Attachment 4 – Financial strategy

Overview

This is the third iteration of the Waitaki District Council Financial Strategy. Having reviewed this strategy, and the success to date with its implementation, Council has decided to continue with this strategic direction.

The financial strategy can still be summarised in the phrase "The future we want at the price we can afford". This underlines the ongoing balancing act Council faces when wanting to do more to improve the district for the community, while also recognising the financial impact rates and other charges have.

Importantly, Council is mindful of changes that have occurred in the broader environment that it works within, and has reflected key changes as refinements to the strategy.

A key refinement relates to the emphasis Council has placed on achieving affordability over the last six years. Success has been achieved with improving affordability and this is covered in more detail below.

The key issue and concern that has emerged is that the level of emphasis currently placed on affordability has impacted negatively on Council's, and the community's, ability to seize opportunities to improve the district.

Based on this concern, the Council is now considering rebalancing the emphasis placed on affordability. This Financial Strategy reflects this consideration with a very modest shift towards enabling service improvements, but still maintaining a focus on affordability.

This is a key theme that influences the proposals within this LTP.

The Strategy – in a sentence

To focus on delivering good quality services that meet the changing needs of the community while ensuring rates affordability and financial flexibility by focusing on efficiency and effectiveness, maximising value and repaying debt.

This will be achieved by a variety of measures with the heart of the strategy being:

- Deciding new or increased services in a very selective way. Council will seek change where there is either strong community demand or a change in circumstances that must be responded to (e.g. a change in law.) The preferred options to fund these changes will be from new sources or transfers from another Council activity. These will be pursued before increases are made to the total rates required.
- Reviewing what is required to deliver existing services with the aim of achieving better value, particularly from the assets involved. Disposing of assets that do not contribute to efficient and effective service delivery is part of this approach. Also ensuring replacement assets represent the most efficient and effective way of meeting community and customer needs.
- Using assets for their maximum possible life but also appreciating that community needs and stakeholder requirements are not compromised. .

This strategy continues to focus on maintaining core services and infrastructure. However, there is greater recognition of the need to respond to changes in the environment, and that maintaining what we have may not always be appropriate.

The strategy sets out how it will be applied in response to a changing environment including the options that are available given Council's current position. It will consider how the three factors of service levels, rates and debt would move under the different options available. It will also consider the level of risk Council is willing to accept that a service won't be delivered (under delivery), and conversely, that a service delivered will provide little or no benefit (over delivery).

Where we were and where are we now?

The financial strategy is one of the main ways Council can seek answers to such fundamental questions as:

- What services should it provide, who should pay for them, and how should they be paid for?
- What types of assets should it own and how well should it look after them? This will be set in conjunction with the Infrastructure Strategy.
- How much should it be paying for now, and how much debt should it have (to be considered along with the Revenue and Financing Policy and Borrowing Policy)?
- What might change, and how would this change the things Council has decided above?

The purpose of the financial strategy is to put them all in one place in a cohesive manner, consider the alternatives, choose an answer and then discuss it with the community. At the end of the process this should produce something that helps make decisions over the life of the Plan.

Where we began

When the Waitaki District began it had established communities with a large number and range of older assets, reasonable levels of external debt, limited reserves, and few investments or other sources of revenue apart from rates and roading subsidies. In response to this position the various Waitaki Councils have taken generally financially prudent decisions and have changed Council's financial position to where it is now. Although it has slightly higher rates than many similar Councils, especially residential rates, it has no external debt, and has improved assets and facilities and well-funded reserves to allow for asset replacement as required. Over the last three years Council has achieved lower than projected rate increases which has improved rates affordability. This and earlier decisions has put Council in a position where it now has some choice about what financial direction it wants to take.

Where are we? – Overall Financial Position

Overall, Council continues to be in a very sound financial position. This has improved over the last three years as Council has required less rates than projected, lowered internal debt levels and has higher levels of investments. The scale of these positive results and the current position are discussed in the following sections and illustrated in charts later in the strategy.

Where are we? – Expenditure and Levels of Service

Expenditure levels reflect the decisions Council has made about the level and mix of services it needs and wants to provide. Once Council has made these decisions, it funds the necessary expenditure using the methods and mix of funding set out in the Revenue and Finance Policy.

The Operating Expenses chart later in the strategy illustrates the spending pattern that has occurred and is expected to occur. There have been a number of changes in these patterns over the years however the larger changes, especially less than expected increases, have been driven by savings through contracting and procurement improvements rather than reductions or changes to levels of service. These levels of services have mostly been maintained or in some cases improved, such as by the rural roading resilience project.

Where are we? – Debt

Council will continue to have no external term debt. Council does, however, continue to have a series of internal loans. An internal loan is where Council invests with itself, with one area that has funds in reserve lending these to another part of Council.

Council will continue use internal debt to fund a limited range of expenditure restricted to:
- Purchasing new assets: internal loans may be used to fund the residual after all other appropriate funding sources have been used (term debt);
- Renewing assets or other scheduled spending if there are insufficient funds in a reserve or available from other sources but there is regular inflow into the reserve;
- Funding accumulated or exceptional operating deficits, but only on a short term basis (overdraft).

Council has had success over the last three years in reducing the level of internal loans, in particular property related loans, which has created capacity to take on new debt to fund approved projects.

Where are we? – Investments
Council has four primary types of investment, all of which are described in the Investment Policy.

The largest of these are the internal loans noted above. The amount invested in internal loans has reduced due to both scheduled repayments and property sales repaying property debt. This reduction has increased the amount available to invest in other investment types.

The next largest investments are two loans to local organisations, the North Otago Irrigation Company Limited (NOIC) and Observatory Village Retirement Trust. These investments provide both a commercial rate of return and wider community benefits. The third class of investment, the investment in Council Controlled Organisations (CCO) also provides both financial and community returns. The level of investment in these two classes has been and is likely to remain stable until the first scheduled repayments occur on the retirement village loan.

The class where the most change has and will continue to occur is the level of “cash” investments. Council has traditionally invested these surplus and reserved amounts with various banks. Council is considering changing its’ approach and adopting a more balanced portfolio. This would mean a wider range of investments would be used and selected on a risk / return basis. As Council is still considering its approach in this area, there are no changes highlighted in the LTP. Council will keep the community informed as it moves through this review process over the next year.

Where are we? – External Revenue and Rates
Although rates are the largest source of income for Council, they are not the only way services are paid for. The other major types of income received include:
- Government grants (particularly NZTA funding for roads)
- User charges; and
- Interest.

The mix of funding sources, including rates, has not changed significantly over time. Council does try to maximise other sources of external funding, however this is challenging given the level of competition for these funds. Even with user charges, there are only a limited number of activities where these can be utilised. This means that Council will continue to rely on rates as a funding source to a similar extent going forward.

Rates are used to fund the difference between the expenditure to meet the required service levels and all other sources of funds. Council’s Rating Policy is complex and uses many of the rating options that are available to all councils. This system was developed to recognise the different needs of sections of the community and to try to improve ratepayers’ understanding of how much they contribute to each Council activity. However, it is very difficult to make simple statements about how much rates will move and it makes comparisons with other districts and cities challenging.

There have been a number of initiatives over the last three years to improve the comparability of Council information. Waitaki has participated in several of the initial studies as it believes that these could be useful tools for both residents and Council to understand areas where it performs both better and worse to comparable Councils, why those differences are occurring and what actions or choices may be required to address these differences.

Affordability
Council has been quite open about the fact that rates, particularly residential rates, were relatively high compared to many other districts and cities. Council also identified a number key reasons such as the extent of the roading network compared to the number of properties /residents, and the number and scale of community facilities and activities. This in part drove the focus of the prior strategies.

