# DRAFT COMBINED FINANCIAL AND INFRASTRUCTURE STRATEGY

Draft version to support the Three-Year Plan 2024-27 Consultation Document

**March 2024**

NAPIER
CITY COUNCIL
*Te Kaunihera o Ahuriri*

# Contents

# Executive summary

This combined Financial and Infrastructure Strategy (F&IS) has been prepared to satisfy the requirements of the Local Government Act 2002 and the Severe Weather Emergency Recovery (Local Government Act 2002—Long-term Plan) Order 2023. The purpose of this joint strategy is to set out the key infrastructural and financial considerations and challenges that need to be overcome to meet Napier City Council's short and long-term strategic objectives.

### Why have an Infrastructure and Financial Strategy?

We manage an infrastructure portfolio with a value of around $2.24 billion[1] and spend around $130M annually[2] to keep our city running and deliver the levels of service our community expects. Given that scale, and the nature of the 'lifeline' networks and systems we manage, like the water we drink, it's important to have a clear strategic approach to what we invest in, when, and how we're funding it. We can't afford to get these decisions wrong. Our strategy outlines a responsible approach to maintaining, renewing, and enhancing our assets while balancing financial sustainability.

### Where are we now?

We're operating in an environment with lots of external pressures and risks, especially in the wake of the challenges posed by recent events like Cyclone Gabrielle.

While developing this strategy, we've had to be honest with ourselves about the state of the infrastructure networks we manage. A significant proportion of our asset portfolio is ageing, which is common after development "booms" in the 1950s and 1970s. It gets to a point where lots of assets come to the end of their useful lives after 50 to 80 years – a concrete pipe, for example, is only engineered to last for a finite period. We also haven't invested the way we needed to in maintenance and proactive replacement. While that saved our ratepayers money in the short term, it means we're starting to see assets failing and requiring costly emergency fixes and increased renewal programmes.

At the same time, we're grappling with financial constraints. We can't invest in fixing and renewing everything at once. That wouldn't be affordable for current ratepayers and fails to recognise that renewed/replaced assets will continue to service the community for the next few generations. We're also affected by inflation and cost increases like any household is – it's costing us more and more to maintain our 'levels of service'.[3]

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[1] Property, plant and equipment value as at 30 June 2023.
[2] Based on actual operating expenditure in 2022/23, excluding depreciation.
[3] 'Levels of service' define what the community can expect to see delivered by council for the rates they pay. A simple example is collecting kerbside recycling once a week in urban areas. That strikes the right balance between ensuring public health and avoiding nuisance, while not costing more than the community is prepared to pay for.

## Where are we going?

To navigate these kinds of competing influences, we've set priorities for our Three-Year Plan 2024. We recognise what a significant role investment in our infrastructure portfolio plays in achieving these aims, but also need to balance what our community can afford in the here and now. Here are our current priorities, which you can read more about earlier in our Three-Year Plan document:

- **Financially sustainable council**: Council has an operating model and financial strategy which is affordable for rate payers and enables us to achieve our objectives.
- **A great visitor destination:** Napier is a destination aspiring to provide 'world class' facilities and attract visitors to our city. We make it easy for people to invest in our city and create experiences that attract widespread participation.
- **Spaces and places for all:** Napier has spaces and places that everyone has access to and wants to use. We have a focus on accessibility, affordability, safety, and city vibrancy.
- **A resilient city – the ability to thrive and withstand impacts, knocks and shocks:** Council makes good future planning and investment decisions to prepare for a changing climate future and enables our community to build self-reliance. Our people, economy and infrastructure are resilient.
- **Nurturing authentic relationships with our community and partners**: Council fosters meaningful relationships, demonstrating our commitment to listen to our community's needs, concerns, and aspirations. Developing strong partnerships with mana whenua and tangata whenua ensures we uphold our obligations under Te Tiriti o Waitangi.

Our current state is one of transition and opportunity. By focusing on these priorities, we aim to build a foundation that addresses today's needs and paves the way for a sustainable, resilient, and vibrant future for our city and its residents.

## Purpose

This combined Financial and Infrastructure Strategy (F&IS) is designed to steer Napier's infrastructure development, investment and approach to financial management over the next 10 years. This adjustment from the usual 30-year planning horizon is a direct response to the impacts of Cyclone Gabrielle, emphasising the need for focused and agile planning.

Forming part of our Three-Year Plan, this F&IS ensures that our investments and asset management decisions directly support Council's strategic objectives.[4] We've chosen to bring together what we've previously treated as two separate strategies to acknowledge the interconnected nature of infrastructure management and our financial reality.

This strategy will next be reviewed in 2027 and is designed to address big challenges at a scale far longer than the three-year political term. Because we are facing significant uncertainty around the future of water service delivery, and given we've had limited capacity to focus on preparing this plan as we diverted attention into our cyclone response, we've really focused on years 1-3 when it comes to our finances and infrastructure planning. This strategy does set out detail about years 4-10 to give our community a sense of where we're going but this will very likely need to be refined. Our 2027 review gives us this opportunity.

We're operating in a post-COVID19 and post-Cyclone Gabrielle context. Just like whānau across Napier, our finances are stretched and now we're facing unanticipated costs of reinstating broken infrastructure like the Redclyffe Bridge. This strategy aims to strike the right balance between what our community needs and wants, our obligations as a good 'asset manager', and what we can afford.

## Requirements for this strategy

### *Financial Aspect*

Per the Severe Weather Emergency Recovery (Local Government Act 2002 – Long-Term Plan) Order 2023, the financial component of this strategy must:

- include a statement of the levels of service that Council intends to provide over the next ten years.
- Include a statement of Council's quantified limits on rates increases and borrowing.
- Include an assessment of Council's ability to provide and maintain existing levels of service and meet additional demands for services within rates and borrowing limits.
- Specify Council's policy on giving securities for our borrowing, and
- Specify what we're trying to achieve in holding and managing any investments/equity securities.

[4] Our strategic objectives are set out on page XXXX of our Three Year Plan. In summary, they are:
- Financially sustainable council
- A great visitor destination
- Spaces and places for all
- A resilient city – the ability to thrive and withstanding impacts, knocks and shocks
- Nurturing authentic relationships with our community and partners

### *Infrastructure Component*

The infrastructure component of this strategy complies with clause 16 of the Severe Weather Emergency Recovery (Local Government Act 2002 – Long-term Plan) Order 2023. The post-cyclone amendments to this planning period mean that Council is required to outline the following things in respect to infrastructure:

1. Significant infrastructure issues faced by Council.
2. The principal options for managing those issues and the implications of those options.
3. A description of the major capital projects that Council is proposing or implementing, including any to facilitate recovery from Cyclone Gabrielle, and
4. The likely funding options for those major capital projects and the implications of those options for rates and debt.

## Where are we now: financial and infrastructure 'health'

We're operating in an environmental with lots of external pressures and risks, especially in the wake of recent events like Cyclone Gabrielle and COVID-19.

### *Our current financial position*

We're facing some significant financial constraints in the coming years. We can't invest in fixing and renewing everything at once, nor do we have the means to progress all the new projects and initiatives that we'd like to. That wouldn't be affordable for current ratepayers and fails to recognise that renewed/replaced assets will continue to service the community for the next few generations. We're also affected by inflation and cost increases like any household is – it's costing us more and more to maintain our 'levels of service'.[5]

We're starting off this TYP in a relatively strong financial position. We have a very low level of external debt in comparison to other councils across the country ($10M at 30 June 2023). But that needs to change and were anticipating finishing the 10 year period covered by this F&IS facing quite a different reality. We've developed a capital plan that priorities what needs to happen and cuts the excess or 'nice to haves' wherever possible. Even then, our capital programme is projected to cost us $1.1 billion over 10 years. It's just not feasible to fund that quantum of work through rates increases alone; our community couldn't afford it and it wouldn't spread the cost of long-lasting assets over all the generations who will benefit from them. Instead, we're planning on borrowing to cover the cost and managing that debt as strategically as possible. We're anticipating ending the 10-year period between 2024 and 2034 with just over half a billion dollars' worth of debt.

### *The state of our infrastructure and networks*

Infrastructure is the system that supports our daily lives, encompassing everything from the roads we travel on to the parks where we relax. Here's how it impacts our community across various categories:

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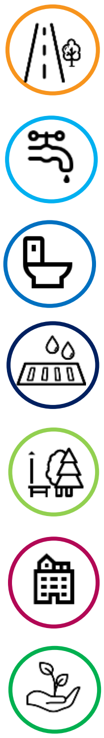
[5] 'Levels of service' define what the community can expect to see delivered by Council for the rates they pay. A simple example is collecting kerbside recycling once a week in urban areas. That strikes the right balance between ensuring public health and avoiding nuisance, while not costing more than the community is prepared to pay for.



