

Dunedin City Council Pre-election Report 29 July 2016

From the Office of the Chief Executive

Table of Contents

About Dunedin	1
Introduction	1
How this report was prepared.....	2
Strategic Framework	3
Financial Position	4
Financial Strategy.....	4
Investment assets and debt.....	4
Council-owned companies	5
Risk Management	7
Contract management and procurement.....	7
LTP audit	7
2016/17 Annual Plan	7
Looking Ahead	8
Infrastructure needs.....	8
Process improvements	8
Infrastructure Strategy	8
Capital expenditure.....	9
Major projects 2017/18–2019/20	9
Financial Information	10
Funding Impact Statement	11
Summary Balance Sheet	12
Compliance with Financial Strategy	13
Return on investments.....	13
Glossary	14

About Dunedin

The Dunedin City Council (DCC) is a territorial authority with a land area of 3340 square kilometres extending from north of Waikouaiti to the Taieri River in the south and inland to Middelmarsh and Hyde.

The Council is comprised of the Mayor and 14 Councillors. There are also six community boards. The Council is responsible for the governance of, and setting the strategic direction for, the city and ensuring the DCC works towards meeting the community outcomes set out in the 2015/16–2024/25 Long Term Plan (LTP).

The DCC receives revenue from a range of sources. About half comes from rates, with the rest from Council companies, Crown subsidies and grants, property, fees, charges, interest and other grants.

The DCC has an overall budget of \$223 million and manages \$3 billion of assets on behalf of residents and ratepayers. These include 1380km of water pipes, about 1065km of sealed roads, 945 kilometres of footpaths (including 5 kilometres of steps) and just over 13,000 street lights. Other assets owned and maintained by the DCC include 954 housing units, 113 playgrounds, 67 public monuments and 20 cemeteries.

As well as spending on core infrastructure such as water and waste services, roads and footpaths, the DCC maintains assets such as libraries, museums, sportsfields and swimming pools. The DCC is also responsible for regulatory functions such as planning, building control and environmental health, and for carrying out initiatives in areas such as economic development.

Introduction

This Pre-election Report (the Report) provides information to promote discussion about issues facing the DCC and to encourage informed debate in the lead-up to the October 2016 triennial local body elections.

The Report is required under the Local Government Act and must be prepared by the Chief Executive. The document contains information about the DCC's financial performance since 2013/14 and forecast information through to 2019/20, as well as details of major projects and other significant issues.

The last Pre-election Report three years ago emphasised the challenging financial circumstances of the 2010–2013 period and a debt reduction framework that would need ongoing commitment to meet community demands to reduce debt levels. That period had been marked by steep rises in debt and sizeable rates increases to manage the effects of a significant increase in debt servicing costs following the completion of several major capital projects.

This Report provides data showing that the financial efficiency and austerity measures adopted by Council across the last two electoral terms have had a positive impact. In the 2015/16–2024/25 LTP, Council debt was projected to be \$248 million at this time, but as at 30 June 2016 the actual debt was \$216 million. This is \$14 million and six years ahead of the debt reduction target. Debt across the entire Council/Council-controlled organisation group shows a similar pattern, down from \$623 million at its peak on 30 June 2013 to \$561 million at 30 June 2016.

A key message of this Report, like the last, is that financial restraint will need to continue if the DCC is to work within self-imposed limits on rates and debt. The organisation will need to continue examining budgets and making operational savings to meet the need for increased spending on maintenance and renewals, in particular.

The DCC has achieved a great deal over the last three years. Two high-profile events have prompted some changes in practice and priorities. The first event was a significant fraud, which was uncovered as the Council began its review of internal controls. The second was a severe weather event that resulted in South Dunedin and other parts of the city being flooded. Both issues are discussed later in the Report.

The following pages outline the financial transition of the last three years and the challenges that the DCC will face in the period ahead.

How this report was prepared

This report is based on information contained in the DCC's 2013/14 and 2014/15 Annual Reports, the 2015/16–2024/25 and 2012/13–2021/22 LTPs and the 2016/17 Annual Plan. All Pre-election Report content is governed by the requirements of the Local Government Act 2002, Schedule 10, Part 4.

Under the legislation, the DCC is required to provide financial information for the three years immediately preceding and following the election. Information about major projects for the three years immediately following the election is also required. Content for the 2016/17 year is not specifically required but has been included in some instances for completeness.

