Long Term Plan 2021-31 - Financial Strategy

Purpose

Having a financial strategy is a required component of any long term plan. The primary purpose in the Local Government Act 2002 (LGA) is to promote prudent financial management. Our Financial Strategy (the Strategy) needs to take into account all relevant aspects of the LGA including the need to balance current and future needs of the community. This is particularly relevant to the Strategy as it sets out Council's approach to how it intends to allocate levels of spending over the short and medium term and how it will use the funding options available to it to share the funding between the current and future residents and ratepayers.

The second focus of the Strategy is to provide context for consultation on Council proposals and the overall effect on Council services, rates, debt and investments.

Where do we want to go?

This is the fourth iteration of the Waitaki District Council Financial Strategy. Since the development of the last strategy there have been a number of significant issues that need to be recognised and reflected in this update. The three most significant were the re-introduction of the four well-beings as the focus of local government, the impact of COVID-19 and Council response to it, and Council updating its strategic priorities.

The strategic priorities have a direct impact on the Strategy. The Strategy has recognised and allowed for these priorities in the following ways:.

Strategic Priority	Response in the Financial Strategy
Providing high-quality core infrastructure and services	Identification of a greater need to increase the level of reinvestment in infrastructure.
Determining the best way to deliver three waters for the community	Strategy prepared on the basis of retained ownership and increased expectations on the services and standards to be achieved in Water, Wastewater and Stormwater
Working with the community to respond to COVID-19 challenges	Further development of Council's ability to respond quickly to any change in circumstance and to rebuild financial capacity in an affordable way.
Creating a District Plan that is fit for Waitaki's future	Limited impact.
Striving towards better Council performance	Will be a key consideration in setting financial targets and measures.
Driving best value for rates	A point of emphasis that Council is focused on value rather than minimising increases in rates.

In addition to these priorities there are a number of other changes to the environment that need to be recognised in the Strategy:

- Increased speed and demand for change from Central Government.
- General reduction to third party funding availability.
- Increased term for Council's key investments.
- Joined the Local Government Funding Agency.

These issues and priorities have all combined to make it a challenge to develop a strategy to accommodate all factors. The response developed by Council was to have a two part strategy, one for the first three years which focuses on COVID-19 recovery and affordability and a second part covering the balance of the Long Term Plan 2021-31 (LTP) which focuses on improvements. The focus of both parts is how the spending needed to meet required and desired goals can be funded in a sustainable way.

For the period from 2012 to 2018 Council focused on affordability after some significant rate increases were required to fund key infrastructure and community improvements, particularly an investment in improving the quality of drinking water. This focus moved in the last long term plan as Council wanted to create financial capacity to invest in improved levels of service and take advantage of any opportunities that presented themselves.

Council had made good progress in improving affordability and creating capacity and had begun to consider what would be the areas they wanted to make the biggest changes in as part of the LTP discussions. However, the COVID-19 outbreak changed this and much of the room created was used to allow an average zero percent rate increase and provide targeted support.

This created the starting point for this Financial Strategy.

The Strategy – in a sentence

To focus on delivering good quality service that meets the changing needs of the community while ensuring rates affordability and financial flexibility by focusing on efficiency and effectiveness, which maximises value and limits the use of debt.

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

- Deciding on new or increased services in a very selective way.
- Reviewing what is required to deliver existing services with the aim of achieving better value, particularly from the assets involved.
- Using assets for their maximum possible life but also appreciating that community needs and stakeholder requirements are not compromised.

This is a continuation of the key features of the previous strategy. However, the focus will change so that Council can meet the changes set out above.

The financial strategy is one of the main ways Council can seek answers to fundamental questions such 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 Management 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 are we? – Financial Position

Overall, Council continues to be in a sound financial position. This has allowed Council to make decisions that have limited rate increases and kept money in the pockets of ratepayers. However, due to the factors set out below, this must change over the term of this plan if Council is going to meet its obligations under the law and to the community.

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 Financing Policy.

Council has been able to limit the impact of cost increases for a number of years, but external changes mean this is no longer possible. The cost increases it is facing to maintain the current levels of service is reflected in the direct costs it faces, the cost from contractors engaged to deliver services and the amount of depreciation it must recognise. There are also many instances where changed government requirements require far more resources, especially people, to deliver the same service. This is particularly true in the regulatory area. As Council believes it must continue to deliver core services to at least the same level as in the past and in many cases deliver at a higher level, these costs must be funded. This has a direct impact on the rates needed over the next few years.

Debt

Council uses debt to fund a limited range of expenditure restricted to:

- Purchasing new assets: used to fund the residual after all other appropriate funding sources have been used (term debt).
- Renewing assets if there are insufficient funds in a reserve or available from other sources.
- Funding operating deficits, but only on a short-term basis.

Traditionally Council has had no external term debt. Instead, Council used internal loans to fund approved expenditure. An internal loan is where Council uses reserves and savings collected for one purpose to temporary provide funds for another. Council has also invested these reserve funds externally when all of its own needs have been met. This process is covered in the investment section.

Over the last three years Council made decisions to extend the term and alter the repayment plans of the loans it provided to the North Otago Irrigation Company (NOIC) and Observatory Retirement Village (ORV), provide a loan to Kurow Duntroon Irrigation Company (KDIC) and bring forward the planned major water and sewer asset improvements and renewals, including the construction of the additional reservoir for the greater Oamaru water scheme. All of these decisions reduced the amount of funds available to Council. Council therefore decided to join the Local Government Funding Agency (LGFA) in late 2020 due to the low cost of funds provided by this organisation. Council made an initial drawdown of $15m. Council will now open this LTP with external debt and is expected to have an external debt balance throughout the life of this plan.

Investments

Council has four primary types of investment, all of which are described in the Liability Management and Investment Policy.

The largest investments are three loans to local organisations noted above NOIC, KDIC and ORV. These investments provide both a commercial rate of return and wider community benefits. All three have a mix of fixed and variable repayment terms so all three investments will reduce over time.

The next largest of these are the internal loans noted above. The amount invested in internal loans has reduced due to both scheduled repayments and repayments from asset sales.

The third class of investment, the investment in Council Controlled Organisations (CCO) also provides both financial and community returns.

The class where the most change has and will continue to occur is the level of “cash” investments. Due to the changes in terms noted above and the demands on depreciation and other reserves, this has reached a more stable position than in past plans.

External Revenue, Rates and Reserves

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 New Zealand Transport Agency 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.

Affordability

Council has improved rates affordability over the last six years, including an average 0% increase in 2020/21 as part of the response to the impact of COVID-19. This was primarily achieved through changes to the way in which goods and services were purchased and efficiencies. However, increasing cost pressures and increased service requirements mean that this approach will have a very limited impact into the future so alternative ways to address affordability measures need to be utilised.