Council has improved rates affordability over the last three years, particularly in comparison to similar Councils. This was achieved by the combined effect of good savings from some major contracts and other Councils having to address high cost issues, particularly meeting drinking water standards. The impact of being able to deliver reliable, abundant high quality drinking water has been under emphasized by Council. While there was a negative impact on rates affordability and comparability, the much greater community benefits of addressing this critical issue early are highlighted every time another community faces the issues created by unavailable or unsafe drinking water.

To monitor the reliance on rates as a funding source Council will track and report total rates to operating expenditure. Although this is not a perfect measure it is simple and robust.

Where do we want to be in ten years, what are the key issues and options that are available?

Overview
Focusing on affordability was not just to try and make financial life a little easier for the Districts ratepayers. As noted in the previous strategy, this goal helps create the capacity to have more choice and the ability to respond to changes going forward including the ability to meet new demands and respond to unexpected events.

Council now faces new demands and opportunities and must decide how to respond to them. The financial strategy must therefore evolve to reflect the changes that have occurred, give guidance on the decisions that need to be made and reflect the potential consequences of these decisions.

So what are these new demands and opportunities and the key issues that need to be considered here and throughout the Long Term Plan?

The first group of issues that have a significant financial impact are identified in the Infrastructure Strategy. The Infrastructure Strategy sets out the challenges and opportunities in terms of roading, drinking water, wastewater and stormwater. The issues that are likely to have an impact on the Financial Strategy include:

- Improving the roading network to deal with changing weather patterns, use and demands
- Meeting any changes in services levels created by legislation, regulation, resource consents and community expectations
- Finishing the upgrade program to meet drinking water standards
- Improving the resilience and reliability of water and sewer networks through a robust asset renewal program.

The next group of issues are being driven by changes in the District's economy and Council's desire to maximize the positive aspect of these changes and minimise the negative. The largest changes the District is seeing is the increase in agricultural production and the growth of the tourism industry. Council is seeking to invest more to improve its understanding of these changes and the options to respond. Both of these elements go beyond investment in physical assets like the roading network, and involve investment in people, services and internal infrastructure. This is a key issue identified in this LTP. Council's response to these issues is not expected to create a funding issue, but rather, requires a focus on the type of investment required and how it aligns these changes.

Other key matters to consider relate to the broader matters of societal change at both a district, national and global level. There are matters where Council has some control or influence such as through the District Plan, and others where it just has to react to changes as they occur, such as national immigration.

How the people in the District will change over the 10 years and beyond is important. Council expects the population to age like most rural and provincial districts. Importantly the Council seeks to positively influence the growth in the younger demographic through proposals that attract families to the District. These are factors influence affordability which is considered in more detail below.

Change in land use, or the way people use the properties they own is important. Council needs to have an understanding of this because changes in use affect the type and amount of Council services they require. The Council's Development Contributions Policy deals, in part, with this issue.

Unlike some faster growing districts and cities, Waitaki is not expecting a large increase in households or the number of businesses based in the District. Growth is anticipated, particularly in the Ahuriri Ward, but overall it is not expected to be significant, especially in any one year. This issue is considered in the Infrastructure Strategy and Council considers it still has the capacity and ability to respond to anticipated needs.

The area that will still needs careful consideration is potential changes in farming use and practice as irrigation expands further. In addition to the population changes noted above, Council will monitor and respond to the impact on the roading network due to more intensive and different land use. This work over the last few years has highlighted both expected and unexpected issues and challenges. These are considered and expanded on in the Infrastructure Strategy. The bottom line is that Council believes a greater increase in spending on the roading network is required and this is proposed.

The last major focus of the LTP is how Council can maximize the opportunities and minimize the negative impact of economic opportunities including the growing number of visitors coming to the District. Council is considering not only how to provide and fund services that will be required but also how to take advantage of matters like the recently announced Regional Economic Development Fund. This is a key area where Council believes it should use some of the capacity it has created to address known and emerging issues.

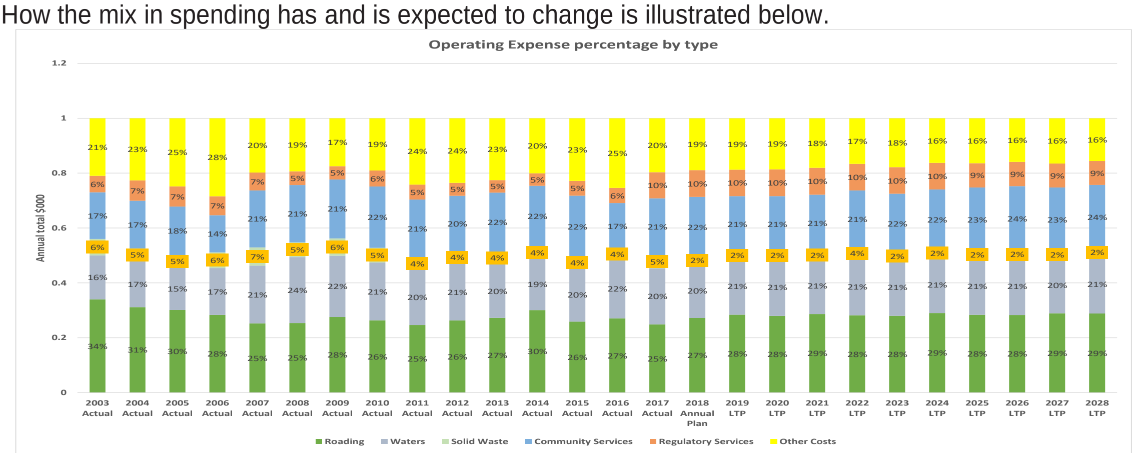
Expenditure and Levels of Service

The previous strategy emphasized that what Council does drives what it spends. This revised Strategy also highlights that how it does something is also a key driver. This is where Council has had good success in improving cost and therefore affordability. This success has created choices beyond just trying to do more or the same for less. Council is now considering if services need to be expanded or enhanced while still achieving its affordability goals.

There are a number of proposals in the Consultation Document to increase levels of services. The key proposed changes are:

- More money spent on roads
- Finish improved drinking water quality and availability
- Increased capacity to respond and take advantage of economic opportunities
- Improved internal infrastructure to support service delivery especially digital services

How the mix in spending has and is expected to change is illustrated below.



The above illustrates the proposed re-emphasis on spending on key infrastructure to meet the known and expected changes in demand.

Spending on Assets

Prudent financial management requires organisations to plan for the replacement or renewal of their assets when they reach the end of their useful lives. The inter-generational equity principle suggests that, ideally, today's ratepayers should pay for the 'asset life' they are consuming and likewise, future generations should pay for their share of the asset's life.

There are three principal ways this can be achieved.