The report provides an overview of the DCC's finances and key projects. For more detailed information, go to the DCC website at www.dunedin.govt.nz.

A glossary of key terms can be found at the end of this document.

Strategic Framework

Over the past six years, work has been undertaken to prepare a simplified, logical set of strategies that set a direction and priorities for Dunedin's development as a city. Sitting on the foundation of the Financial Strategy and budgets as set out in the LTP are eight core strategies relating to the work that the DCC delivers to the community. These replace (and incorporate) approximately 50 unconnected and disjointed strategies that were in place six years ago and had evolved over time. The framework acts as a guide to help the organisation develop work programmes and prepare budgets and plans. It also helps the Council make decisions and set priorities.

The DCC's strategic framework sets out a vision for Dunedin to develop as "one of the world's great small cities". This builds on Dunedin's competitive strengths: a strong knowledge base; creative talent and cultural richness; the city's heritage setting; our stunning natural environment; active lifestyles; compactness and accessibility.

The DCC has, in a number of cases, taken a partnership approach to developing and delivering upon these strategies. This has been achieved by engaging and assisting neighbourhood and community groups, working collaboratively with organisations and businesses across the city, and regularly liaising with Government agencies.

The last strategy, Parks and Recreation, is being consulted on, and a simplified summary across the eight strategies will be completed in the coming year. With work almost finished on this strategic framework, all reports to the Council indicate how decisions will align with the framework.



Financial Position

Financial Strategy

When the Council makes any spending decision, it must weigh affordability against maintaining, renewing and upgrading the core infrastructure it already has and meeting community aspirations for new and improved infrastructure.

All decisions need to be assessed with the Financial Strategy in mind. The strategy outlines key financial targets for the Council to meet as it weighs spending decisions in an environment of financial constraint.

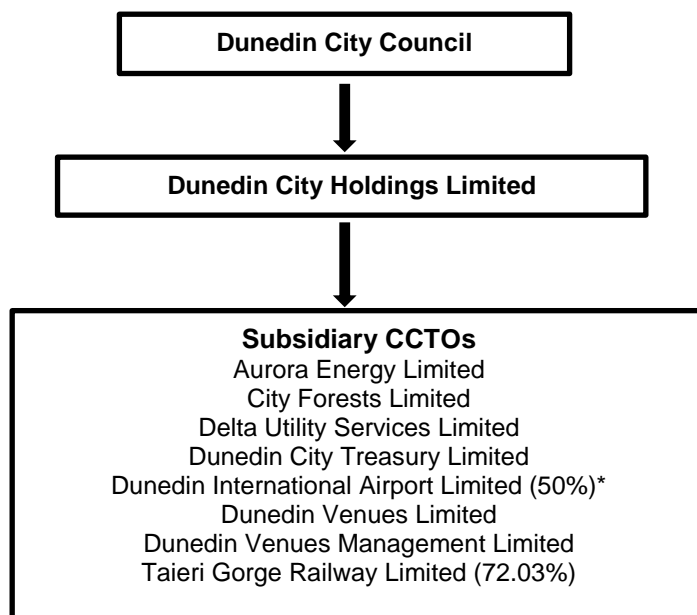
Two key aspects of the strategy are setting limits on both future rates increases and debt levels. The strategy was updated as part of the 2015/16–2024/25 LTP process. It includes a limit on rates increases of 3% per annum unless there are exceptional circumstances. It also includes a limit on core Council debt of \$230 million.

Rates for the 2016/17 financial year increased by 2.97% (within the 3% limit in the strategy). At 30 June 2016, the core Council debt stood at \$216 million.

Investment assets and debt

A strength of the DCC's financial position is the value of its investment assets and companies. While the Council does hold considerable debt, this is offset by the fact that it is also asset rich, holding a range of investments, including Council-owned companies, investment property and the Waipori Fund (a balanced portfolio of fixed-interest deposits and equities). This ownership of a diverse portfolio provides an asset base for the DCC that is not typical of councils in New Zealand.

The DCC owns or part-owns a range of Council-controlled companies and trading organisations (CCTOs). The companies report to Dunedin City Holdings Limited (DCHL), with independent directors who are appointed by and report to Council. The Council Group Chief Financial Officer (CFO) is also the CFO of DCHL, ensuring good information flow between the two organisations.



