

2021-2031

Financial Strategy

Waitomo District Council



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1. INTRODUCTION

This Strategy has been prepared in accordance with the requirements of Section 101A of the Local Government Act 2002 (LGA). The Act's stated purpose of a financial strategy is to:

- Facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and
- Provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.

The Financial Strategy outlines how Council will manage its finances over the ten years of its 10 Year Plan (10YP). It sets out the general approach and principles that will be followed, and it provides a guide to assess spending proposals. The financial strategy includes limits on rates levels, rates rises and borrowing and aims to promote financial stability, affordability and value for money over the short, medium and long term.

The strategy also helps Council to engage transparently with the community about the impact of our proposals on service levels, rates, debt and investments.

Council's guiding principles underpinning the strategy strive to:

- Provide amenities, facilities and services to the District community that contribute to and align with Council's vision
- Undertake good asset stewardship and management to ensure all community and infrastructure assets are fit for purpose and available for future generations
- Maintain affordable rates increases
- Ensure financial sustainability - by ensuring that our revenue is sufficient to cover an efficient operating expense base, all funding sources are being used optimally and financial management is prudent

2. STRATEGIC CONSIDERATIONS

Factors expected to have a significant impact on Waitomo District over the 10YP period include the following:

2.1. POPULATION AND LAND USE CHANGES

Planning Assumptions for the 2021-2031 period show that the usually resident population of Waitomo District as a whole will continue to decline at an average rate of -0.3% per year through to 2048. Similar to the rest of New Zealand, the proportion of people aged over 65 is projected to increase from 13% in 2013 to over 25% in 2048 and the number of people aged between 15 and 64 years of age is projected to decrease. This may have a flow-on effect on the make-up of the work force in the district. Factors such as the ageing population will contribute to a decline in the average household size, from approximately 2.6 residents per household in 2013 to under 2.3 in 2048.

In terms of geographic spread of growth, the Te Kuiti Ward is expected to experience a small growth in dwellings while the population and number of dwellings is projected to grow in the Waitomo Rural Ward. Population and dwelling growth flows through to rating units.

The District’s rating units are predominantly Residential and Residential Lifestyle, with nearly two thirds of the total rating units falling under these two categories. Therefore, any rating unit growth is heavily dependent on dwelling growth. The number of Commercial and Industry rating units is projected to increase in Mokau, Piopio, and Te Kuiti with no growth elsewhere. No significant land use changes are expected over the 10 year planning horizon.

Population and development projections are important in the context of rating and rates affordability. Whilst a static or declining population does not necessarily translate to a reduction in the number of rateable properties (the number of rateable properties in the Waitomo District has increased despite a declining population), it can impact on a community’s ability to pay and affordability concerns which Council will need to carefully manage.

It is also projected that the current pattern of limited subdivision and building development will continue over the 10 year period. Overall, there is projected to be little change in demand for Council provided services through population or land use changes. The possible exception is the impact of forestry harvest operations on parts of the roading network, scheduled to occur over the planning period. It has been assumed that current road pavement maintenance and rehabilitation funding levels can be prioritised to maintain current levels of services on the affected sections of local roads.

2.2. INFRASTRUCTURE STRATEGY FOR MAINTAINING CURRENT LEVELS OF SERVICE

2.2.1. NETWORK INFRASTRUCTURE

The purpose of the Infrastructure Strategy is to identify the significant network infrastructure issues (roading and 3 waters) facing Waitomo district and options for managing them over a period of at least 30 years.