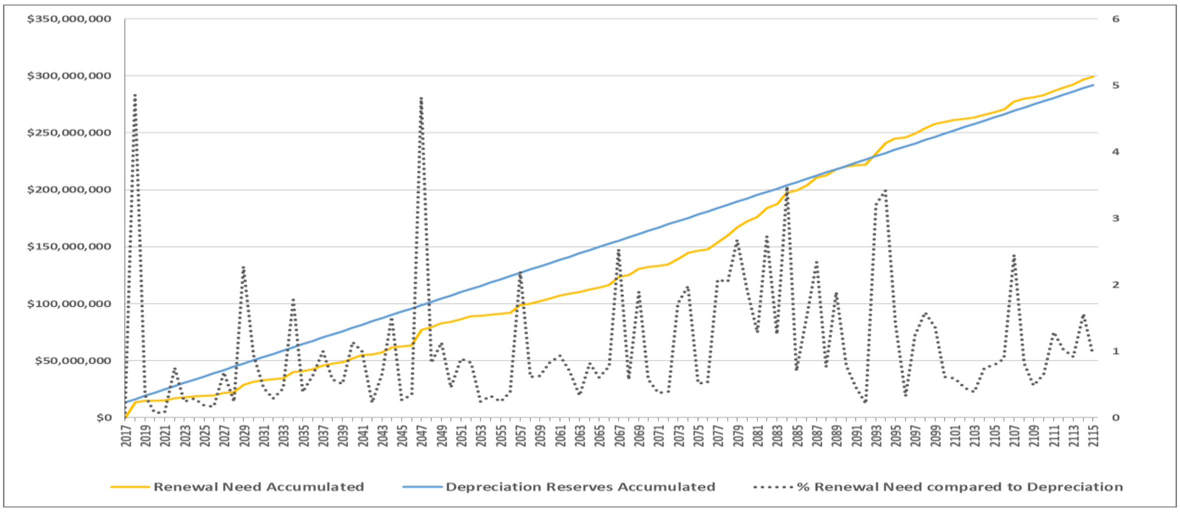
1. Pay as you go (renewal funding)
Capital is funded annually by rating existing ratepayers to cover expenses incurred in that year. This is suitable when capital expenditure is very predictable and evenly spread over the years, so there is less risk that today's ratepayers are not paying their fair share when compared to future ratepayers.

2. Saving for asset replacement (charge rates over the life of the asset – spend later) (funded depreciation)
Ratepayers are rated annually to fund depreciation, which builds up in a reserve account for the future replacement of assets. This must be modified if there is debt outstanding, otherwise today's ratepayers would be paying twice for the asset, once through debt repayment and interest, and again through financing the depreciation.

3. Borrowing to fund asset replacement (spend now – charge rates over the life of the asset) (total debt funding)
Ratepayers are rated annually to fund interest and capital repayments on loans matched to the life of the asset. In the future, replacement of the asset would be financed in the same way. This may be suitable if the overall level of debt can accommodate the required borrowing.

As noted earlier in the Financial Strategy, Council has selected option 2 as the basic policy with options 1 and 3 used on a "by exception only" basis. Further detail on the exceptions appears in the Balanced Budget section of the Strategy. Council made this decision when it had no reserves for asset renewals and was encountering difficulties funding asset replacement. Adopting option 2 as its' basic policy is one of the key decisions that has improved Council's financial position.

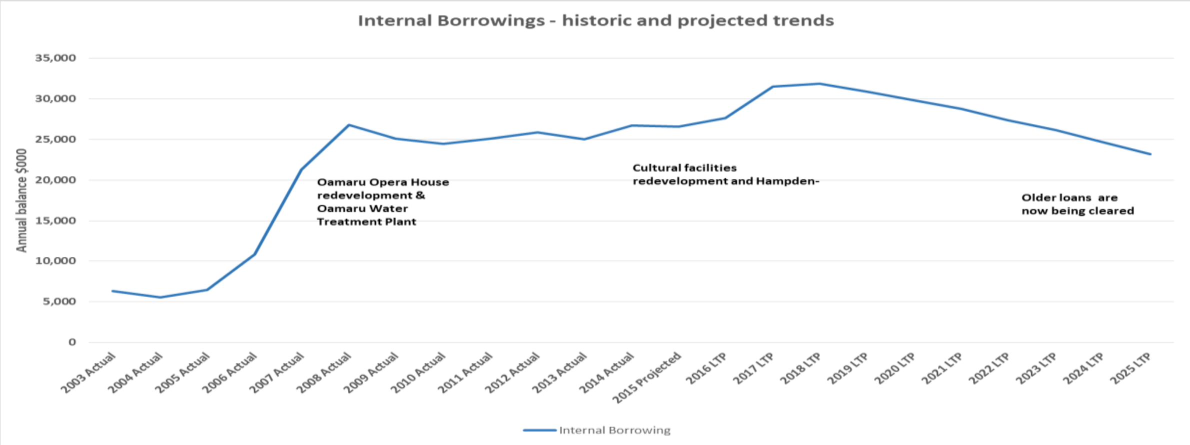
Why Council can consider this option is illustrated by the following chart taken from the Infrastructure Strategy showing projected renewals compared to funded depreciation balances over the next 100 years.



As Council has collected more information it has become more certain that this is the correct approach for the District. Council will still look to optimize the life and service potential of all key assets and so will continually monitor the desirability and impact of this funding approach.

Debt and Other Funding, including reserves and other sources of income

Council is very clear about what debt should be used for, namely the creation or renewal of long term assets when other funding sources are exhausted. This is seen as having greater value to the community as a method of controlling debt, rather than some relatively artificial measures such as debt per household. Council does not expect to need any external debt over the life of the long term plan. However Council will continue to invest in itself and as a result, new internal loans will be required.



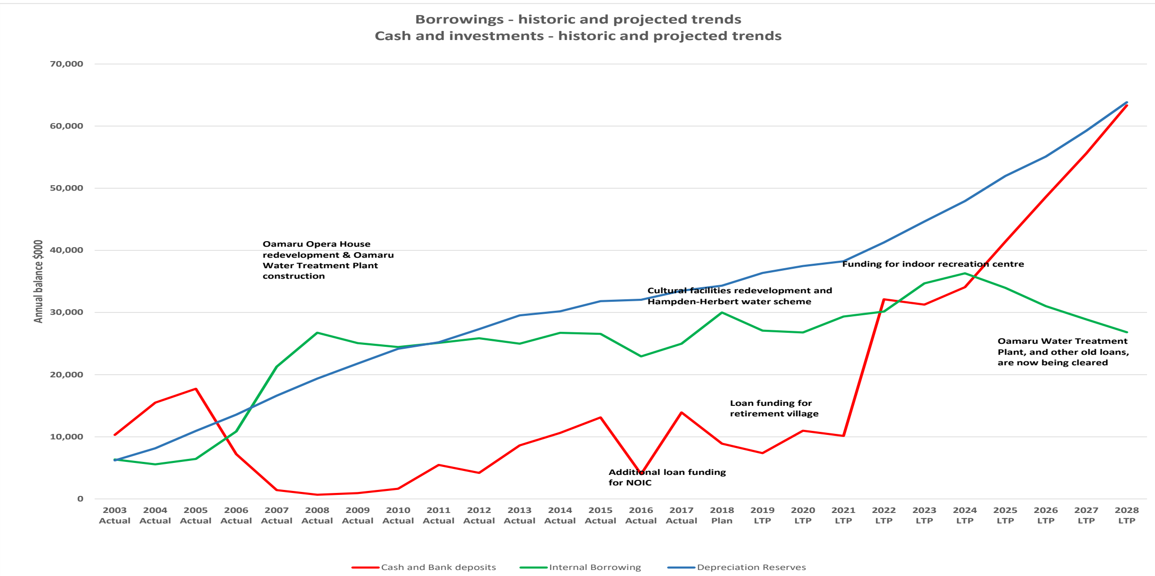
Given Council's strong balance sheet it could borrow a lot more money. However, the real issue constraining external borrowing is the on-going servicing cost. Council already considers its fixed commitments to be high; taking on further commitments will only be done for a very good reason as such long term financial commitments limit the choices available. Each additional $1.0m in debt will add approximately 0.5% to the rates for the each of the next 20 years.

Council has had good success rationalising the land it holds and has used sale proceeds to reduce property related loans. Council will look to continue this process, only taking action to dispose of properties when the right price can be achieved. However, given the way the property market has behaved, potential sales proceeds have not been included in the LTP. This is the prudent approach, but does mean Council's debt position may be overstated, however Council does not believe this will impact on people's ability to engage.

