Agenda

Notice is hereby given of
an Extraordinary Council Meeting

Tuesday 13 April 2021

Commencing at 9.30am

Clubrooms
Waimate Event Centre
Paul Street
Waimate

www.waimatedc.govt.nz

Notice is hereby given that a meeting of the Council will be held in the Clubrooms, Waimate Event Centre, Paul Street, Waimate, on Tuesday 13 April 2021, commencing at 9.30am.

Elected Members

Craig Rowley	Chairperson
Sharyn Cain	Deputy Chairperson
Fabia Fox	Councillor
Sandy McAlwee	Councillor
Miriam Morton	Councillor
Tom O'Connor	Councillor
David Owen	Waimate Councillor
Colin Pankhurst	Councillor
Sheila Paul	Councillor

Quorum – no less than five members

Significance Consideration

Evaluation: Council officers, in preparing these reports have had regard to Council's Significance and Engagement Policy. Council and Committee members will make the final assessment on whether the subject under consideration is to be regarded as being significant or not. Unless Council or Committee explicitly determines that the subject under consideration is to be deemed significant then the subject will be deemed as not being significant.

Decision Making

The Council, in considering each matter, must be:

i. Satisfied that it has sufficient information about the practicable options and their benefits, costs and impacts, bearing in mind the significance of the decision;

ii. Satisfied that it knows enough about and will give adequate consideration to the views and preferences of affected and interested parties bearing in mind the significance of the decisions to be made.

Stuart Duncan
Chief Executive

Order Of Business

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OPENING

1 COUNCIL PRAYER

THERE IS NO COUNCIL PRAYER AT THIS MEETING

2 PUBLIC FORUM

There is no Public Forum offered at this meeting.

3 APOLOGIES

The Chair will call for any apologies.

4 VISITORS

Nil

5 CONFLICTS OF INTEREST

As per the Local Authorities (Members' Interests) Act 1968 (as below), the Chair will enquire if there are any Conflicts of Interest to be declared on any item on the agenda, and if so, for any member to declare this interest.

Local Authorities (Members' Interests) Act 1968 Councillors are reminded that if they have a pecuniary interest in any item on the agenda, then they must declare this interest and refrain from discussing or voting on this item and are advised to withdraw from the meeting table.

6 IDENTIFICATION OF MAJOR (URGENT) OR MINOR ITEMS NOT ON THE AGENDA

1. The Chair will call for any major (urgent business) or minor items not on the agenda to be raised according to Standing Orders, as below:

   a. Standing Orders 3.7.5 – Major Items

   An item not on the agenda for a meeting may be dealt with at the meeting if the local authority by resolution so decides, and the presiding member explains at the meeting at a time when it is open to the public –

   i. The reason why the item was not listed on the agenda; and

   ii. The reason why discussion of the item cannot be delayed until a subsequent meeting.

   b. Standing Orders 3.7.6 – Minor Items

   An item not on the agenda for a meeting may be dealt with at the meeting if –

   i. That item is a minor matter relating to the general business of the local authority; and

   ii. The presiding member explains at the beginning of the meeting, at a time when it is open to the public, that the item will be discussed at the meeting; but

   iii. No resolution, decision, or recommendation may be made in respect of that item except to refer that item to a subsequent meeting of the local authority for further discussion.

REPORTS

7 GENERAL REPORTS

7.1 2021-2051 DRAFT INFRASTRUCTURE STRATEGY

Author: **Dan Mitchell, Asset Group Manager**

Authoriser: **Stuart Duncan, Chief Executive**

Attachments: **Nil**

PURPOSE

1. The purpose of this report is to present the 2021-2051 Draft Infrastructure Strategy and for Council to approve the draft for inclusion as part of the 2021-2031 Long Term Plan consultation.

BACKGROUND

2. The purpose of the Infrastructure Strategy is:
    - i. To provide residents of the Waimate District with a clear view of the state of Council's core infrastructure, and priorities for investment over the next 30 years.
    - ii. Provide robustness around long term budgets for the core Infrastructure Assets.
    - iii. Discuss significant issues for the Core Infrastructure Assets across a 30-year time frame, and provide a strategic direction that reflects the current legislative environment and the communities' priorities across the district.
3. The Infrastructure Strategy allows for Council to identify priorities associated with the included asset bases. These are Water, Stormwater, Wastewater and Roading and Footpaths. Total replacement value (2020) - $567M).
4. Key decisions are highlighted, alongside Council's proposed response over the 30-year period. It is important to note that the current Three Waters Reform programme is likely to have an impact post 1 July 2024, and that this could have far reaching effect on future iterations of this strategy.
5. The Infrastructure Strategy should be read in conjunction with the Long Term Plan, the Financial Strategy and Asset Management Plans.
6. Section 101B of the Local Government Act 2002 prescribes what an Infrastructure Strategy should contain, namely:

Strategy Section		LGA 2002 (Section 101B)
1	Executive Summary	
2	Identifies the purpose of the Infrastructure Strategy and the core infrastructure included in this strategy	2(a) and 6
3	Describe the district/city and illustrate the linkage between strategic documents	2(a)
4	Describe the core infrastructure, its condition and performance while recording the significant assumptions, risks and mitigation	2, 3(e), 4 (c) & (d)
5	Discuss the emerging issues that will impact on the core infrastructure assets	3 (b) to 3(e)

Strategy Section		LGA 2002 (Section 101B)
6	Discuss Council's response to the emerging issues and the significant decisions to be made during the term of this strategy	2(b), 4(b)
7	Identifies the response options for the significant issues and documents the benefits, cost, when and funding source	2(b); 3(a) to (e) & 4(a) to (c)
8	Identifies the costs associated with the actions proposed	4(a)

PROPOSAL

7. That Council consider the Draft Infrastructure Strategy and make amendments as appropriate.
8. A copy of the Draft Infrastructure Strategy will be circulated at our earliest opportunity, and tabled on 13 April 2021.

Options

9. Section 101B states that a local authority must, as part of its long-term plan, prepare and adopt an infrastructure strategy for a period of at least 30 consecutive financial years.

ASSESSMENT OF SIGNIFICANCE

10. The Waimate District Council Significance and Engagement Policy identifies the assets covered by this Infrastructure Strategy as Strategic Assets:
    - i. Roading Networks and connected infrastructure
    - ii. Sewerage Networks and Treatment Plants
    - iii. Stormwater Networks
    - iv. Water Treatment, Storage and Supply Networks
11. Resultantly, any decisions relating to these Strategic Assets will require engagement with the community as part of the 2021-31 Long Term Plan.

CONSIDERATIONS

12. Changes to the Local Government Act 2002 are currently being proposed and are specific to the Three Waters reform process. In particular, these will address the handling of the Three Waters assets and the ability for Councils to pass these community assets over to a new entity.

Legislation

13. Local Government Act 2002.

Risk

14. The Infrastructure Strategy and the Financial Strategy are key strategic documents for the future of the Waimate District. Identification of current (and future) issues is the first step in understanding how to respond to them. This response is both a management and financial response and requires significant risk management.

Budget

15. Budgets associated with years 1 through 10 feature within the proposed Long Term Plan financials within the various cost centres.

Cost-effectiveness

16. Cost-effectiveness has been considered.

RECOMMENDATION

1. That the 2021-2051 Draft Infrastructure Strategy report is accepted; and
2. That Council approves the 2021-2051 Draft Infrastructure Strategy (with amendments) for inclusion as part of the 2021-2031 Long Term Plan; or
3. That Council does not approve the 2021-2051 Draft Infrastructure Strategy for inclusion as part of the 2021-2031 Long Term Plan.

7.2 FINANCIAL STRATEGY 2021-31

Author: **Tina Stevenson, Corporate Services Group Manager**

Authoriser: **Tina Stevenson, Corporate Services Group Manager**

Attachments:
1. **Draft Financial Strategy - for Approval ⇩**
2. **Draft Financial Strategy - tracked changes since 30 March 2021 ⇩**

PURPOSE

1. For Council to approve the reviewed draft of the Financial Strategy, for the purpose of inclusion in the Waimate District Council (WDC) Long Term Plan 2021-2031.

BACKGROUND

2. In accordance with section 101A of the Local Government Act (2002) (LGA), Council must, as part of its long term plan, prepare and adopt a financial strategy for all of the consecutive financial years covered by the long-term plan.
3. The purpose of the financial strategy is to—
   a) facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and
   b) provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.
4. The financial strategy must—
   a) include a statement of the factors that are expected to have a significant impact on the local authority during the consecutive financial years covered by the strategy, including—
      i. the expected changes in population and the use of land in the district or region, and the capital and operating costs of providing for those changes; and
      ii. the expected capital expenditure on network infrastructure, flood protection, and flood control works that is required to maintain existing levels of service currently provided by the local authority; and
      iii. other significant factors affecting the local authority's ability to maintain existing levels of service and to meet additional demands for services; and
   b) include a statement of the local authority's—
      i. quantified limits on rate increases and borrowing; and
      ii. assessment of its ability to provide and maintain existing levels of service and to meet additional demands for services within those limits; and
   c) assessment of its ability to provide and maintain existing levels of service and to meet additional demands for services within those limits; and
   d) specify the local authority's objectives for holding and managing financial investments and equity securities and its quantified targets for returns on those investments and equity securities.
5. The Financial Strategy is reviewed every three years, in line with the Long Term Plan process.
6. Considering its planned inclusion in the WDC Long Term Plan 2021-2031 supporting information, a review of the Strategy was conducted and updates incorporated to reflect the current status.

7. Council has considered elements of the Financial Strategy at previous Long Term Plan workshops with the full draft Financial Strategy document considered at the Council Workshop of 30 March 2021, with feedback provided by Elected Members for incorporation.
8. We recommend that the attached 'Draft Financial Strategy - for Approval' is read first, with the version including tracked-changes since the 30 March 2021 workshop available as a reference if required.
9. As a result of these discussions the Strategy has been drafted to include an increased debt cap and an increase in the rates increase limits.
10. The Long Term Plan Consultation Document must include the proposed content of Council's Financial Strategy including, without limitation, the quantified limits on rate increased and borrowing in that strategy.
11. Council's draft Financial Strategy proposes a rates limit of 10% for the first 3 years of the Long Term Plan period and not more than 8% for the remaining 7 years of the Plan.
12. Council debt is anticipated to peak in the 2022/23 year at just below $15m which is still well within the debt limit based on 5% of the value of Property, Plant & Equipment.
13. The Financial Strategy has been considered in conjunction with the draft Infrastructure Strategy as at the time of agenda preparation, to provide for alignment.
14. The approved Financial Strategy will be included in the supporting information for the Long Term Plan 2021-2031.

PROPOSAL

15. Council is asked to approve the revised Financial Strategy, as presented, or with amendments.

Options

16. Council may:
    a. Approve the Financial Strategy as presented, or
    b. Approve the Financial Strategy with amendments, or
    c. Not approve the Financial Strategy at this time.

ASSESSMENT OF SIGNIFICANCE

17. The Financial Strategy is a key strategic document providing a transparent guide for funding and expenditure with community consultation to be undertaken on this and the related content of the Long Term Plan, and is therefore considered to be of high significance.

LEGISLATION

18. The Local Government Act 2002.

FINANCIAL

19. Council's budgets are underpinned by the Financial Strategy.

RECOMMENDATION

1. That the Financial Strategy 2021-31 report is accepted, and
2. That Council approves the reviewed Financial Strategy as supporting information for the Long Term Plan 2021-2031, as presented, or with amendments as below:
    a. To the Financial Strategy as presented, or
    b. As a result of subsequent amendments to the Infrastructure Strategy; or
    c. Minor amendments to ensure consistency with other related information

Waimate District Council

FINANCIAL STRATEGY

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1. Summary

Our financial strategy remains a relatively conservative and low risk strategy although in this Long Term Plan (LTP) we are proposing making use of debt to an extent that has not been experienced by this Council in previous years. This LTP is proposing to maintain and improve levels of service in our Infrastructure area, and our financial strategy is to fund this in a manner that leads to a fair distribution of cost over the life of the asset.

Changes within the district will occur but in Council's opinion, these are unlikely to have any significant impact on Council's planning, projects and continued service levels during the term of this plan. Council considers investment is necessary to meet our community's needs and is mindful of compliance with legislation and standards. Council has assessed that the service levels and costs of new demand, as identified in this plan, can be met within the financial limits set in the strategy.

Council recognises that operating revenues are insufficient to meet operating expenses but for the reasons explained in the balanced budget statement, Council considers this to be prudent and adequate to meet the needs of current and future communities.

2. Introduction

The Financial Strategy sets out how Council intends to manage its financial performance and finance its activities and services throughout the 10 Year Plan. It also provides Council with a guide for considering and approaching expenditure and funding proposals.