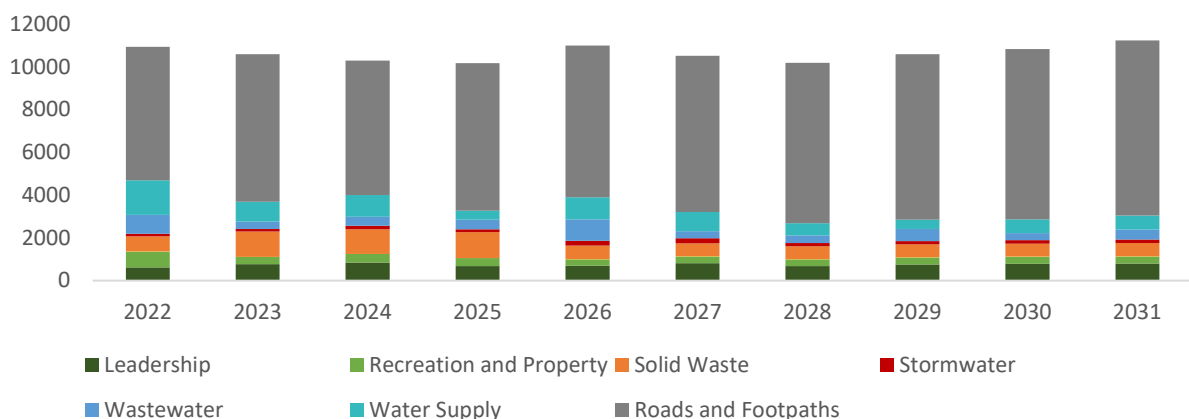
As a result of the concerted effort on infrastructure upgrades over the last 10 years and with little projected growth in demand, there are no capacity-based infrastructure improvements that the District will need to provide for, moving forward.

However, it will be important to consistently meet renewal needs of network assets in a timely manner, to ensure there is no loss of service due to condition deterioration over time. Some investigations have been programmed in the 2021-31 period in order to identify options for improving the resilience of our infrastructure and for risk mitigation reasons.

The forecast capital expenditure profile is steady over the life of the infrastructure strategy. The emphasis on asset renewals is consistent with the objective of maintaining current levels of service over the life of the 10YP.

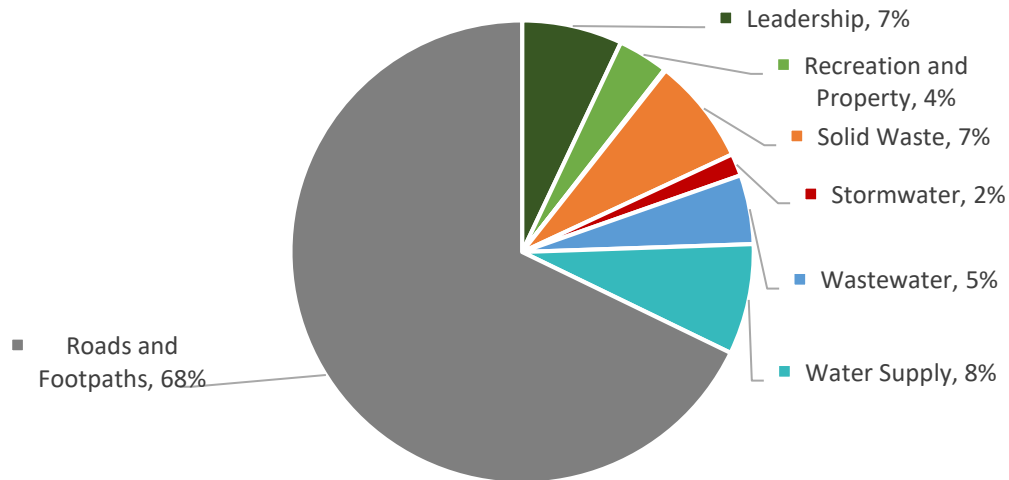
The inflated 10 year capital expenditure planned for 2021-2031 period includes \$106.4 million (mostly renewals). The following graph differentiates the capital expenditure by activity.

Forecast Capital Expenditure by Activity \$106.4M



Over the 10 years, the total planned capital expenditure by activity is shown in the following graph:

Forecast Capital Expenditure by Activity 2021-31 \$106.4M



2.3. OTHER FACTORS

The projected decline in population does not consider other factors that may well influence the future look and feel of the Waitomo Community (for instance, Central Government policy, global and national trends) and the effective delivery of Council's own strategies can and will influence the economic shape and profile of the Waitomo Community over time.

Factors such as housing affordability in metropolitan areas, an improved national state highway network, increased use of public transport, central government strategies around regional development, and local government's efforts in the provision of networks and community services and community development could well see the smaller regions becoming more desirable places to live and work, in the future. All other factors detailed in the Planning Assumptions for the 10YP have been considered in the development of this Financial Strategy.