Investments

"Cash" investments

This section covers investments with banks and with other entities that will be repaid when the agreed investment period ends. The level of cash investments will grow significantly as depreciation is funded and held prior to the major asset renewal projects signaled in the Infrastructure strategy. The graph below records Council's investment levels against debt.



Council recognizes the significance of the size of the funds it will have to invest, especially once the repayments from NOICL and OVL start. It has therefore made the decision to review and potentially expand the range of approved investments. This will have the benefit of developing a more diversified portfolio of investments that limit exposure to any one sector and increase the return and risk options. However, given the source and nature of the funds it holds, Council will always act as a prudent, conservative and risk averse investor.

Rate levels and Affordability

Prior to discussing rates, non-rates revenue needs to be considered. Council continues to have issues with NZTA funding decision and the governments decreasing support for rural roading networks. Council will continue to try and maximise other revenue where it can and when it meets the wider objectives of Council.

Council has reviewed its approach to funding and rating and is still happy with the overall approach developed in 2002/03. Although there are no proposals to significantly increase any group of user charges or make any major changes to the rates/user charge ratio Council is considering some amendments in this area. Although these will be consulted on separately from the LTP, they still need to be considered in this strategy.

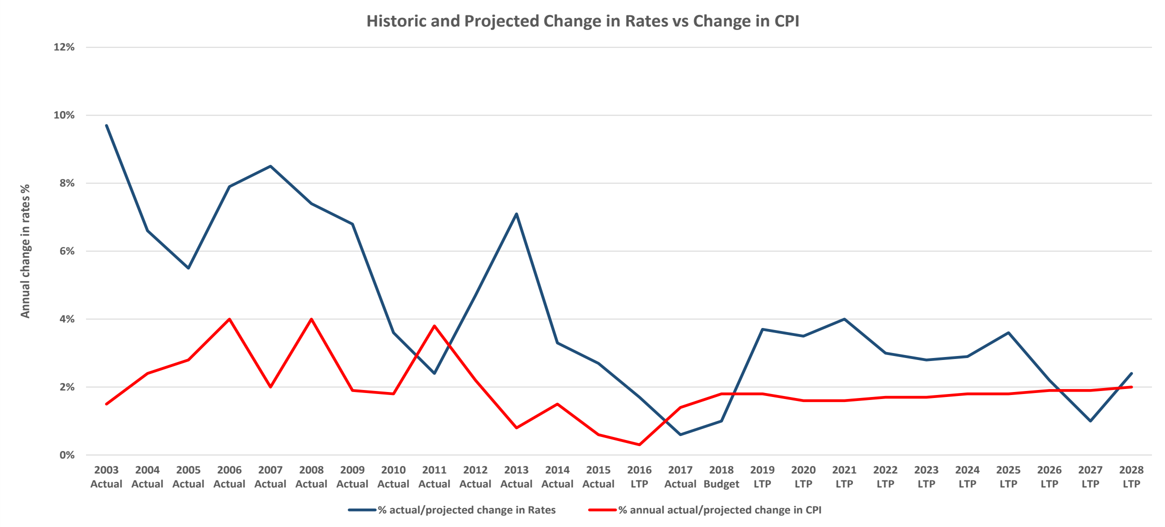
The changes being considered are designed to reflect the approach that Council still believes to be best for the District but to apply it in a way that reflects changes that have or are expected to occur in the District. The main area where Council is considering changes is how it funds its contribution to the maintenance and development of the roading activity. Council has decided to continue with a separate rate but is considering varying and adding to the differentials that apply to the rate. In particular Council will consult on lowering the mineral extract differential, increasing the power generation and introducing a forestry differential. The objections and scope of these proposed changes will be available through the website.

The other changes Council is considering are being driven by a change in the nature of the activity or a changed understanding of who uses or is affected by the service delivered. The changes that will be consulted on are:

- Ceasing to use a separate lakes camping rate and fund the rates contribution on the same basis as a District parks.
- Removing Civil Defense from the Roading and Civil Defense Rate and changing Councils' reduced contribution from the UAGC. This change follows the change to a regional service delivery system.
- Removing the funding towards Public Toilets from the Oamaru Business Area rate. This reflect the changes in number and service levels across the District which means basis of the additional contribution from The Oamaru Business Rate has disappeared.
- Changing the funding mix for the District Libraries to align it with other similar services
- Changing the funding policy for Waste Management to reflect the likely level of user charges now that the Oamaru Landfill has closed.

These changes will only have a minor impact of the incidence of rates i.e. who pays. The focus of the changes is to try and make the system a little clearer and easier to understand. Only one of these proposed changes, the forestry differential, would have an impact on the total rates collected

As highlighted in the opening comments, Council believes that there is a need to expand and alter the levels of service is some key activities. Although Council has and will try identify alternate sources of funds, the reality of the proposed changes is that they will require an increase in rates funding and therefore total rates required. However, the level of change will be managed across the different years and will stay with both the old and new measures of affordability. The long term trend plus expected position is reflect below.



Targets - how progress and success will be measured and recorded

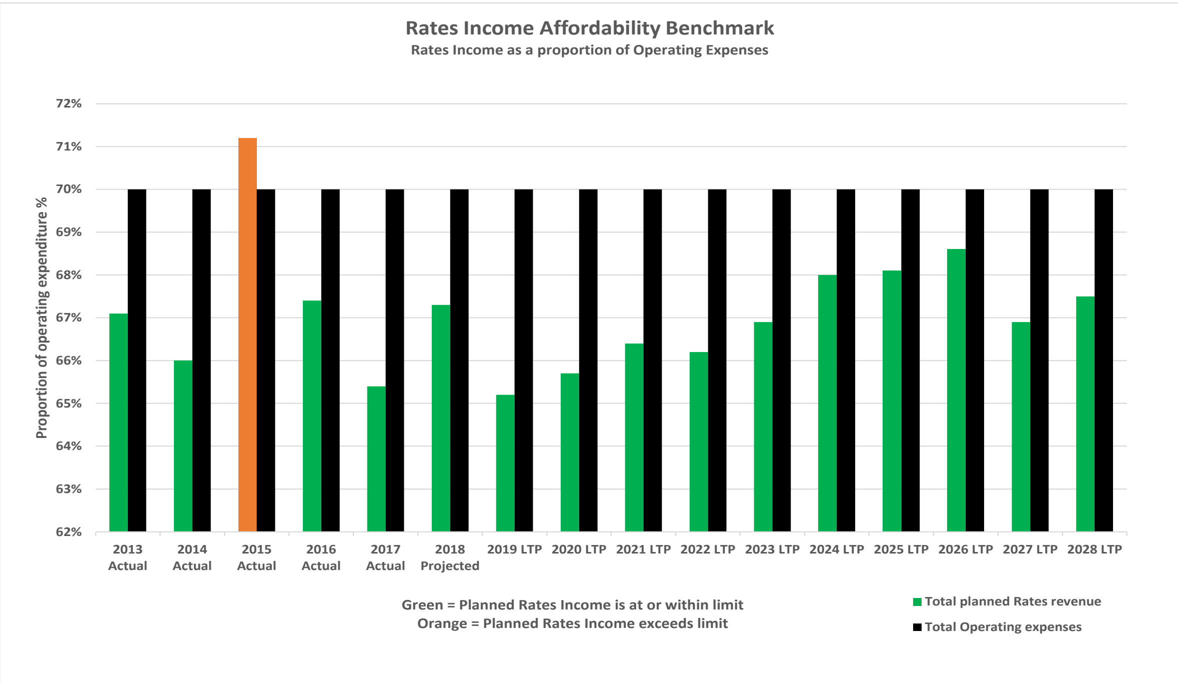
Limits on rates, rates increases and debt

For the ten years of this Plan, Council must monitor its performance against a series of measures and mandatory benchmarks relating to rates affordability, debt levels, expenditure on network assets and overall financial prudence. Council has added prior years to these required charts to show what has been achieved in each area since these measures were introduced.