The financial strategy outlines the key financial parameters and the limits that the Council will operate within. One of the main financial issues faced by Council is providing services in a cost effective way that the ratepayers and community can afford, while still meeting its legal obligations and being fair to current and future ratepayers. This involves a balancing act of keeping the services it delivers affordable, ensuring equity between current and future generations, fairly sharing the costs of delivering the services across different users and maintaining a strong financial position, which means having a sustainable debt position.

Some of the drivers of Council's activities and services include economic activity, changes in population, expectations of the community, requirements of central government and other regulators. These factors in turn affect operating and capital expenditure requirements.

The population of the Waimate District is forecast to increase by 4.38% over the next 10 years. Further to the previous LTP, Council believes the District's infrastructure still requires significant investment with the primary focus on replacing and improving existing assets. Investment in potable water quality, sewer renewals and additional demand projects will result in a significant change in the debt profile of Council.

While Council is not assuming significant land use change over the next ten years, past land use changes have, and continue to, impact on Council's delivery of services particularly for road maintenance in rural areas.

COVID-19 has caused an increase in the level of uncertainty in relation to economic and demographic projections, however the impact on the Waimate District is deemed to be minor.

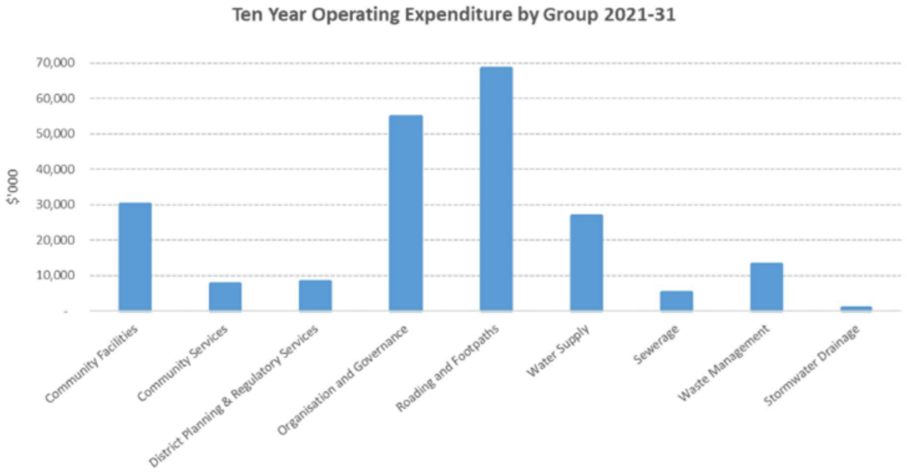
Other key uncertainties include the Government's Three Waters Reform Programme and Resource Management Act 1991 (RMA) reforms.

There remains potential for continuing economic development within the Waimate District over the next 10 years with capacity for the district to grow. Council has identified urban water and sewer projects due to additional demand and considers its infrastructure has sufficient capacity for future demand. Council believes that maintaining and improving levels of service are the primary concerns for this plan period.

3. Financial Overview

This section summarises the amount of expenditure Council anticipates it will incur in funding its activities.

Budgets have been prepared based on agreed levels of service for each activity, which are set out in detail in the group activity plan. The total cost of delivering this program is forecasted to be $216.3 million over the 10-year period. The total cost by activity group is shown below (note: this table is after internal expenditure has been eliminated and some activities may not necessarily align to the activity sections of the Long Term Plan). More information on what activities are in each group and expenditure details can be found in the activity sections of the Long Term Plan.



Operating Expenditure Increases

Council is forecasting that its operating expenditure will increase from $20.255 million in 2021/22 to $23.425 million in 2030/31.

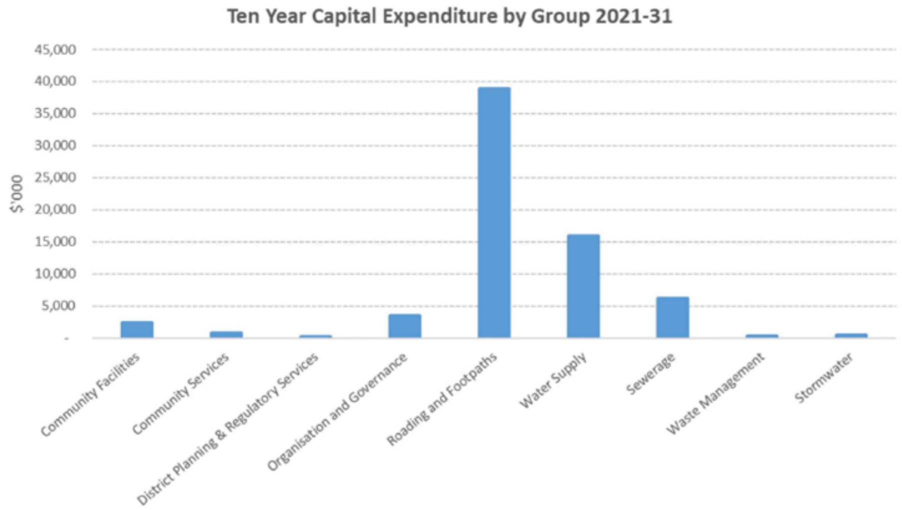
A driver of the increase is price increases for goods and services, for example, contract fees, wage increases, price of materials used, insurance costs and inflation mean it costs more for Council to deliver its activities and services. Council is constantly reviewing the cost and the way it delivers its operations to ensure it is undertaking the activities in a way that is most cost effective for households and businesses.

The requirement to externally loan fund the new capital initiatives, particularly in the Water Supply, Wastewater and Stormwater activities results in increased interest costs to Council.

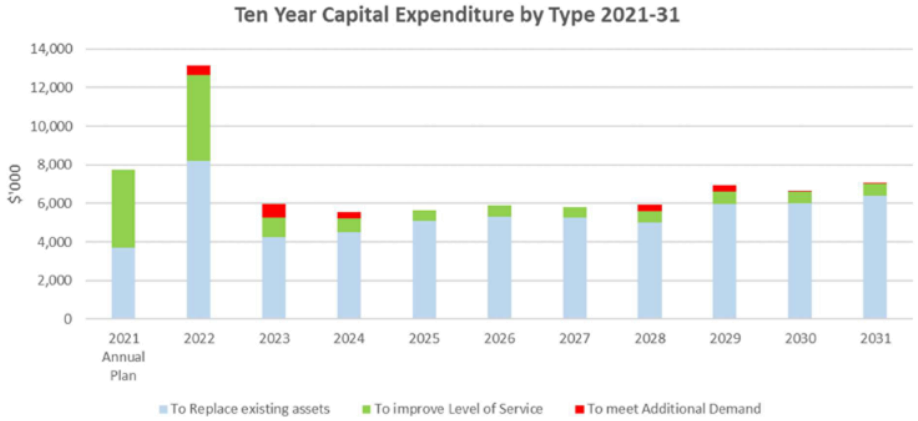
Capital Expenditure Requirements

Over the next 10 years, Council is forecasting capital expenditure of $68.603 million. Council is mindful that increased capital spending, commits the district to increased and sustained depreciation charges.

The following graph shows how capital expenditure is broken down by activity group:



The following graph shows the capital expenditure planned for each of the next 10 years. Council's spend is linked to renewing existing assets, additional demand or increasing level of service.



Adopting an unbalanced budget

A balanced budget is where the operating expenditure and operating revenue match in each year of our Plan.

Under this LTP Council is proposing a budget that doesn't balance over the course of the LTP. This occurs as we smooth the impact of significant capital works, the dividend income reduction and increased Resource Recovery Park operation contract costs over the term of the plan using increased debt.

Council has resolved not to fund certain costs for a variety of reasons. These include depreciation for:

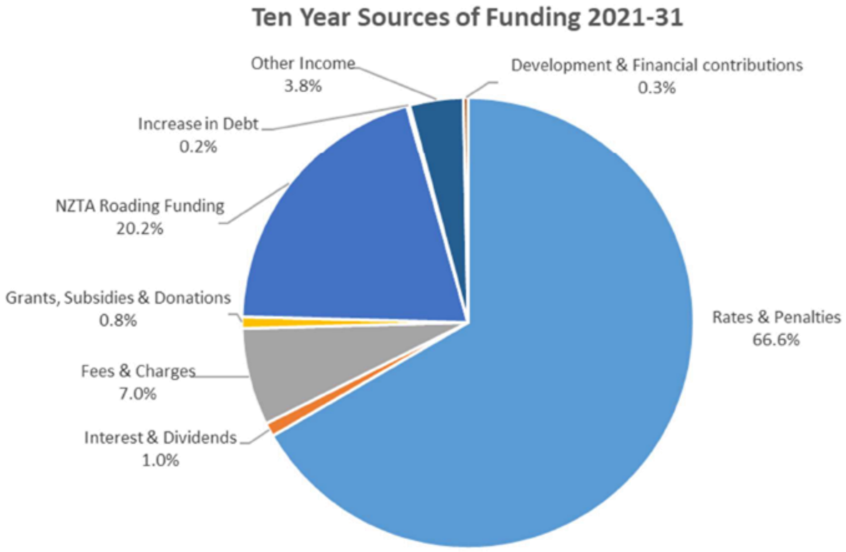
- Roading Infrastructure – capital program is funded
- Waimate Event Centre – loan funded
- Rural Halls, Aerodrome Club Rooms and various Park assets – unfunded

Council reflects deficits in the early years of this LTP in order to deliver an affordable rates requirement. When combined with a clear plan to recover the deficit in later years with an affordable rates requirement, we believe this is a prudent approach.

4. How will Council Fund this Plan?

This section covers how Council intends to fund its activities and the services it delivers.

The total cost of council activities is funded from a number of sources, the graph below shows sources of funding that the council intends to use to fund this plan. Rates remain the major source of funds for Council.



Other Income includes petrol tax Income, commissions, forestry revenue, rental income and other miscellaneous income.

What about rates?

Rates increases

Council aims to strike a balance between delivering the demands of the district, and the rates required to fund this work. Council further plans to use debt to smooth the impact of rating increases over the period of the LTP 2021-31; the majority of the internal debt raised to support a smoothed rates profile is paid up within the LTP 2021-31 period.

Council is proposing increases of 9.9% for 2021/22, 7% for both 2022/23 and 2023/24 and an average of 2.5% for the remaining 7 years of the LTP.

Rates limits

Council proposes that its rates increases be limited to not more than 10% for the first 3 years of the LTP period and not more than 8% for the remaining 7 years of the plan. This represents a change from the previous rates limit of 8%. It is Council's view that it can deliver and maintain the levels of services and additional demand proposed in the LTP within these limits.

Rates & debt

The timing of the work we have planned in our LTP, if allowed to flow directly into our financial projections, results in sharp rate increases over the Plan period, especially in the early years of the plan.

Council recognises that ratepayers benefit from having less volatile rates requirements, as it better supports financial planning. We have therefore used both internal and external debt to smooth the rate requirement over the course of the plan period, running certain activities at losses for a period of time before recovering this debt over an extended period.

Whenever Council uses debt to smooth the rate requirement, there is an interest charge associated with the use of the debt. Council's assumptions determine the rate of interest applied to this debt; for the long-term plan period 2021-31 the rate is set at 3%. This is the 'cost of smoothing'.

The tables below provide a detailed breakdown of the impact of Council's rates smoothing approach, by activity, indicating how the rates change both in percentage and dollar terms.