- **Transportation**: This includes the roads, bridges, and footpaths that connect us to work, school, and leisure activities. It's about safe, efficient travel for everyone in our community.
- **Water Supply**: Ensuring every home and business has access to clean, safe drinking water to keep us and our community healthy.
- **Wastewater**: This system safely removes and treats water after we've used it in our homes and businesses, protecting our health and preventing environmental contamination.
- **Stormwater**: Managing rainwater and runoff to minimise flooding risks to properties and maintain the quality of our waterways.
- **Parks, Reserves, and Sportsgrounds**: These spaces are where we play, exercise, and relax. They're essential for our physical and mental well-being, offering green spaces and recreational areas.
- **Buildings and Facilities**: This includes libraries, museums, pools, cemeteries, and community centres - places where we learn, gather, and access community services.
- **Solid Waste**: Effective waste management systems keep our city clean, our homes and businesses healthy, and reduces the impact on our environment as far as possible.

While developing this strategy, we've had to be honest with ourselves about the state of the infrastructure networks we manage. A significant proportion of our asset portfolio is ageing, which is common after development "booms" in the 1950s and 1970s. It gets to a point where lots of assets come to the end of their useful lives after 50 to 80 years – a concrete pipe, for example, is only engineered to last for a finite period. We also haven't invested the way we needed to into maintenance and proactive replacement. While that saved our ratepayers money in the short term, it means we're starting to see assets failing (requiring costly emergency fixes), and/or instances where our community is not receiving the level of service we set out to provide.

One of our biggest challenges, which will be expanded upon in this strategy, is that we have gaps in our knowledge about our assets. That includes the condition of our underground assets, like sewer pipes which deteriorate over time, and above ground assets like the buildings and homes we own, which can face issues over time that aren't necessarily obvious without specialist testing. This data is essential for ensuring that we can intervene and plan maintenance or replacements before assets fail or network condition becomes too poor to manage. Improving this data is going to take significant effort and investment over the next 10 years.

## Where are we headed and how are we going to get there?

We've got to be strategic in the way we unlock financing and invest that funding very deliberately in our assets. It's a case of prioritising based on risk, criticality and greatest benefit to the community. Over the next 3 years, we're planning for a $354 million infrastructure investment. Key areas of focus and financial allocation include:

- **Risk Assessment and Resilience Building:** Directing Capex[6] towards strengthening our infrastructure.
- **Community Engagement and Transparency:** Maintaining open communication and involving the community in our plans.
- **Innovative Solutions and Technology:** Investing in technology for efficient management and sustainability.
- **Continuous Monitoring and Adaptation:** Allocating Opex[7] for the upkeep and evolution of our infrastructure.
- **Strategic Financial Planning:** Balancing Capex for development and Opex for maintenance, ensuring sustainable financial management.

## Key Assumptions

A full suite of planning assumptions has been included earlier in our Three-Year Plan. This F&IS has been prepared in alignment with those assumptions. Those which are particularly relevant to our infrastructure and financial planning are highlighted briefly as follows:

- **Demographic Changes**: We're seeing a growing ageing population alongside urban development. Our infrastructure strategy needs to support these shifts with accessible and adaptable public facilities and services.
- **Technological Progress:** We're embracing smart technology as we can afford to. It means we can work more efficiently and achieve better outcomes for our community.
- **Economic Turbulence**: We're planning for an inflated economy where it costs more to deliver our projects and we're paying more to borrow. Conversely, it's an opportunity to make the most of relatively high interest rates on investments. We're also keeping affordability for households front of mind.
- **Environmental Sustainability**: We need to be planning for a future with more frequent extreme weather events, rising sea levels, a rising water table and hotter climates.
- **Legislative Readiness**: We're anticipating reforms in water services, resource management, and local government and preparing to adapt our plans to meet new regulations and standards.

## Our Challenges

This F&IS is required to cover the significant infrastructure issues we're facing over the next 10 years. Each of the 10 challenges we've identified are addressed in turn below.

### Affordability, fairness and intergenerational equity

*The challenge*

[6] Capex includes expenditure on creating new assets, increasing the life or capacity of existing assets, or replacing them.
[7] Opex covers day-to-day maintenance and operations across all infrastructure services, like painting a building or cleaning a pipe. This ensures that our current infrastructure remains in good condition while we progressively work on enhancements and new developments.

Our financial landscape centres on balancing the need for affordable rates and managing limited resources versus the need to take good care of the assets like the roads and reservoirs that we rely on every day.

We're facing a significant programme of work to modernise our ageing infrastructure, enhance our resilience against natural disasters, and futureproof our assets (both in terms of how our community expects them to perform, and what environments they will be exposed to). At the same time, our community expects to see continual improvement of services because of annual increases to rates.

All these demands do not come cheaply, and we recognise that the cost of this can't and shouldn't rest solely with our current ratepayers. We need to spread the cost of major asset upgrades across the generations who will benefit from them. We also have opportunities to make our money work for us through the likes of strategic investments and new ways of working with external investors.

The previous government's 'Three Waters Reform' programme (later known as the 'Water Services Reform') would have seen ownership and responsibility for our urban drinking water, wastewater and stormwater network transferred to a new regional entity, co-owned by participating councils and co-governed by councils and mana whenua. This would have transferred responsibility for required asset upgrades over to a new body which, in theory, could unlock new funding opportunities and economies of scale. Conversely, it would have meant Council's asset portfolio was reduced, which may have impacted our borrowing headroom. This policy has now been overturned, and the incoming coalition government has made its intention clear that waters assets and responsibility for service delivery is to remain with councils until/if they voluntarily shift to a new model. Practically, that means we're now having to budget for work that we weren't anticipating being responsible for after 2025, which creates more demands on our limited resources.

### *Our options*

- **Significant rates increases** to catch up on deferred work and futureproof our assets, which compound cost of living pressures on our community.
- **Significant borrowing** to invest what we need to into our networks and facilities, which we ultimately have to pay back with interest and means less agility to draw down borrowing for emergencies/large future projects until we catch up.
- **Striking the right balance** between rates funding and loan funding, working within borrowing limits and managing loan funding carefully.
- **Revisiting/recalibrating levels of service** which might result in a lower service than our community is accustomed to.
- **Divestment of assets**, which can free up funding as an 'one time' solution but is by nature difficult to reverse.

### *Our response*

This Three Year Plan proposes a significant rates increase in year one (23.7%) and steady increases over the following nine years. This has not been an easy decision to make as we know it comes at a time when households' finances are under pressure. Ultimately we've decided this is necessary to ensure we have the budget to continue delivering high quality core services. Our strategy focusses on minimising shortfalls in the near term while creating flexibility and headroom for years four to ten. It will allow us to build up a buffer in our infrastructure asset renewals reserves, which we've historically underfunded to keep rates low. Those reserves offer us a dedicated pool of funds available when assets reach the end of their useful life or require significant maintenance. By setting aside money in advance, we can proactively address the renewal needs of their infrastructure without relying solely on ad-hoc budget allocations or facing financial strain when unexpected issues arise.

In addition, we're planning to borrow to make sure we can deliver projects in a timely way. This shares the cost by spreading the load across current and future ratepayers, so it's not too heavy on anyone right now but everyone can enjoy the benefits down the line. We have specialist staff in Council who make informed decisions about loan terms and repayment structures to mitigate the costs of borrowing as far as possible.

We are also acutely aware of the need to ensure we're operating efficiently and sustainably. That includes regularly revisiting our levels of service to ensure what we're providing and prioritising is in line with what the community expects and is willing to pay for. A simple example to illustrate this is our approach to kerbside rubbish collection. Currently, we offer urban rubbish collection once a week, which aims to strike the right balance between convenience and public and environmental health, and the cost of visiting around 6,000 homes each week and emptying their bins. We could come daily, but that cost would be reflected in rates bills. We could come monthly and save on operating costs, but rubbish would accumulate on properties and start causing issues. We need to review levels of service across the business over the next few years to ensure we're spending the right amount of energy and resources on the right things.

As part of our consultation on this plan and strategy, we're proposing to divest the three housing villages we currently use to provide social housing. This is just a proposal at this stage, and Council won't make a decision on this until May 2024. Divestment of a portion of our portfolio would reduce our operational outgoings for the housing portfolio and lessen the pressure on our capital budgets for maintenance and upkeep. We have not determined what we would do with any proceeds from sales of these villages.

We are also proposing a shift in approach for some of our business and tourism portfolio such as Napier Conferences & Events and Ocean Spa to commercial models. That means that after two to three years these facilities would generate all the revenue needed to cover the cost of running them, and not receive any 'top ups' from rates funding. If that is not achievable, we'll have to consider our next steps to keep the cost of our day-to-day business in check.