These limits are intended to provide users of the Plan information about Council's financial position, and to guide short and long term decision-making over the next three years. They will be reviewed every three years, or sooner if necessary.

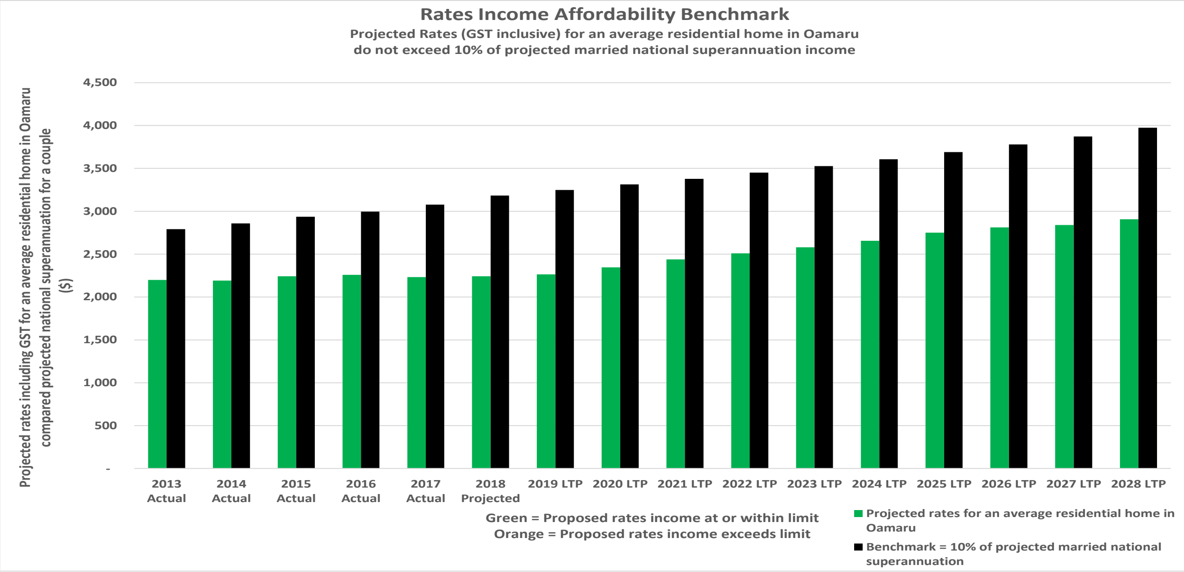
	Limit
Rates Affordability	Rates fund 70% or less of total operating cost.

Rates Affordability – projected rates income measured against total operating expenditure

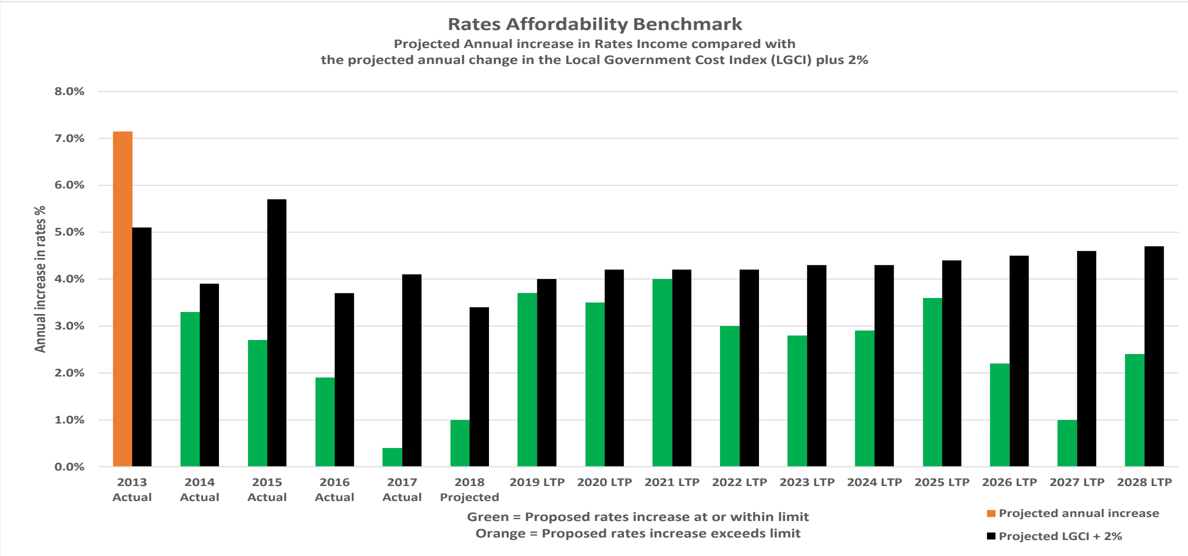


	Limit
Rates Affordability	The average rate charged on an average residential home in Oamaru will not exceed 10% of projected national superannuation for a married couple

Council tracks Oamaru Residential Rates on a median value property against married national super. Council considers this to be an appropriate measure for both household and small businesses. Affordability for large commercial and residential ratepayers will be considered more by reference to the rates increase measure.

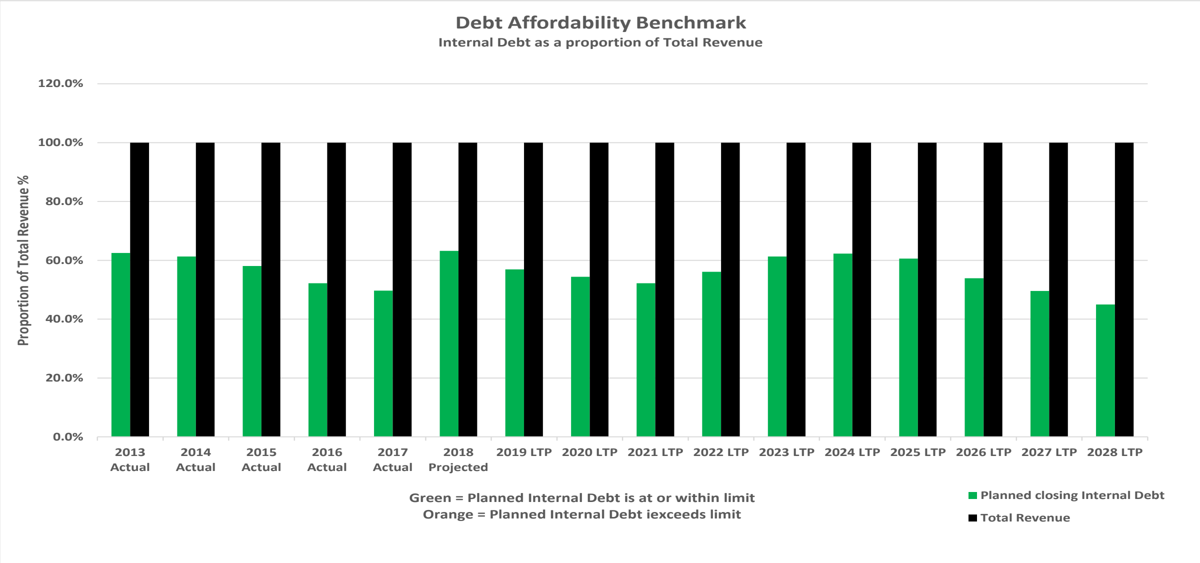


	Limit
Rates Increases Affordability	Annual projected rate increases will not exceed the projected change in the Local Government Cost Index (LGCI) plus 2.0% (to allow for growth in the rating base, changes in level of service and other unexpected costs)



	Limit
Debt	Debt (internal and external) will not exceed 100% of total revenue

As Council expects to carry no external debt over the life of this LTP, this measure looks instead at projected movements in the level of internal debt.