Description of Rates	Annual Rates Impact										Ten Year Interest cost of smoothing
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	
Targeted Rates											
Rural Water Schemes Pre smoothing $	1,787,071	1,908,205	1,957,499	1,972,740	2,006,223	2,077,070	2,098,394	2,115,788	2,196,370	2,238,025	
Rural Water Schemes Post smoothing $	1,506,263	1,645,062	1,798,610	1,917,973	2,046,430	2,184,748	2,279,960	2,376,171	2,475,783	2,571,559	
Impact of smoothing : (reduction) / catch up	(280,808)	(263,143)	(158,889)	(54,767)	40,207	107,678	181,566	260,383	279,413	333,534	117,895
Rural Water Schemes Pre smoothing %	31.8%	6.8%	2.6%	0.8%	1.7%	3.5%	1.0%	0.8%	3.8%	1.9%	
Rural Water Schemes Post smoothing %	11.1%	9.2%	9.3%	6.6%	6.7%	6.8%	4.4%	4.2%	4.2%	3.9%	
Targeted Rates											
Urban Water Scheme Pre smoothing $	894,757	959,269	1,019,175	1,038,759	1,059,815	1,102,689	1,125,018	1,154,570	1,220,751	1,256,041	
Urban Water Scheme Post smoothing $	889,000	960,120	1,036,930	1,062,853	1,089,424	1,116,660	1,141,785	1,167,475	1,190,825	1,208,687	
Impact of smoothing : (reduction) / catch up	(5,757)	851	17,755	24,094	29,609	13,971	16,767	12,905	(29,926)	(47,354)	107
Urban Water Scheme Pre smoothing %	10.7%	7.2%	6.2%	1.9%	2.0%	4.0%	2.0%	2.6%	5.7%	2.9%	
Urban Water Scheme Post smoothing %	10.0%	8.0%	8.0%	2.5%	2.5%	2.5%	2.2%	2.3%	2.0%	1.5%	
Civic Amenities Rates											
Resource Recovery Park operation Pre smoothing $	425,312	438,543	448,806	457,774	465,372	475,902	483,231	490,909	500,900	510,535	
Resource Recovery Park operation Post smoothing $	289,420	472,620	611,983	486,819	462,829	473,358	480,688	488,366	498,357	507,992	
Impact of smoothing : (reduction) / catch up	(135,892)	34,077	163,177	29,045	(2,543)	(2,544)	(2,543)	(2,543)	(2,543)	(2,543)	5,631
Resource Recovery Park operation Pre smoothing %	50.6%	3.1%	2.3%	2.0%	1.7%	2.3%	1.5%	1.6%	2.0%	1.9%	
Resource Recovery Park operation Post smoothing %	2.5%	63.3%	29.5%	(20.5%)	(4.9%)	2.3%	1.5%	1.6%	2.0%	1.9%	
General Rates											
Dividend Income Reduction Pre smoothing $	186,969	186,969	186,969	176,969	166,969	156,969	146,969	136,969	126,969	116,969	
Dividend Income Reduction Post smoothing $	492,469	468,969	43,469	(2,031)	(36,031)	(60,031)	71,249	142,969	132,969	122,969	
Impact of smoothing : (reduction) / catch up	305,500	282,000	(143,500)	(179,000)	(203,000)	(217,000)	(75,720)	6,000	6,000	6,000	39,000
Dividend Income Reduction Pre smoothing %	(54.5%)	0.0%	0.0%	(5.3%)	(5.7%)	(6.0%)	(6.4%)	(6.8%)	(7.3%)	(7.9%)	
Dividend Income Reduction Post smoothing %	19.7%	(4.8%)	(90.7%)	(104.7%)	1674.1%	66.6%	(218.7%)	100.7%	(7.0%)	(7.5%)	
Overall rates increases Pre smoothing	**16.6%**	**5.0%**	**1.5%**	**2.9%**	**1.9%**	**3.1%**	**1.8%**	**1.9%**	**2.8%**	**2.6%**	
Overall rates increases Post smoothing	**9.9%**	**7.0%**	**7.0%**	**3.0%**	**2.6%**	**3.5%**	**1.4%**	**1.8%**	**2.6%**	**2.8%**	
Overall impact of smoothing : (reduction) / catchup	**(6.7%)**	**2.1%**	**5.4%**	**0.1%**	**0.7%**	**0.4%**	**(0.5%)**	**(0.1%)**	**(0.2%)**	**0.2%**	
Annual interest cost of smoothing $	**4,500**	**29,948**	**32,531**	**27,086**	**23,721**	**15,368**	**10,335**	**12,457**	**6,525**	**162**	**162,633**
Makeup of rates increases Post smoothing:											
General Rates	**2.6%**	**1.7%**	**2.9%**	**0.3%**	**0.6%**	**0.7%**	**(0.9%)**	**(0.2%)**	**0.2%**	**0.3%**	
Civic Amenities Rates	**3.5%**	**2.5%**	**1.3%**	**(0.5%)**	**0.0%**	**0.6%**	**0.5%**	**0.4%**	**0.4%**	**0.6%**	
Targeted Rates	**3.8%**	**2.9%**	**2.8%**	**3.2%**	**2.0%**	**2.2%**	**1.7%**	**1.7%**	**2.0%**	**1.8%**	
	9.9%	**7.0%**	**7.0%**	**3.0%**	**2.6%**	**3.5%**	**1.4%**	**1.8%**	**2.6%**	**2.8%**	

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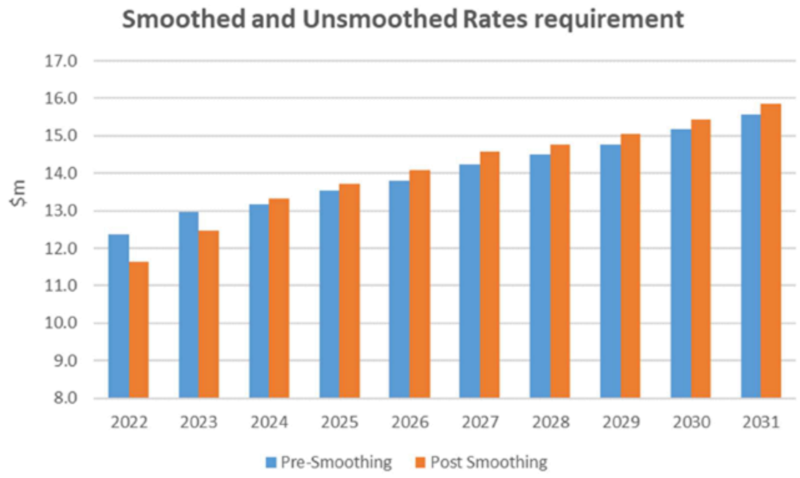
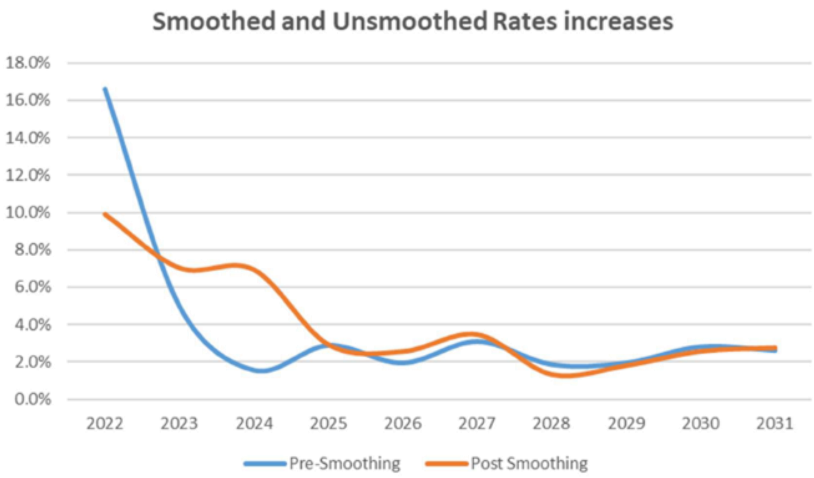
The diagrams below illustrates the impact of rates smoothing on the current plan (excluding Downlands Rural Water Scheme rates):





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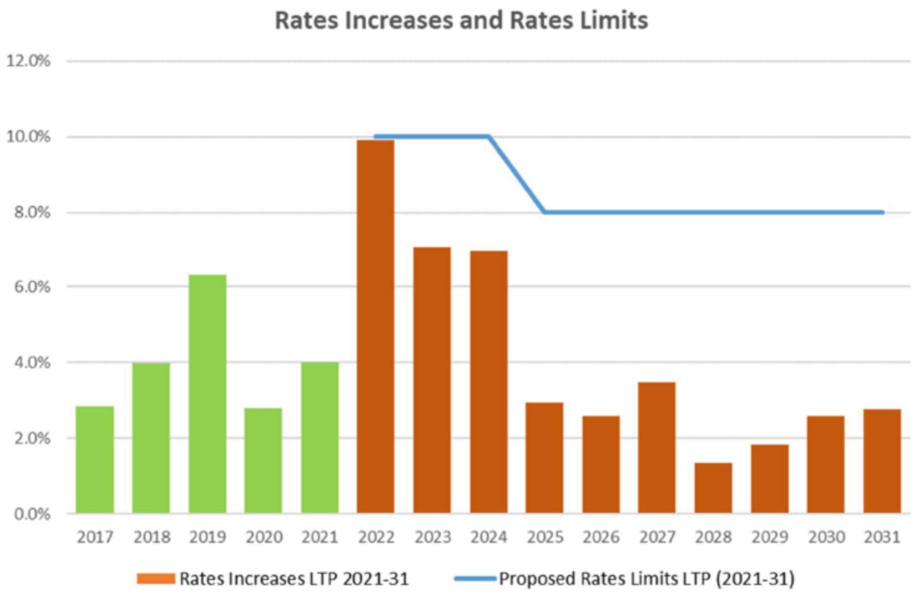
The following graph compares actual rates increases for the last 5 years with the projected increases for the next 10 years and shows the limit for that 10-year period (excluding Downlands Rural Water Scheme rates):

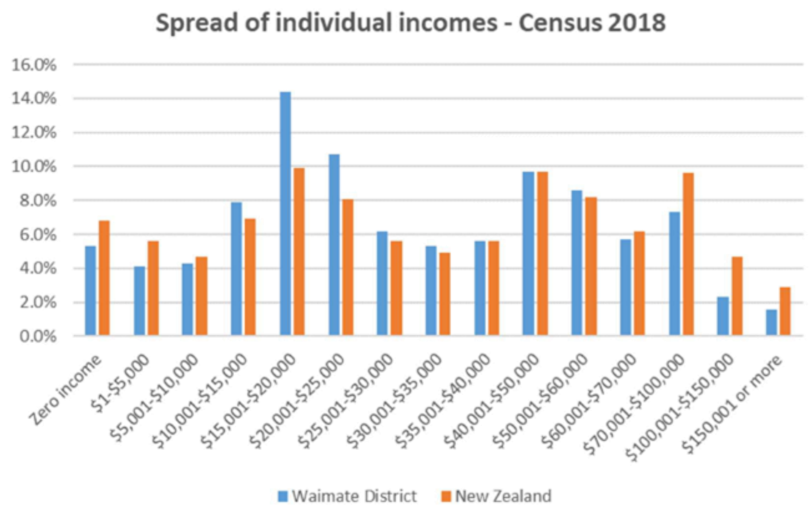


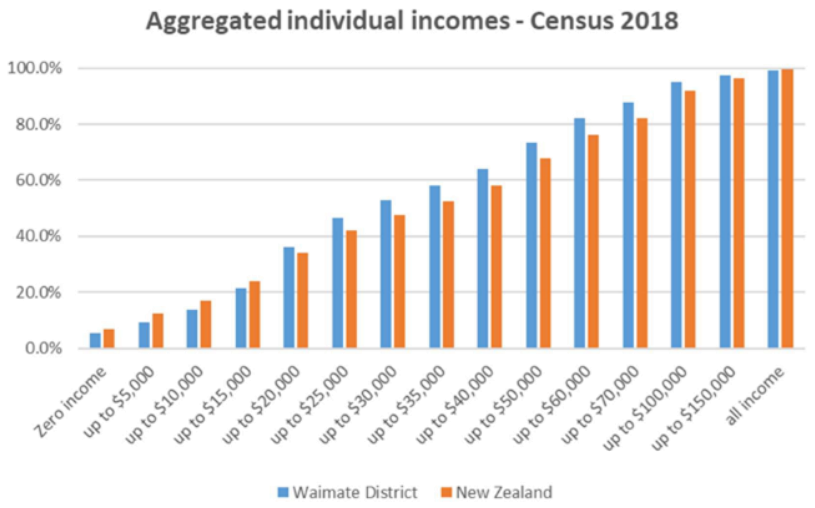
Like all households and businesses the costs of providing council services is increasing.

Council is committed to providing certainty and equity to ratepayers over their rates bills. Council is aware that there is significant income variation within the District and also that levels within the district are generally lower than the NZ average.

Council recognises that there are mechanisms available to low income ratepayers in the district to obtain relief on the rates levied by Council, such as the annual Rates Rebate. Council believes it is important to actively promote such options to rate payers.

The following graphs illustrate how income levels in the district lag the national average. Council does not expect the district's income profiles to vary significantly for this plan period.

