

Waimate
District Council

27 August 2021

Financial Strategy

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1.0 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.

2.0 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.

Prior to COVID-19, the 2020/21 rates were forecast to increase by 7.7%. In response to the pandemic and acknowledging the potential difficulty and pressures on families and businesses, Council opted to reduce the overall rates increase to 4%. While this provided some relief Council now needs to catch-up \$377,700. This means that the rates impact for 2021/22, or year 1 of the LTP, requires Council to recover the loss of income to ensure the same levels of service can be provided in the future. 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.

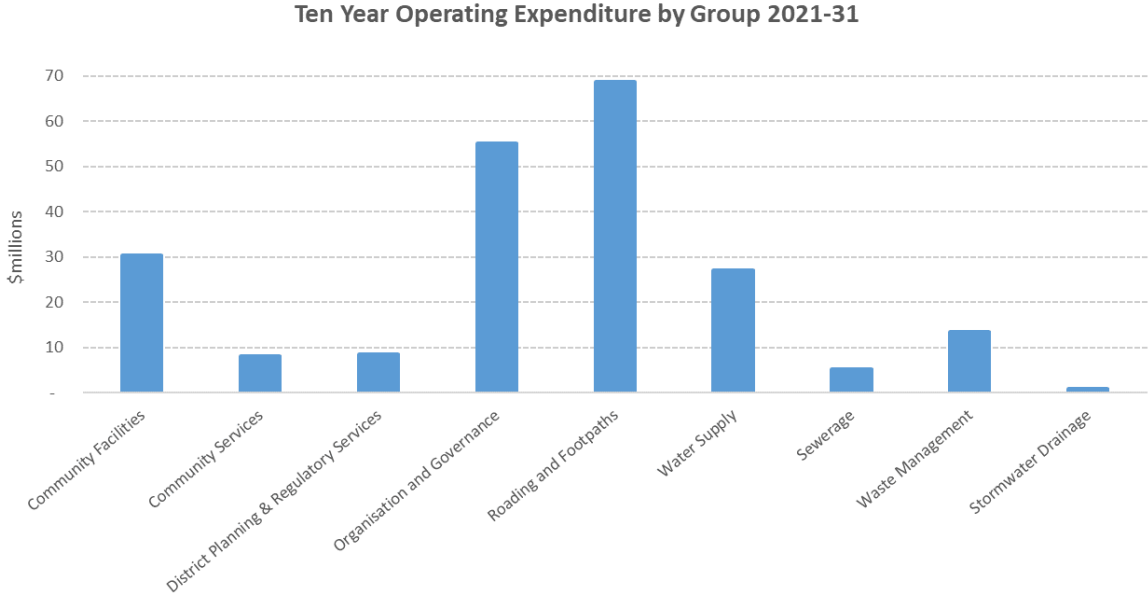
Other key uncertainties include the Government’s Three Waters Reform Programme and Resource Management Act 1991 (RMA) reforms.

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.

3.0 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 \$217.3 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 \$20.309 million in 2021/22 to \$23.529 million in 2030/31.

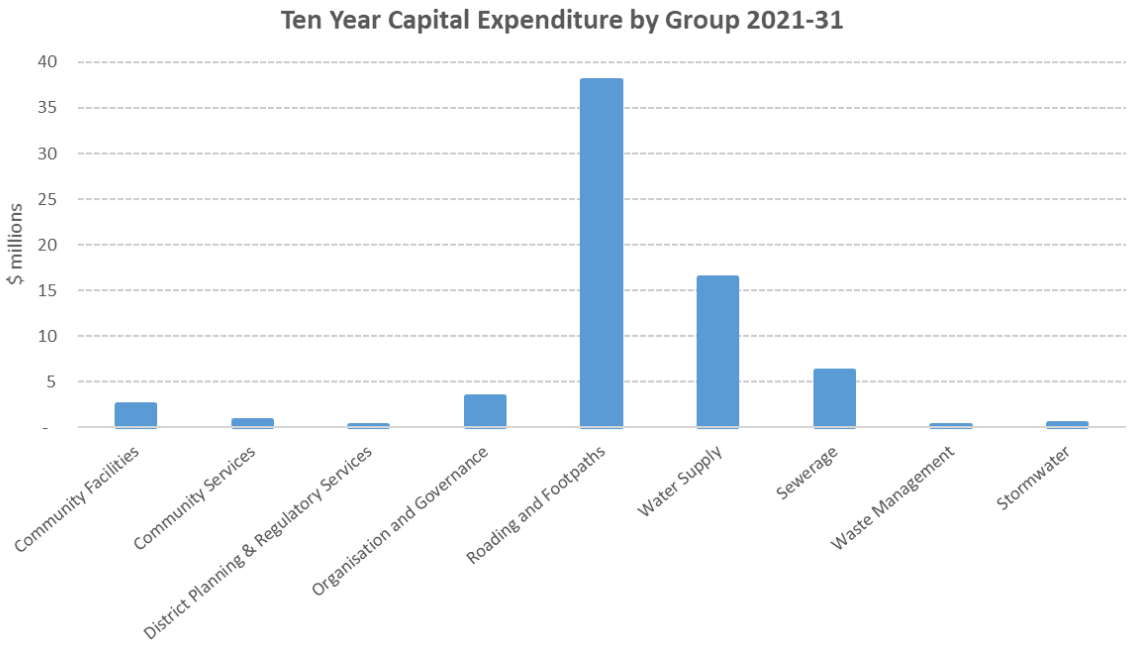
A driver of the increase is price increases for goods and services, for example, contract fees, wage increases, price of materials used, insurance costs and inflation mean it costs more for Council to deliver its activities and services. Council is constantly reviewing the cost and the way it delivers 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.