2.3.1. THREE WATERS REFORM

Council has opted to participate in tranche one of Central Government's three waters (water supply, wastewater and stormwater) reform programme. There are two further tranches. Council retains the option to continue with the Three Waters Reform process or opt out at the conclusion of tranche one and not form part of a new multi-regional scale, water authority, and the Government's funding assistance expected with that. The 10YP has therefore been developed as a "business as usual" approach, due to the limited information available on the actual process and the impacts of the likely future model on local management and control over the delivery of the three waters services.

2.3.2. ECONOMIC IMPACTS OF COVID-19

COVID-19 presents the greatest economic shock in living memory, although the full extent of the shock is still to play out. The speed with which the economic outlook changed during March 2020 far exceeded anything experienced during the Global Financial Crisis of 2008/09. The COVID-19 pandemic brought about the sharpest decline in economic activity on record. Nationally, gross domestic product (GDP) in the June 2020 quarter declined by 12.4% compared to the June 2019 quarter. In Waitomo, the decline in GDP in June 2020 was less than the national average. With the country returning to Alert Level 1, activity in most industries resumed and the District's economy rebounded somewhat, ending up only 2.8% smaller than the previous year – once again performing slightly better than the national economy.

Consumer spending in Waitomo had broadly recovered to the 2019 levels, following the Level 3 and 4 lockdowns in April 2020. However, job seeker support and COVID-19 Income Relief Payment recipients increased. Job losses have been concentrated in the tourism focused industries (accommodation and food services) also rental, hiring and real estate services industries. On a positive note, small numbers of jobs have been created in industries such as wholesale trade, mining and education and training.

One of the most unexpected aspects of the COVID-19 recessions has been the resilience of the New Zealand housing market.

The impact of COVID-19 affects the ability of our economy to perform at its full potential. Construction is one of the key contributors to the District's economy. As a result of Central Government's Three Waters Reform Programme stimulus funding, we will see a number of construction projects get underway. Council's own construction projects have been prioritised including roading investments. It is likely that these projects will stimulate building activity in the district.

2.3.3. DELIVERING ON COUNCIL'S VISION AND MAINTAINING AFFORDABILITY

The purpose of the LGA is to enable democratic local decision-making and action by, and on behalf of, communities; and to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

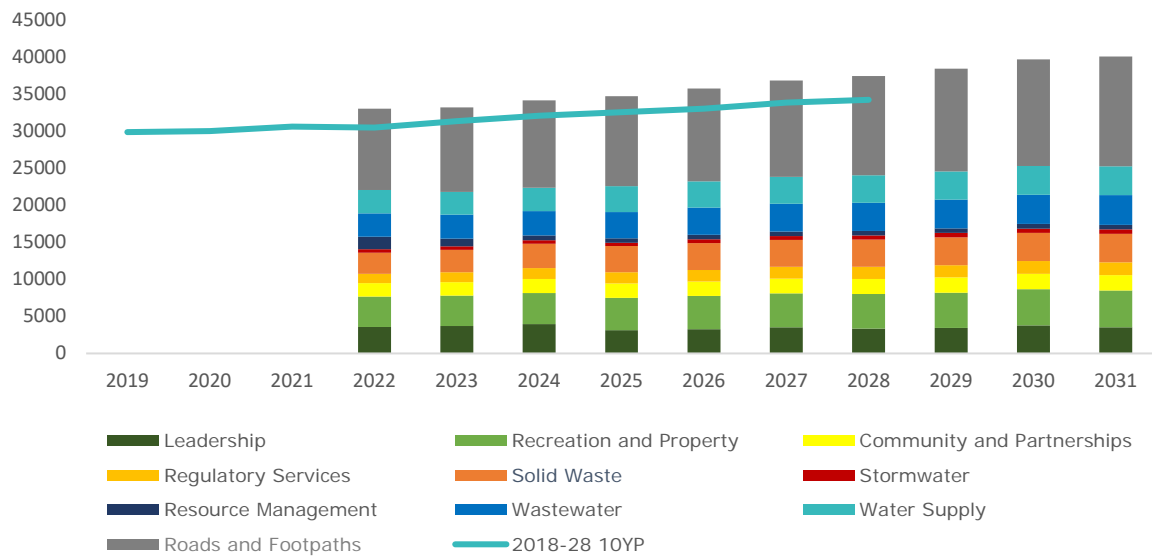
Council through its strategic direction set a vision for the District as 'Waitomo – a vibrant District'. At the heart of the vision is the intent to make the District an attractive place that people would want to visit, work and live in. Council agreed to a focus on effective place making and place shaping initiatives to create a strong sense of place for our community. Town Concept Plans have been prepared and adopted following an intensive process of community engagement during 2018/19. In addition the Vibrant Safe Waitomo Strategy has been adopted and is currently being implemented with multiple partners.