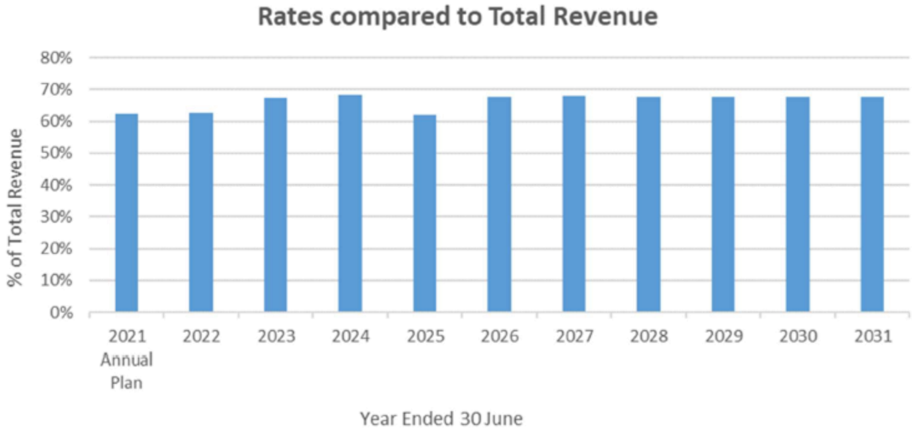




Other sources of revenue

Council has a number of other sources of revenue aside from rates, including fees and charges, funding assistance from Waka Kotahi (New Zealand Transport Agency), dividends from investments and forestry returns. Our Revenue & Financing Policy details how these revenue streams contribute to all the services we provide.

The graph below illustrates the proposed proportion of rates to overall revenue. Council plans to increase the ratio over the plan period to 63% initially with a maximum of 68% over next 10 years.



It is Council's view that it can deliver and maintain the levels of services and additional demand proposed in the LTP within these limits.

5. Planning for Improved Services

Community expectations are prioritised with focus on those that sustainably support the ability to deliver services to meet the social, cultural, environmental and economic wellbeing needs of the District. In addition, the government and other regulatory bodies impose requirements to provide increased or improved services and often it is a statutory obligation that we must meet, for example, fulfilling climate change obligations.

These projects often result in a change in the level of service provided to the community and may increase operating and capital expenditure. As stated elsewhere, Council proposes to leverage its balance sheet to draw down funds to support these long-term asset investments. The following are the major planned level of service improvements:

- **Water Supply – Drinking Water Standard Upgrades**
  Hook-Waituna, Lower Waihao and Waikakahi 2021/22
- **Water Supply – New Bore**
  Otaio-Makikihi 2022/23
- **Roading (2021-2031)**
  Continued investment in minor improvements
- **Library / Local Government Centre (LGC) Extension (2021/22)**

Further information

Further information on these projects can be found in the Council's Asset Management Plans for its activities and Council's Infrastructure Strategy.

6. Planning to Maintain Existing Services

Assets wear out over time and need replacing. Each year we need to ensure that enough work is done to maintain these assets and eventually we will need to spend significant amounts to rebuild or replace them. If the assets are not maintained to the same level each year this may result in a decline in the level of service.

The following are the major planned projects to maintain levels of service:

- **Waimate Urban Water Renewals (2021-31)**
- **Rural Water Supply Renewals (2021-31)**
- **Sewerage Renewals (2021-31)**
- **Roading Renewals (2021-31)**

Further information

Further information on these projects can be found in the Council's Asset Management Plans for its activities and Council's Infrastructure Strategy.

7. Borrowing/Debt

Council believes it is prudent to maintain a strong financial position. This does not mean that Council will have no term borrowings, but that it will carefully manage its levels of borrowings.

Council currently has a strong financial position, meaning Council has the capacity to increase debt. Council has previously preserved this capacity in order that borrowings can be undertaken in exceptional circumstances as part of a long term strategy to be financially sustainable, and to be able to fund a response to emergencies and disasters.

Due to some large capital works over the life of the plan our debt will increase. In addition, Council proposes to smooth the rates impact using both internal and external debt.

Council only borrows externally to meet cash flow requirements. Internal Borrowing means that one group of ratepayers are lending to another group of ratepayers. For this reason Council recognises that internal borrowing should be recognised as debt, as a call on those funds may occur unexpectedly.

Debt Limit

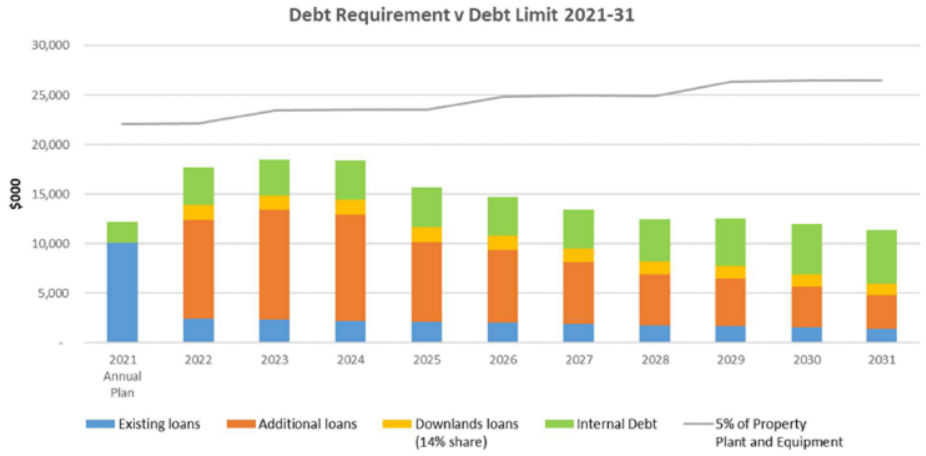
Determining an appropriate level of debt could be measured against Council's total assets or against its total revenue.

In previous Financial Strategies our debt limit was set at 100% of total revenue, but Council believes lifting the debt limit is essential to the delivery of our plan and to meet our community wellbeing outcomes.

As the purpose of Council's external borrowing is predominately to fund the cost of operational or infrastructural asset replacements or development, Council has determined that the most appropriate measure is to limit the level of borrowing as a percentage of the total value of Council's 'Property, Plant & Equipment'. Council considers that capping its limit on borrowing to be no more than 5% of total property, plant and equipment is financially prudent.

It is Council's view that it can deliver and maintain the levels of services and additional demand proposed in the LTP within these limits.

Total debt limits would therefore be as set out in the graph below.



Our debt levels peaks in 2023, reducing thereafter with significant forestry income in 2024-27 being applied to external debt reduction.

A detailed calculation of total debt can be found as a note within the financial statements. Council has included internal borrowing (except where specifically borrowed externally) as it considers that it is holding its reserves in trust for parts of the community and that in using those reserves for efficient cash management it should recognise that at any time it may need to externally borrow those funds should those reserves be required.

Where Council uses debt to smooth the impact of the rates (Rates smoothing), Council's intent is to pay the debt back as promptly as possible while delivering a smooth rate requirement. The practical application of this is illustrated earlier within this Financial Strategy (see Rates & Debt).

Policy on security for borrowings

Council will be required to give security for its borrowing from external lenders.

Council proposes to secure its borrowing, and interest rate risk management instruments, against rates revenue. In some circumstances, security may be offered by providing 'a charge' over one or more of the Council's assets.

Physical assets will be charged only where:

- there is a direct relationship between the debt and the purchase or construction of the asset which it funds;
- the Council considers a charge over physical assets to be appropriate.

The full policy on giving securities can be found in the Liability Management Policy.

8. Investments

Council has financial investments to create a return which can be used to pay for services and reduce rates. This section explains Council's objectives for holding and managing financial investments and equity securities and its targets for returns on those investments and equity securities.

Forestry

Council owns a 136.4 ha forestry investment largely to generate income and Carbon Credits for Council but also to provide some economic development benefit to the district. Council proposes to continue to maintain the forest asset to maximise commercial returns, but where a viable return is possible it may consider the disposal of these assets via the open market. Unless sales occur, Council will continue to replace forest stock as trees are felled.

Council expects that these forests are to be harvested from 2024 to 2027 and the return from the sale of trees will enable repayment of external debt. Council plans to replant following harvest.

Alpine Energy Ltd Shares

Council owns 7.54% of the shares in the company. Council primarily owns these shares for the commercial return received by way of dividend. Alpine Energy infrastructure supplies part of the district, so Council's investment also helps ensure a secure power supply necessary for the development of the district. Council anticipates the company to continue with its current level of dividend and as such is budgeting on a dividend of not less than 6 cents per share. An annual increase of 3.9% on the value of the Alpine Energy shares has been assumed for the life of the Long Term Plan.

Property

Council owns many properties for operational or community purposes that are not considered investment properties as any financial return is incidental to the reasons for ownership.

Cash

Council holds cash for the purpose of operating and maintaining stable cash flows. These funds are invested in internal borrowing or deposits as provided by council's Investment Policy. The return on net cash investments is budgeted at 1%.

Other Investments

Council holds a small number of low value investments in equity for which the reasons for holding are related to purchasing benefits or for economic development. Council does not have a target return for these investments, as this is incidental to Council's reason for ownership.

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APPENDIX 1

Local Government Cost Index (LGCI)

LTP Year	Year Ending	CAPEX (%)	OPEX (%)	LGCI (%)	Rates Limits %
1	Jun-22	4.0	3.6	3.7	10.0
2	Jun-23	3.0	2.9	2.9	10.0
3	Jun-24	2.6	2.5	2.5	10.0
4	Jun-25	2.6	2.5	2.5	8.0
5	Jun-26	2.7	2.5	2.6	8.0
6	Jun-27	2.6	2.5	2.5	8.0
7	Jun-28	2.8	2.6	2.6	8.0
8	Jun-29	2.8	2.7	2.7	8.0
9	Jun-30	2.9	2.7	2.7	8.0
10	Jun-31	2.7	2.6	2.6	8.0

Waimate District Council

FINANCIAL STRATEGY

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1. Summary

Our financial strategy remains a relatively conservative and low risk strategy although in this Long Term Plan (LTP) we are proposing making use of debt to an extent that has not been experienced by this Council in previous years. This LTP is proposing to maintain and improve levels of service in our Infrastructure area, and our financial strategy is to fund this in a manner that leads to a fair distribution of cost over the life of the asset.

Changes within the district will occur but in Council's opinion, these are unlikely to have any significant impact on Council's planning, projects and continued service levels during the term of this plan. Council considers investment is necessary to meet our community's needs and is mindful of compliance with legislation and standards. Council has assessed that the service levels and costs of new demand, as identified in this plan, can be met within the financial limits set in the strategy.

Council recognises that operating revenues are insufficient to meet operating expenses but for the reasons explained in the balanced budget statement, Council considers this to be prudent and adequate to meet the needs of current and future communities.

~~1.~~2. Introduction

~~The Financial Strategy is a requirement of the Local Government Act 2002. It forms part of the 10 Year Plan.~~ The Financial Strategy sets out how Council intends to manage its financial performance and finance its activities and services throughout the 10 Year ~~Plan and identifies, at a macro level, funding of the 30 year Infrastructure Strategy. It~~Plan. It also provides Council with a guide for considering and approaching expenditure and funding proposals.

The financial strategy outlines the key financial parameters and the limits that the Council will operate within. One of the main financial issues faced by Council is providing services in a cost effective way that the ratepayers and community can afford, while still meeting its legal obligations and being fair to current and future ratepayers. ~~Council must be financially sustainable to continue delivering services to its communities.~~ This involves a balancing act of keeping the services it delivers affordable, ensuring equity between current and future generations, fairly sharing the costs of delivering the services across different users and maintaining a strong financial position, which means having a sustainable debt position. ~~The Financial Strategy sets out how Council plans to fund its activities and capital projects over the next 10 years. The Council will report against the Financial Strategy when preparing its various annual reports and pre-election report in 2022.~~

~~In the preparation of this 10 Year Plan, Council have been mindful of the balance between levels of Growth within the Waimate District.~~

Some of the drivers of Council's activities and services include e~~E~~conomic activity, ~~and~~ changes in population, expectations of the community, ~~are major drivers of the demand for Council's activities and services. Council services and the associated cost of these services are directly impacted by the district population and the levels of service expected by the community,~~ requirements of central government and other regulators. These factors in turn affect operating and capital expenditure requirements.

~~Waimate District, like other areas in rural New Zealand, has experienced significant changes in land use over the past decade, with the presence of significant dairy factories and the Irrigation scheme development reflective of a shift in focus of district agriculture.~~

The population of the Waimate District is forecast to increase by 4.38% over the next 10 years. Further to the previous LTP, Council believes the District's infrastructure still requires significant investment ~~in order to continue to meet its obligations to the existing and future district population,~~ with the primary focus on replacing and~~or~~ improving existing assets. ~~, with some projects adding to the infrastructure base in response to additional demand.~~ Investment in potable w~~W~~ater quality, sewer renewals and ~~an~~ additional demand projects will result in a significant change in the debt profile of Council.

While Council is not assuming significant land use change over the next ten years, past land use changes have, and continue to, impact on Council's delivery of services particularly for road maintenance in rural areas.

COVID-19 has caused an increase in the level of uncertainty in relation to economic and demographic projections, however the impact on the Waimate District is deemed to be minor.