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

Overview

As noted in previous LTPs, focusing on affordability has the twin aims of making financial life a little easier for the District's ratepayers and creates the capacity to have more choice and ability to respond to changes and unexpected events. This approach put Council in a very good position to respond to COVID-19 with an average 0% rates, targeted assistance and general relief measures. It also did this in an environment of facing some significant cost increases and external pressures to increase services.

However, it was recognised at the time the decisions were made around a response to COVID-19, along with other changes Council was facing which are set out in the first part of this strategy, that this approach was not sustainable and significant changes to funding and rates would be required over the coming three years.

The Government has proposed to transfer the ownership and management of three waters to a new entity. At this stage the form and function of this entity is unknown. Based on this level of uncertainty, this LTP and Strategy have been developed on the basis of including three waters as a going concern for the life of the plan. Council is working with Government and joined the "Tranche 1" stimulus package in late 2020. This provided $7.6m in additional funding for three waters projects in the 2020/21 year. Further funding may become available if this proposal advances, however due to the high level of uncertainty regarding amounts and conditions no allowance has been made for this potential funding.

In addition to these quite specific factors there are a number of general matters that need to be considered in the LTP and Financial Strategy. Many of these are set out in the assumptions section but are repeated here to help put them in context.

Although not a perfect measure typical household rates are a useful general indicator. Waitaki was placed 38th of the 64 councils (with 64 being the lowest rate) included in the 2019 Tax Payers Union survey of residential rates.

The 2018 census showed the population was growing, becoming more diverse but also continuing to get older. It also showed the district had a relatively low medium household income.

The economy is still primarily based on agricultural production, processing and support. The visitor industry is 80% domestic. Both these factors limited the impact of COVID-19 on the district but make it potentially vulnerable to other events that have a different focus.

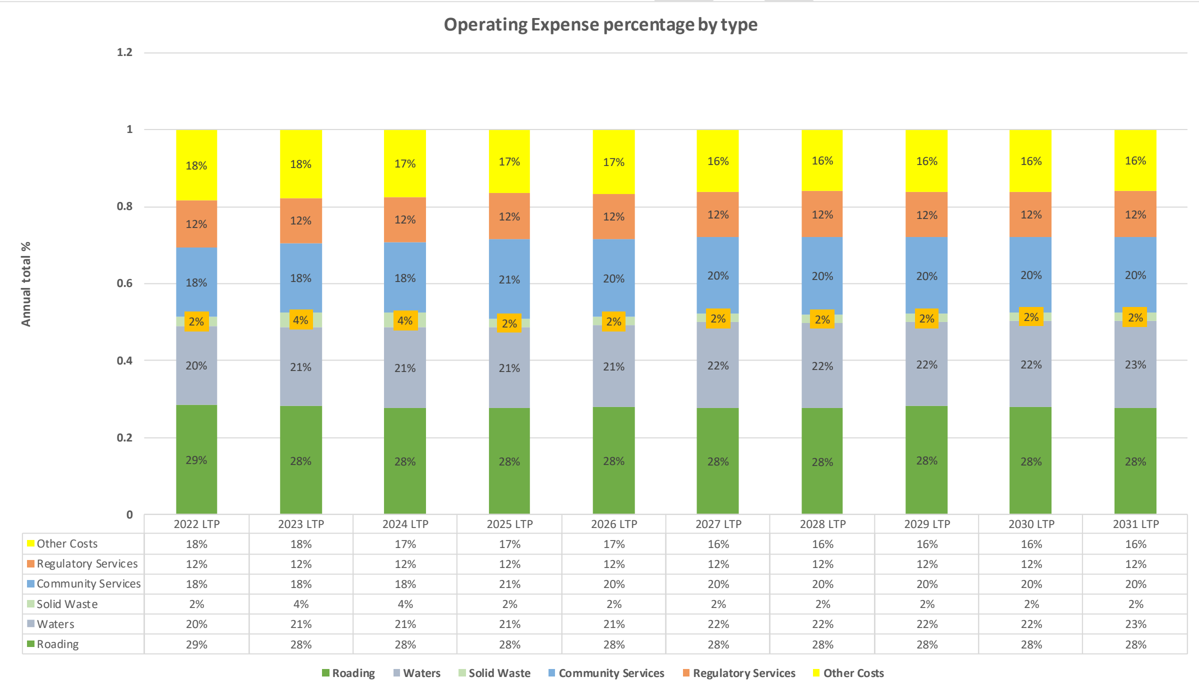
There is expected to be very limited land use change over the life of the plan with various changes driven by the crown meaning that increases in intensive farming and growth beyond existing urban boundaries will be limited.

The demands from central government, the need to invest in current services and allow for the impact of COVID-19 mean that Council will have less choice over the life of the plan compared to previous LTPs. This is reflected in the very limited number of items Council will be consulting on. One of the key issues is how quickly the community wants to adapt to this new environment and whether it wants to use some of the capacity created in the past to smooth the transition to the future.

Expenditure and Levels of Service

In terms of demand on Council services and infrastructure these factors will mean there will be limited expansion but more intense demand in existing areas. This, along with Council's strategic priorities of improved core infrastructure and better performance and value, mean that most spending will be targeted at increased investment in current systems and services rather than on expansion or growth. These factors, along with increasing cost pressures means that Council will have to spend more to maintain the same levels of service.

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



	2022 LTP	2023 LTP	2024 LTP	2025 LTP	2026 LTP	2027 LTP	2028 LTP	2029 LTP	2030 LTP	2031 LTP
Other Costs	18%	18%	17%	17%	17%	16%	16%	16%	16%	16%
Regulatory Services	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Community Services	18%	18%	18%	21%	20%	20%	20%	20%	20%	20%
Solid Waste	2%	4%	4%	2%	2%	2%	2%	2%	2%	2%
Waters	20%	21%	21%	21%	21%	22%	22%	22%	22%	23%
Roading	29%	28%	28%	28%	28%	28%	28%	28%	28%	28%