## Aging assets

### *The challenge*

Like many other parts of New Zealand, Napier finds itself in a challenging phase of its infrastructure asset lifecycle, with many of its assets over 50% through their useful life and some beyond their intended useful lives. The performance of an infrastructure asset becomes much less predictable as it ages and requires more frequent maintenance and replacement.

We plan our maintenance and improvements according to the best information we have about our assets, but we recognise there are gaps in what we know. Those data gaps are a liability if we can't plan to maintain or replace assets before they fail.

Our transport assets are generally well maintained and in reasonable condition but there is a risk that without continued steady investment we fall behind and our network deteriorates relatively quickly.

For water assets and our buildings however, the picture is not so clear. Take our underground network of sewer pipes as an example; we have never done a comprehensive condition assessment of all these pipes to see how they are performing and ageing. Generally, the more recently they were installed, the better data we have about what they are made of, exactly where they are, and how long they are expected to last. But for older pipes, the data in our asset management system is often just a best estimate, or defaults to a standard installation date if the actual date is unknown. That means when we forecast what we need to replace over the next 30 years, the data is telling us a story we can't fully trust. Until we carry out physical inspections, which is no mean feat for 394km of wastewater mains, we're going to continue to have to overcome this asset intelligence deficit.

### *Our options*

- **Do nothing**, acknowledging we'll continue to run into the same challenges around planning and proactive maintenance.
- **Schedule and plan for condition assessments as resourcing and budget allows**, focussing on critical assets first, acknowledging despite our best efforts, data gaps may persist in certain areas for some time.
- **Full-scale focus** on condition assessment and data capture, acknowledging that without significant new funding and/or resourcing, other projects would need to be deprioritised in the meantime.

### *Our response*

We're building in condition assessment programmes into our business planning, balancing the need for better information with the reality of still needing to maintain the day-to-day operation of networks and react to unanticipated failures.

For example – we're currently in the planning stages to implement a CCTV inspection programme of our underground sewer and stormwater pipes. This would be a multi-year programme of work targeting the highest risk assets first (based on what we already know).

For buildings, we currently carry out a three-yearly cycle of visual assessments on facilities like the National Aquarium, public toilets and community halls. While these inspections tell us some of the story, ideally we would conduct more thorough assessments that involved sampling, moisture testing, inspecting air conditioning systems and the like. We're currently planning to implement a programme of detailed condition assessments for mechanical services in all the buildings we maintain responsibility for. This is part of building up incremental improvements to our understanding of the assets we manage.

## Ability to borrow

### *The challenge*

We're needing to rely on external borrowing throughout the period of the TYP, which is a departure from our recent history of being debt-free. We have some significant projects coming up and a backlog of maintenance and renewals to catch up on that we won't be able to achieve without external funding.

We do have limits on how much we can borrow. As part of the Local Government Funding Agency (LGFA) we can access competitive financing especially tailored to the local government sector. But the LGFA puts limits on how much each council can borrow to ensure it's being used sustainably – for us this is currently 175% of our revenue. We've also set our own debt limit to match this 175% ratio. Technically we could breach this LGFA covenant and our own quantified limit, but our cost of borrowing would increase significantly if we were to do that.

We need to make sure we're borrowing to cover the work we need to deliver, but not borrowing so much that we get too close to our 175% limit and start to jeopardise our ability to withstand unanticipated shocks in the future.

### *Our options*

- **Borrow what we need** without worrying too much about the 175% debt caps, but risking a higher cost of borrowing if we breach the cap and less flexibility if we encounter unforeseen challenges like we did with Cyclone Gabrielle.
- **Carefully manage our borrowing** to stay within the 175% debt caps and protect some borrowing "headroom" for the future, acknowledging that there will be projects and programmes we need to defer or abandon to find the right balance.
- **Explore strategic opportunities** to maximise our borrowing headroom, such as becoming an LGFA 'rated' council (explained in more detail below) noting that this might come with more compliance obligations and can work against us if we don't manage it well.

### *Our response*

We've developed our capital programme and budgets to stay within the 175% limit (currently forecast to peak at 152% in 2031/32). That has involved delaying/deferring projects to be considered at a later date (Te Pihinga community centre, for example). As we progress through the 10 years covered by this strategy and develop a better understanding of the cost of our major projects sitting in later years, we will likely need to revisit our phasing to keep within this limit.

We're also approaching our borrowing prudently. Becoming a member of the LGFA in 2020 gives us access to the best possible interest rates on lending and involves the receipt of 'borrower notes' (debt securities that can be converted to equity under specific circumstances) which can work for us in the long term.

In addition, we're planning to explore options around taking on a credit rating. Council is currently unrated given our history of low external debt. If we become rated with S&P Global or Fitch Ratings, we can unlock more competitive borrowing rates through the LGFA and our debt limit could increase to 280% of our revenue. That gives us more headroom to borrow.

Exactly when we take on a credit rating is key. To maintain a rating, our financials need to be externally audited each year at a cost of around $100,000. Once we reach around $100M of external borrowing, the interest savings we would unlock by having a credit rating start to outweigh that audit cost. We're anticipating hitting that $100M debt threshold around year three of this plan and will keep a close eye on our debt levels to make sure we can make this shift at the optimal time, if that's the preferred way forward. In the meantime, we will start application preparations. There are some risks involved. Once we are rated, there is always the risk that our rating is downgraded. That effects the interest rates we can access and comes with a reputational risk for Council. These will be fully explored and considered when we come closer to a formal decision whether to become a 'rated council'.

## Cyclone recovery

### *The challenge*

In the aftermath of Cyclone Gabrielle, we're facing unanticipated costs and challenges to reinstate lost infrastructure and adapt some of our critical assets to safeguard against failure in similar events in the future.

We jointly own both the Redclyffe Bridge and Brookfields Bridge with Hastings District Council, both of which were destroyed by the force of the swollen Tutaekuri River on February 14 2023. The Redclyffe Bridge has been temporarily reinstated for light vehicles only, but we still need a permanent solution to provide another vital connection between Napier City and the wider Hawke's Bay region. Brookfields Bridge remains damaged and impassable.

Our sole Waste Water Treatment Plant (WWTP), situated in Awatoto, was inundated by floodwater on 14 February 2023. The water damage to electrical componentry on the ground floor of the facility rendered the plant inoperable for two months, during which the city's wastewater bypassed the plant entirely and was discharged, untreated, into Hawke Bay.

Partial treatment began again in April 2023 and full restoration of service took five months after the cyclone. We now have the chance to invest in improvements to our WWTP, like lifting critical components up to a higher floor level, to ensure a failure like this wouldn't happen again under similar conditions in the future.

### *Our options*

- **Do nothing** and 'save' the money. We could leave the two bridges out of commission and take the chance that similar flooding either won't occur in Awatoto in the future, or that it wouldn't have the same effect on our WWTP.
- **Like for like replacement** - our infrastructure landscape is restored to how it looked pre-Cyclone, but might come with an opportunity cost if we missed the chance to build back better.
- **Targeted improvements to the WWTP** – using the lessons we learned from Cyclone Gabrielle to focus on smaller scale reconfiguration of the plant that protect from outages in future flooding events, noting that it will have a direct cost to the community as it's not covered by our insurance.
- **Take the time for due diligence before making decisions** for significant investment. While this delays immediate action, it means we spend once and spend right.

### *Our response*

Pursuing a combination of taking time for due diligence and implementing some targeted improvements now presents a balanced approach to enhancing resilience. This dual strategy allows us to address immediate vulnerabilities while making sure that when the time comes to invest millions of dollars on the Redclyffe Bridge, we're confident that we've settled on a modern and future-focussed solution. Because the Bridge is jointly owned with Hastings District Council, we also need to make sure any replacement meets the needs of both communities. We're still considering options for the Brookfields Bridge. We've set aside funding for Brookfields in year 11 of our budgets (which is just outside the scope of this strategy), but we'll have opportunities to revisit that timing once we've got a better understanding of our options.

We're already working on improvements to the WWTP to mitigate immediate risks and enhance safety, both for the people operating the plant, and for our marine environment. We've set aside $4.3M of funding over 10 years for this initiative.

## Preparing for climate change and natural hazards

### *The challenge*

In Hawke's Bay, we're facing the test of time and nature. Our changing climate is predicted to bring more frequent and intense storms to our region. The recent cyclone was a wake-up call, showing us the need for resilient infrastructure that can continue to operate in harsh and unexpected conditions. With our coastline and low-lying areas vulnerable to erosion and inundation, we must rethink and reshape our infrastructure for the future and consider how much we’re willing to pay to engineer ourselves out of climate risks. Hawke’s Bay is also one of the most seismically active regions in Aotearoa.