The strategic direction has been reviewed for the 10YP, retaining the principles and values of the previous community outcomes and priority areas. The 10YP recognises that the effective delivery of Council's strategies can and will influence the make-up and well-being of the community over time.

Council is also clear that all this has to be achieved in a financially prudent and affordable manner. This is one of the guiding principles that the 10YP proposals will be assessed against. Council's view is to take a 'crawl, walk, run' approach in this direction and therefore it avoids a substantial overall increase in investment in financial terms. Rather, it represents the next step in Council's journey on which Council intends to make incremental gains.

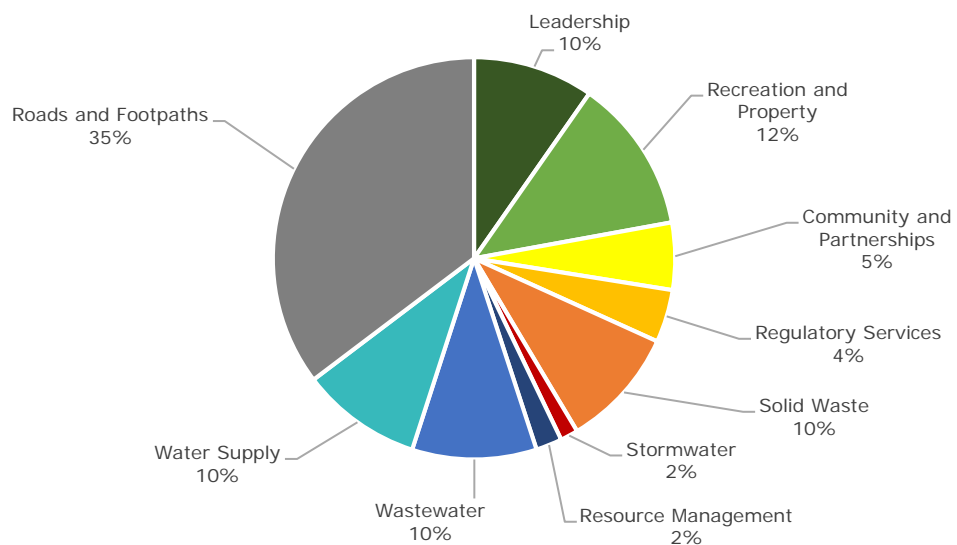
The following graph shows Council's forecast levels of operating expenditure over the 2021 - 2031 period and compares it with the total operating expenditure forecast in the Long-Term Plan 2018-2028.

Forecast Operating Expenditure by Activity 2021-31 (\$363.9M)



The following graph shows the overall forecast operational expenditure over the 10 years by activity:

Forecast Operating Expenditure 2021-31 \$363.9M



2.3.4. BALANCED BUDGET

Over the life of the 10YP, Council's objective is to set total operating income at a level that meets, or is greater than, total operating expenditure. This is to ensure that there is access to enough funding to enable the services to continue to be provided long term, and to meet additional demand for services within rates limits.

However, there are activities where this approach may not be practical or prudent on a year-by-year basis due to the activity's long term nature, e.g. wastewater, roads and footpaths, water supply. Over the next ten years Council intends to:

- Temporarily run activity deficits/ surpluses in order to avoid large variations in rates increases
- Use operational reserves and/or activity balances to fund some specific operational expenditure where appropriate.

Council considers this to be a 'prudent' approach to financial management in that it provides for assets to be maintained and renewed, debt levels kept reasonably conservative, and rate increases limited to an affordable level now and in future.