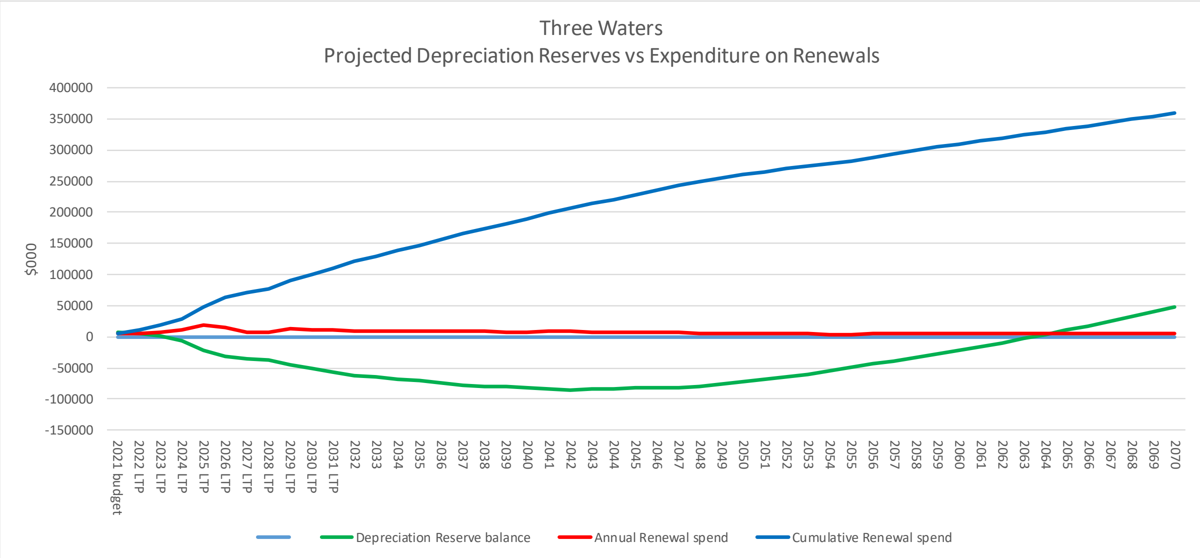
The above illustrates the re-emphasis on spending on key infrastructure to meet the known and expected changes in demand.

Spending on Assets

There are three different reasons to invest in assets required to deliver services:
- Increase in capacity to improve how much can be delivered.
- Improve quality to improve what is delivered.
- Renew existing items to extend their economic life.

How these three different but related matters are paid for is driven by the principle of inter-generational equity which suggests that today's users should pay for the 'asset life' they are consuming and likewise, future generations should pay for their share of the asset's life. Council broadly follows this principle which means the default position is that debt is used to fund the first two matters and funded depreciation collected over time is used for the last item. As calculating the estimated cost in all these areas is based on estimates, differences between plans and actual will occur. How these and some key exceptions are dealt with are covered later in this Strategy.

Council already has the majority of assets needed to deliver levels of service in place, the approach to renewals is the most operationally and financially significant of the three types of spending. The growth in depreciation is driven by the requirement to revalue assets at least every three years and the need to reflect changes in the understanding of asset lives through improved knowledge and experience. This means that it is important for Council to monitor and update the relationship between the level of funding it is collecting and putting aside for renewals and the anticipated spend on assets into the future. This is a key consideration in asset management planning. The chart below sets out this relationship in the three waters area.

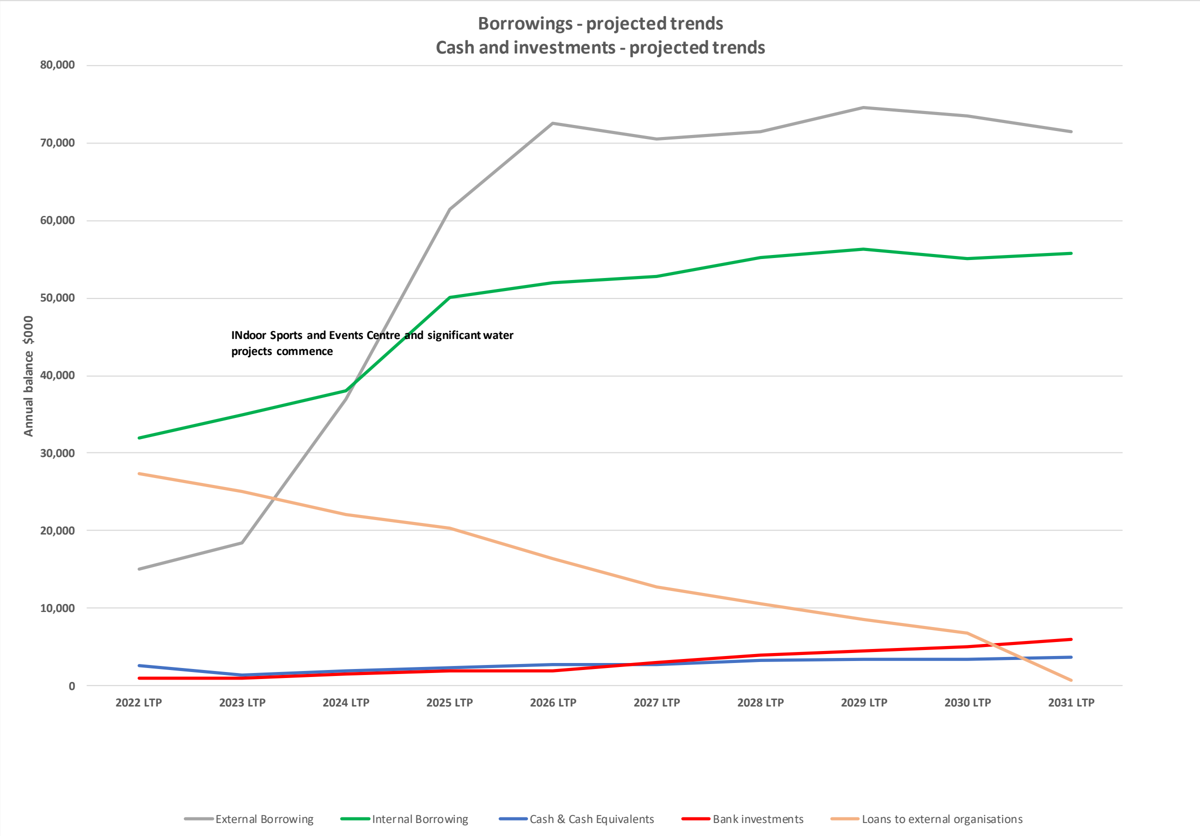


At all times Council looks to optimise the life and service potential of all key assets and to ensure that current and future ratepayers are contributing an equitable share. As part of this drive, water infrastructure is renewed on a performance basis rather than on an ‘expected life’ of ‘condition’ basis, where non-critical assets are only prioritised for renewal after they have failed at least three times in a five year period. This ensures assets realise their maximal service potential. This methodology reflects well in that Council has been able to extend the useful life of some of its assets that have not yet had records of poor performance, but were due to be replaced according to their age. .

Debt, Reserves and Other Funding

Council initially funds long life assets primarily from debt and reserves. Council’s policies and approach to these funding decisions are set out in the Revenue and Financing Policies and Liability Management and Investment Policies. It also has an internal treasury function which creates a series of internal loans and investments.

Council collects funds prior to them being needed to meet its objective of achieving intergenerational equity. It holds these funds in reserves until they are required. This creates a pool of funds that Council has chosen to invest in other areas of Council rather than in third party investment products. When Council decides to fund a need by way of a loan, its first choice is to fund it from the above pool of funds and record this as an internal loan. If there are insufficient funds available at any time Council will then use external debt to meet any funding shortfall.



The above chart illustrates the movement between the sources of funds that are available to meet future funding needs. This shows that as the funds invested in third parties are returned, these are used to repay external debt and fund the increased demand for internal loan funding.