How these limits were set
In setting limits on rates and debt Council considered all the issues discussed in this financial strategy and tried to strike a balance between affordability of rates, prudent financial management, providing quality essential services over the long term and providing for unforeseen events.

Forecast Rating base
In completing its rating projections, Council has also projected the likely growth in the number of properties on which rates will be assessed. The Waitaki District is experiencing slower than average growth, and Council is projecting only minimal levels of growth over the life of this Long Term Plan.

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Projected number of properties in the rate base	13,659	13,693	13,727	13,761	13,795	13,829	13,864	13,900	13,969

Forecast rates increases
Council set the limit on planned rates increases because it wants to still stress affordability issues and still respond to changes that have occurred in the environment. Council consider it prudent to maintain a degree of 'headroom' between the maximum rates increase limit we set and the planned rates increases reflecting the planned levels of service to be delivered.

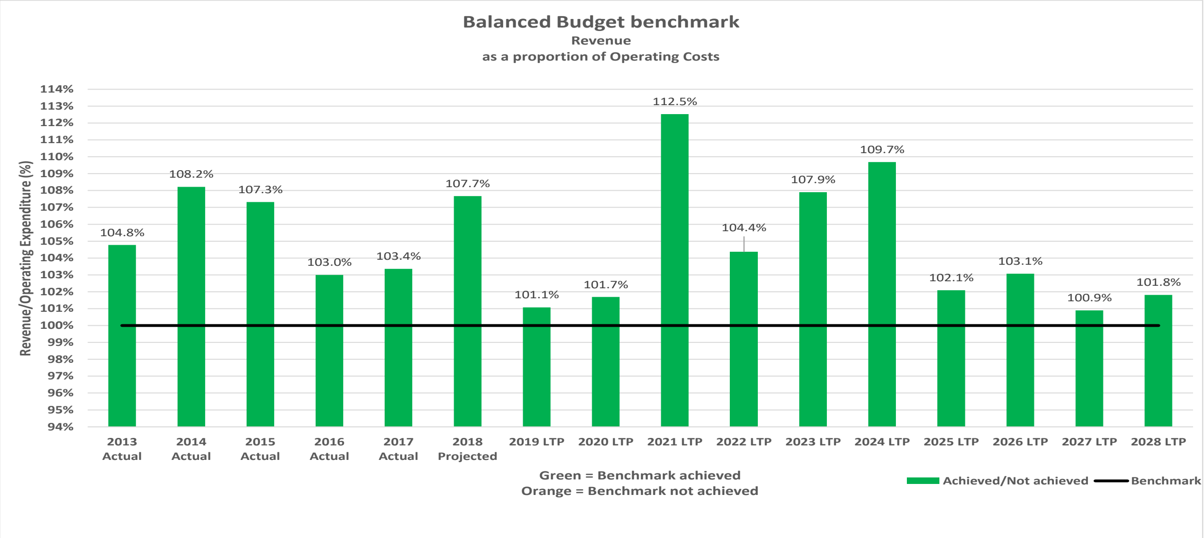
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2019
Planned increase in total rates	3.7%	3.5%	4.0%	3.0%	2.8%	2.9%	3.6%	2.2%	1.0%	2.4%
LGCI + 2%	4.0%	4.2%	4.2%	4.2%	4.3%	4.3%	4.4%	4.5%	4.6%	4.7%

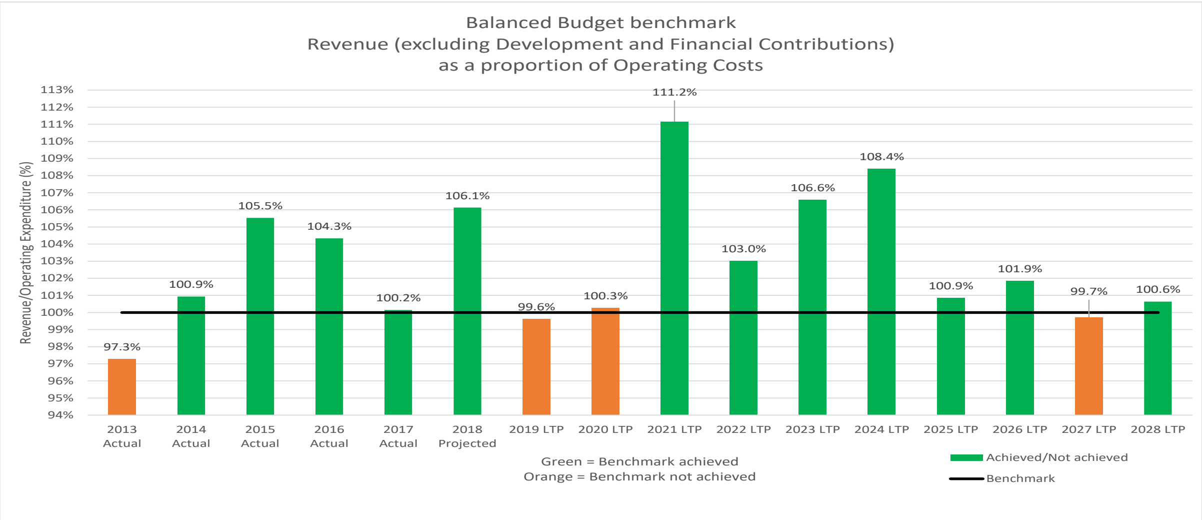
Each year Council must show the proposed changes to the rates for a range of typical property types in the District, for example large pastoral farms, urban residential, rural lifestyle, commercial and industrial. The rate samples show that rates increases depend both on the value of the property and whether the property receives water, wastewater and other fixed charges and rates.

Other Matters – Things that need to be in the strategy

Council must also monitor and report its projected performance against a number of other mandatory benchmarks:

Balanced Budget	Council must consider two balanced budget measures. One is set by section 100 of the Local Government Act 2002 and is a test of the Income Statement. A second is set by the financial prudence regulations and is based on total projected revenue, excluding vested assets and development and financial contributions, exceeding total projected operating costs.

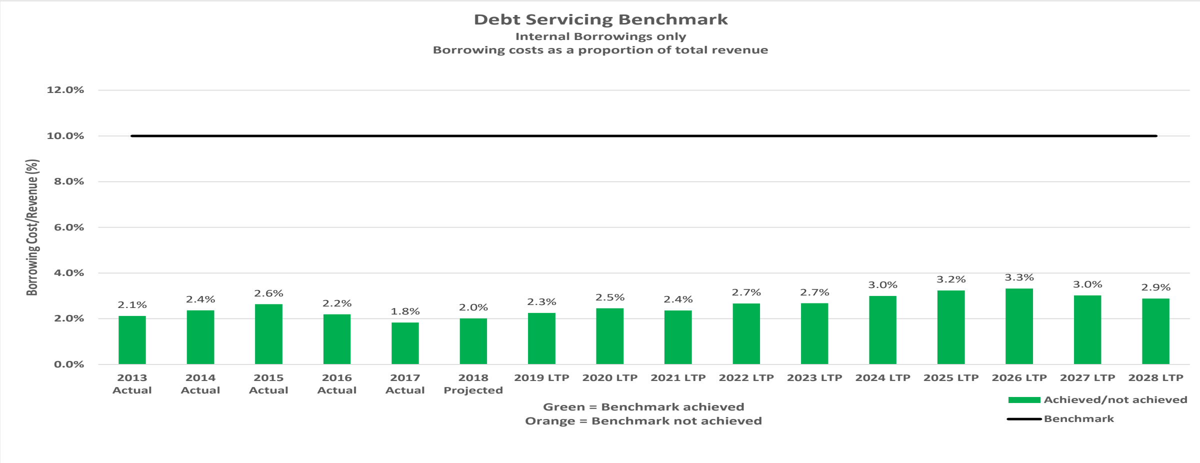




Balanced budget provisions of the Local Government Act 2002 (s100) mean a council need not fully fund all expenditure (including depreciation) if it can demonstrate that it is financially prudent to do so. This is described in more detail later in the strategy.