We know we need to strengthen existing structures and ensure new developments can withstand the tests of weather, time and natural disasters. Sustainable land use and comprehensive water management are also key, helping to prevent problems before they arise. We need to take opportunities to enhance our emergency preparedness during ‘normal’ periods to ensure the community can stay safe if the worst happens. By proactively tackling these risks, Napier can ensure a sustainable and resilient future for its residents and businesses.

### *Our options*

- **Do nothing** and avoid the outlay but risk higher future expenses and vulnerability to natural disasters.
- **Engage the community and form partnerships**. This involves upfront costs but would create strong relationships that can unlock shared opportunities and funding for resilience.
- **Plan resilience strategically** includes low-cost monitoring for immediate improvements and significant investments in infrastructure to cut future costs and reduce damage from events. By incrementally improving community safety and environmental sustainability, we aim to minimise resistance and emphasise the importance of gradual changes and active community participation.

### *Our response*

Facing financial limits, we're choosing a focused path of incremental improvements and strategic planning to boost resilience. Our plan prioritises strategic, cost-effective actions that can make a big difference now, without overwhelming our budget.

We’re proposing a dedicated ‘Resilience Rate’ from 2024/25 onwards, the revenue from which will be ringfenced for activity related to emergency preparedness. This includes both operational initiatives like Civil Defence planning and physical works like network capacity upgrades.

We'll start with smart, discrete projects like upgrading drainage in critical areas to mitigate future damage risks. This method allows us to address immediate concerns effectively while planning for broader improvements as funds allow.

## Increased demand from growth

### *The challenge*

Starting from a community of 67,900 in 2023, we're on a path to grow by a little over 8.5% to reach a population of 73,740 by 2034. Most of our new residents will move into existing homes (infill), while some will build new (greenfield).

As Napier grows, so too does the demand for water to drink, roads to travel on, and places to play and gather. We'll have to think smart – not just build more, but build better, ensuring everyone can live comfortably without traffic congestion or poor performing local drainage networks.

Our neighbours in Hastings are also growing, and together, we're creating a Future Development Strategy that ensures our infrastructure – the physical support that holds our community together – keeps pace with where and when we're growing.

## *Our options*

- **Plan for minimal growth**: Acknowledging limited expansion may save money initially but could lead to future congestion, dissatisfaction and opportunity cost.
- **Plan for medium growth**: Provides space for our community to grow but risks uneven development and underserved areas.
- **Plan for high growth**: Investing heavily upfront ensures comprehensive infrastructure to support future needs and satisfaction but comes with a cost to council as we boost capacity in our networks.

## *Our response*

We're legislatively required to provide for housing development, so 'do nothing' is not an option here. The National Policy Statement – Urban Development also requires us to develop a Future Development Strategy.

Our options will be appropriately explored through the Future Development Strategy process and enabled by our District Plan. The Future Development Strategy will show where we should target growth, set out the infrastructure needed to support and service that growth and highlight development constraints like flood or coastal inundation risk.

We've chosen to base the development of our Future Development Strategy on a medium-high growth projection; carefully weighing the need for expansion against mindful investment. This is a balanced response to the projection, ensuring we develop our city thoughtfully to meet increasing demand without overwhelming our resources or compromising our existing levels of service.

Recognising that most new residents will settle in existing neighbourhoods, we're focused on targeted intensification with sequential upgrades of water and roading network. This not only helps to cover the demand, but also supports the capacity, increases reliability and network performance for existing residents.

## Aging population

### *The challenge*

The latest census shows an evolving demographic trend: by 2048, nearly a third of our residents will be seniors. By the numbers, that means that over the next 24 years the proportion of our community 65 years or over will rise from 22.9% (2024) to 28% (2048).

This demographic shift brings an increasing necessity for accessible infrastructure in public spaces, transportation, and buildings. It also means a growing segment of our community will become more vulnerable, requiring additional care and support. There will be a higher dependency on critical lifeline networks such as water and telecommunications. There's a financial element too – it means that a larger portion of our ratepayer base will be on fixed incomes and less able to absorb marked increases to their rates bills.

### *Our options*

- **Investment in accessibility improvements to our infrastructure as opportunities arise** acknowledging that transformational accessibility improvements to our networks will take time.
- **Full scale accessibility integration for our infrastructure**. All new projects are designed with full accessibility from the outset and we undertake comprehensive retrofitting of existing infrastructure.
- **Settle a model for retirement housing provision that is financially sustainable over time** noting that this may mean we have to narrow the scope of what we provide.

### *Our response*

The ageing population trend is well understood and integrated within standard Council planning processes. For example, when renewing our transport corridors, we already factor in accessibility improvements at crossings. We also continue work to realise our Positive Ageing Strategy and Disability Strategy, directed by our Positive Ageing Strategy Advisory Group and the Napier Disability Advisory Group.

We're also using this TYP as an opportunity to consider how our housing villages can continued to be provided for older people in a way that is financially sustainable. Council's housing portfolio continues to be one of the few options available in Napier to those whose income is limited to superannuation and who have no assets they can leverage to afford retirement villages. With a growing elderly population, we recognise this housing is filling a critical gap in the market but want to make sure the way this activity is managed and funded ensures these homes are available long into the future.

## Increasing environmental and regulatory standards

### *The challenge*

The standards we need to meet in our day-to-day work are steadily increasing to protect the health of our community and our environment. For example, more stringent drinking water standards came into effect in 2022. We also know we need to meet incoming national standards for kerbside recycling and introduce a household food scraps collection service.

We are also navigating a complex landscape of reforms and proposals that could fundamentally change what we're responsible for:

- The Three Waters Reforms are now being replaced by the new government's Local Waters Done Well policy, which requires councils develop and present a financially sustainable model for water services delivery into the future.
- The recommendations from the Future of Local Government review are still sitting with central government awaiting response.
  The new government has announced a three-step reform process to the Resource Management Act 1991 to balance urban development with environmental preservation.

### *Our options*

- **Deliberate deferral of compliance** with a plan for compliance that is financially prudent, acknowledging that opens us up to the risk of regulatory scrutiny and enforcement.
- **Targeted improvements** to prioritise meeting legislative requirements over and above any level of service considerations – essentially a 'middle ground' of ensuring compliance in the most critical areas.
- **Full commitment of investment to meet new standards** and maintain/improve level of service, knowing this comes at a large cost to our community.

### *Our response*

Given our financial constraints, sometimes we're needing to deliberately take a slower pathway to achieving compliance, and other times we're targeting compliance in areas that create the highest risk.

Our approach to the new drinking water standards is a good example of this. We're currently non-compliant, but we've shared an improvement plan with Taumata Arowai which will see us achieve compliance in 2028. This relies on a series of investments, like sinking new bores and commissioning new treatment plants that we just couldn't achieve or afford in time.
The public health risk levels of Napier's water supply have not changed for the worse due to this non-compliant status. We are currently running seven operational bores and have two bore sites where appropriate bacterial and protozoa treatment is installed (A2 and A3). All other bore sites have been upgraded with online drinking water quality instruments and alarmed. Due to this, the risk we faced when we were compliant prior to the introduction of the new legislation is now effectively lower, even though we are currently non-compliant under

the new legislation. It is also important to note that the new legislation introduced did not affect our microbiological compliance in the distribution network as we have had no transgressions to date and all monitoring results comply with requirements.

In terms of national reform, we are planning ahead as far as practicable to ensure that Napier is well placed to navigate changes on the horizon. Finding the right balance between being prepared versus getting too far ahead of central government policy decisions is key to ensuring we're using our resources wisely.

## Outdated systems and processes

### *The challenge*

Our current challenge lies in modernising our internal systems and processes. While they work, they aren't as connected or efficient as we expect them to be in today's fast-paced, digital world. We have an opportunity to embrace new technologies that can transform how we gather and use information, leading to smarter, more informed decisions for our city.

Our goal is to streamline these systems, creating a cohesive framework that enables seamless data flow and analysis. This step forward will not only improve how we operate but will also enhance the services we provide to our community.

### *Our options*

- **Do nothing** acknowledging this will continue to hinder our productivity.
- **Prioritise upgrades** of most valuable and utilised softwares.
- **Full scale investment** in modernized digital infrastructure.

### *Our response*

We've developed a Digital Business Strategy which prioritises updating key business applications and tools in line with the funding program set out in our TYP. Outcomes are centered on using contemporary systems and data integration, to enhance customer engagement, reporting, and business process improvements across the organisation. This strategic direction underpins our efforts across various workstreams, ensuring a cohesive approach to technology and data management.