* Dunedin International Airport is an associate company of DCHL, not a CCTO.

In 2015–2016, the DCC investment assets were valued. This included its companies (excluding the two related to the Stadium) and two other Council investment assets – the Waipori Fund and the DCC investment property portfolio. The DCC examined the value of each investment (in each case, the result was a range of values; midpoints are used here) and the debt of each. It then looked at whether the financial return of the companies (both in dividend and in asset value growth) outstripped the cost of the debt. The method assumes that after all debt has been paid, the shareholder would receive the proceeds shown in the table below.

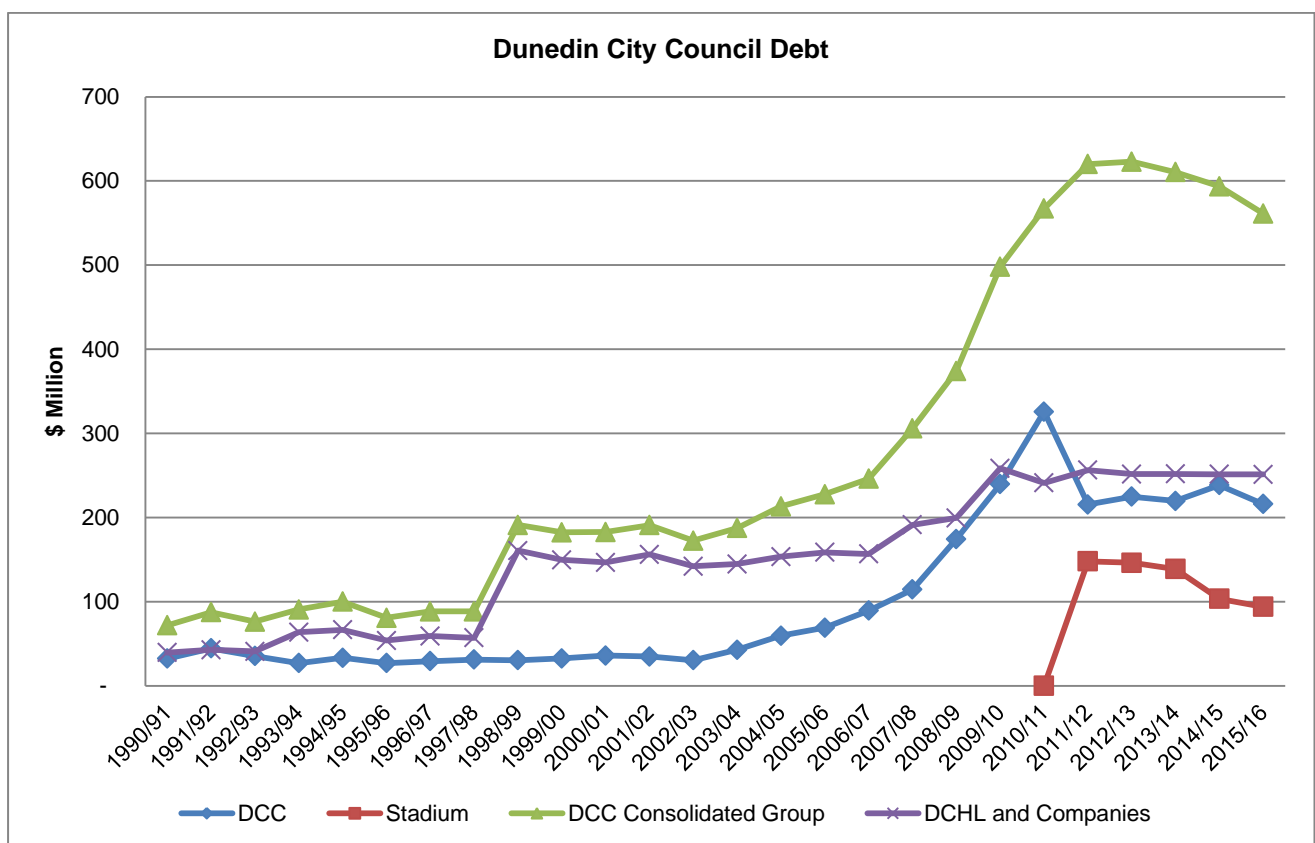
The report found that all bar two entities generated financial returns that were greater than the cost of debt. The two exceptions were the Waipori Fund (which provides the DCC with liquidity in an adverse event) and the Taieri Gorge Railway (which is owned primarily for tourism purposes).