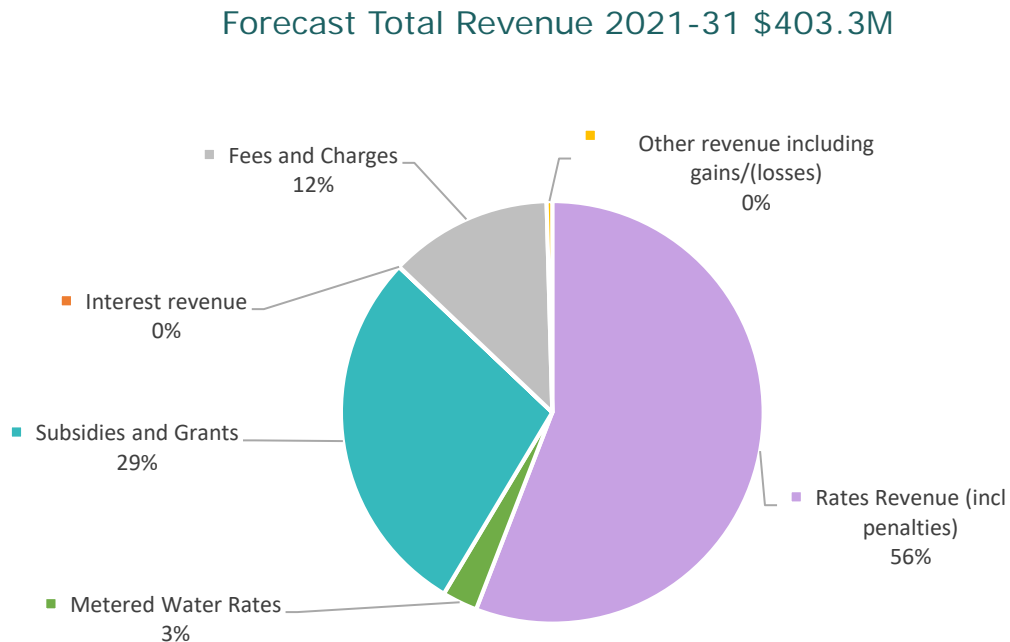
The following table illustrates that Council's planned expenditure as a proportion of planned operating expenses has met the balanced budget benchmark as planned revenue is greater than planned operating expenses.

	10YP Y1 21/22	10YP Y2 22/23	10YP Y3 23/24	10YP Y4 24/25	10YP Y5 25/26	10YP Y6 26/27	10YP Y7 27/28	10YP Y8 28/29	10YP Y9 29/30	10YP Y10 30/31
Total operating expenditure	33,071	33,259	34,212	34,765	35,806	36,896	37,518	38,475	39,749	40,156
Total operating revenue	36,591	36,234	37,239	39,028	39,863	40,884	41,781	42,825	44,068	44,796
Revenue as a % of Expenditure	111%	109%	109%	112%	111%	111%	111%	111%	111%	112%

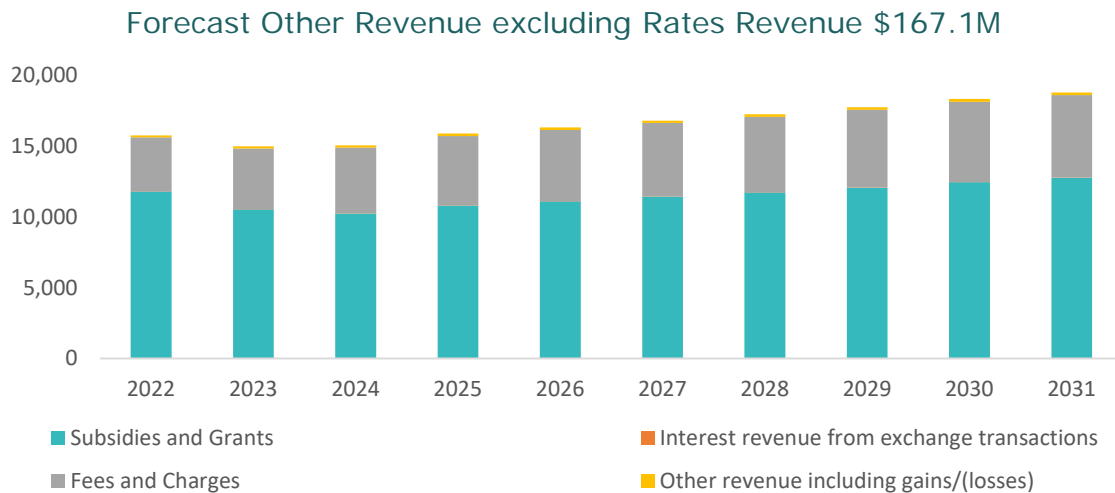
3. COUNCIL'S PLANNED FINANCIAL FUTURE

3.1. REVENUE STREAMS

Sources of funding for the planned services and operations in the 2021-2031 period are shown in the graph below.