Use of Reserves

. All reserves have a specific purpose and can only be used to fund specific items. In previous plans Council has been conservative in the accumulation and use of these funds which means some have accumulated significant balances. The intent of these balances was to either fund something new or unexpected.

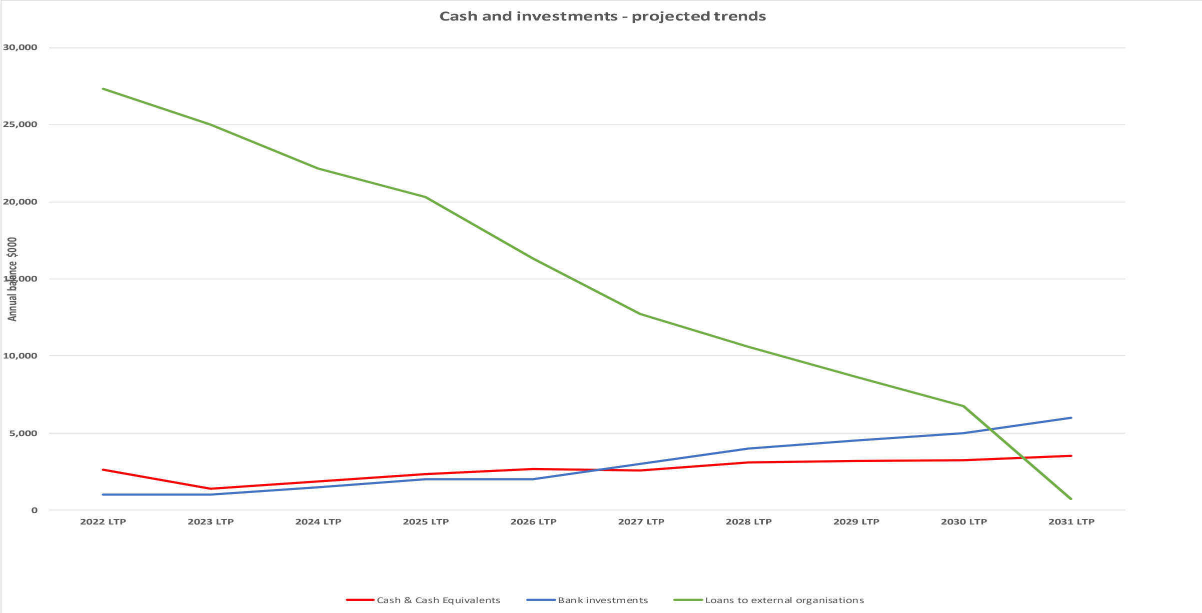
For the first three years of this plan Council is proposing to take quite a different approach to the use of reserves. It is proposing to use reserves created by savings to offset the rates required in those areas that created the savings. Although this will reduce the amount in the reserves it will allow funds to remain with the ratepayers that contributed to the build-up of the reserve in prior years.

The other change is to reduce amounts being added to a reserve in any one year by reducing the amount of depreciation funded in any one year. This is something that Council has done in the past but not to the same extent. The implications and reasons for this are discussed in the balanced budget section.

Investments

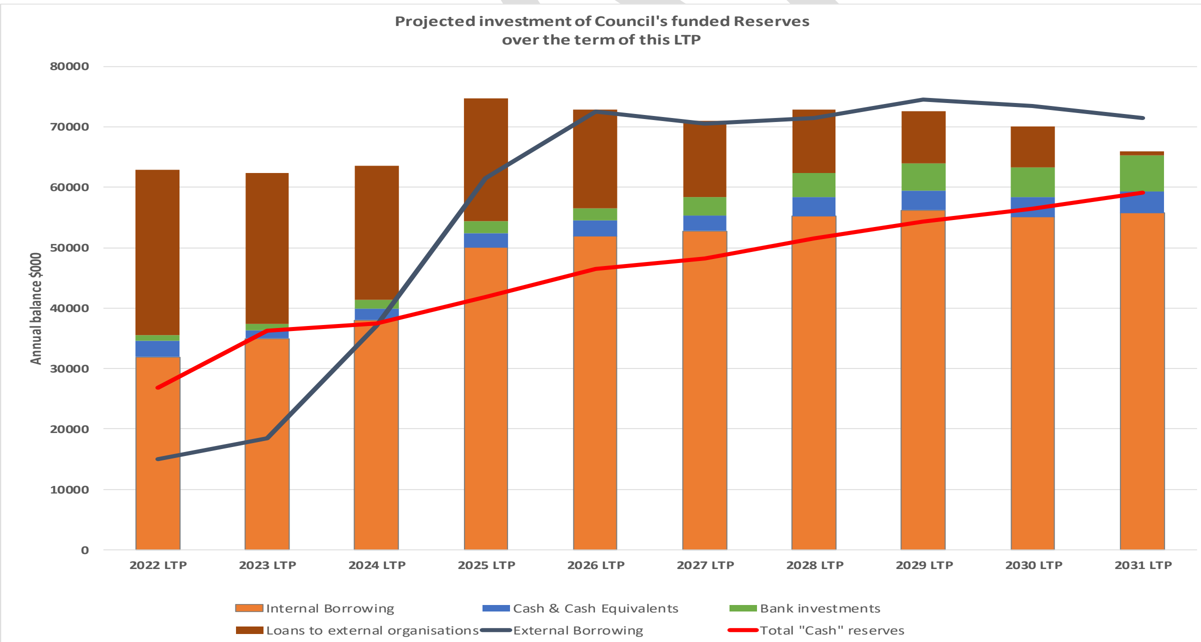
This section covers investments with banks and other entities that will be repaid when the agreed investment period ends. It also covers how internal investments occur. Given the source and nature of the funds it holds, Council will always act as a prudent, conservative and risk averse investor.

.
Council has always shown a very healthy investment position. However, decisions over the last three years in relation to the loans made to NOIC, KDIC and ORV plus the earlier and increased need to invest in asset renewals have changed this chart significantly compared to the prior plan. However, Council still has a healthy “cash” investment portfolio as illustrated by the chart below.



To get a true picture of all of Council's investments, the balance of net internal loans needs to be added to this to create a full portfolio of investments. The funds held for all of the accumulated reserves form part of this investment portfolio. The following shows the value of the funds held compared to the value of investments Council has.

.