Council has recently invested in upgrading the system we use for project and risk management, which will give us better oversight of all our initiatives and interdependences. This upgrade is a critical step in aligning our operational practices with the strategic goals outlined in the Digital Business Strategy.

To elevate our asset intelligence, we've updated our software for managing assets by introducing user-friendly web apps that work across different devices as our teams are out in the community. These apps help us keep data input consistent and instantly update our main data storage. We have plans for regular upgrades and ongoing improvements to this system based on feedback.

We're also implementing live dashboards and reports for real-time data analysis. To make sure comprehensive understanding and responsible usage, we're providing training sessions for key staff. This training is integral to both our asset intelligence and the broader objectives of the Digital Business Strategy, facilitating a culture of continuous learning and adaptation.

This approach makes our operations smoother and supports informed decision-making and accountability, reflecting our dedication to manage assets efficiently. Our coordinated efforts across these high-priority areas, supported by a number of teams, demonstrate a commitment to integrating advanced technology solutions with strategic asset management and business operations.

## Limited capacity to deliver

### *The challenge*

We've set ourselves an ambitious capital plan for the last few years that we've fallen short of delivering in full. There are a few factors constraining our ability to deliver.

It's not as simple as "contracting out"; coordinating with external consultants requires careful oversight from our team, stretching our resources. In addition, finding and keeping the right professionals in our workforce is increasingly difficult due to competition in the industry.

With increasingly complex projects, we're still finding the investment 'sweet spot' at the early stages of a project. It's crucial to have enough information for informed decision-making without spending extensively on scoping projects that may never have political or community support.

Many of our projects benefit from the valuable input of diverse stakeholders, including local iwi. This collaborative approach is necessary to ensure outcomes work for all corners of our community, but it naturally extends the timeline from conception of a project to implementation. During this time, we must regularly reassess the project's relevance against its original goals.

Our vulnerability to supply chain disruptions is also worth noting, and was highlighted for us during COVID-19 and in the aftermath of Cyclone Gabrielle.

### *Our options*

- **Status Quo:** Keeping things as they are won't cost more now, but it could lead to higher expenses and problems meeting future needs.
- **Project prioritisation:** By focusing on important projects first, we save money now but there is an opportunity cost involved for work we don't progress. This safeguards our ability to deliver on our levels of service, but some ratepayers might be disappointed if their expected projects are delayed.
- **Strategic procurement** to ensure Council initiatives are appealing to external experts within a national context of significant infrastructure investment. That can take time upfront, but ultimately results in better outcomes for Napier.

- **Self-imposed limits on the quantum of forecast capital spend** to focus on deliverability and reduce the volume of unspent budget carry-forward. This does mean we aren't setting out to do everything we and our community would like to do, but we've prioritised based on risk, criticality, and maximum community benefit.

### *Our response*

We are reviewing our procurement methods, bundling work together, and also prioritising the work that is most important to complete. Where Council resources are stretched, we are looking at external assistance, for example, where we need additional technical expertise or project management assistance. There has also been a concerted effort to reduce peaks in the delivery profile of our capital plan and to keep the annual forecast spend realistic. Projects have been moved around to make the plan as achievable as possible.

This next TYP period is still an ambitious program of work to deliver, and there could be resourcing and supply chain constraints both internally and externally that hinder completion of the program. Working on some of the solutions above should help to minimise the risks of under-delivery.

## Financial Forecast and Funding Approach

Our proposed approach to managing our finances as part of this combined strategy represents a step-change from our fiscal management style in recent years. We're shifting away from an emphasis on low rates increases, recognising that's come at a cost to the condition and performance of our infrastructure. Instead, we're proposing the necessary rates increases combined with strategic borrowing to ensure that we can balance our budget between 2025/26 and 2033/34. A balanced budget is achieved when our revenue meet our budgeted operating expenses.

Our spending is split between operating expenditure and capital expenditure. Operating expenditure, or 'OPEX', covers the day-to-day costs of running council, such as salaries, utility bills, routine maintenance of council assets, and expenses related to Council services like waste collection or community programmes. Capital expenditure, or 'CAPEX', is the money we spend on long-term assets that will provide benefits over an extended period, like buildings, machines, pipes and pumps.

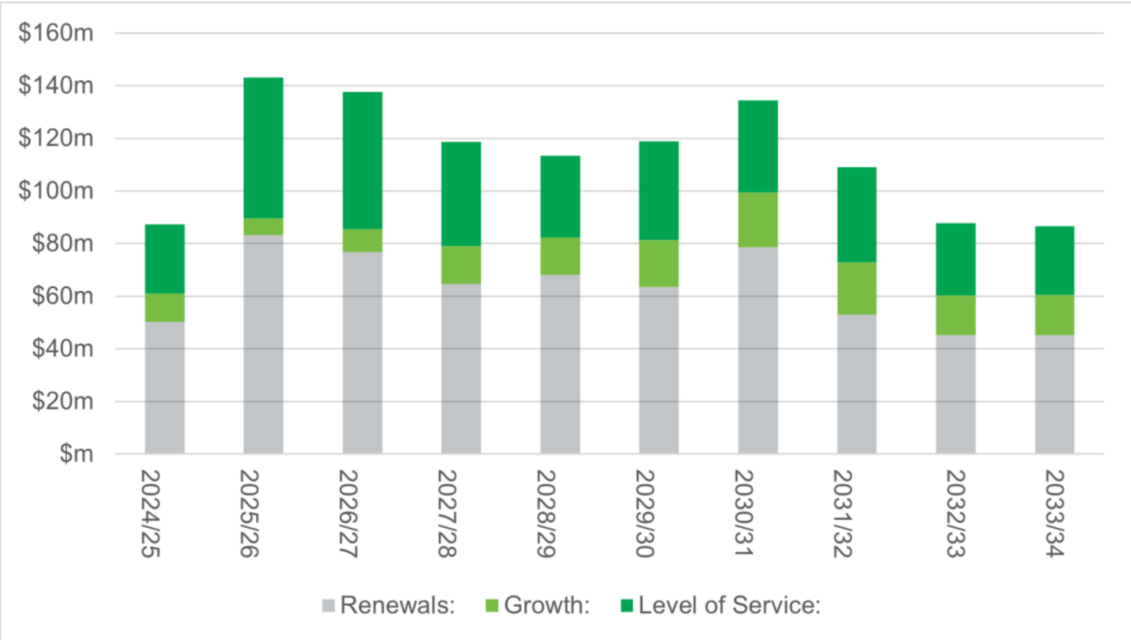
Generally, we cover our operating expenses with a mixture of rates revenue, fees and charges (where the user pays to access a specific service or facility like the transfer station or dog registration) and sometimes our savings/reserves. Rarely, we might need to borrow to cover OPEX, but this is in exceptional circumstances like emergency responses.

The way we fund our capital works depends on the type of work. Generally, for the period covered by this strategy:

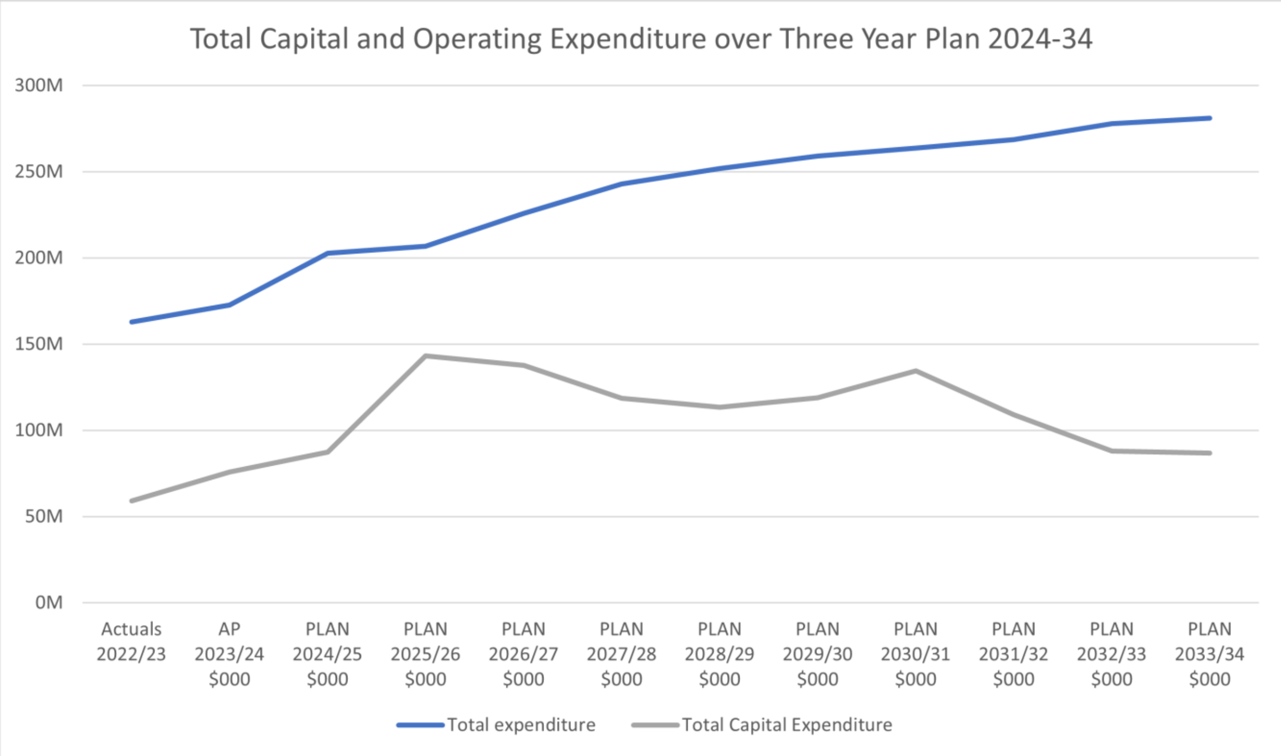
- **Renewals projects** (replacing like for like) will be funded through our Infrastructure Asset Renewals Reserves; dedicated funds set aside to cover the costs of renewing or replacing infrastructure assets. We're proposing to collect slightly more in rates between 2027 and 2034 than we're projected to spend. This is to build up these reserves and reflect our commitment to maintaining our assets in a planned and financially prudent manner.