The April 2016 report showed the values of the investment assets as follows:

Investment/Entity	Net value (mid-point) \$ million
Aurora Energy Limited	\$237.5
Delta Utility Services Limited	\$52.5
City Forests Limited	\$100.0
Dunedin Airport Limited (50% owned)	\$26.5
Taieri Gorge Railway Limited	\$1.4
Waipori Fund	\$82.0
Investment Property Portfolio	\$89.7
Total net value	\$589.6

The net value of saleable investment assets is useful to consider when assessing the financial foundation of the DCC. The overall group debt on 30 June 2016 was \$561 million, against a net investment asset value of \$590 million. This asset value excludes some \$3 billion worth of non-investment assets: assets owned to deliver core DCC business, such as roads, parks, reservoirs, buildings, pools, libraries and museums.

The graph below illustrates actual group debt for the 1990/91–2015/16 years for the DCC, the Forsyth Barr Stadium, other Council-owned companies and the combined group. Core DCC debt increased in 2010/11 due to the completion of the Stadium and declined in 2011/12 due to the sale of the Stadium to a Council-owned company, Dunedin Venues Limited. In 2014/15, \$30 million of Stadium debt was transferred back to the DCC.



Council-owned companies

In the last term of Council, we stopped taking an unsustainable level of dividends from DCHL to the DCC. This, coupled with Stadium-related financial issues, had meant uncertainty for the DCC when establishing budgets. Along with the completed Stadium review, a strategy to build up cash reserves in DCHL has provided a greater level of financial certainty for the DCC and the wider Council group.

Income from DCHL to the DCC was reduced from the 2015/16 year onwards. This will give the companies time to invest in their own infrastructure and allow DCHL to begin the process of building up cash reserves. This means that

when income from DCHL increases again in future years, any volatility can be absorbed by DCHL. This will ensure that the city has a steady and predictable income stream for the medium term.

A review of the operation and ownership of the Stadium in 2014 highlighted a range of issues that needed to be resolved. Stadium budgets were too optimistic and required annual ratepayer top-ups. The level of rent payments, the amount of debt and a lack of funding for future asset renewals had to be addressed.

The Council made a suite of changes including:

- making the Stadium's owners (Dunedin Venues Limited) and the Stadium operators (Dunedin Venues Management Limited) subsidiaries of DCHL
- reducing the rent charged to Dunedin Venues Management Limited
- transferring \$30 million of debt from the Stadium operators to the DCC
- providing funding of \$10.5 million for maintenance and renewals over the next 10 years from 2015/16 to 2024/25.

Risk Management

Managing risk is a key focus for the DCC. To facilitate this, the Council constituted an Audit and Risk Subcommittee in 2013, which as part of their workplan oversaw the development of a strategic risk register that is now being implemented across the organisation. A risk manager has also been appointed to ensure that concerns raised previously are addressed while ongoing organisational and operational risks are identified and appropriately managed.

Contract management and procurement

Work is well underway to review contract management and procurement as these have been identified as key risks in the risk management framework. Issues have been raised about the management of infrastructure assets, but a new approach to the management of these contracts has improved processes and controls. Procurement improvements continue to be a focus for the organisation, and this is likely to be the case throughout the next Council term.

LTP audit

In the 2015/16–2024/25 LTP, the Audit New Zealand opinion highlighted uncertainty about achieving the total savings required throughout the 10-year period of the LTP to meet its aim of keeping rate increases within 3% and complete its planned renewal programme. Audit New Zealand drew attention to this matter because if the Council is not able to realise such savings, it may well adversely impact rates, levels of service and debt projections.

2016/17 Annual Plan

Reductions in operating expenditure and interest costs mean the DCC is in a better financial position than anticipated when the LTP was formulated last year.

At that stage, the budget forecast a rates increase for the 2016/17 year of 4.9%. However, DCC budgets have been adjusted to the extent that the overall rate increase was kept within the 3% Financial Strategy limit.

The DCC has also improved its debt position. The Financial Strategy set a target of reducing debt to \$230 million by the end of the 2020/21 year, but that goal was reached by 30 June 2016 (when debt sat at \$216 million).