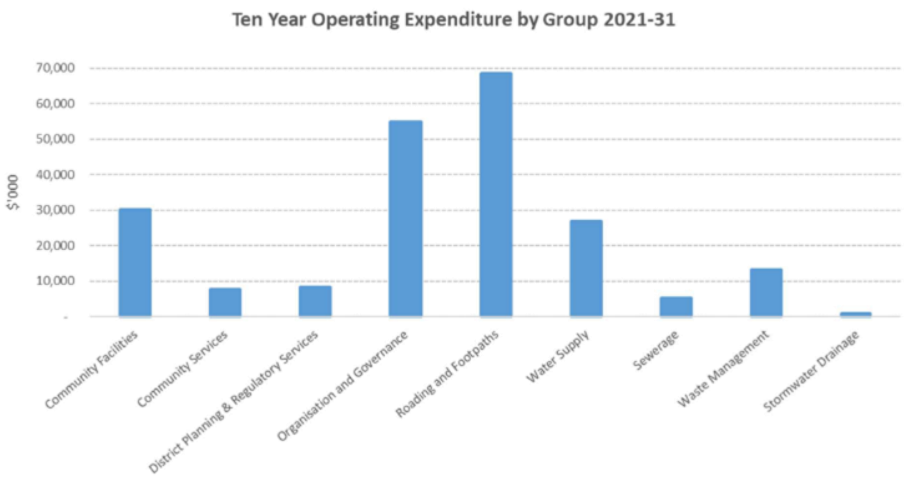
Other key uncertainties include the Government's Three Waters Reform Programme and Resource Management Act 1991 (RMA) reforms.

There remains potential for continuing~~, significant~~ economic development within the Waimate District over the next 10 years with ~~. The past expansion of the two dairy factories already operating within the District (the Oceania Dairy Plant at Glenavy and Fonterra's Dairy Plant at Studholme) is illustrative ofthe~~ capacity for the district ~~has~~ to grow. Council has identified urban water and sewer projects due to additional demand and considers its ~~existing~~ infrastructure has sufficient capacity for future demand. ~~to meet the balance of demand that is anticipated from continuing economic development.~~ Council believes that maintaining and improving levels of service~~, driven by expectation or potential legislation,~~ are the primary~~main~~ concerns for this plan period.

~~2.~~3. Financial Overview

This section summarises the amount of expenditure Council anticipates it will incur in funding its activities.

Budgets have been prepared based on agreed levels of service for each activity, which are set out in detail in the group activity plan. The total cost of delivering this program is forecasted to be $216.3 million over the 10-year period. The total cost by activity group is shown below (note: this table is after internal expenditure has been eliminated and some activities may not necessarily align to the activity sections of the Long Term Plan). More information on what activities are in each group and expenditure details can be found in the activity sections of the Long Term Plan.



Operating Expenditure Increases

Council is forecasting that its operating expenditure will increase from $20.255 million in 2021/22 to $23.425 million in 2030/31. ~~As Council is proposing significant level of service increases in the WaterSupply and Roading activities, a large component of this growth is driven by spend in these areas.~~

A~~nother~~ driver ~~component~~ of the increase is ~~the result of~~ price increases for goods and services ~~that Councilpurchases to carry out its activities and services~~, for example, contract fees, wage increases, price of materials used, insurance costs and inflation mean it costs more for Council to deliver its activities and services. Council is constantly reviewing the cost and the way it delivers its operations to ensure it is undertaking the activities in a way that is most cost effective for households and businesses.

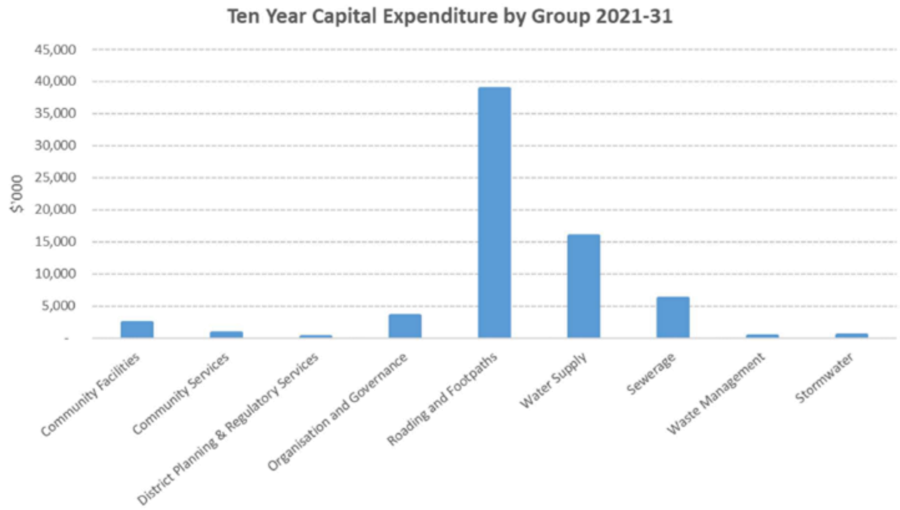
The requirement to externally loan fund the new capital initiatives, particularly in the Water Supply, Wastewater and Stormwater activities ~~whenadded to the existing loan funding backing the Event Centre,~~ results ~~drive significant and permanent~~in increased~~s in~~ interest costs ~~in~~to Council.

~~Council is constantly reviewing the cost and the way it delivers its operations to ensure it is undertaking the activities in a way that is most cost effective for households and businesses. However, Council expects to sustain additional operational costs as a result of debt funding capital investment over the lifetime of this plan.~~

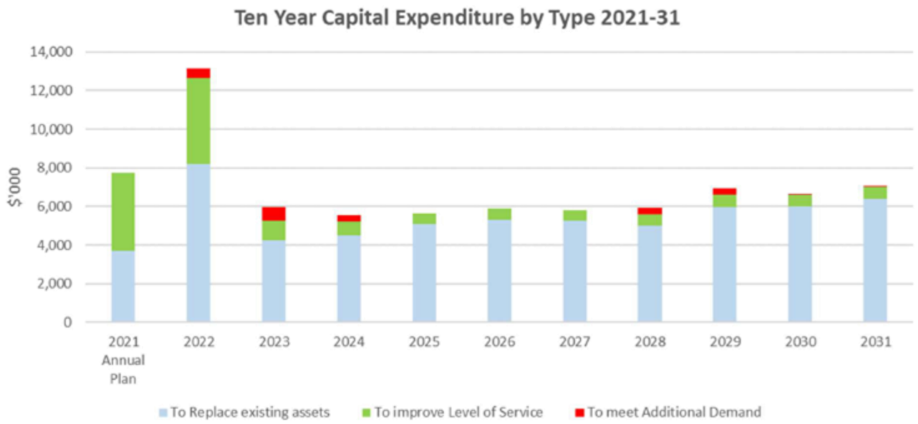
Capital Expenditure Requirements

Over the next 10 years, Council is forecasting capital expenditure of $68.603 million. Council is mindful that increased capital spending, commits the district to increased and sustained depreciation charges.

The following graph shows how capital expenditure is broken down by activity group:



The following graph shows the capital expenditure planned for each of the next 10 years. Council's spend is linked to renewing existing assets, additional demand or increasing level of service~~. If actual demand is higher than forecast, this plan can absorb that additional demand, although projected increases in traffic volume drive part of the Roading & Footpaths capital requirement.~~.



Waimate District Council – Financial Strategy – Page 5

Adopting an unbalanced budget

A balanced budget is where the operating expenditure and operating revenue match in each year of our Plan. ~~Operating expenditure is based on what we expect to spend to deliver the services outlined in our Plans.~~

Under this LTP Council is proposing a budget that doesn't balance over the course of the LTP. This occurs as we smooth the impact of significant capital works, the dividend income reduction and increased Resource Recovery Park operation contract costs over the term of the plan using increased debt.

Council has resolved not to fund certain costs for a variety of reasons. These include depreciation for:

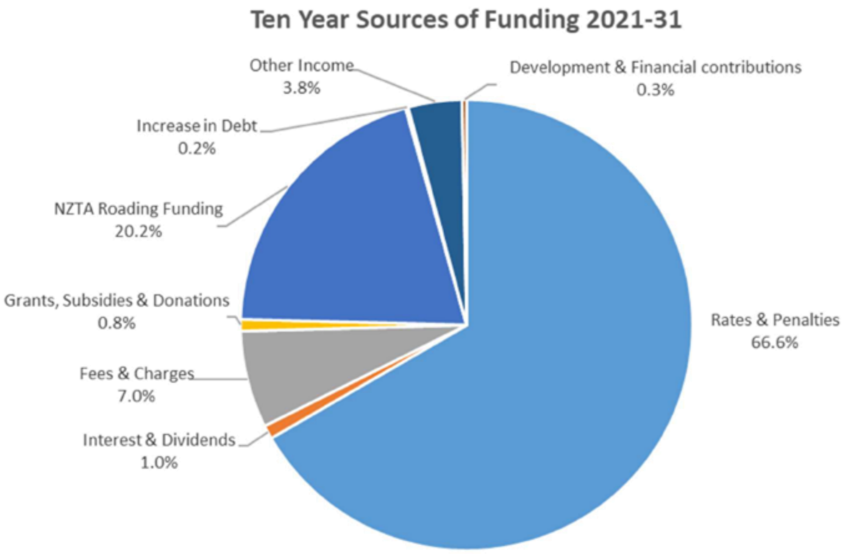
- Roading Infrastructure – capital program is funded
- Waimate Event Centre – loan funded
- Rural Halls, Aerodrome Club Rooms and various Park assets – unfunded

Council reflects deficits in the early years of this LTP in order to deliver an affordable rates requirement. When combined with a clear plan to recover the deficit in later years with an affordable rates requirement, we believe this is a prudent approach.

~~3.~~4. How will Council Fund this Plan?

This section covers how Council intends to fund its activities and the services it delivers.

The total cost of council activities is funded from a number of sources, the graph below shows sources of funding that the council intends to use to fund this plan. Rates remain the major source of funds for Council.



Other Income includes petrol tax Income, commissions, forestry revenue, rental income and other miscellaneous income.

What about rates? ~~Will they be affordable?~~

Rates increases

~~Council rates in New Zealand must be set with a view to being affordable to the district. This~~ Council aims to strike a balance between delivering the ~~outcomes the~~ demands of the district ~~requires and desires,~~, and the rates required ~~it strikes~~ to fund this work.

Council further plans to use debt to smooth the impact of rating increases over the period of the LTP 2021-31; the majority of the internal debt raised to support a smoothed rates profile is paid up within the LTP 2021-31 period.

Council is proposing increases of 9.9% for 2021/22, 7% for both 2022/23 and 2023/24 and an average of 2.5% for the remaining 7 years of the LTP.

~~Council has reviewed its funding requirements in order to support more rapidly achieving improved service standards in the Water Supply space. Council has continued to increase the level of funding required todeliver its level of service targets in Roading having under-invested in this area in the past. To manage the resulting funding spike, and in recognition of the long-term nature of the asset investments, Council proposes to spread the cost of these sizeable investments over 20-40 years using a mixture of internal and external loan funding.~~

~~Council recognises that long-term debt funding drives long-term cost into the core expenses of the organisation. Whilst reviewing funding options, Council believes that these funding streams are most appropriate for supporting this level of investment given the options currently available. Council will continue to lobby for additional sources of funding to be made available via legislation or central government that will alleviate the rates burden on the district.~~

Rates limits

~~Council plans to apply rates limits over the LTP period to provide the district with some certainty on the upper level of rates take.~~ Council proposes that its rates increases be limited to not more than 10% for the first 3 years of the LTP period and not more than 8% for the remaining 7 years of the plan. ~~This is recognition of the uncertain nature of the costs and funding streams that will be associated with the key infrastructure projects detailed in the infrastructure strategy.~~ This represents a change from the previous rates limit of 8%. It is Council's view that it can deliver and maintain the levels of services and additional demand proposed in the LTP within these limits.

Rates & debt

~~Council further plans to use debt to smooth the impact of rating increases over the period of the LTP 2021-31; the majority of the internal debt raised to support a smoothed rates profile is paid up within the LTP 2021-31 period.~~

The timing of the work we have planned in our LTP, if allowed to flow directly into our financial projections, results in sharp rate increases ~~and decreases~~ over the Plan period, especially in the early years of the plan.

Council recognises that ratepayers benefit from having less volatile rates requirements, as it better supports financial planning. We have therefore used both internal and external debt to smooth the rate requirement over the course of the plan period, running certain activities at losses for a period of time before recovering this debt ~~, via rates,~~ over an extended period.