The following graph shows the forecast other revenue (excluding rates and penalties) to be received over the 10 year period:



3.2. RATES

Council recognises the need to keep rates sustainable and increases in rates affordable over time and will endeavour to keep the income required from rates steady. Council's direction for achieving affordability of rates are:

- Limiting the level of rates income to a percentage of operating expenditure
- Managing costs through efficiency gains and increasing other revenue sources e.g. user fees and charges, subsidies and grants
- Specific considerations for funding of depreciation (detailed in the following section).

3.2.1. FUNDING OF DEPRECIATION

Council funds depreciation to allow for the replacement of Council's capital assets. Over the life of the 10YP we are forecasting \$85.4 million of depreciation. The cost of depreciation is a substantial part of the total rates requirement over the 10YP. In keeping with Council's focus on prudent financial management, and ensuring that rates are affordable and sustainable, Council will apply the following to the funding of depreciation:

- To fund depreciation for Community Halls and Housing for Elderly only to the extent required for minor renewals. This is because Council considers that future renewals would be from community sources and/or grants and subsidies. These facilities are community occupied, have a life in excess of 50 years and renewals would be dependent on future choices.
- To defer depreciation or fund only to the level required to meet annual loan repayments on some newly built assets for the first 4-10 years of the asset life and fully recovering that unfunded depreciation over the life of these assets. Council does not intend to build up surplus depreciation reserves in the initial years because of the assets being brand new, meaning they have extended lives and low risk of failure. Council has primarily considered this from an affordability perspective for the current ratepayers and considers this fair and equitable since the current ratepayers are carrying the debt servicing costs anyway.
- To fund depreciation equal to WDC's share of the renewal expenditure projects for the subsidised road network and annual loan repayments for Subsidised Roads. Waka Kotahi - NZ Transport Agency will fund 75% of asset improvements, renewals and maintenance for the local roading network, from 1 July 2021.

Council considers that the above approach to depreciation is not likely to lead to a deferred burden on future rates caused by deferred depreciation funding as is evident from the forecast rates increase over the 10YP (which is consistent).

In making these proposals (pursuant to section 100(2) of the LGA), Council has considered the overall impact of its financial management policies, levels of service and ensured the cash flow is positive over the life of the 10YP (excluding major projects).

3.2.2. LIMITS ON RATES AND RATES INCREASES

Council has set the following limits on rates revenue and rates increases for the 2021- 31 period.

- Rates revenue will be limited to an average of 75% of total operating expenditure
- Rate increases will be limited to no more than forecast LGCI for that year + 2%

The limit on annual rate increases will not apply where there is an increase in the existing level(s) of service (LoS) of any activity in consultation with the community. This exclusion includes unforeseen events that may occur during the period of the 10YP.

The following table illustrates the forecast rates increases over the 2021-2031 period and tests these against the rates limit set by Council.

	10YP Y1 21/22	10YP Y2 22/23	10YP Y3 23/24	10YP Y4 24/25	10YP Y5 25/26	10YP Y6 26/27	10YP Y7 27/28	10YP Y8 28/29	10YP Y9 29/30	10YP Y10 30/31
Rates increase limit	3.5%	4.9%	4.5%	4.5%	4.6%	4.5%	4.6%	4.7%	4.7%	4.6%
Forecast rates revenue (decrease)/ increase %	-0.53%	2.04%	4.38%	4.39%	1.73%	2.25%	1.91%	2.15%	2.69%	0.96%

The following table shows the planned total rates revenue is within the quantified limit that total rates revenue will be limited to an average of 75% of total operating expenditure.