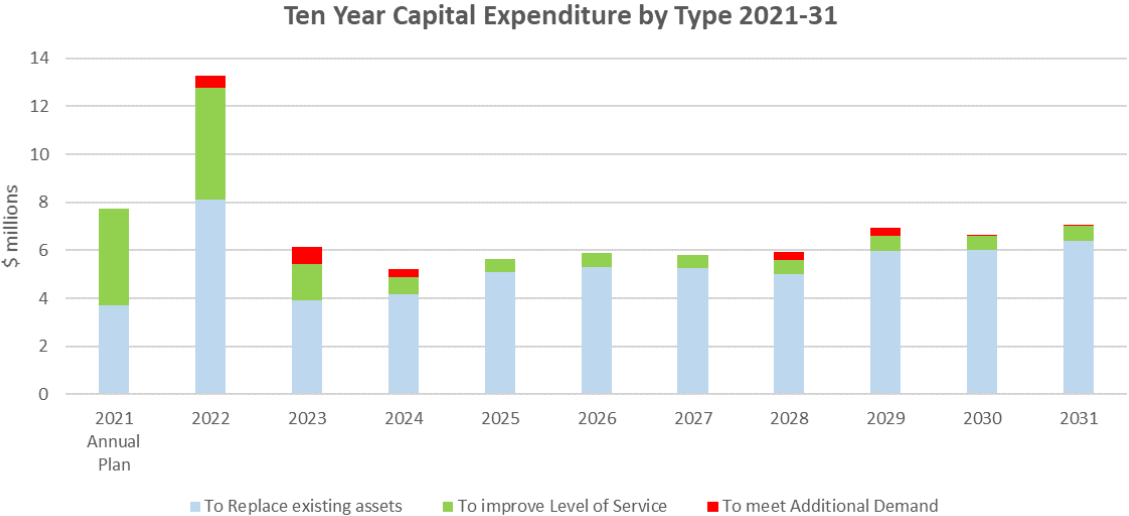
CAPITAL EXPENDITURE REQUIREMENTS

Over the next 10 years, Council is forecasting capital expenditure of \$68.533 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:

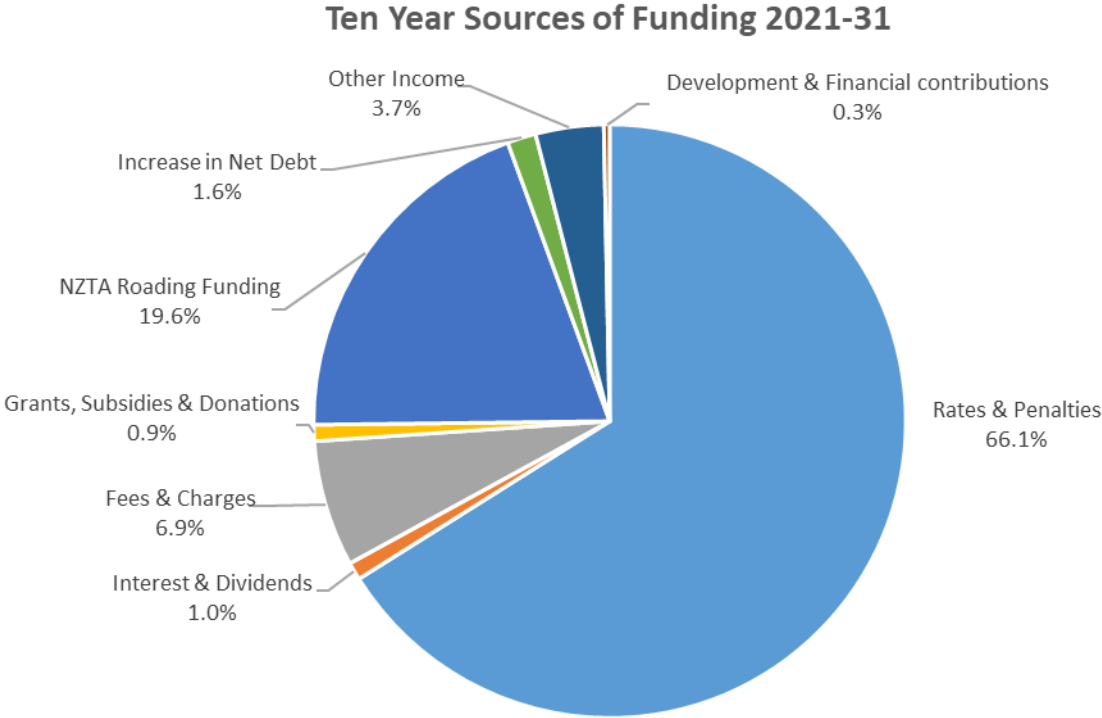
- Roading Infrastructure – capital program is funded
- Waimate Event Centre – loan funded
- Rural Halls, Aerodrome Club Rooms and various Park assets – unfunded

Council reflects deficits in the first three 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.

4.0 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, 7.6% for 2022/23, 6.8% for 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.

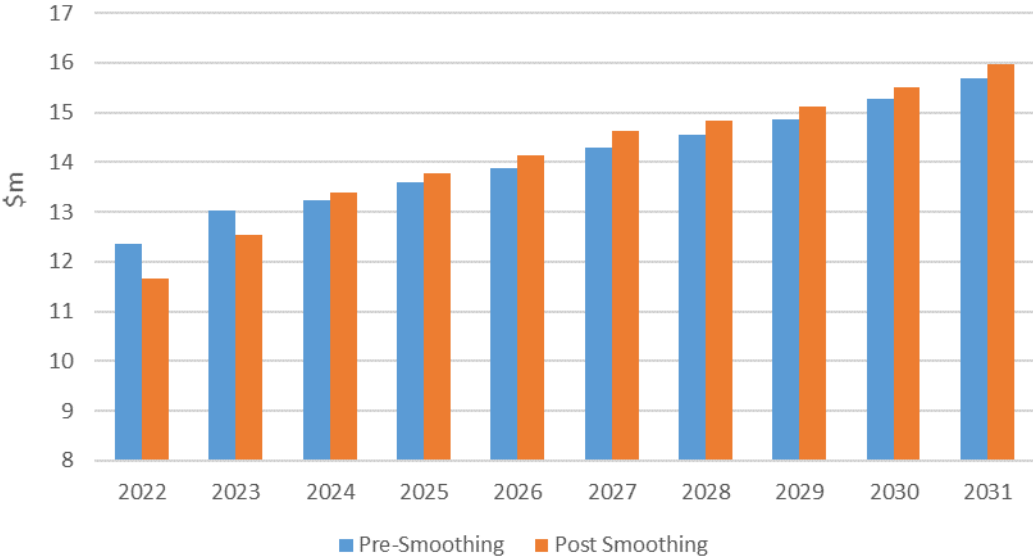
Whenever Council uses debt to smooth the rate requirement, there is an interest charge associated with the use of the debt. Council's assumptions determine the rate of interest applied to this debt; for the long-term plan period 2021-31 the rate is set at 3%. This is the 'cost of smoothing'.

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.