Whenever Council uses debt to smooth the rate requirement, there is an interest charge associated with the use of the debt. Council's assumptions determine the rate of interest applied to this debt; for the long-term plan period 2021-31 the rate is set at 3%. This is the 'cost of smoothing'.

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The tables below provide a detailed breakdown of the impact of Council's rates smoothing approach~~, by~~, by activity, indicating how the rates change both in percentage and dollar terms.

Description of Rates	Annual Rates Impact										Ten Year Interest
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	cost of smoothing
Targeted Rates											
Rural Water Schemes Pre smoothing $	1,787,071	1,908,205	1,957,499	1,972,740	2,006,223	2,077,070	2,098,394	2,115,788	2,196,370	2,238,025	
Rural Water Schemes Post smoothing $	1,506,263	1,645,062	1,798,610	1,917,973	2,046,430	2,184,748	2,279,960	2,376,171	2,475,783	2,571,559	
Impact of smoothing : (reduction) / catch up	(280,808)	(263,143)	(158,889)	(54,767)	40,207	107,678	181,566	260,383	279,413	333,534	117,895
Rural Water Schemes Pre smoothing %	31.8%	6.8%	2.6%	0.8%	1.7%	3.5%	1.0%	0.8%	3.8%	1.9%	
Rural Water Schemes Post smoothing %	11.1%	9.2%	9.3%	6.6%	6.7%	6.8%	4.4%	4.2%	4.2%	3.9%	
Targeted Rates											
Urban Water Scheme Pre smoothing $	894,757	959,269	1,019,175	1,038,759	1,059,815	1,102,689	1,125,018	1,154,570	1,220,751	1,256,041	
Urban Water Scheme Post smoothing $	889,000	960,120	1,036,930	1,062,853	1,089,424	1,116,660	1,141,785	1,167,475	1,190,825	1,208,687	
Impact of smoothing : (reduction) / catch up	(5,757)	851	17,755	24,094	29,609	13,971	16,767	12,905	(29,926)	(47,354)	107
Urban Water Scheme Pre smoothing %	10.7%	7.2%	6.2%	1.9%	2.0%	4.0%	2.0%	2.6%	5.7%	2.9%	
Urban Water Scheme Post smoothing %	10.0%	8.0%	8.0%	2.5%	2.5%	2.5%	2.2%	2.3%	2.0%	1.5%	
Civic Amenities Rates											
Resource Recovery Park operation Pre smoothing $	425,312	438,543	448,806	457,774	465,372	475,902	483,231	490,909	500,900	510,535	
Resource Recovery Park operation Post smoothing $	289,420	472,620	611,983	486,819	462,829	473,358	480,688	488,366	498,357	507,992	
Impact of smoothing : (reduction) / catch up	(135,892)	34,077	163,177	29,045	(2,543)	(2,544)	(2,543)	(2,543)	(2,543)	(2,543)	5,631
Resource Recovery Park operation Pre smoothing %	50.6%	3.1%	2.3%	2.0%	1.7%	2.3%	1.5%	1.6%	2.0%	1.9%	
Resource Recovery Park operation Post smoothing %	2.5%	63.3%	29.5%	(20.5%)	(4.9%)	2.3%	1.5%	1.6%	2.0%	1.9%	
General Rates											
Dividend Income Reduction Pre smoothing $	186,969	186,969	186,969	176,969	166,969	156,969	146,969	136,969	126,969	116,969	
Dividend Income Reduction Post smoothing $	492,469	468,969	43,469	(2,031)	(36,031)	(60,031)	71,249	142,969	132,969	122,969	
Impact of smoothing : (reduction) / catch up	305,500	282,000	(143,500)	(179,000)	(203,000)	(217,000)	(75,720)	6,000	6,000	6,000	39,000
Dividend Income Reduction Pre smoothing %	(54.5%)	0.0%	0.0%	(5.3%)	(5.7%)	(6.0%)	(6.4%)	(6.8%)	(7.3%)	(7.9%)	
Dividend Income Reduction Post smoothing %	19.7%	(4.8%)	(90.7%)	(104.7%)	1674.1%	66.6%	(218.7%)	100.7%	(7.0%)	(7.5%)	
Overall rates increases Pre smoothing	**16.6%**	**5.0%**	**1.5%**	**2.9%**	**1.9%**	**3.1%**	**1.8%**	**1.9%**	**2.8%**	**2.6%**	
Overall rates increases Post smoothing	**9.9%**	**7.0%**	**7.0%**	**3.0%**	**2.6%**	**3.5%**	**1.4%**	**1.8%**	**2.6%**	**2.8%**	
Overall impact of smoothing : (reduction) / catchup	**(6.7%)**	**2.1%**	**5.4%**	**0.1%**	**0.7%**	**0.4%**	**(0.5%)**	**(0.1%)**	**(0.2%)**	**0.2%**	
Annual interest cost of smoothing $	**4,500**	**29,948**	**32,531**	**27,086**	**23,721**	**15,368**	**10,335**	**12,457**	**6,525**	**162**	162,633
Make up of rates increases Post smoothing:											
General Rates	**2.6%**	**1.7%**	**2.9%**	**0.3%**	**0.6%**	**0.7%**	**(0.9%)**	**(0.2%)**	**0.2%**	**0.3%**	
Civic Amenities Rates	**3.5%**	**2.5%**	**1.3%**	**(0.5%)**	**0.0%**	**0.6%**	**0.5%**	**0.4%**	**0.4%**	**0.6%**	
Targeted Rates	**3.8%**	**2.9%**	**2.8%**	**3.2%**	**2.0%**	**2.2%**	**1.7%**	**1.7%**	**2.0%**	**1.8%**	
	9.9%	**7.0%**	**7.0%**	**3.0%**	**2.6%**	**3.5%**	**1.4%**	**1.8%**	**2.6%**	**2.8%**	

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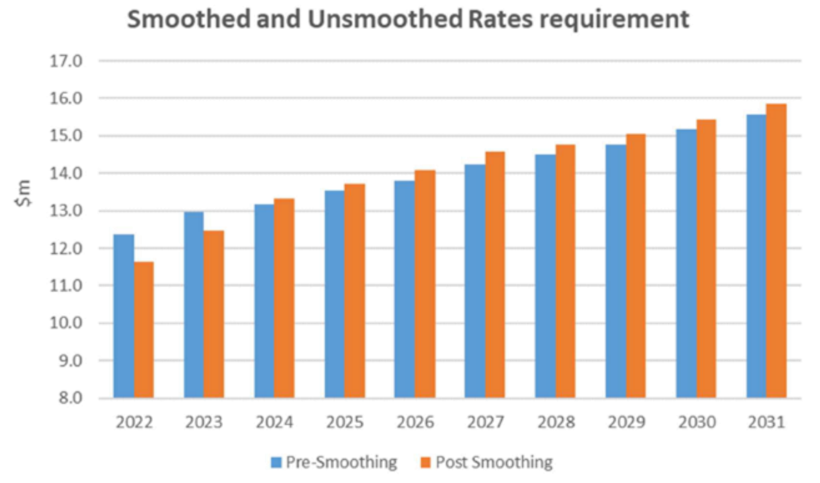
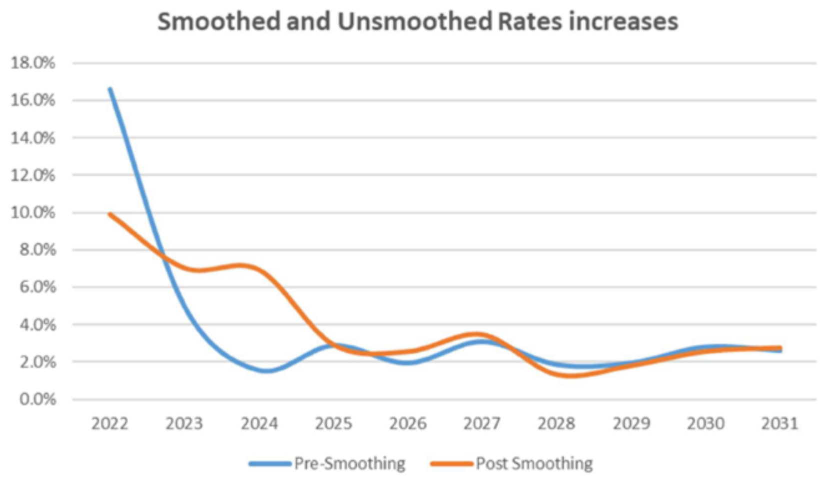
The diagrams below illustrates the impact of rates smoothing on the current plan (excluding Downlands Rural Water Scheme rates):





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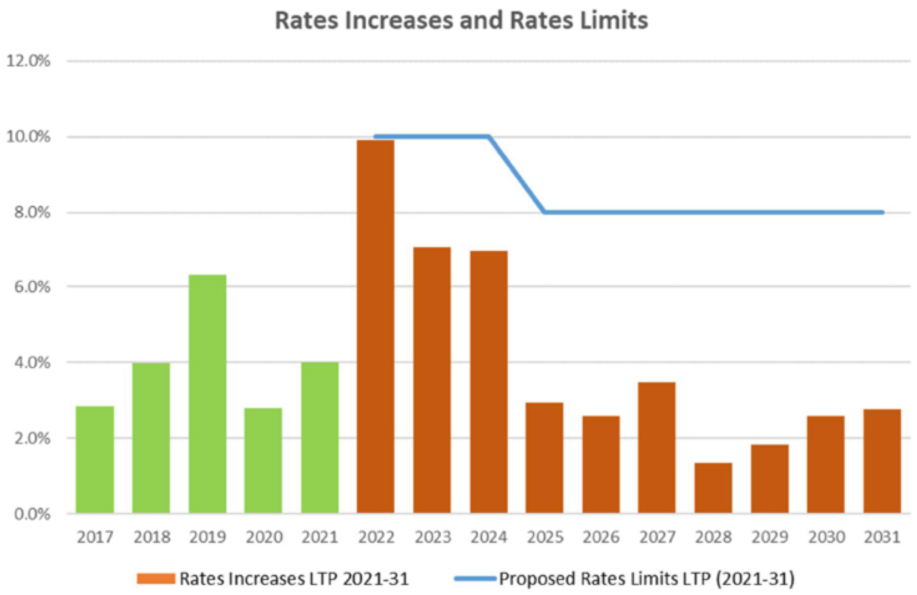
The following graph compares actual rates increases for the last 5 years with the projected increases for the next 10 years and shows the limit for that 10-year period (excluding Downlands Rural Water Scheme rates):



Like all households and businesses the costs of providing council services is increasing. ~~Delivery of key core services have been devolved from central government into the local government sphere.~~

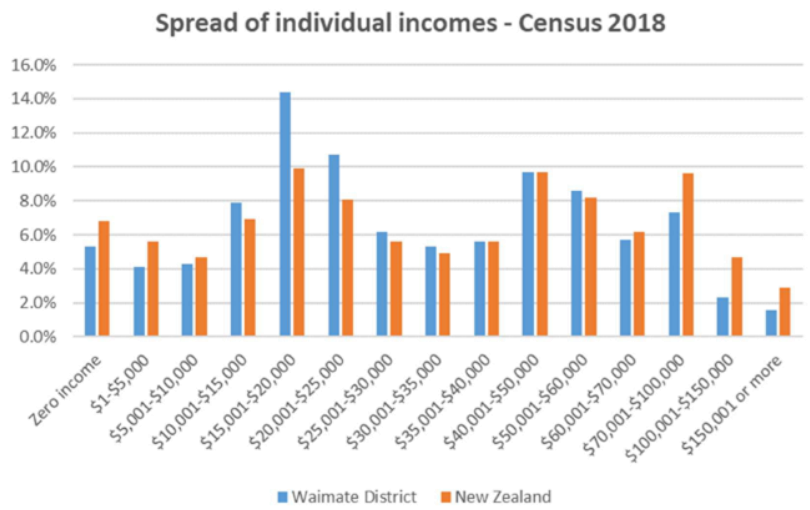
~~One of the main financial issues faced by Council is providing services in a cost effective way that the ratepayers and community can afford, while still meeting its legal obligations and being fair to current and future ratepayers. These obligations, as highlighted in the infrastructure strategy, are becoming more stringent particularly in the Water space. In this LTP, Council is seeking to assure all stakeholders that it can meet these obligations in the long-term by entering into an increased capital work programme in the near-term. This results in a funding requirement which Council deems fair to spread over a period longer than the 10 year time horizon of this plan, essentially debt funding the asset purchase and paying back the debt over the life of the relevant assets.~~

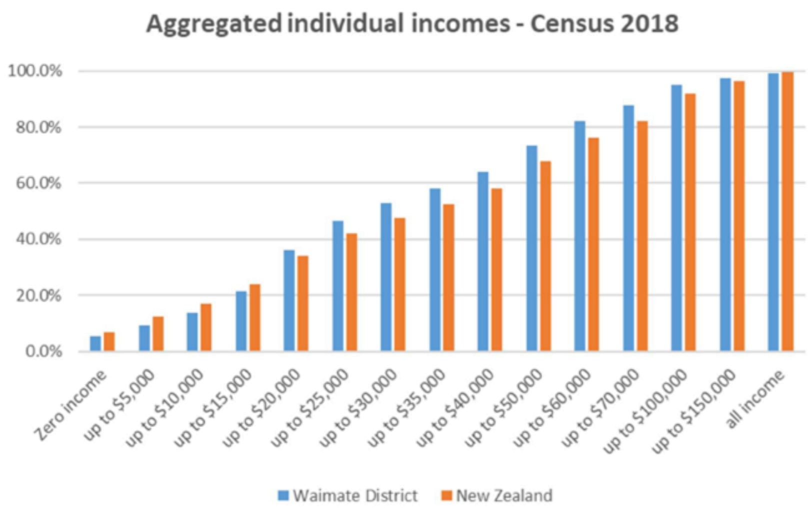
~~Council has considered the most appropriate way to fund council services in arriving at its current Revenue and Financing Policy. While level of rates clearly has a direct relation to levels of service delivered, Council recognises that not all costs of service are met by rates. Where appropriate Council continues to ensure, via Fees & Charges, that users of certain services pay directly for these activities.~~

Council is committed to providing certainty and equity to ratepayers over their rates bills. Council is aware that there is significant income variation within the District and also that levels within the district are generally lower than the NZ average.

