure.

Since 2021, the DCC has increased our maintenance and renewals spend on these networks. While not increasing our levels of services, the DCC is improving the resilience of these assets to provide our basic services. Increased investment in our water and transport assets must continue over the next 9 years.

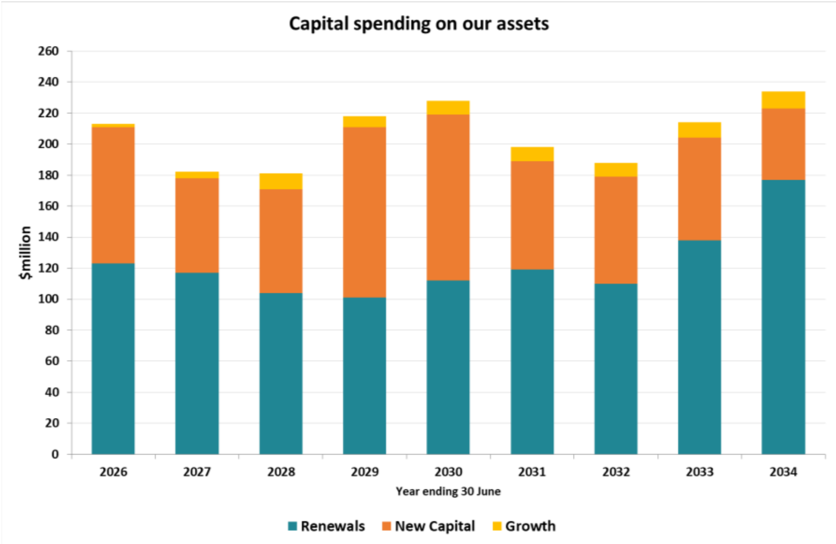
The prioritisation of maintenance and renewals work is based on Council's Asset Management Plans. These are regularly updated to reflect changing needs and emerging risks. Asset management planning focuses on asset condition, risk assessment, planning and delivery opportunities, and long-term asset solutions.

This Financial Strategy is closely linked to the Infrastructure Strategy so significant issues such as these can be properly considered. Updated information has been used to make decisions about assets that need renewing over the 9 year plan. The Infrastructure Strategy expands this timeframe out to 30 years and gives greater confidence around how this work can be paid for in the longer term.

Over the next 9 years, the DCC is planning to invest in projects that will provide resilience for our city and enhance amenity levels. Some of the significant projects to upgrade or continue to improve services include:

- improving the resilience of Dunedin's transport system, water supply and stormwater infrastructure
- responding to infrastructure needs for our growing population
- minimising transport disruption during and after the construction of the new Dunedin Hospital
- investing in flood alleviation in South Dunedin
- investing in reducing our carbon emissions through waste minimisation initiatives
- investing in a new modern landfill to replace the current facility at Green Island

The graph below shows planned capital investment over the next 9 years.



Maintaining services

The Council has reviewed its levels of services and what it will deliver to the community. This plan continues to fund and deliver the services currently being offered, primarily maintaining current levels of service over the 9 year period.

The graphs below show our operating and capital expenditure over the 9 year period by activity group.

[Chart to be inserted: Operating expenditure – 9 year total]

[Chart to be inserted: Capital expenditure – 9 year total]

Financial resilience

The Council needs to have the ability to respond to unplanned events, such as natural disasters, civil defence emergencies and pandemics. These events can result in significant unplanned operating and capital costs.

If a significant event occurs, the Council has a range of options for funding unbudgeted expenditure within the financial strategy limits, including rates, debt, insurance, Government funding for infrastructure assets, financial assets and reprioritisation of existing budgets.

Investments

The Council holds a range of investments, including Council-owned companies, investment property and the Waipori Fund. These investments are designed to provide ongoing non-rates income over the medium to long term as well as a partial offset to gross debt as discussed above. These investments are discussed below.

The DCC's investment decisions can also support wider strategic goals. For example, the DCC excludes certain categories of investment under its Waipori Fund Statement of Investment Policies and Objectives, and DCHL is working with the DCC to identify emissions reduction opportunities through implementation of its Carbon Roadmap.

Council-owned companies

Council-owned companies are an important component in this Financial Strategy and the Investment Framework. Council owns Dunedin City Holdings Ltd (DCHL), which in turn owns Delta, Aurora, City Forests, Dunedin Airport (50%), Dunedin Stadium Property, Dunedin Venues Management and Dunedin Railways on behalf of the Council.

The companies are valuable assets in terms of their capital values, and the income some of the companies generate can be used to provide a dividend to Council. That dividend is used to reduce the levels of rates income needed to deliver core services to our community. However, stadium-related debt pressure and the need for group companies to re-invest in their own infrastructure has meant that the Council is not receiving a dividend commensurate with the level of investment it has in these companies.

Group companies are investing in their own infrastructure, and this is particularly important in the case of lines company Aurora Energy which requires ongoing significant investment in infrastructure that needs to be replaced.

The 9 year plan assumes income from its companies of $5.9 million per annum being the current interest on the shareholder advance to DCHL ($112.0 million) and a dividend of $9 million in each of the first two years and $11 million per annum from year three onwards. In the event the interest rate is renegotiated down, it is anticipated any difference to the $5.9 million would be made up by a compensating dividend stream.

Waipori Fund

Established in 1999, using proceeds from the sale of the Waipori electricity generation assets, the Waipori Fund is a diversified investment portfolio comprising both fixed interest deposits and equity investments.

The Fund is managed by Dunedin City Treasury Limited on behalf of Council, using the Statement of Investment Policy and Objectives (SIPO) approved by Council.

The Council has an expectation of receiving cash from the Fund each year. While the market value of the Fund will vary from month to month and year to year, its cash flow will not fluctuate to the same extent. In some circumstances, the Fund could have a negative operating result (arising from the requirement to "mark to market" the Fund's investments even though there is no intention to sell them) but a positive cash flow.

The SIPO defines the primary objectives of the fund to be:

- Maximise its income, subject always to a proper consideration of investment risk and;
- Grow the Fund's capital, subject to the income distribution needs of the Council and the provisions for capital protection.

Th Council envisages a minimum return over the medium to long term, net of all fees and charges attributable to the Fund, equivalent to the weighted average Official Cash Rate plus the movement in the 'all groups' consumer price index.

The fund value at 30 June 2024 was $103.2 million.

Investment property portfolio
Council owns an investment property portfolio comprising a mixture of property types, including a number located outside of Dunedin.

The minimum target return from Council's investment properties is to be greater than the weighted average cost of funds.

The portfolio value at 30 June 2024 was $110.4 million, broken down as follows:

Investment property	**$ million**
Dunedin retail	$39,050,000
Dunedin parking	$7,850,000
Dunedin other	$22,840,000
Christchurch	$9,650,000
Wellington	$20,700,000
Auckland	$10,350,000
Total	$110,440,000

Shareholder Advance
Council has provided an interest-bearing shareholder advance to Dunedin City Holdings Limited of $112.0 million, which has an associated annual income stream of $5.9 million.