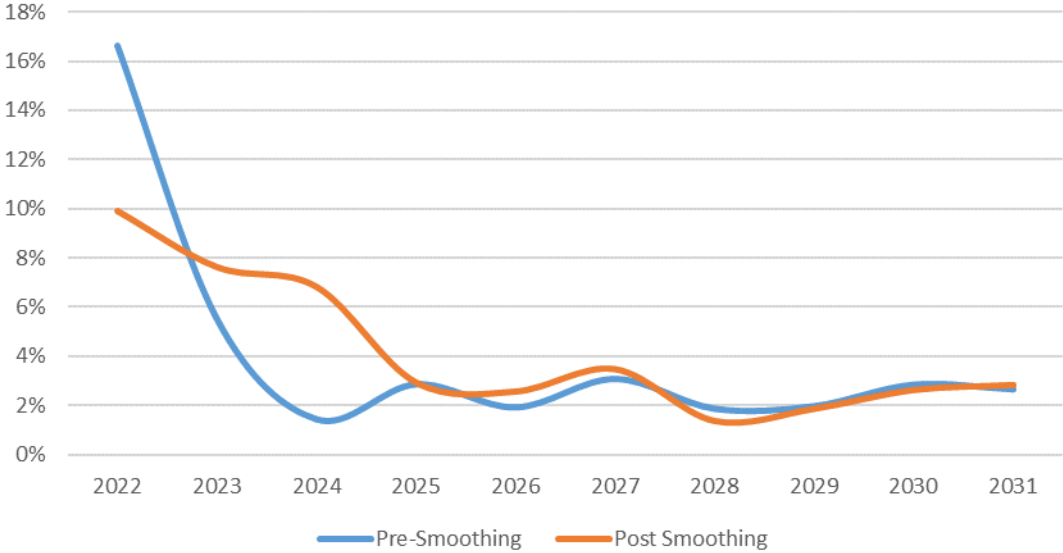
Description of Rates	Annual Rates Impact										Ten Year Interest cost of smoothing
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	
Targeted Rates											
Rural Water Schemes Pre smoothing \$	1,787,071	1,908,205	1,957,499	1,972,740	2,006,223	2,077,070	2,098,394	2,115,788	2,196,370	2,238,025	
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	
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%	117,895
<hr/>											
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)	
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%	107
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)	
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%	5,631
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	
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%)	39,000
Overall rates increases Pre smoothing	16.6%	5.5%	1.4%	2.9%	1.9%	3.1%	1.9%	2.0%	2.8%	2.7%	
Overall rates increases Post smoothing	9.9%	7.6%	6.8%	2.9%	2.6%	3.5%	1.4%	1.9%	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	2.3%	2.2%	2.7%	0.3%	0.6%	0.6%	(0.9%)	(0.2%)	0.2%	0.3%	
Civic Amenities Rates	3.7%	2.5%	1.3%	(0.5%)	0.0%	0.6%	0.5%	0.4%	0.4%	0.6%	
Targeted Rates	3.9%	3.0%	2.8%	3.2%	2.0%	2.2%	1.7%	1.7%	2.0%	1.9%	
	9.9%	7.6%	6.8%	2.9%	2.6%	3.5%	1.4%	1.9%	2.6%	2.8%	

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

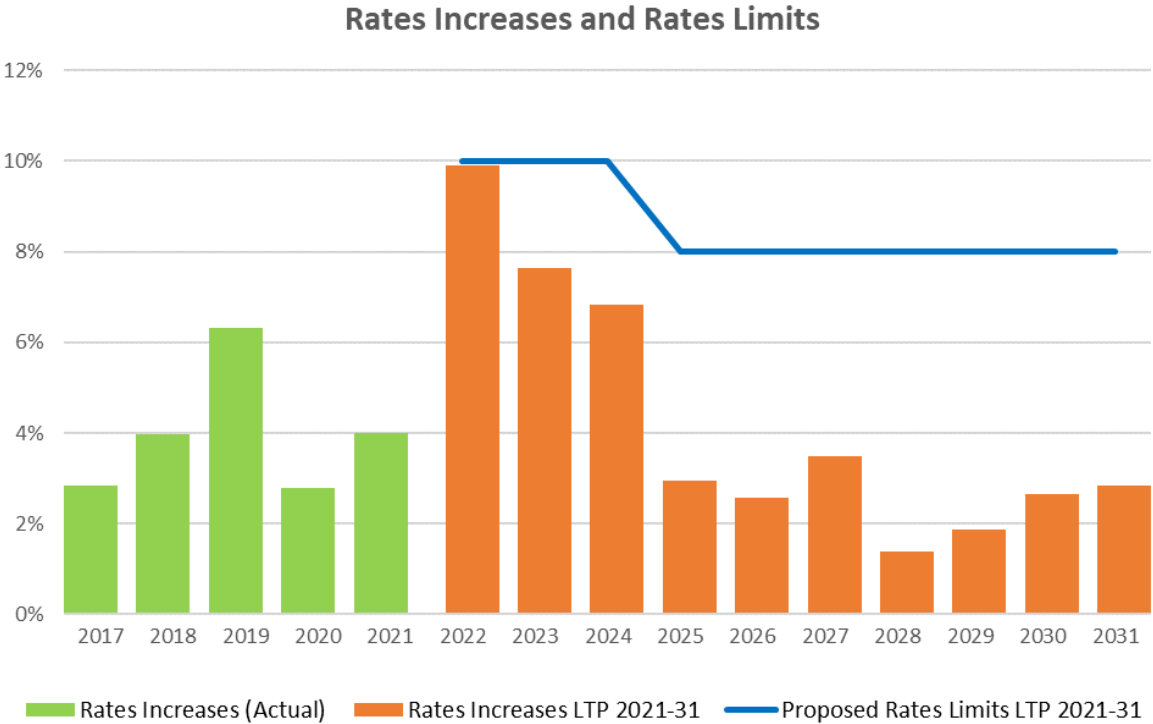
Smoothed and Unsmoothed Rates requirement