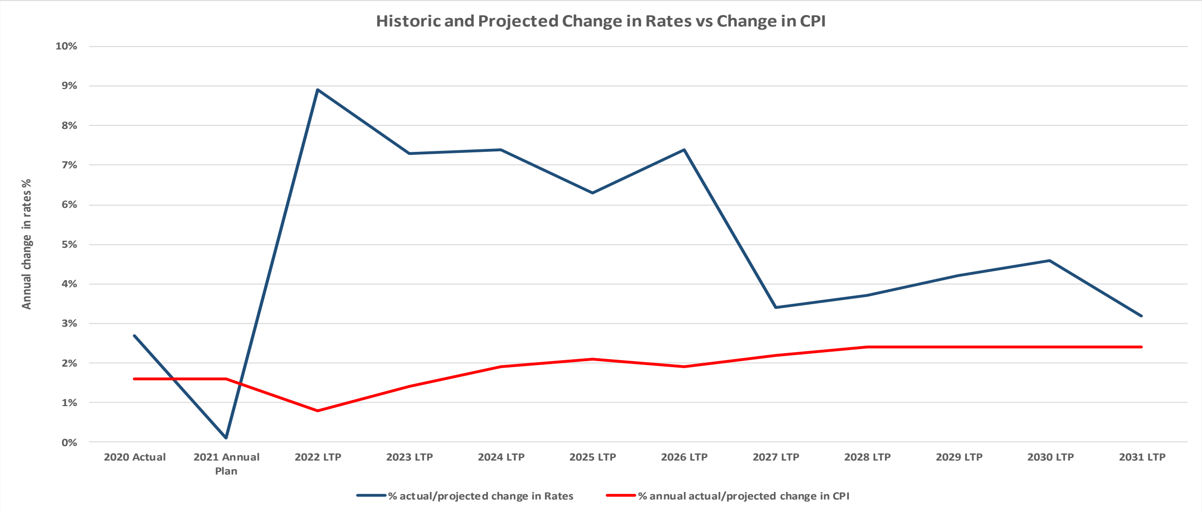


Rate levels and Affordability

Prior to discussing rates, non-rates revenue needs to be considered. Council continues to have issues with New Zealand Transport Agency funding decisions and the government's 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. There were no proposals to significantly increase any group of user charges or make any major changes to the rates/user charge ratio. The changes to the rating system being considered are designed to address issues that have emerged over the last three years and address developments that have occurred.

As highlighted in the opening comments, after a period of very limited rate increases and improved affordability Council is now at a point where a period of sustained increases is required to continue to provide services, especially core services. Although it has considered proposals to lessen the impact in any one year, a far higher level of rate increases compared to the last 10 years is required in most of the next 10 years.



Targets - how progress and success will be measured and recorded

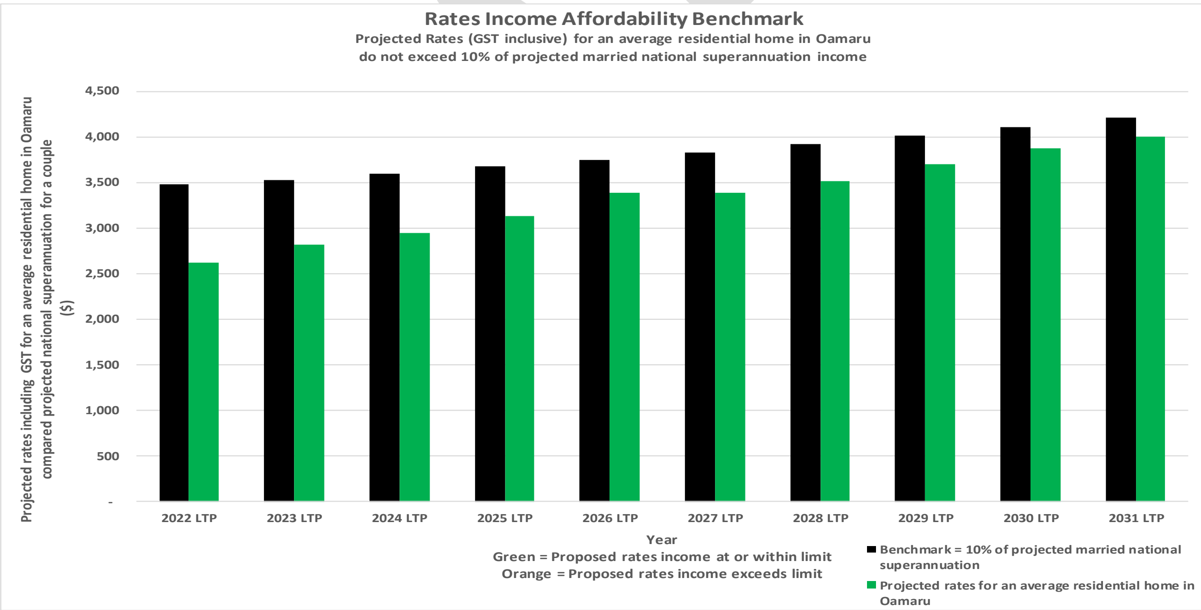
Limits on rates, rates increases and debt

For the ten years of this Plan, Council must monitor its performance against a series of measures and mandatory benchmarks relating to rates increase, 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.

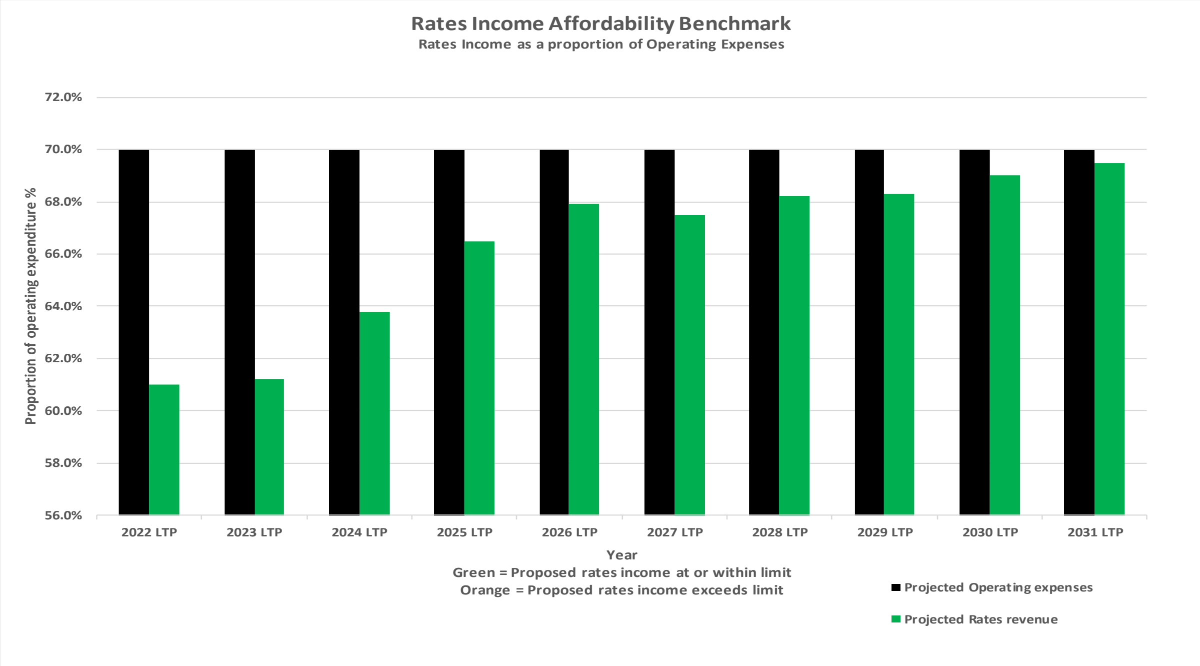
These limits are intended to provide users of the Plan information about Council's financial position, and to guide short and long term decision-making over the next three years. They will be reviewed every three years, or sooner if necessary.