Council recognises that there are mechanisms available to low income ratepayers in the district to obtain relief on the rates levied by Council, such as the annual Rates Rebate. Council believes it is important to actively promote such options to rate payers.

The following graphs illustrate how income levels in the district lag the national average. Council does not expect the district's income profiles to vary significantly for this plan period.





~~Council continues to focus on affordability issues in developing the Long Term Plan. In particular, it has sought to:~~

- ~~Use targeted rates where the direct beneficiaries can be clearly identified.~~
- ~~Closely scrutinise and reprioritise both its operating and capital expenditure programmes in light of their potential impacts on rates where it is prudent to do so.~~
- ~~Not fully fund depreciation where it is considered prudent to do so.~~

- ~~Use borrowing to match the costs of providing the service with the benefits that ratepayers will receive i.e. benefits may occur over a large number of years and borrowing across a similar time frame matches the benefit to the cost of borrowing.~~
- ~~Minimise finance charges by repayment of any borrowings as and when available funds permit us to do so.~~

~~Council will continue to maintain a focus on rates affordability and look to use these other sources of funding wherever possible.~~

~~Rates Limits~~

~~Council proposes the following limits:~~

~~Total rates to be no greater than 0.3% of total capital value of the District. Using 2021-21 Capital Value as a reference point, the total rates limit is shown in the table below:~~

~~District Capital Value 2020-21 ($)~~	~~0.30% limit ($)~~
~~4,930,472,950~~	~~14,791,419~~

~~For the purposes of District wide Capital Value revaluations that occurs every third year Council has used an increase of 8%, dependent on the nature of the asset, to approximate that revaluation.~~

~~The total rates increase is to be no greater than 10% in the first three years of the 2021-31 Long Term Plan and 8% in the remaining 7 years of the plan.~~

~~Unfunded items~~

~~Council plans to cover the costs of most activities either by rating directly, charging users at the point of delivery or drawing on investment returns. Council has resolved not to fund certain costs for a variety of reasons. These are:~~

- **~~Depreciation of Roading Infrastructure~~**
  ~~Council develops a plan that covers the ongoing maintenance and investment in the roading infrastructure in our district and rates the district accordingly. This plan includes a co-funding element from NZTA. Council considers this the most reasonable way of maintaining (or when applicable improving) the level of service in the roading activity. As a result Council will not fund that portion of roading infrastructure (including bridges) beyond the level of capital expenditure required.~~

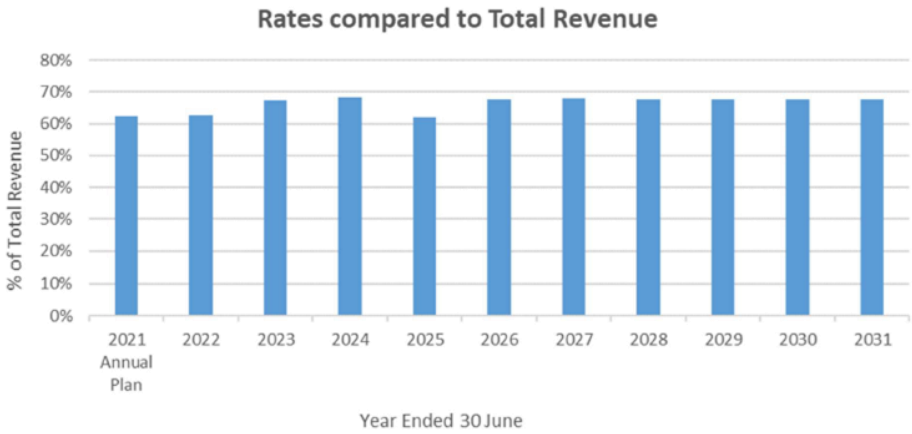
- **~~Depreciation of the Waimate Event Centre~~**
  ~~Council completed the build of the Waimate Event Centre in December 2016. Council's contribution to the event centre was paid for via debt that is being paid back over the life of the asset. Council does not consider it reasonable to fund depreciation on the Event Centre asset, assuming instead that should a replacement facility be required in the future, a similar model of "loan fund and fundraise" to build will apply.~~

- **~~Depreciation of Rural Halls, Aerodrome Club Rooms and various Park assets~~**
  ~~Council does not plan to rebuild these assets at any time in the future and therefore chooses not to fund the depreciation of these assets. The current Park assets subject to this treatment are – Aviary, Scout Hall, Netball/Tennis at Victoria Park, Victoria Park Iron pavilion and shed and John Street Tennis Courts.~~

Other sources of revenue

Council has a number of other sources of revenue aside from rates, including fees and charges, funding assistance from Waka Kotahi (New Zealand Transport Agency), dividends from investments and forestry returns. Our Revenue & Financing Policy details how these revenue streams contribute to all the services we provide. ~~While Council is concerned to manage the total value of rates required to deliver the Plan, it is also focused on the proportion of overall revenue made up of rates. Council focuses its rates strategy to more appropriately target the recipient of the benefit where possible. In addition, where user pays is a more appropriate source of funding, Council aims to draw revenue directly at the point of service delivery.~~

The graph below illustrates the proposed proportion of rates to overall revenue. ~~In recent years the percentage proportion has been 57% (2017-18) and 60% (2019-20), the latter ratio being driven down by the recognition of the Waimate Event Centre.~~ Council plans to increase the ratio over the plan period to 63% initially with a maximum of 68% over next 10 years.



~~The proportion required from rates fluctuates dependent on the sources of funding available to Council, increasing when raising the revenue required to deliver our proposed infrastructure programme. Council commits to leveraging where possible its other revenue streams to alleviate the rates burden, amongst which are NZTA and other external grant funding, dividends on shares, user fees and charges and some forestry returns. Council notes that the increased investment in Water Supply and Roading infrastructure will increase targeted rating requirement as outlined in its Revenue & Financing policy.~~

~~Council will review its user fees and charges regularly to ensure these are set at an affordable but reasonable level. Council aims to ensure rates revenue as a percentage of total revenue is capped at 70%. This approach is to ensure that rates are not the default answer for funding increasing expenditure.~~

It is Council's view that it can deliver and maintain the levels of services and additional demand proposed in the LTP ~~and manage any increases to service levels~~ within these limits.

~~and this is supported by its financial projections, so longas the cost of its activities remain in line with the projections set out in the Local Government Cost Index.~~

~~4.~~5. Planning for Improved Services

~~Every year the community request more services. Council receives many requests and it must prioritise these~~ Community expectations are prioritised with focus on those that ~~and chooses only those that~~ sustainably support the ability to deliver services to meet the social, cultural, environmental and economic wellbeing needs of the District. ~~our community outcomes.~~ In addition, the government and other regulatory bodies impose requirements to provide increased or improved services and often it is a statutory obligation that we must meet, for example, fulfilling climate change obligations.~~the requirements of the drinking water standards as illustrated in the Havelock North report.~~

These projects often result in a change in the level of service provided to the community and may increase operating and capital expenditure. As stated elsewhere, Council proposes to leverage its balance sheet to draw down funds to support these long-term asset investments. The following are the major planned level of service improvements:

- **Water Supply – Drinking Water Standard Upgrades ~~(2021-2023)~~**

  Hook-Waituna, Lower Waihao and Waikakahi 2021/22

- **Water Supply – New Bore**

  Otaio-Makikihi 2022/23

- ~~Core to Councils Water Supply strategy is to continue to upgrade the Lower Waihao, Hook-Waituna and Waikakahi water schemes to achieve DWSNZ compliance. In addition, scheme upgrades for Otaio/Makikihi are proposed during the plan period. Upgrades are programmed for the Waimate Urban Water scheme, supporting Water compliance for example. These represent level of service increases that drives a significant funding requirements of $3.0m into the 2021-31 LTP period.~~

- ~~It is Council's view that recent water quality inquiries elsewhere in New Zealand, primarily the Havelock North report, will result in water suppliers being required to significantly and rapidly improve the quality of water supplied to end-users. It is the anticipation of these requirements that create this step-change in funding requirement.~~

- **Roading (2021-2031)**

  Continued investment in minor improvements **~~WDC previously identified that greater investment in the network is required to keep the level of service delivered to the customers at a satisfactory level. The network is generally 'lightweight' with minimal pavement depth and some narrow carriageways. While this has been adequate for many years the increases in demand to the network with the vulnerable ground conditions gives rise to the need for change.~~**

  ~~Roading operating expenditure is planned to increase by $107,000 to $3.32m in 2021/22, rising to a maximum of $4.32m in 2030/31 (averaging 2.99% increase per year from 2021/22). This maintains the standard of existing roading in the district.~~

- **Library / Local Government Centre (LGC) Extension ~~Extended Library~~ (2021/22)**

~~Council recognises the scope of the infrastructure improvement projects that have arisen in this LTP. To this end, and recognising that the districts requirements for the library service have evolved since this project was first conceived, Council has chosen to reconsider the aims of this project as part of design scoping in 2020/21 with the intention to build in 2021/22.~~

Further information

Further information on these projects can be found in the Council's Asset Management Plans for its activities and Council's Infrastructure Strategy.

~~5.~~6. Planning to Maintain Existing Services

Assets wear out over time and need replacing. Each year we need to ensure that enough work is done to maintain these assets and eventually we will need to spend significant amounts to rebuild or replace them. If the assets are not maintained to the same level each year this may result in a decline in the level of service.

~~It is council policy to fund future renewals using depreciation as an annual estimate of the rates revenue required to create a reserve over time. This is particularly important for where assets have a long life and replacement is costly. If renewals are not funded over time this may create an increased burden on future generations to fund services of the current generation. Council has made some exceptions to this policy, as disclosed in the Balanced Budget Statement also contained in this Long Term Plan.~~

~~Council plans to continue its efforts to improve the knowledge and understanding it has in regard to the condition and life expectancy of major infrastructural assets, in particular in roading and the three waters (drinking water, wastewater and storm water). At present Council continues to rely partly on failure events and the assigned look up life of assets to inform its expenditure on assets. By improving its understanding and knowledge Council can make more informed decisions which are based on targeted and specific information. This will assist Council maximise the life of components within its infrastructural assets.~~The following are the major planned projects to maintain levels of service:

- **Waimate Urban Water Renewals (2021-31)**
- ~~The water asset management plan has identified that the aging of Waimate's Urban Water reticulation system is of great concern, reflecting that a significant percentage of aged and poor condition water mains (cast iron in urban reticulation, asbestos cement in urban and rural reticulation) will need replacement in the next 20 years. The estimated total cost of replacement is $4.825m million over the LTP period.~~
- **Rural Water Supply Renewals (2021-31)**
- ~~Rural water schemes renewals are programmed in this plan period. Council will work with the water committees and to agree a ten year renewal plan. The renewals component is proposed to be in the region of $1.92m in the next 10 years. These renewals can be funded from the asset renewal reserve funds, which are replenished by the funding of the annual depreciation expense.~~
- **Sewerage Renewals (2021-31)**
- ~~The ageing nature of the network, especially the original pipework in the Waimate urban area, means there is a requirement to continue to programme in renewals of the assets that are approaching end of life. Over a 10 year period, $5.5m is set aside for this renewal programme.~~
- **Roading Renewals (2021-31)**

Network

~~The 10 years' operating expenditure excluding depreciation is approximately $38.1 million and capital expenditure (which includes renewals and new and improved infrastructure) is approximately $38.9 million. This is supported by NZTA co-funding. At a total spend of $77 million for the 10 years it is Council's single biggest budgeted item.~~

~~In this Long Term Plan Council will continue to only fund the annual renewal programme and to not set aside any funds for future renewals. As illustrated in the Roading asset management plan, an increase in the operating programme combined with the strategic capex investments, will ensure service levels are met for the foreseeable future.~~

~~This Long Term Plan assumes that agricultural & forestry intensification tend to increase the freight demand on the roads, with supplies carted to the farm and more product freighted from the farm. This will affect the transport network, especially where the change in loading and traffic numbers step up steeply.~~

Further information

Further information on these projects can be found in the Council's Asset Management Plans for its activities and Council's Infrastructure Strategy.