Council's funding decisions in this regard contribute to the situation above. Another key factor is the use of Resource Management Act financial contributions to fund some development costs included in operating expenditure, including spending on the development of sports grounds and reserves which is an allowed use of the contributions collected.

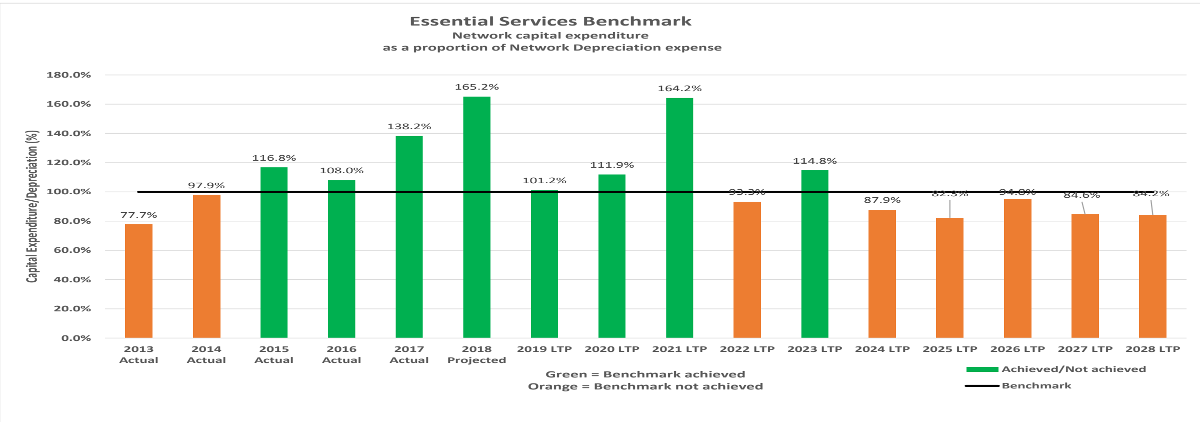
	Limit
Debt Affordability	Because Council is not classified as a high growth area, this measures debt servicing costs against the benchmark of 10% of total revenue, excluding vested assets and development and financial contributions



The last factor is that in some cases Council builds up amounts in operating reserves to be spent in a later year to achieve a specific goal or complete a project. An example of this proposed in the plan is the use of some of the Oamaru sewer operating reserve that has built up from cost savings to keep the rate at the same level as the prior year.

Based on these considerations, Council is not concerned about non-compliance given the short term and narrow focus of this measure.

Essential Services	Council meets this benchmark when projected expenditure on new or replacement network assets (roading, water, sewer and stormwater infrastructural assets) equals or exceeds the projected annual depreciation charge related to those assets



Council believes this mandatory measure is flawed for a Council with mature but well maintained assets that experience limited increases in demand. This view is based on the fact that many of its high value assets do not require significant amounts to be spent on them each year and therefore the depreciation is accumulated until it is required. The key assets this applies to are medium to large bridges, and water and sewer treatment plants. Council is therefore not concerned about not achieving this measure.

Important Note – These measures relating to Asset Management were developed prior to the requirement to have an Infrastructure Strategy. The Infrastructure Strategy addresses many of these issues in more detail.

Council's ongoing ability to deliver services
Council's core role is to maintain and develop high quality, reliable infrastructure such as roading, water supply, stormwater and wastewater networks, reserves, recreation and community facilities. It is important that ratepayers can be confident that essential services can be delivered, both now and in the future. As noted earlier in the strategy, Council is considering increasing the level of service and investment is some key areas to meet expected needs and demands.

Capital expenditure required to maintain existing network infrastructure services
Council's Asset Management Plans provide information on the condition of assets, and expenditure that will be required to maintain and renew the assets. They also include the cost of developing additional capacity to cater for increased demand and improved levels of services, particularly in terms of quality of waste disposal and drinking water quality.

Shown below are the costs of capital expenditure on network infrastructure required to maintain existing services, together with the amount of capital expenditure planned in this Plan.

Network infrastructure groups	Capital identified in Asset Management Plans to maintain existing assets in LTP 2018-28 $000	Asset renewal capital planned in LTP 2018-28 $000
Roading	4,859	66,738
Stormwater	-	-
Water Supply	7,831	13,508
Wastewater	1,882	5,833
Total	14,572	86,079

We use a range of tools to fund renewal of assets, which are explained in the following section.

Strategies for coping with unexpected events
The Canterbury earthquakes raised public awareness of the potential for the sudden destruction of infrastructure, for example water, stormwater and wastewater networks, roading and buildings that are the foundations of economies and society.

In putting together this financial strategy Council has considered how it would respond if there were a failure in major infrastructure that demanded significant unplanned expenditure. This might occur as a result of natural disaster, unanticipated accident or other event.

Council has put in place four different sources of funds to assist with any situation like this: the LAPP, the Disaster Fund, funded depreciation reserves and stand-by borrowing facilities. Council's approach would be:
- Utilise funded depreciation reserves where available and appropriate
- Seek Central Government assistance
- Utilise the $3.5 million self-funding Disaster Contingency Fund
- Use debt or sell assets not essential to operations and are the easiest to sell

Setting project priorities
In setting funding priorities in this Plan, projects were ranked according to several criteria:
- Is the expenditure essential to deliver existing levels of service?
- Would postponing or cancelling the project result in increased risk of service interruption or infrastructure failure?
- How would not doing or deferring the project impact on achieving Council's vision and desired outcomes?

Council's highest priority is always to maintain existing assets and existing levels of service; projects to provide for future growth and to increase levels of service can then be considered.

Capital and operating costs of providing for future growth
Council's Asset Management Plans also provide details of the infrastructure development that will be

required to provide for growth in demand for services.

Network infrastructure groups	Capital identified to provide for growth $
Roading	0
Stormwater	0
Water Supply	0
Wastewater	0
Total	0

Providing higher levels of service
Rates and debt limits also accommodate increased levels of service planned in the following areas:
- Increased spending on the roading network.
- Wastewater: planned extensions to existing wastewater schemes and investigations into potential new schemes in small coastal communities
- Drinking Water Standards
- Improved internal infrastructure to support service delivery and improve decision making.

Notes on financial policies and investment holdings
Council must include in its financial strategy information about its objectives for holding financial investments and equity securities and provide quantified targets for returns on those investments. Council must also include its policy on the giving of securities for borrowing.

Equity securities
Council does not currently hold equity securities (shares) for the sole purpose of earning a return on the investment. There are no plans to invest in equity securities during the term of the Plan however the investment policy is currently under review and small level of investment may occur in the future. This is the list of the companies in which Council currently holds shares, together with the objective for holding the equity securities and a target rate of return.