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

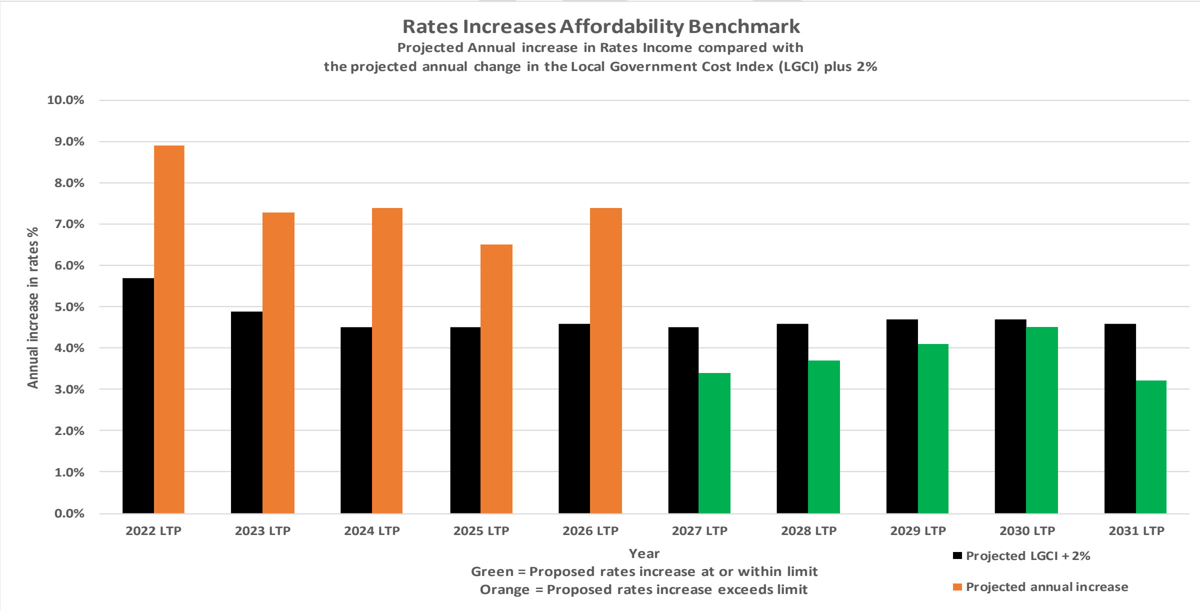
Council tracks Oamaru Residential Rates on a median value property against married national super. Council considers this to be an appropriate measure for both household and small businesses. Affordability for large commercial and rural ratepayers will be considered more by reference to the rates increase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



	Limit
Rates Revenue Affordability	Quantified limit on total rates is that revenue raised from rates should fund no more that 70% of total operating expenditure.



	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)



Debt Affordability Benchmark
Council meets the debt affordability benchmark if actual borrowing is within each quantified limit on borrowing. The quantified limits in the Liability Management Policy are:

- Net debt will not exceed 175% of total revenue.
- Net interest will not exceed 20% of total revenue.
- Net interest will not exceed 25% of annual rates.
- Net debt per rateable property will not exceed $4,000.

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.

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Projected number of properties in the rate base	13,901	13,950	13,999	14,048	14,097	14,146	14,196	14,246	14,296	14,346

Forecast rates increases

Council sets a limit on planned rates increases because it wants to stress affordability issues and still respond to changes that have occurred in the environment. Council considers 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.

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Planned increase in total rates	8.95 %	7.25 %	7.405 %	6.47 %	7.39 %	3.40 %	3.71 %	4.12 %	4.51 %	3.21 %
LGCI + 2%	8.7%	7.9%	7.5%	7.5%	7.6%	7.5%	7.6%	7.7%	7.7%	7.6%

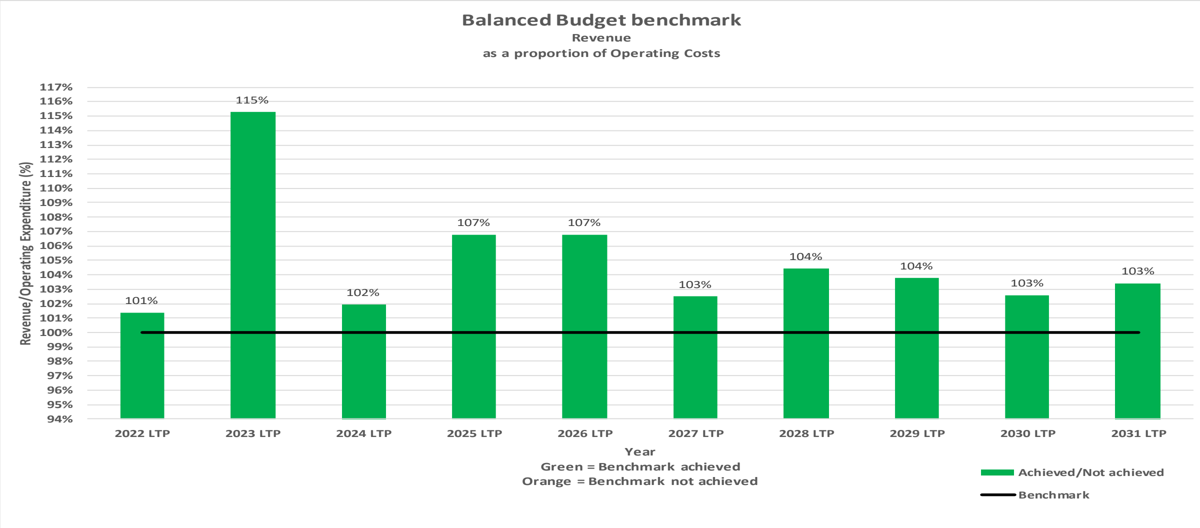
Each year Council must show the proposed changes to the rates for a range of typical property types in the District, for example large pastoral farms, urban residential, rural lifestyle, commercial and industrial. The rate samples show that rates increases depend both on the value of the property and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