- **Projects to improve Levels of Service** will be funded through borrowing, reserves, or through external sources like Waka Kotahi subsidies or central government's "Better Off Funding".
- **Growth projects** to increase capacity to meet demand from new developments, will be funded through financial contributions, which we collect directly from developers.

Sometimes projects are driven by all three elements outlined above, which is when we allocate funding from multiple different sources. The graph below outlines our total capital plan for each of the next ten years, and shows the proportion split between types of capital project:



Here's how our projected operating and capital spend looks over the next 10 years, compared to our actual spend in 2022/23.




## Levels of service that Council intends to provide over the next ten years

There is no intention to significantly change significant levels of service within the term of this Three Year Plan, as this will require increased operational and capital expenditure. The proposed strategy is focussed on maintaining existing levels of service.

A brief summary of our main asset groups and the level of service they provide is included below. More information on these levels of service can be found in the Activity Group Statement section of this TYP beginning on page XXXX.

### *Table – Level of Service*

| Category | Level of Service Description |
|---|---|
| **Transportation network** | We provide roads that are safe and comfortable to drive on.<br><br>Our roading network, including roads, bridges, footpaths and cycleways, is well maintained. |
| **Water Supply** | We provide clean and safe drinking water to households and businesses.<br><br>Our water supply is managed sustainably to reduce adverse impacts on the environment.<br><br>Our residents are satisfied with our provision of drinking water. |

| | |
|---|---|
| **Wastewater** | We mitigate the risk of raw wastewater overflows into habitable areas to safeguard public health.<br><br>We treat wastewater to meet national standards before discharge into the environment<br><br>Our residents are satisfied with our response times and provision of sewerage services. |
| **Stormwater** | We provide a reliable stormwater system that protects homes and businesses from flooding.<br><br>Our stormwater is collected and discharged in a manner that protects public and environmental health.<br><br>Residents are satisfied with our stormwater services. |
| **Buildings** | Council maintains and renews all Council buildings to ensure buildings remain safe. |
| **Solid Waste** | We offer regular waste collection services, recycling programs, and waste disposal facilities to manage and reduce household and commercial waste.<br><br>We encourage waste minimisation. |
| **Parks and reserves** | We provide green spaces, playgrounds, sportsgrounds and recreational facilities for community use and enjoyment, promoting health, wellbeing, and biodiversity. |

There are some minor levels of service changes worth noting that have been built into TYP budgets:

- The Te Aka development will see us deliver our current levels of service but from a new, purpose-built facility.
- Council took over in-house management of Ocean Spa in February 2023, with the intention have more control over the delivery of existing levels of service.
- Council's proposal to form a Council Controlled Trading Organisation over the scope of this TYP to maximise returns from our investment portfolio. There will be a cost to create and run the CCTO, but this would be significantly outweighed by the additional income the CCTO would generate for the city.
- The design and construction of a new a purpose-built waka pontoon adjacent to Nelson Quay.

## Council's ability to provide and maintain existing levels of service and meet additional demands for services within rates and borrowing limits

We are forecast to deliver our proposed levels of service within our rate and debts caps, which are discussed in turn below.

### Council's quantified limits on rates increases: 'rates cap'

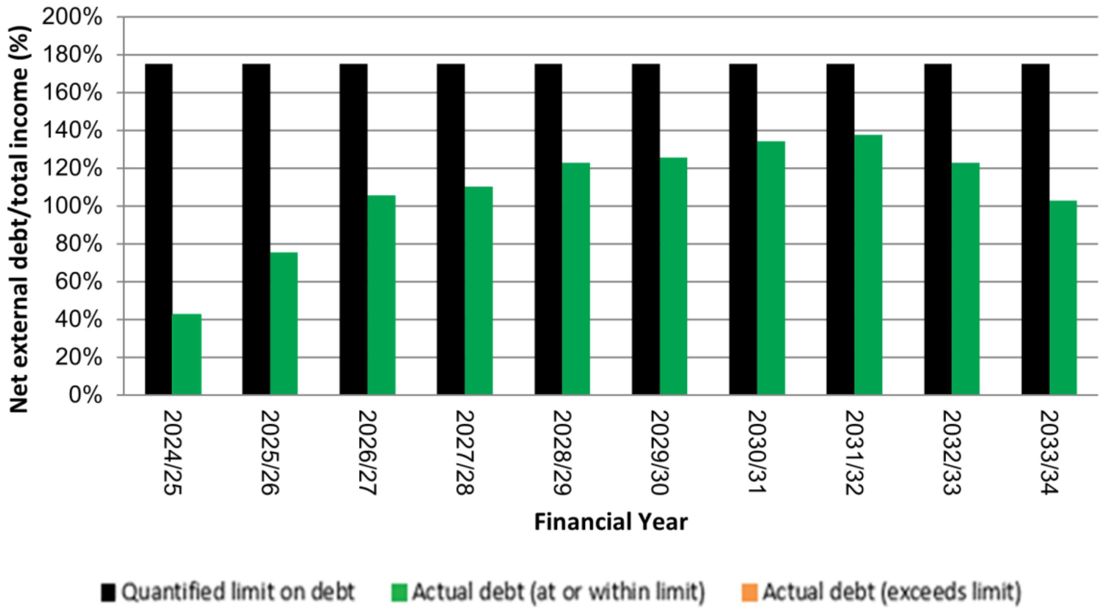
Council has set itself the following quantified limits on rate increases over the 10-year period. Total rates will increase by no more than the forecast increase to rates for each year, plus the Local Government Cost Index (LGCI) on operating expenditure (a way to calculate inflation) plus a consistent allowance of 0.3% per annum for growth in the rating base. The graph and table below demonstrate the *limit/cap* for each year, and the corresponding *forecast rates increase per year* (which is sometimes sitting just below the upper limit).

| | LTP 2024/25 | LTP 2025/26 | LTP 2026/27 | LTP 2027/28 | LTP 2028/29 | LTP 2029/30 | LTP 2030/31 | LTP 2031/32 | LTP 2032/33 | LTP 2033/34 |
|---|---|---|---|---|---|---|---|---|---|---|
| Calculating the quantified limit on rates: | | | | | | | | | | |
| Increase to rates (to reflect acceptable increase to current ratepayers before inflation) | 23.7% | 7.4% | 6.3% | 6.3% | 6.3% | 6.3% | 6.3% | 6.3% | 6.3% | 6.3% |
| Plus: LGCI on Operating Expenditure (to reflect inflation impact on Council) | - | 3.1% | 1.8% | 1.8% | 1.8% | 1.8% | 1.8% | 1.7% | 1.7% | 1.7% |
| Equals: Limit on rates to existing rate payers | **23.7%** | **10.5%** | **8.1%** | **8.1%** | **8.1%** | **8.1%** | **8.1%** | **8.0%** | **8.0%** | **8.0%** |
| Plus: Growth (to reflect new properties who will contribute to the rates total) | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% |
| Equals: Quantified limit on rates ("rates cap") | **24.0%** | **10.8%** | **8.4%** | **8.4%** | **8.4%** | **8.4%** | **8.4%** | **8.3%** | **8.3%** | **8.3%** |
| | | | | | | | | | | |
| Budgeted rates increase to existing rate payers | **23.7%** | **10.5%** | **8.0%** | **8.0%** | **8.0%** | **8.0%** | **8.0%** | **8.0%** | **8.0%** | **8.0%** |
| Plus: Growth | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% | 0.3% |
| Budgeted rates increases | **24.0%** | **10.8%** | **8.3%** | **8.3%** | **8.3%** | **8.3%** | **8.3%** | **8.3%** | **8.3%** | **8.3%** |

### Council's quantified limits on borrowing; 'debt cap'

Because of the increase in proposed capital expenditure over the course of our 2024 TYP we are predicting a significant increase in our overall debt. We closed the 2022/23 financial year with $10M of debt and are currently forecast to close the 2033/34 financial year with $504M of external debt.