Company	Objective of holding equity	Target rate of return
Whitestone Contracting Limited	• Stimulate a competitive contracting sector • Support local employment opportunities • Provide a good return on investment	>7% on shareholders' funds
Waitaki District Health Services Limited	• Support provision of healthcare facilities and services for the local community	N/A
Waitaki Development Board Limited	• Facilitate the growth of tourism • Promote the district effectively	N/A
Omarama Airfield Limited	• Facilitate the growth of tourism • Promote the district effectively	N/A

In summary investments have been made for non-economic reasons for three of the four Council Controlled Organisations. Only the investment in Whitestone Contracting Limited has a strong economic component, and the Statement of Intent with Whitestone has been update to clarify Council's expectations regarding the actual level of return and distribution from this investment.

Financial instruments
Council holds financial investments, for example term deposits, as part of efficiently managing cash flow to finance expenditure on operations. The primary objective when investing is the protection of the investment, so the credit-worthiness of the other party must always be considered.

Council also seeks to:
- maximise return on its investment
- ensure investments are liquid
- ensure an effective spread of investments and maturity dates

- manage potential capital losses arising from interest rate movements if investments need to be liquidated before maturity.

Council has made, and continues to consider, investments with other entities in the District when it believes the investment will strongly contribute to the wider Council outcomes while still providing an acceptable level of return.

Council is going to review its use of financial instruments and other investment options to determine if wants to alter its approach to risk and return on some investments it makes.

Security for Council borrowing
Council must disclose its policy on giving securities for its borrowing. Council may borrow on an unsecured basis or, if it decides to offer security for borrowing and other financial obligations, then it will generally offer rates and rate revenue as security. In unusual circumstances, and with prior Council approval, security may be offered in the form of a charge on specific assets.

Given that Council does not expect to borrow money over the life of the Plan, existing borrowing and security arrangements will be reviewed during the first three years of the Plan to ensure they still meet Council's requirements.

Council provides limited securities and guarantees to other parties for economic or community development or works under the Local Government Act. Requests are considered on a case by case basis by Council or the appropriate Council committee. More detail is included in the Liability Management Policy and Investment Policy.

Cash Funding of Depreciation
The balanced budget provisions of the Local Government Act 2002 (s100) allow a council to not fully fund all expenditure (including depreciation) if it can demonstrate that it is financially prudent to do so. Council has previously decided not to fully cash fund the depreciation charge of various assets

Council has resolved that it will not cash-fund depreciation on certain assets for a variety of reasons, the most significant being where Council believes it will receive money from third parties to help fund asset replacement. The most important of these sources is the New Zealand Transport Agency which co-invests in the roading network. It has also been assumed with some community assets where third party funding was received to help build or develop the facility, including the Aquatic Centre, Oamaru Opera House and some community centres.

The other major reason depreciation is not funded is if Council does not expect to renew or replace an asset at the end of its useful life. Council has also decided not to fully fund depreciation on assets where loans were raised to fund construction, and the loan is still being repaid, or when annual maintenance expenditure is sufficient to maintain the asset in perpetuity. A full schedule of assets whose depreciation is not fully funded and the underlying reason is shown at the end of the Strategy. This schedule will be subject to further review over the next two months to ensure the items in the schedule will still meet the criteria for inclusion over the life of the LTP.

Over the life of the Plan a total amount of $52.1 million will not be directly funded by Council. However, Council believes that in most instances where an asset needs to be replaced there will be sufficient funds available to do this. It believes this approach is prudent, especially given the level of funds accumulated as discussed earlier in the Strategy. If there is any shortfall in a year then Council will borrow to cover this as allowed under the Liability Management Policy.

Other Related Information

- Forecast financial statements
  These are Generally Accepted Accounting Practice (GAAP) financial statements (as required under s111 of the Act) forecasting the ten-year financial performance of the Council, including prospective statements of comprehensive revenue and expense, changes in equity financial position and cash flow.
- Statement of accounting policies
  This is a statement of GAAP accounting policies applied in the preparation of the Plan.

- Funding impact statement
  These show what rates Council will charge, the basis of each rate, the activities the rate funds and the amount of the rate. It discloses financial information in a format required by the financial reporting regulations set under the Local Government Act.
- Rates, fees and charges
  Identifies the basis on which rates are set and fees and charges that are approved.
- Key Assumptions
  This sets out matters such as the price level adjustments have been applied to all core budgets and projects. In order to take account of the impact of revaluation movement in asset values, adjustments have also been applied to depreciation.

Depreciation Schedule

Assets that Council will not cash-fund depreciation. This is subject to further review prior to the finalisation of the Long Term Plan.

Asset Name	Reason for Unfunding Depreciation	Date that Unfunding Stops
Roading	Council will unfund that portion of asset replacement that is subsidised by the New Zealand Transport Agency (or its successors).	No end date.
Bridges	Council will unfund that portion of asset replacement that is subsidised by the New Zealand Transport Agency (or its successors).	No end date.
Oamaru Water Treatment	Initial capital cost offset for assets with a life greater than 20 years that are part of the water treatment plant completed 2007.	2027
Drinking Water Standards – Upgrade – various schemes	Initial capital cost offset for assets with a life greater than 20 years that are part of the water treatment plant upgrades	2030-2035
Moeraki Sewerage Scheme	Initial capital cost offset for assets with a life greater than 20 years that are part of the initial sewerage scheme treatment and reticulation project completed in 1999.	2019
Waitaki Aquatic Centre	To recognise those components, (structure, roof and services), with a life greater than 20 years. Council does not intend to replace the Waitaki Aquatic Centre at the end of its economic life.	No end date
Oamaru Opera House	To recognise components with lives greater than 20 years where alternate funding is likely to be received for any minor work	No end date
Storage Building (Willets), Clyde Street	To recognise that Council will not replace these facilities at the end of their economic lives	No end date
Freezer Building		
Oamaru Gardens Depot and Workshop		
Railway Goods Shed		
Civil Defence Garages behind Community House		
Chelmer Street Depot		
Otematata Depot & Herbert Forest implement shed		

Asset Name	Reason for Unfunding Depreciation	Date that Unfunding Stops
Oamaru Gardens House	To recognise that Council will not replace these residential dwellings or improvements at the end of their economic lives	No end date
Harbour House (2 Test Street)		
Oamaru Sewerage Plant Dwelling		
Oamaru Airport houses		
Enfield Recreation Reserve Sports Pavilion	To recognise that Council will not replace these recreational facilities at the end of their economic lives	No end date
Awamoa Park Pavilion		
Stock Pavilion, Gilligan Street, Palmerston		
Macraes Domain sports grounds and pavilion		
Kurow sports ground		
Parks Assets – Local (Ward) Assets	Many of these assets will not be replaced at the end of their lives, or replacement will be funded by sources other than general revenues (reserve contributions or grants).	No end date.
Oamaru Harbour Wharves and Improvements	Unfund to the extent of annual expenditure required to maintain the asset in perpetuity	No end date
Oamaru Harbour Breakwater		
Closed Transfer Stations	Unfund improvements that are no longer used and will not be replaced.	Varying end dates.
Duntroon Sewerage Scheme	To recognise that Council will not replace this scheme at the end of its economic life.	No end date.
Cemeteries	To recognise that many cemetery assets will not be replaced at the end of their lives.	No end date.
Public Toilets – Severn Street and Last Post	Unfunded because Council has closed these facilities and will not replace them	No end date
Alps2Ocean Cycle trail	Unfund depreciation of assets constructed prior to 30 June 2014 because of Council's annual funding of routine maintenance.	No end date
Omarama Water upgrade	Unfund upgrade works completed in 1999, and the more recent drinking standards upgrade, with a life greater than 20 years, as an initial capital cost offset	2019 - 2035