Other Matters – Things that need to be in the Strategy

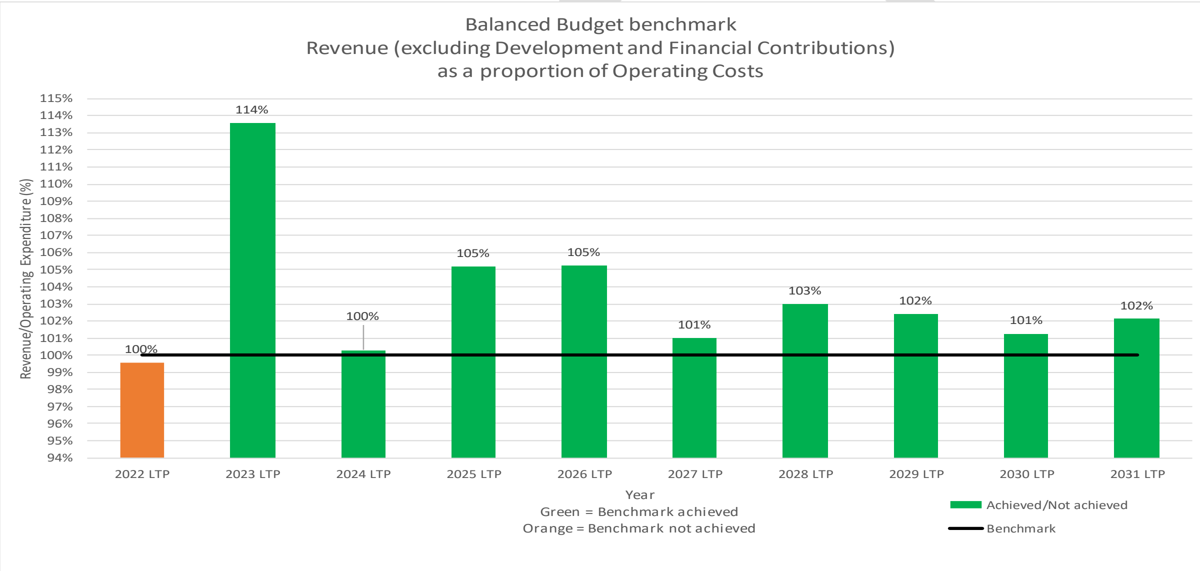
Council must also monitor and report its projected performance against various mandatory benchmarks:

Balanced Budget Benchmark

Council must consider two balanced budget measures. The first is set by section 100 of the LGA and is a test of the Income Statement. The second is a requirement of the Local Government (Financial Reporting and Prudence) Regulations 2014 (the Regulations).



This graph displays Council's revenue as a proportion of operating costs, and is the test required under section 100 of the LGA. Council meets this benchmark when its revenue equals or is greater than its operating costs

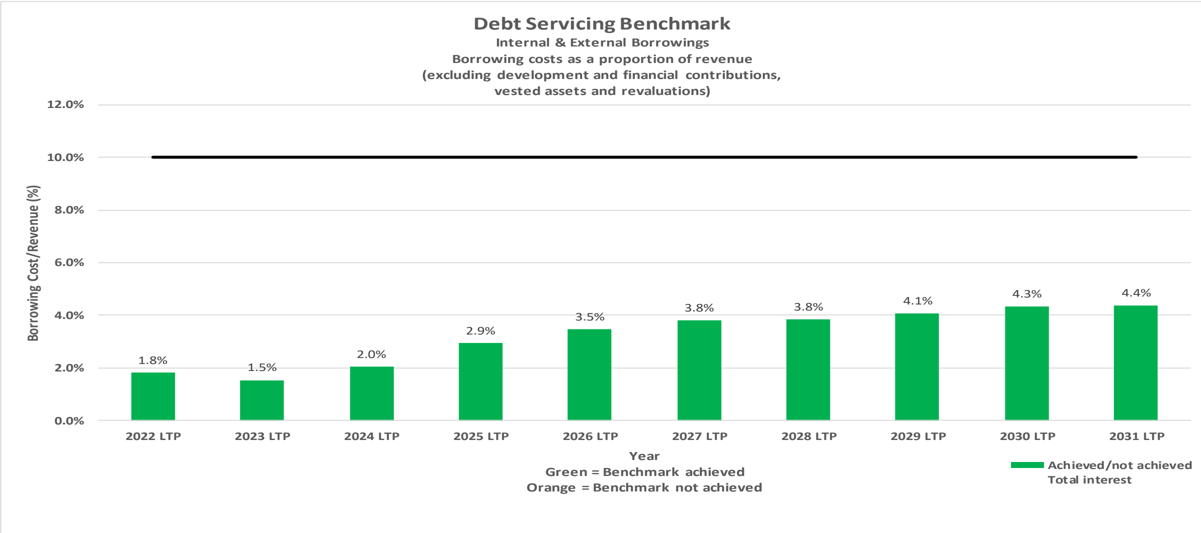


This graph displays Council's revenue, excluding development and financial contributions, vested assets, gains on derivative financial instruments and revaluations, as a proportion of operating costs, excluding losses on derivative instruments and revaluations, and is the test required by the Regulations. Council meets this benchmark when its adjusted revenue equals or is greater than adjusted operating costs.

Balanced budget provisions of the LGA (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.

Debt Servicing Benchmark

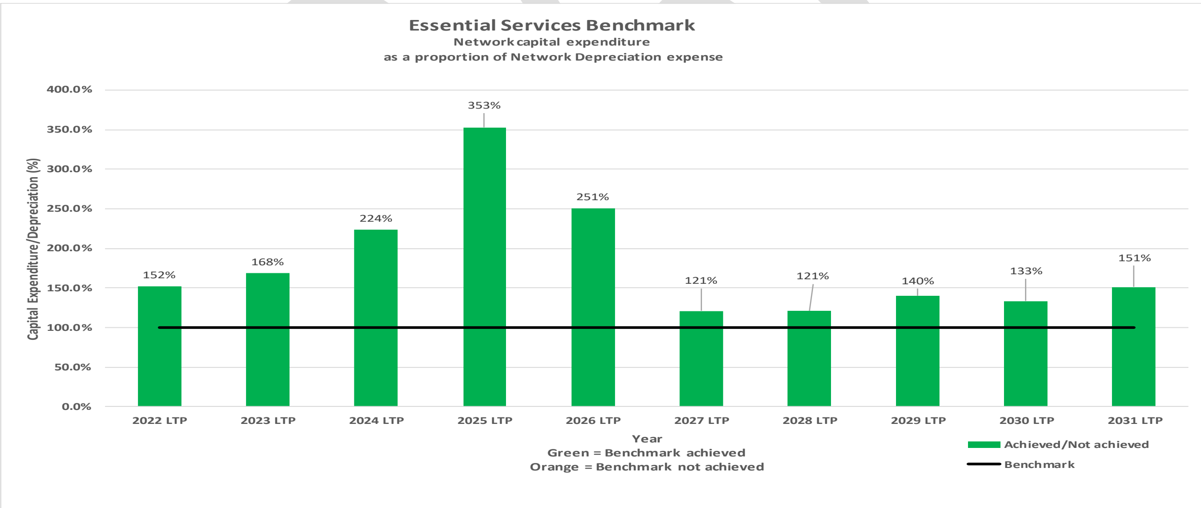
This graph displays borrowing costs as a proportion of revenue, excluding development and financial contributions, vested assets, gains on derivative financial instruments and revaluations.