~~6.~~7. Borrowing/Debt

~~Council policy on the use of borrowing is outlined in its Revenue and Financing Policy and Liability Management Policy.~~ Council believes it is prudent to maintain a strong financial position. This does not mean that Council will have no term borrowings, but that it will carefully manage its levels of borrowings.

~~Borrowing is not a source of revenue in itself; rather it is a 'bridging' mechanism to assist with the financing required for the construction of long term assets. The debt still needs to be repaid from other sources of revenue (e.g. rates). The use of debt allows use of the asset now while paying the debt back over time. In this sense it is much the same as a home mortgage. If Council had to fund these capital projects directly from rates it would cause large fluctuations in rates invoices to ratepayers.~~

Council currently has a strong financial position, ~~or in finance terms, a low debt to equity ratio,~~ meaning Council has the capacity ~~(within market prudential financial limits)~~ to increase debt. ~~to providefunding in the event of unbudgeted disasters and emergencies, and unforeseen events. Council's liquidity ratio also ensures that there are funding sources and cash immediately available.~~ Council has previously preserved this capacity in order that borrowings can be undertaken in exceptional circumstances as part of a long term strategy to be financially sustainable, and to be able to fund a response to emergencies and disasters.

~~Council believes that financing some of its long-term assets through debt funding it strikes an equitable balance of funding the assets from both the current and future beneficiaries of those assets. This is achieved as the borrowings used to fund the assets are repaid by future ratepayers. Spreading the funding of the asset across current and future generations of ratepayers is known as the intergenerational equity principle. Intergenerational equity refers to a fair balance in the relative contributions of current and future generations to the cost of funding local government expenditure. As such, borrowing seeks to match the cost of the council's infrastructure to those who consume it over time.~~

~~Council further believes that, where a spike in expenditure is planned to occur as is the case in LTP 2021-31, it is prudent to smooth the impact of the rate requirement over a reasonable period of time, so that residents are not exposed to extremely low or high rates demands year on year. This supports both Council and individuals ability to financially plan.~~ Due to some large capital works over the life of the plan our debt will increase. In addition, Council proposes to smooth the rates impact using both internal and external debt.

~~Council maintains many reserves, some of which are in surplus and others in deficit. These net off and are included in our cash position.~~ Council only borrows externally to meet cash flow requirements. ~~, however Council does account for the deficits in the reserve accounts in its Internal Borrowing.~~ Internal Borrowing means that one group of ratepayers are lending to another group of ratepayers. For this reason Council recognises that internal borrowing should be recognised as debt, as a call on those funds may occur unexpectedly.

~~This debt is mostly internal debt raised on new urban water and sewage assets over the last 10 years and is being repaid from funding depreciation on those assets. Council recognises that it is unfair to ask a generation of ratepayers to pay for a new asset and to start paying for its replacement at the same time.~~ **Debt Limit**

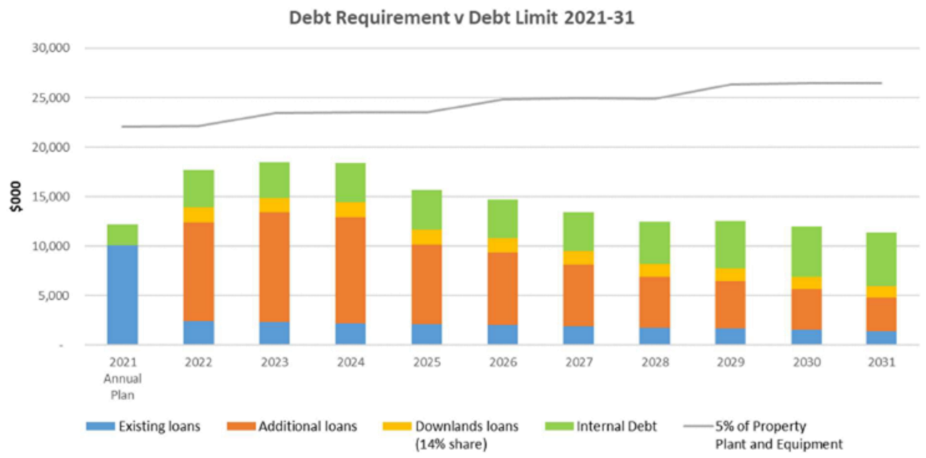
~~In setting its debt limits Council considers the ability of current and future generations of ratepayers' ability to repay debt. As mentioned above it is important that Council retains a strong financial position to meet unforeseen emergencies or unexpected calls on its finances.~~ Determining an appropriate level of debt could be measured against Council's total assets or against its total revenue.

In previous Financial Strategies our debt limit was set at 100% of total revenue, but Council believes lifting the debt limit is essential to the delivery of our plan and to meet our community wellbeing outcomes.

As the purpose of Council's external borrowing is predominately to fund the cost of operational or infrastructural asset replacements or development, Council has determined that the ~~considers the~~most appropriate ~~re relevant~~ measure is to limit the level of borrowing as a percentage of the total value of Council's 'Property, Plant & Equipment'. Council considers that capping its limit on borrowing to be no more than 5% of total property, plant and equipment is financially prudent.

It is Council's view that it can deliver and maintain the levels of services and additional demand proposed in the LTP within these limits.

Total debt limits would therefore be as set out in the graph below.



Our debt levels peaks in 2023, reducing thereafter with significant forestry income in 2024-27 being applied to external debt reduction. ~~During 2021-31, a reasonable amount of additional funding capacity remains, increasing following the 2023 peak debt level. The extent to which the District will be able to call on debt-funding approach to support emergency requirements is not substantially compromised as a result of the debt limit measure.~~

A detailed calculation of total debt can be found as a note within the financial statements. Council has included internal borrowing (except where specifically borrowed externally) as it considers that it is holding its reserves in trust for parts of the community and that in using those reserves for efficient cash management it should recognise that at any time it may need to externally borrow those funds should those reserves be required.

~~Debt period~~

~~Council recognises that holding debt incurs additional cost to the rate-payer and therefore pays close attention to the period over which debt is held. Where applicable, Council's intent is to link the term of the debt to the life of the asset which the debt is funding. The life of an asset is determined by the depreciable life as set out in the "Useful Lives of Significant Assets and Depreciation" assumption. This means Council will borrow for up to 40 years, but some loan profiles may be shorter.~~

Where Council uses debt to smooth the impact of the rates (Rates smoothing), Council's intent is to pay the debt back as promptly as possible while delivering a smooth rate requirement. The practical application of this is illustrated earlier within ~~on pg 6-8 of~~ this Financial Strategy (see Rates & Debt).

Policy on security for borrowings

~~Council, as is usually the case with individuals or businesses, will~~Council will be required to give security for its borrowing from external lenders. ~~If the Council defaulted on its loan payments, the lender would haveaccess to those securities. In business, there are different types of securities that can be used, such as the assets of business, in the case of an individual borrowing to purchase a house it is often the house itself.~~

Council proposes to secure its borrowing, and interest rate risk management instruments, against rates revenue ~~if this lowers the cost of borrowing~~. In some~~unusual~~ circumstances, security may be offered by providing 'a charge' over one or more of the Council's assets.

Physical assets will be charged only where:

- there is a direct relationship between the debt and the purchase or construction of the asset which it funds;
- the Council considers a charge over physical assets to be appropriate.

The full policy on giving securities can be found in the ~~Investment and~~ Liability Management Policy.

~~7.~~8. Investments

Council has financial investments to create a return which can be used to pay for services and reduce rates. This section explains Council's objectives for holding and managing financial investments and equity securities and its targets for returns on those investments and equity securities.

Forestry

Council owns a 136.4 ha forestry investment largely to generate income and Carbon Credits for Council but also to provide some economic development benefit to the district. Council proposes to continue to maintain the forest asset to maximise commercial returns, but where a viable return is possible it may consider the disposal of these assets via the open market. Unless sales occur, Council will continue to replace forest stock as trees are felled.

~~Income from forests varies from year to year. Council has budgeted income from forests based on advice from its Forestry Consultant for the purpose of the LTP. Council has assumed that the forestry asset values will increase annually over a rotation cycle of 30 years. Council maintains a forest reserve fund which with investment in the forestry plantations are expected to be in deficit by $322k.~~ Council expects that ~~when~~ these forests are to be harvested from 2024 to 2027 and the return from the sale of trees will ~~should~~enable repayment of external debt. ~~these reserves to peak at a positive balance of $1.6m immediately prior to reinvestment.~~ Council plans to replant following harvest. ~~but will be considerate of the economics at that time to assist in future decision making.~~

~~Council from time to time reviews its investment and may determine that ownership sits better outside of Council. Should this be the case Council will benefit from the release of capital either to reduce its debt position or contribute toward funding an as yet undetermined project(s).~~

Alpine Energy Ltd Shares

Council owns 7.54% of the shares in the company. Council primarily owns these shares for the commercial return received by way of dividend. Alpine Energy infrastructure supplies part of the district, so Council's investment also helps ensure a secure power supply necessary for the development of the district. Council anticipates the company to continue with its current level of dividend~~rates~~ and as such is budgeting on a dividend of not less than 6 cents per share. An annual increase of 3.9% on the value of the Alpine Energy shares has been assumed for the life of the Long Term Plan.

Property

~~Council has no plan to develop Council-controlled subdivisions in the plan period.~~

Council owns many properties for operational or community purposes that are not considered investment properties as any financial return is incidental to the reasons for ownership.

Cash

Council holds cash for the purpose of operating and maintaining stable cash flows. These funds are invested in internal borrowing or deposits as provided by council's Investment Policy. ~~Council's target return on cash is to achieve the average 90-day bill rate.~~ The return on net cash investments is budgeted at 1%.

Other Investments

Council holds a small number of low value investments in equity ~~and loans~~ for which the reasons for holding are related to purchasing benefits or for economic ~~or community~~ development. Council does not have a target return for these investments, as this is incidental to Council's reason for ownership.

- ~~Conclusion~~

~~Our financial strategy remains a relatively conservative and low risk strategy although in this LTP we are proposing making use of debt to an extent that has not been experienced by this Council in previous years. This LTP is proposing to deliver increases in levels of service in our Infrastructure area, and our financial strategy is to fund this in a manner that leads to a fair distribution of cost over the lifeof the infrastructure being added, upgraded or replaced.~~

~~Changes within the district will occur but in Council's opinion, these are unlikely to have any significant impact on Council's planning, projects and continued service levels during the term of this plan. Instead, Council considers investment is required to meet the demands and obligations that either already exist in the district or will be imposed by Central Government or other external agencies.~~

~~Council has assessed that the service levels and costs of new demand, as identified in this plan, can be met within the financial limits set in the strategy. Council recognises that operating revenues are insufficient to meet operating expenses but for the reasons explained in the balanced budget statement, Council considers this to be acceptable and sustainable. Council therefore considers the LTP and this financial strategy to be prudent and adequate to meet the needs of current and future communities.~~

Publication Details

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Document Owner:	Corporate Services Group Manager
To be only amended by:	Resolution of Council

APPENDIX 1

Local Government Cost Index (LGCI)

LTP Year	Year Ending	CAPEX (%)	OPEX (%)	LGCI (%)	Rates Limits %
1	Jun-22	4.0	3.6	3.7	10.0
2	Jun-23	3.0	2.9	2.9	10.0
3	Jun-24	2.6	2.5	2.5	10.0
4	Jun-25	2.6	2.5	2.5	8.0
5	Jun-26	2.7	2.5	2.6	8.0
6	Jun-27	2.6	2.5	2.5	8.0
7	Jun-28	2.8	2.6	2.6	8.0
8	Jun-29	2.8	2.7	2.7	8.0
9	Jun-30	2.9	2.7	2.7	8.0
10	Jun-31	2.7	2.6	2.6	8.0

MEETING CLOSURE