The improved results have been achieved by absorbing inflation, improving revenue, reducing borrowing costs by selling off surplus land and running services more efficiently.

Looking Ahead

One of the challenges facing the Council will be balancing expenditure on core services with the desire to implement some of the activities outlined in many of the Council's key strategic documents.

The financial efficiency and austerity measures of the past six years need to stay in place so the Council can continue to provide the services needed to attain the city's vision and meet the growing need for renewals.

The community needs to be involved in finding a balance between making Dunedin a vibrant city that people want to visit and live in and investing in the infrastructure that supports the city. The Council has already put improved processes in place; now the Council and community need to weigh up how expenditure is prioritised.

Infrastructure needs

The city has a large network of infrastructure assets including roads and footpaths, water and stormwater pipes. Some challenges with these assets are addressed in the Infrastructure Strategy, but issues were highlighted by the June 2015 floods that affect low-lying areas, specifically South Dunedin. The high groundwater levels in some areas, along with sea level rise and more frequent extreme weather events, create infrastructure challenges. Residents in low-lying and densely populated areas are the most vulnerable.

Adapting to these challenges is a key strategic issue for the DCC and the city, and the Council has an ongoing commitment to engage with communities in an honest and authentic way on issues that affect them.

The performance of the stormwater infrastructure was tested during and following the June flood. Specifically, the Portobello Pumping Station screens blocked, which meant the pumps worked below capacity. This made the flooding worse. In addition, many mudtanks were blocked, which prolonged the flood's duration and had localised impacts.

The Council has included money in this year's budget to accelerate plans for responding to these risks. The additional funding will ensure a long term response that draws on the expertise of the DCC and involves ongoing consultation, collaboration and discussion with the community and ratepayers. Planning will build on previous work and incorporate work undertaken by both central government and the Otago Regional Council (ORC).

Staff are also working with the ORC to:

- map the lifespan of major assets in South Dunedin to understand the timeframes for key investment decisions
- collate all previous research on the physical and environmental challenges facing South Dunedin
- further understand the implications of engineering solutions suggested to manage groundwater
- collate social and demographic data on South Dunedin's communities.

Process improvements

In 2014, the DCC uncovered a significant fraud involving its vehicle fleet and the fraudulent use of proceeds from the sale of 152 vehicles. A number of process changes and controls have been implemented, including fraud awareness training, cash handling changes, a new conflict of interest policy and procedures, new gift and hospitality guidelines and an updated protected disclosure policy. While progress has been made in addressing process and procedural shortcomings, further work is needed to embed these changes into the DCC culture. The Audit and Risk Subcommittee has a work programme that is designed to ensure these processes are adopted and monitored.

Infrastructure Strategy

Changes in the Local Government Act 2002 required local authorities to prepare a 30-year Infrastructure Strategy as part of their LTP. This enabled the Council to take a long term strategic view and provide greater certainty for financial planning by outlining when operational and capital spending is most likely to be needed.

Providing essential infrastructure such as roads, footpaths, water supply and wastewater and stormwater services – collectively called 3 Waters – is a core part of DCC activity. Dunedin's aging infrastructure means careful, strategic asset renewal is needed, along with well-planned maintenance.

The Strategy highlighted a backlog of renewals in the 3 Waters area caused by the number of assets that have become due for renewal in a short period of time. These include cast-iron water mains built in the 1920s and 30s, which are not delivering suitable water pressure, and earthenware sewer pipes dating back to the early 1900s.

The DCC is managing this by stepping up spending over the next eight years and then holding it at that level until 2033. Spending will step up from \$11.7 million to \$22.2 million. This change will allow the DCC to catch up the renewals backlog and manage any expenditure peaks and troughs in the longer term.

Capital expenditure

Dunedin has recently completed a period of capital development during which a number of large new capital expenditure projects and upgrades were undertaken simultaneously. A small number of large new projects remain in the capital expenditure programme for transportation upgrades and library and community facilities.

Attention has now turned to the renewal programme, for example wastewater (sewer) renewals and upgrading under-street infrastructure that is more than 100 years old in some places. As mentioned above, the Infrastructure Strategy highlighted the need to increase renewals expenditure in water and waste services. Years of financial constraint will continue as these annual increases put pressure on DCC budgets and the organisation's ability to stay within the limits set by the Financial Strategy.