	10YP Y1 21/22	10YP Y2 22/23	10YP Y3 23/24	10YP Y4 24/25	10YP Y5 25/26	10YP Y6 26/27	10YP Y7 27/28	10YP Y8 28/29	10YP Y9 29/30	10YP Y10 30/31
Rates revenue limit	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Forecast rates revenue as a % of expenditure	62%	62%	63%	65%	64%	64%	64%	64%	63%	63%

3.2.3. ABILITY TO MAINTAIN LEVELS OF SERVICE

The service levels for all other services including core infrastructure are not expected to change over the 2021-2031 period. The sealed and unsealed road network (which is the largest expenditure area for Council) is currently in reasonable condition because of current investment in maintenance, rehabilitation and reseals. Current levels of service are a minimum in terms of an effective, efficient, and safe local roading network.

Council has been careful to invest in infrastructure upgrades for water supply and wastewater that are essential to give effect to public health and environmental standards. Whilst a projected decline in population is of concern in terms of affordability, there is little or perhaps no scope to scale back Council's involvement in the provision of this infrastructure. The water supply and wastewater networks have been designed to, what can be termed, the minimal standards required for a municipal supply in New Zealand under current legislation and regulation.

Many of the other public services provided by Council (particularly in the areas of regulation, resource management and solid waste) are also governed by legislation, regulation, and industry standards and as a result there are limited options for changes to scale and scope in response to changes in population and development.

The provision of community services such as parks and reserves, housing and property, community facilities, public facilities, community development, community promotion and economic development are the very services that make communities desirable in terms of a place to work, live and play. Throughout the period of this 10YP, Council aims to focus on community and economic development to attract more residents and visitors to the District. In short, a retraction or reduction in scope of desirable public services would work against the Council's vision of 'Waitomo - a vibrant District'.

3.3. BORROWING

External borrowing (public debt) is used by Council to fund assets or services that will provide benefit well into the future. This is in accordance with the principle of intergenerational equity. However, the use of borrowing has to be prudent and sustainable and limited to the ability to service and repay the debt. Council approves borrowing by resolution through the Annual Plan or the 10YP.

Council recognises the need to manage its finances in a sustainable and affordable manner and has therefore established borrowing parameters to ensure that investment priorities are carefully managed and affordable for the District community. Council has set the following **borrowing limits** in its Treasury Policy:

- The ratio of net debt to total revenue will not exceed 165%
- Net interest will not exceed 20% of annual rates

The following tables illustrate that Council is well within these limits in the 2021-2031 period.

	10YP Y1 21/22	10YP Y2 22/23	10YP Y3 23/24	10YP Y4 24/25	10YP Y5 25/26	10YP Y6 26/27	10YP Y7 27/28	10YP Y8 28/29	10YP Y9 29/30	10YP Y10 30/31
Net debt to Total Revenue Limit	165%	165%	165%	165%	165%	165%	165%	165%	165%	165%
Net Debt to Total Revenue %	96%	96%	91%	80%	73%	64%	54%	44%	34%	24%

	10YP Y1 21/22	10YP Y2 22/23	10YP Y3 23/24	10YP Y4 24/25	10YP Y5 25/26	10YP Y6 26/27	10YP Y7 27/28	10YP Y8 28/29	10YP Y9 29/30	10YP Y10 30/31
Net Interest to Annual Rates Limit	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Net Interest to Annual Rates %	5%	5%	5%	6%	6%	5%	5%	4%	3%	3%

3.3.1. DEBT REDUCTION

Council is committed to reducing external debt over the duration of the 10YP, in order to reduce the debt servicing burden on the District community and make headroom for investing in increasing the 'liveability' of the Waitomo district.

Council's financial performance has progressed significantly over the last 10 years. This is despite a significant investment in upgrading the water supply and wastewater networks. This has been the result of Council's multi-pronged approach of increasing operating income where possible (particularly from grants and subsidies), improving its reserves balance, efficiency in spending and a focus on reducing cost of borrowing.

The reduction of Council's total debt levels is shown in the following table. Since 2015 Council has reduced debt by \$8.9 million.