Smoothed and Unsmoothed Rates increases



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.

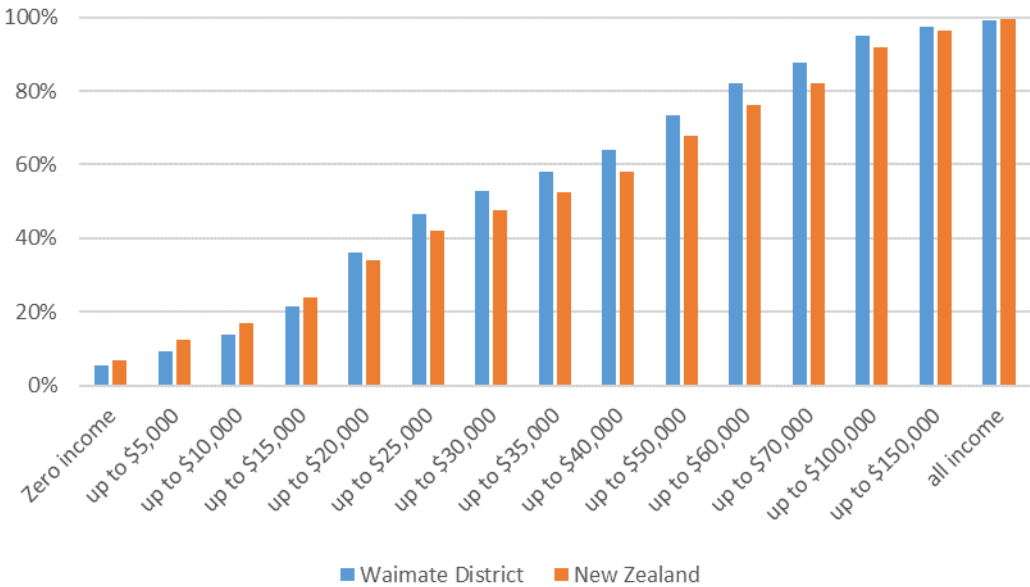
Council recognises that there are mechanisms available to low income ratepayers in the district to obtain relief on the rates levied by Council, such as the annual Rates Rebate. Council believes it is important to actively promote such options to rate payers.

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.