Major projects 2017/18–2019/20

The table below shows major capital expenditure projects scheduled for 2017/18–2019/20 in the LTP. No new major projects have been added since the LTP was completed.

Project	Description	2017/18 \$m	2018/19 \$m	2019/20 \$m
Portobello/ Harington Point Road Safety Improvement*	This is a safety and improvement project involving widening of the road, installation of a walkway/ cycleway and repair of sea walls.	9.7		
Strategic Cycle Network*	This is an extensive project to develop a strategic cycle network throughout the city.	4.5	1.6	1.6
Central City Plan*	This project will upgrade paving, roading and amenities in the central city area.	3.3	7.4	8.4
3 Waters Renewals	This project steps up expenditure to replace aging pipes in water, wastewater and stormwater.	15.7	17.4	20.4
South Dunedin Community Complex	This project will provide a South Dunedin community complex to be funded from the sale of an existing operational or investment property. The complex could host a mix of services such as a community learning centre, a library, a youth hub, visitor information and a Council service centre.	2.6	3.0	
Library Redevelopment	This project will refurbish the City Library in Moray Place.			2.1
Mosgiel Pool*	This project sets a placeholder budget of \$6 million DCC funding and \$7.5 million community fundraising plus inflation adjustment for new aquatic facilities in Mosgiel.		14.6	

*Project has external funding as well as DCC funding.

The capital expenditure programme is reviewed annually as part of the Annual Plan process. During the preparation of the 2016/17 Annual Plan, some timing changes were made to the scope of the cycleways project and timing of the central city plan project. These changes were consulted on as part of the 2016/17 Annual Plan process.

Financial Information

The next pages contain retrospective and prospective financial information for the DCC for the 2013/14–2019/20 years. A statement of compliance with the Financial Strategy is also included.

The financial information for 2013/14 and 2014/15 is sourced from the DCC's annual reports and has been audited by Audit NZ.

The financial information for 2015/16 is the DCC's draft reporting for this year. This information has not been audited as the final audit work had not formally started when this report was produced. The Council's audited 2015/16 Annual Report will be available in the week before the local body elections. There may be some variances between the information included here and the final audited financial statements as a result of audit and year-end processes.

Financial information has been included for the 2016/17 year from the 2016/17 Annual Plan adopted on 27 June 2016. This is not legislatively required but is included for completeness. Please note, there is no requirement for the 2016/17 Annual Plan to be audited.

Financial information for 2017/18–2019/20 is taken from the audited 2015/16–2024/25 LTP.

The information presented for the 2017/18–2019/20 years represents planning at the time that the LTP was prepared, and actual results for the years concerned may differ. The information shown for 2016/17 is from the final Annual Plan 2016/17. Due to the time difference between the preparation of the two plans, the information should not be directly compared. The Annual Plan 2016/17 contains re-forecasts for the 2017/18–2019/20 years, which are not provided here (in accordance with the legislative requirements for this report).

The basis of accounting for the documents concerned can be found in the statement of accounting policies in each document and these are available on the DCC website.

Web links to source documents:

Annual Report 2013/14: www.dunedin.govt.nz/annualreport2013-14

Annual Report 2014/15: www.dunedin.govt.nz/annualreport2014-15

Long Term Plan 2015/16–2022/25: www.dunedin.govt.nz/ltp

Annual Plan 2016/17: www.dunedin.govt.nz/2016AP

Funding Impact Statement

For the Dunedin City Council for the years ended 30 June

	Actual 2014 \$000	Actual 2015 \$000	Forecast 2016 \$000	Annual Plan 2017 \$000	Long Term Plan 2018 \$000	Long Term Plan 2019 \$000	Long Term Plan 2020 \$000
Sources of operating funding							
General rates, uniform annual general charges, rates penalties	62,901	64,886	68,790	69,206	74,344	77,839	80,332
Targeted rates (other than a targeted rate for water supply)	59,516	61,143	62,174	65,390	69,624	71,966	75,403
Subsidies and grants for operating purposes	8,082	8,810	8,219	9,174	9,005	8,900	8,995
Fees, charges and targeted rates for water supply	53,057	54,961	56,865	54,226	54,187	56,314	58,564
Interest and dividends from investments	13,869	14,224	9,856	10,139	10,330	10,972	11,624
Local authorities fuel tax, infringement fees and other receipts	3,154	3,075	3,068	3,162	3,501	3,594	3,693
Total operating funding	200,579	207,099	208,972	211,297	220,991	229,585	238,611
Application of operating funding							
Payment to staff and suppliers	138,484	144,357	146,551	151,317	151,158	154,690	160,041
Finance costs	16,205	15,284	15,944	15,380	17,634	17,455	17,223
Other operating funding applications				(530)	180	180	180
Total application of operating funding	154,689	159,641	162,495	166,167	168,972	172,325	177,444
Surplus (deficit) operating funding	45,890	47,458	46,477	45,130	52,019	57,260	61,167
Sources of capital funding							
Subsidies and grants for capital expenditure	7,253	11,737	6,980	14,909	19,453	17,704	10,387
Development and financial contributions	743	232	1,021	648	684	965	1,010
Increase (decrease) in debt	(8,486)	18,906	(22,517)	(533)	(3,182)	(2,100)	(6,810)
Gross proceeds from sale of assets	1,665	211	5,087	1,260	2,709	3,050	89
Lump sum contributions							
Total sources of capital funding	1,175	31,086	(9,429)	16,284	19,664	19,619	4,676
Application of capital funding							
Capital expenditure							
– To meet additional demand	1,754	1,112	1,968	2,918	3,641	1,559	887
– To improve the level of service	12,241	15,202	12,763	24,373	27,860	30,064	15,567
– To replace existing assets	24,882	29,354	22,096	33,116	37,034	42,176	45,929
Increase (decrease) in reserves	238			0	0		
Increase (decrease) of investments	7,950	32,876	221	1,007	3,148	3,080	3,460
Total applications of capital funding	47,065	78,544	46,477	61,414	71,683	76,879	65,843
Surplus (deficit) of capital funding	(45,890)	(47,458)	(46,477)	(45,130)	(52,019)	(57,260)	(61,167)
Funding balance	0	0	0	0	0	0	0

Summary Balance Sheet

For the Dunedin City Council for the years ended 30 June

	Actual 2014 \$000	Actual 2015 \$000	Forecast 2016 \$000	Annual Plan 2017 \$000	Long Term Plan 2018 \$000	Long Term Plan 2019 \$000	Long Term Plan 2020 \$000
Current assets							
Cash and cash equivalents	1,063	5,419	2,668	457	716	918	1,224
Other current financial assets	16,392	7,974	5,828	10,440	17,310	17,364	17,418
Trade and other receivables, inventories and prepayments	15,557	15,444	13,751	15,863	17,550	18,191	18,843
Non-current assets held for sale	26,143	26,143	99				
Total current assets	59,155	54,980	22,346	26,760	35,576	36,473	37,485
Non-current assets							
Other non-current financial assets excluding subsidiaries	64,854	79,100	80,276	78,087	62,839	63,367	63,467
Finance assets held in subsidiaries	198,366	225,389	227,939	230,491	239,459	242,010	244,561
Property, plant, equipment and intangibles	2,758,904	2,646,662	2,656,566	2,726,858	3,066,257	3,136,879	3,201,117
Total non-current assets	3,022,124	2,951,151	2,964,781	3,035,436	3,368,555	3,442,256	3,509,145
Total assets	3,081,279	3,006,131	2,987,127	3,062,196	3,404,131	3,478,729	3,546,630
Current liabilities							
Short term borrowings							
Derivative financial instruments	12,401	16,402	15,808	15,690	12,401	12,401	12,401
Accounts payable and accruals	28,981	32,796	31,328	33,217	30,975	31,617	32,269
Current portion of term loans	11,110	12,054	17,738	12,897	14,548	15,398	16,086
Total current liabilities	52,492	61,252	64,874	61,804	57,924	59,416	60,756
Non-current liabilities							
Term loans	208,573	226,535	198,334	206,478	230,664	227,714	220,217
Provisions and other non-current liabilities	8,705	8,589	8,541	8,789	9,105	9,205	9,305
Total non-current liabilities	217,278	235,124	206,875	215,267	239,769	236,919	229,522
Equity	2,811,509	2,709,755	2,715,378	2,785,125	3,106,438	3,182,394	3,256,352
Total equity and liabilities	3,081,279	3,006,131	2,987,127	3,062,196	3,404,131	3,478,729	3,546,630

Compliance with Financial Strategy

The Financial Strategy included in the 2012/13–2021/22 LTP established percentage rate increase limits of 4% in 2013/14 and 3% in 2014/15. It set a gross debt target of \$200 million that was forecast to be achieved in the 2021/22 year.