We are required to set a quantified limit on borrowing (which we call a "debt cap"). For the 2024-2034 period, we have set this as 175% of our annual revenue, in line with our covenants with the Local Government Funding Agency (LGFA). The following graph shows our anticipated debt over the next 10 years compared to this 175% cap:




This 'debt cap' may change if we choose to take on a credit rating during the period of this plan. If we become rated with S&P Global or Fitch Ratings, we can unlock more competitive borrowing rates through the LGFA and our debt limit could increase to 280% of our revenue. That gives us more headroom to borrow. This is something we would only consider when our external borrowing exceeds $100M, as up until that point the cost of maintaining a credit rating would outweigh any benefits we would unlock. We're forecasting that we would have incurred that level of debt by around 2027.

### Council's quantified limits on interest

As stated in our financial prudence benchmarks, we have set the following debt servicing benchmark:

*Planned borrowing costs equal to or less than 10% of our planned revenue.*

### Council's policy on giving securities for our borrowing

In order to borrow money externally, Council must offer some security just like people do with their mortgage. Like most Councils, when required, Council secures our debt by way of a debenture trust deed over its rates income. We generally do not offer assets security for any loan or performance of any obligation under an incidental arrangement. In exceptional circumstances, with prior Council approval, security may be offered as a charge over one or more specific assets.

### What we're trying to achieve in holding and managing any investments/equity securities

Napier City holds financial investments for strategic reasons where there is some community, social, physical, or economic benefit accruing from the investment activity. Our primary objective when investing treasury funds is the protection of its investment capital and liquidity of its investments.

Investments and associated risks are monitored, managed, and regularly reported back to Council. We are risk averse in our management of cash. In addition, our preferred approach for funds available for long-term investment is that our investments support the Napier community.

In addition, Council maintains strategic equity investments in Hawke's Bay Airport Authority Ltd and the Omarunui Regional Landfill. Council's objective with these equity investments is to retain local airport ownership and ratepayer control of solid waste disposal facilities. Any investment in the Local Government Funding Agency (LGFA) will be to ensure Napier and other local authorities have access to low-cost debt funding. The primary driver of these investments is for strategic reasons.

We have in place control limits that are designed to manage interest rates and maturity risk on the financial investment portfolio. The portfolio comprises both cash and core treasury investments. Cash investments relate to matching investments with our working capital funding requirements and liquidity buffer amount requirements. An important objective of the financial investment portfolio is to match the portfolio's maturity term to planned expenditure, thereby ensuring that investments are available when required.

The following are the specified targets for returns on our financial and equity investments:

- The targeted minimum return on our financial investments will be the average of the 90-day bank bill rate.
- The target rate of return for Hawke's Bay Airport Ltd is set through the company's Statement of Intent. In general, Council expects the company's return on equity to exceed Council's budgeted cost to borrow funds. After several years of no dividends following the fallout from COVID-19, Hawke's Bay Airport Limited's Statement of Intent indicates Council can expect a recommencement of dividends starting with $338,000 in 2024/25.
- No specific return on equity is sought from the Omarunui Regional Landfill. This facility is owned jointly with the Hastings District Council for the purpose of meeting both Councils legal obligations relating to the management and disposal of waste. The joint landfill committee uses a full cost accounting model to determine pricing for this facility.

2024 signals a change in approach for some of our public facing facilities in terms of expectations around commercial viability. Napier Conferences & Events, Ocean Spa, Kennedy Park Resort and Par2 Mini Golf are expected to shift from being partially supported by rates funding to being fully self-funding by 1 July 2027. This means that we expect that operating costs for each of these facilities, including corporate overheads passed on from Council's support units, will be entirely covered by their incoming revenue.

## Major Projects

The legislative requirements for this strategy require us to describe the major capital projects that we're either proposing or implementing, including any to facilitate recovery from Cyclone Gabrielle. We've set these out below, presented by Activity Group to mirror our TYP. Each of these projects is also accompanied by an explanation of the funding options and the implications of those options on rates and debt.

We've defined 'major projects' as those involving significant investment and/or attracting high interest from our community. Some of these projects forecast for delivery between 2027/28 and 2033/34 may require more funding once we've worked through initial stages like scoping and design. We've included them now to give an idea of the scale and timing, however the full investment required may be reviewed (likely increased) when we come to prepare our 2027-37 Long-Term Plan.

For more information about each of our Activity Groups, including rationale for delivery, assets, levels of service and future capital programming, see the section of this TYP starting on page XXXX.

### Transportation Activity Group

Transportation initiatives are focused on recovery from recent severe weather events and proactive upgrades within our system.

Significant capital is being channelled into the Redclyffe Bridge replacement, roading renewals, the revitalisation of the CBD along Emerson Street, and local traffic management schemes. The actual network, while generally delivering a high service level, will benefit greatly from these targeted changes, designed to improve overall network efficiency and user experience.

| Project | Overview | Budget and timing | Funding sour ces | Driver/ Strategic Priority |
|---|---|---|---|---|
| Replacement of Redclyffe Bridge | A temporary staging bridge has been installed to replace the mid-section of the bridge that was washed away.<br><br>A feasibility study is being conducted to assess options for reinstatement, which takes into account how a replacement bridge should be best designed and aligned. | Large project ($5M+ between 24/25 and 27/28) - jointly funded with HDC.<br><br>The Government is contributing $64 million towards the permanent replacement of the Redclyffe | 71% Waka Kotahi<br>15% reserves<br>14% rates/loans | Resilient city |

| | | | | |
|---|---|---|---|---|
| | | Bridge in the long term. | | |
| Roading renewals | Renewals to carriageways, footpaths, traffic services, drainage, bridges and structures | Large project ($5M+) over 10 years | 51% Waka Kotahi<br>49% reserves | A financially sustainable Council<br><br>Resilient City |
| CBD/Emerson St revitalization | Design and construction process to refresh the streetscape of Emerson St, to be delivered in four stages. | Large project ($5M+ between 23/24 and 27/28) | 100% rates/loans | Spaces & Places for all<br><br>Great Visitor Destination |
| Local Area Traffic Management Projects | Traffic safety works within suburban areas to manage speed and enable greater mode choice. | Large project ($5M+) over 10 years | 51% Waka Kotahi<br>49% rates/loans | Spaces & places for all |

### Water Supply Activity Group

Key projects in the Water Supply activity are focused on improving the resilience of supply and quality of our reticulated water that will lead us towards being compliant under the 2022 Drinking Water Quality Assurance Rules.

Key improvements around resilience lie in creating greater storage volumes and replacing ageing assets – both storage and reticulation. New water treatment facilities and rising mains will be key to achieving compliance.

| Project | Overview | Budget and timing | Current funding | Driver/ Strategic Priority |
|---|---|---|---|---|
| Mataruahou (Napier Hill) Reservoir | Design and construction of a new reservoir on Mataruahou to replace the ageing reservoir on Enfield Road | Large project ($5M+ between 23/24 and 28/29) | 100% reserves funded | Resilient city |
| Water treatment improvements | Improved water treatment to meet the 2022 Drinking Water Standards, including new treatment plants, reservoir improvements and enhanced monitoring | Large project ($5M+) over 10 years | 88% rates/loans<br>12% reserves | Resilient city |
| New Mission reservoir | Design and construction of a new reservoir to meet capacity requirements triggered by growth in Mission Hills | Large project ($5M+ between 23/24 and 31/32) | 100% reserves (development contributions) | Resilient city |

| | | | | |
|---|---|---|---|---|
| Pipe renewals | Renewals of ageing drinking water reticulation | Large project ($5M+) over 10 years | 100% reserves | Resilient city |
| Water meter installation | Installation of water meters in to support leak detection and enable enhanced system monitoring | Medium project ($2M-$5M between 29/30 and 33/34) | 100% rates/loans | Resilient city |
| Water borefield and treatment plant 1 (Awatoto) | Development of a cluster of bores in Awatoto, a treatment plant (likely to be UV and chlorine)) and dedicated pipes taking the water up to reservoirs from which the network can then be fed by gravity. | Large project ($5M+between 23/24 and 28/29) | 44% reserves 56% rates | Resilient city |
| Water borefield and treatment plant 2 (Taradale) | Development of a cluster of bores in Taradale, a treatment plant (likely to be UV and chlorine)) and dedicated pipes taking the water up to reservoirs from which the network can then be fed by gravity | Large project ($5M+ between 23/24 and 27/28) | 16% reserves 84% rates | Resilient city |

## Wastewater Activity Group

Our strategic focus within the Wastewater Activity Group is to strengthen resilience and ensure sustainable wastewater management in compliance with modern health and environmental standards.