Spread of individual incomes - Census 2018



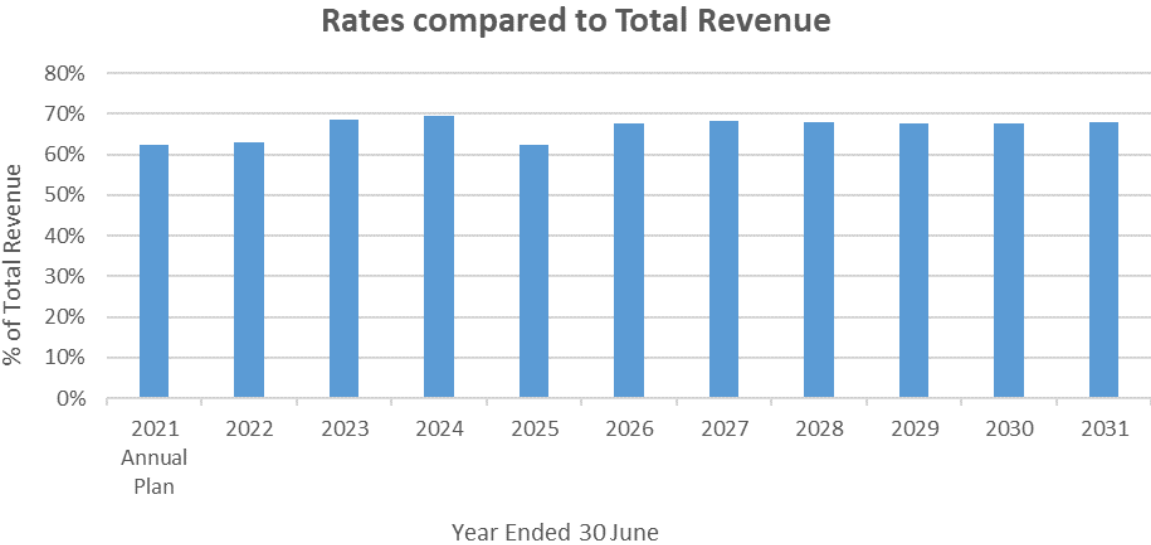
Aggregated individual incomes - Census 2018



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 70% 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. Further information on Council’s ability to maintain level of service and meet additional demand can be found in Council’s Infrastructure Strategy and Asset Management Plans.

5.0 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
 Waihaorunga 2022/23
- **Water Supply – New Bore**
 Otaio-Makikihi 2022/23
- **Roading (2021-2031)**
 Continued investment in minor improvements
- **Library / Local Government Centre (LGC) Extension (2021-2023)**

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.

6.0 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.

7.0 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

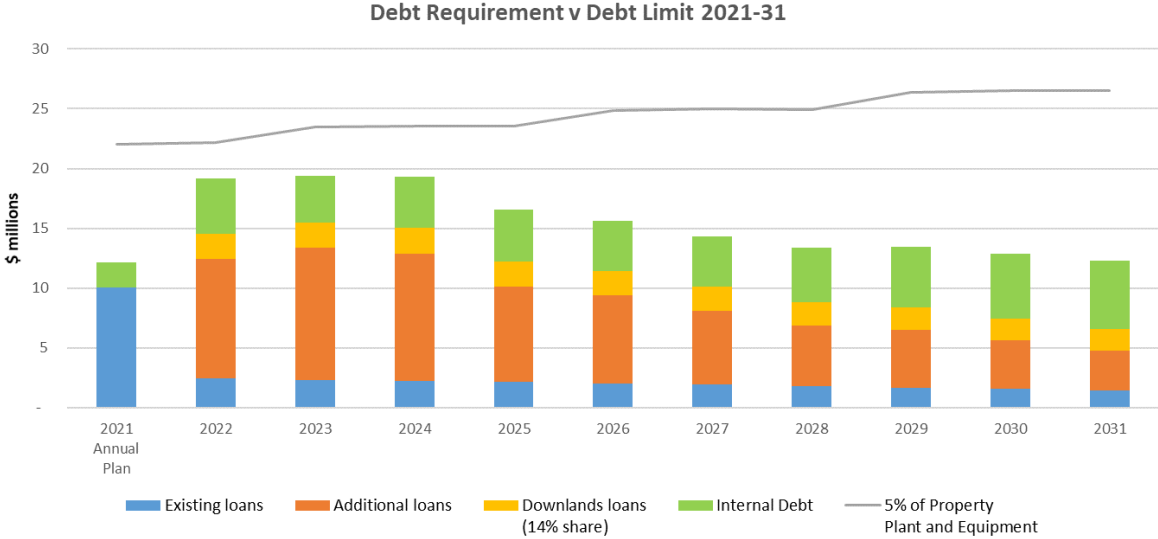
Determining an appropriate level of debt could be measured against Council's total assets or against its total revenue.

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. Further information on Council’s ability to maintain level of service and meet additional demand can be found in Council’s Infrastructure Strategy and Asset Management Plans.

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 2025-27 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.

8.0 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.

9.0 Document Control

Document owner:	Corporate Services Group Manager
Effective: (via adoption of LTP 2021-2031)	27 August 2021
Previous review date(s):	1 July 2018 1 July 2015
Next review date:	June 2024
Policy can only be amended by:	Resolution of Council
Council resolution number:	2021/110

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