The updated Financial Strategy included in the 2015/16–2024/25 LTP limits future rate increases to 3% unless there are exceptional circumstances. The 2015/16 year is an example of that, with the Council setting a 3.8% rate increase limit reflecting two main issues – a different way of funding the Forsyth Barr Stadium and reduced income from DCHL. The other key change to the Financial Strategy was to increase the gross debt target to \$230 million to account for the transfer of \$30 million debt to the Council from the Stadium. The eventual gross debt limit of \$230 million was forecast to be reached by the 2020/21 year.

The tables below show how the Council has complied with the Financial Strategy in the three years from 2013/14 to 2015/16.

	2013/14 Limit	2013/14 Actual	2014/15 Limit	2014/15 Actual	2015/16 Limit	2015/16 Actual
Rates	\$121m	\$122m	\$125m	\$125m	\$130m	\$131m
Rates increase	4.0%	4.0%	3.0%	3.0%	3.8%	3.8%
Gross debt	\$273m	\$220m	\$272m	\$239m	\$248m	\$216m

Although the budgeted income set is within the limit for rates income, sometimes the actual rates income is greater for the following reasons:

1. Budgets, including rates, are approved and set at the end of May each year. Between May and June, additional rates revenue arises, due to growth (e.g. subdivisions, extensions), and budgets don't include this. Actual rates include this growth. This affects the level of actual rates income.
2. Voluntary rates (e.g. Warm Dunedin) are excluded from the rates limit in the LTP but are included in actual rates revenue. This is because the DCC has no control over the uptake of the scheme and it only affects rates of those in the scheme.

Return on investments

The Financial Strategy sets a target of achieving a return on investment higher than the cost of debt. The aim of this target is to produce a net financial gain to the city, in turn providing a subsidy to rates. In the case of equities such as those held through the Waipori Fund, it allows for inflation in order to protect its real value.

As discussed earlier in the Report, all bar two of the Council investments (the Waipori Fund and Taieri Gorge Railway) showed a long term return higher than the cost of debt.

In addition to the medium to long term targets, the annual budget includes an annual interest and/or dividend payment to be received from each of the following three investments. The table below shows the budget and actual amounts for the 2013/14–2015/16 years.

	2013/14 Budget	2013/14 Actual	2014/15 Budget	2014/15 Actual	2015/16 Budget	2015/16 Actual
DCHL	\$10.5m	\$10.5m	\$10.5m	\$10.5m	\$5.9m	\$5.9m
Waipori Fund	\$3.1m	\$5.4m	\$3.4m	\$3.4m	\$3.7m	\$3.7m
City Property	\$4.6m	\$4.6m	\$4.2m	\$5.0m	\$3.7m	\$3.9m

Glossary

Annual Plan – budget, project and performance information prepared annually by local authorities as required by the Local Government Act 2002.

Annual Report – report on the DCC's performance against the annual plan. Content is specified by the Local Government Act 2002 and the document is audited.

Council-Controlled Organisation (CCO) – a council organisation that is a company. There are three kinds of CCO: not-for-profit CCOs; non-trading CCOs and Council Controlled Trading Organisations.

Council-Controlled Trading Organisation (CCTO) – a council-controlled organisation that operates as a trading company for the purpose of making a profit.

Dunedin City Holdings Limited (DCHL) – the parent company of many of the CCTOs.

Dunedin Venues Limited (DVL) – the CCTO that owns the Forsyth Barr Stadium.

Dunedin Venues Management Limited (DVML) – the CCTO that manages and operates the Forsyth Barr Stadium and other venues, including the Dunedin Centre.

Financial year – a period of 12 months ending on 30 June.

Investment Property Portfolio – the DCC's investment property portfolio provides property investment income that is used to reduce the overall rates requirement.

Long Term Plan (LTP) – audited 10-year plan prepared by local authorities under the Local Government Act 2002. Contains strategic planning, including the Financial Strategy, and provides 10-year budgets, expenditure programmes and performance targets.

Waipori Fund – a fund based on invested revenue from the sale of the Waipori electricity generation scheme, which provides a source of non-rates-funded revenue for the Council that can be offset against rates.