We're channeling significant investment into the modernisation of our Waste Water Treatment Plant (WWTP), both in terms of renewals and repairs, and to explore treatment solutions in line with community and environmental expectations.

| Project | Overview | Budget and timing | Funding | Driver/ Strategic Priority |
|---|---|---|---|---|
| WWTP outfall replacement | Replacing the marine outfall that carries treated wastewater from our Awatoto treatment plant 2.5km out to sea | Large project ($5M+ between 23/24 and 30/31) | 80% rates/loans 20% reserves | Resilient city |
| WWTP resilience | Cyclone Gabrielle response - raising electrical componentry to safeguard WWTP | Medium project ($2M-$5M between 24/25 and 29/30) | 20% reserves 80% rates/loans | Resilient city |

| | | | | |
|---|---|---|---|---|
| | operation in any future inundation events | | | |
| WWTP storage | Construction of storage ponds next to the WWTP to provide emergency storage in the case of plant failure (so it doesn't need to be bypassed untreated) and to prepare for decommissioning and replacing the marine outfall pipe. | Large project ($5M+ between 23/24 and 26/27) | 100% rates/loans | Resilient city |
| Treatment upgrade at WWTP | Enhancing our secondary treatment by installing a third biological trickling filter | Medium project ($2M-$5M between 29/30 and 32/33) | 10% reserves 80% rates/loans | Resilient city |
| Pipe renewals and relining | Renewals of ageing wastewater reticulation | Large project ($5M+) over 10 years | 100% reserves funding | Resilient city |

### Stormwater Activity Group

The focus for the Stormwater Activity Group is increasing resilience and system capacity, and improving the quality of the stormwater we discharge into our marine environment.

| Project | Overview | Budget and timing | Current funding | Driver/ Strategic Priority |
|---|---|---|---|---|
| Lagoon farm diversion and storage | Stormwater retention and treatment to reduce urban flooding risk and enhance water quality outcomes for Te Whanganui-a- Orotu | Large project ($5M+ between 23/24 and 28/29) | 100% rates/loans | Resilient city |
| Bayview stormwater culvert upgrades | Improving capacity in open drains | Medium project ($2M-$5M between 27/28 and 30/31) | 50% reserves 50% rates/loans | Resilient city |
| Maraenui stormwater trunks project | Alleviating flood risk to unlock land for development in Maraenui and meet current levels of service | Medium project ($2M-$5M between 23/24 and 27/28) | 90% rates/loans 10% Infrastructure Acceleration Fund | Resilient city |

| | | | | |
|---|---|---|---|---|
| Flood alleviation projects | Improving stormwater capacity in urban culverts and storm trunks | Large project ($5M+ between 30/31 and 33/34) | 50% reserves 50% rates/loans | Resilient city |
| Whitmore Park flood alleviation | Upgrade existing and install new assets to reduce the widespread flooding risk in Marewa during significant rain events. | Large project ($5M+ between 31/32 and 33/34) | 53% reserves 47% rates/loans | Resilient city |

### Community and Visitor Experiences Activity Group

In the period covered by this strategy, capital investment for the Community and Visitor Experience Group has been set aside to cover options for the Napier Aquatic Centre going forward. Options around location, size, shape and timing of any redevelopment will not be considered for at least another five years.

There are some significant investments tagged against some of our parks and reserves, including the new Ahuriri Regional Park (in partnership with Hawke's Bay Regional Council), McLean Park, and the potential for redevelopment of Onekawa Park, pending decisions about the future of Napier Aquatic Centre.

| Project | Overview | Budget and timing | Funding | Driver/ Strategic Priority |
|---|---|---|---|---|
| Napier Aquatic Centre | Budget for potential development a new aquatic centre in five to ten years' time.<br><br>Details on the plans, location, timing and how the facility's construction will be funded will not be considered for at least five years. | Large project ($5M+ between 29/30 and 31/32) | 10% reserves 90% rates/loans | Spaces & places for all |
| Retirement housing renewals | Renewals of our housing units, some of which are 60 years old, to ensure that the homes are safe and fit for purpose | Large project ($5M+ between 24/25 and 30/31) | 100% rates/loans | Spaces & places for all |
| Ahuriri Regional Park | Development of a regional park located on Lagoon Farm, closely associated with the Lagoon Farm | Large project ($5M+ between 28/29 and 30/31)<br><br>Jointly funded with HBRC | 100% rates/loans | Spaces & places for all<br><br>Resilient city |

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| | stormwater diversion and storage project | | | |
| Onekawa Park | Funding set aside for redevelopment, partially dependent on decision about future Aquatic Centre location. Netball courts and carparking at end of life and need investment regardless of decisions around the pool location. | Small project ($0.5M-$2M in 27/28) | 100% rates/loans | Spaces & places for all |
| McLean Park returf | Budget set aside for a returf of this premium sportsground based on a predicted 10 year asset lifecycle | Large project ($5M+ in 28/29) | 100% rates/loans | Spaces & places for all<br><br>Great visitor destination |

### Other Infrastructure Activity Group

The Omarunui Landfill, which is jointly owned with Hastings District Council, needs to be gradually developed to provide more capacity for waste disposal.

We're also anticipating the introduction of mandatory kerbside food scraps collection and intend to use the learnings from our rollout of wheelie bins in 2021 to inform this piece of work.

We have funding set aside to extend capacity in our cemeteries, pending the outcome of an upcoming review of current capacity.

| Project | Overview | Budget and timing | Current funding | Driver/ Strategic Priority |
|---|---|---|---|---|
| Omarunui Landfill Development | Napier City Council's contribution to the development of Omarunui Landfill Valleys B, C and D | Large project ($5M+) over 10 years<br><br>Jointly funded with HDC | 100% reserves | Resilient city |
| Food scraps kerbside collection | Rollout of a mandatory kerbside food scraps collection | Small project ($0.5M-$2M in 26/27)<br><br>Funding may be supplemented by | 100% reserves | Resilient city |

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| | | the Ministry for the Environment | | |
| Extending cemetery capacity | Purchase of additional land for cemetery capacity between 27/28 and 30/31 and cemetery establishment. The need for this is contingent on the findings of a capacity review planned for 2024/25. | Medium project ($2M-$5M) over 10 years | 100% rates/loans | Spaces & places for all |

### Property Assets Activity Group

In the coming years, our community will benefit from investments in projects such as the Te Aka build. This new library, customer centre and governance hub will create energy in what is now a quiet part of the city and help stimulate economic activity and encourage growth in this area. We're also exploring options for the Library Tower on Station Street, to potentially offer the opportunity to bring our Council staff back together in the same building for the first time since 2017.

The Waka Hub is a redevelopment project aimed at enhancing the community and visitor experience in the waterfront and Inner Harbour precinct. The Meeanee Quay pier is scheduled for an upgrade to maintain safety and ensure a welcoming and safe environment for recreation and business.

| Project | Overview | Budget and timing | Funding | Driver/ Strategic Priority |
|---|---|---|---|---|
| Te Aka design and build | A new library, customer services centre and meeting space for our councillors and the community. | Large project ($5M+ between 23/24 and 26/27) | 100% rates/loans | Spaces & places for all |
| Accommodation tower | Strengthening the Library Tower building on Station Street and redeveloping it for use as a single, centralized office for council staff | Large project ($5M+ between 24/25 and 25/26) | 100% rates/loans | Financially sustainable Council |
| Waka Hub development | A purpose-built pontoon for Te Matau-a-Maui waka hourua, with space for an additional visiting vessel | Medium project ($2M-$5M in 23/24 and 24/25) | Infrastructure Acceleration Fund | Great visitor destination |
| Meeanee Quay pier | Replacement of aged jetties with safer and | Medium project ($2-$5M | 100% rates/loans | Spaces & places for all |

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| replacement + facilities upgrade | more robust floating pontoons to enable continued level of service for berthholders and visiting vessels. | between 24/25 and 25/26) | | Resilient city |