Because the population of the Waitaki district is not projected to grow as fast as the projected growth in the national population, it is not classified as a high growth area,. Council meets the debt servicing benchmark when actual borrowing costs equal or are less than 10% of adjusted revenue.

Essential Services Benchmark

The graph below displays Council's projected capital expenditure on new or replacement network assets (being roading, water, wastewater and stormwater infrastructural assets) as a proportion of depreciation charged on network services. Council meets this benchmark when capital expenditure equals or exceeds depreciation on those assets.



Although it has and will meet this measure Council continues to believe 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 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.

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 in some key areas to meet expected needs and demands, including increased regulatory demands and addressing the impact of climate change.

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 the quality of waste disposal and drinking water.

Council prioritises the renewal of its water reticulation infrastructure on a performance basis not a condition basis. An asset is considered for renewal after it was failed three times within a five year period. This is to ensure that the maximum life of the asset is realised , which reduces the write-off where water assets are replaced earlier than may have been required.

Shown below is the total expenditure projected on network infrastructure to maintain existing services, together with the total amount of capital expenditure included in this Plan.

Network infrastructure groups	Expenditure identified in Asset Management Plans to maintain existing assets in LTP 2021-31 $000	Asset renewal capital planned in LTP 2021-31 $000
Roading	109,962	95,718
Stormwater	3,673	19,901
Water Supply	66,437	73,939
Wastewater	28,593	21,827
Total	208,665	211,385

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 Local Authority Protection Programme, 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 $2.5 million self-funding Disaster Contingency Fund.
- Use debt or sell assets which are the easiest to sell and not essential to operations.

Setting project priorities

When 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 allow for the maintenance and replacement of infrastructure assets, both for renewal and for improvement of the levels of services provided. Although increases in capacity are always a consideration, given the continued low projections of population growth over the term of the LTP, no projects have been included that are specifically related to growth in demand for services.

Network infrastructure groups	**Capital identified to provide for growth $000**
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:

- A new multi-purpose indoor sports and events centre for the District.
- Wastewater: planned extensions to existing wastewater schemes and investigations into meeting expected new disposal standards.
- 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 and there are no plans to invest in equity securities for this purpose during the term of the Plan. 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**	**Shareholding**	**Target rate of return**
Whitestone Contracting Limited	• Stimulate a competitive contracting sector. • Support local employment opportunities.	100%	>7% on shareholders' funds

	• Provide a good return on investment.		
Waitaki District Health Services Limited	• Support provision of healthcare facilities and services for the local community.	100%	N/A
Tourism Waitaki Limited	• Facilitate the growth of tourism. • Promote the district effectively.	100%	N/A
Omarama Airfield Limited	• Facilitate the growth of tourism. • Promote the district effectively.	50% Joint Venture	N/A
Local Government Funding Agency	• Borrowing	N/A%	N/A
Civic Assurance	• Insurance and risk management.	1.07%	N/A

Loans to Other Entities

Council has advanced funds under various loan agreements to local entities. The primary objective when investing is to provide a level of return and to support the achievement of community objectives.

Company	Objective of holding equity	Value	Target rate of return
North Otago Irrigation Company Limited	• Support local economic opportunities. • Promote environment outcomes. • Provide a good return on investment.	$15.0m	Market rate plus margin
Kurow Duntroon Irrigation Company Limited	• Support local economic opportunities. • Promote environment outcomes. • Provide a good return on investment.	$3.7m	Market rate plus margin
Observatory Retirement Village Trust	• Support a suitable accommodation option for older residents. • Promote employment opportunities. • Provide a good return on investment.	$10.5m	Market rate plus margin
Oamaru Whitestone Civic Trust	• Support local economic opportunities. • Protect the Districts heritage.	$500.000	0%

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.

Security for Council borrowing

Council provides security on its external borrowings through a Debenture Trust Deed. Under the Debenture Trust Deed the Council borrowings are secured by a floating charge over all Council rates levied under the Local Government Rating Act. The security offered by Council ranks equally with other lenders.

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

Cash Funding of Depreciation

The balanced budget provisions of the LGA (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. This has also been assumed with some community assets where third party funding was received to help build or develop the facility. This group of assets includes 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.

In addition to these measures it has adopted in the past, Council is proposing to un-fund the depreciation on a number of items to help address the affordability issues it faces over the next three years. These are all assets where there is a combination of limited immediate demand, a sufficient balance or sufficient time to fund any shortfall prior to the funds being required. Council considers this a prudent decision for current and future ratepayers.

Over the life of the Plan a total amount of $72.6 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 the year funding is required, Council will borrow to cover this as allowed under the Liability Management and Investment Policy.

Other Related Information

- **Forecast financial statements**
  These are Generally Accepted Accounting Practice (GAAP) financial statements (as required under s111 of the LGA) 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 LGA.
- **Rates, fees and charges**
  Identifies the basis on which rates are set, and the fees and charges are approved.
- **Key Assumptions**
  This sets out matters such as the price level adjustments that 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 for which Council will not cash-fund depreciation.

Asset Name	Reason for Unfunding Depreciation	Date that Unfunding Stops
Roading	Council will un-fund that portion of asset replacement that is subsidised by the New Zealand Transport Agency (or its successors).	No end date.
Bridges	Council will un-fund 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
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
Operational and Commercial Property assets	To recognise that the level of reserves currently available is sufficient for immediate and foreseeable needs. Level of un-funding will reduce by 20% annually over the period 2022-2026	2022-2026
Parks & Recreation assets, including the Oamaru Public Gardens, parks, sports fields and playgrounds	To recognise that the level of reserves currently available is sufficient for immediate and foreseeable needs. Level of un-funding will reduce by 20% annually over the period 2022-2026	2022-2026
Camping Grounds and associated assets	To recognise that the level of reserves currently available is sufficient for immediate and foreseeable needs. Level of un-funding will reduce by 20% annually over the period 2022-2026	2022-2026
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		

Asset Name	Reason for Unfunding Depreciation	Date that Unfunding Stops
Oamaru Gardens Depot and Workshop		
Chelmer Street Depot		
Otematata Depot		
Herbert Forest implement shed		
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		
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	Un-fund to the extent of annual expenditure required to maintain the asset in perpetuity	No end date
Oamaru Harbour Breakwater		
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	Un-fund depreciation of assets constructed prior to 30 June 2014 because of Council's annual funding of routine maintenance.	No end date

Asset Name	Reason for Unfunding Depreciation	Date that Unfunding Stops
Information Services	Un-fund 50% of annual depreciation to recognise that the level of reserves currently available is sufficient for immediate and foreseeable needs. Level of un-funding will reduce by 20% annually over the period 2022-2026	2022-2026