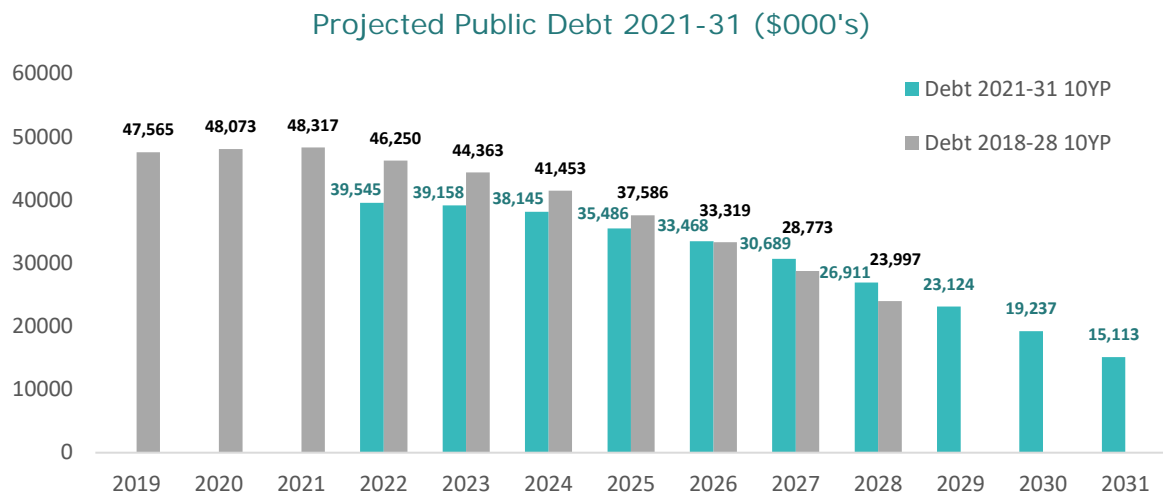
\$000's	30 June					
	2015	2016	2017	2018	2019	2020
Actual Public Debt	46,139	44,786	43,419	41,737	40,261	37,260
Decrease		1,353	1,367	1,682	1,476	3,001
% Decrease		2.9%	3.1%	3.9%	3.5%	7.5%

Council has set a target to **reduce public debt by \$10 million** to \$30 million by 2031. However, the forecast reduction in public debt of \$24 million (a 62% reduction over the 10 year period) is significantly higher than the target set. This forecast assumes net principal repayments of \$14 million and the application of the underlying cash from increased reserve balances (primarily sourced from rate-funded depreciation) of \$10 million over the life of the 10YP. This approach has reduced the need to borrow externally.

The forecast principal repayments for the Solid Waste capital improvements loans have been deferred to 2024/25. The funding of these repayments will be phased in over the remainder of the 10YP.

Council has conservatively forecast for no dividend/subvention revenue from its shareholding investment over the life of the 10YP, however if any unbudgeted dividend and/or subvention income is received, it will be utilised to repay debt.

The following graph illustrates the reduction in public debt over the life of the 10YP, compared to the forecast debt from the previous Long Term Plan 2018-2028.



The borrowing cost per rateable property are forecast to reduce by 37% over this period from \$201 in 2022 to \$127 in 2031.

	10YP Y1 21/22	10YP Y2 22/23	10YP Y3 23/24	10YP Y4 24/25	10YP Y5 25/26	10YP Y6 26/27	10YP Y7 27/28	10YP Y8 28/29	10YP Y9 29/30	10YP Y10 30/31
Borrowing cost per rateable property	\$201	\$200	\$198	\$249	\$232	\$219	\$201	\$176	\$151	\$127

4. COUNCIL'S POLICIES ON GIVING SECURITIES ON ITS BORROWING

Council borrowings are secured over annual rates on every rateable property within the Waitomo District. From time to time, security may be offered over specific assets with Council approval or infrastructural assets where special rating provisions apply.

Council will not borrow, underwrite or guarantee loans on behalf of any other person, association or organisation except the Local Government Funding Agency (LGFA) for which, under various Deeds and a guarantee and indemnity Council guarantees the indebtedness of the LGFA and other guarantors (a requirement of joining the LGFA) and Council offers deemed rates as security for general borrowing programmes.

Any issue of debt securities must be approved by Council and will be in compliance with the relevant legislation.

Securities are not provided for Councils own internal borrowing.

5. FINANCIAL INVESTMENTS AND EQUITY SECURITIES

Council is a risk adverse entity and therefore takes a prudent approach to managing its investments. Council seeks to achieve an acceptable rate of return on all its investments. It recognises that, as a responsible local authority, any investments that it does hold will be low risk and that generally lower risk means lower returns. Also, that sometimes investments will need to be held for purposes other than financial returns.

Council's objectives for holding investments or making any new strategic or equity investments are/will be (one or more):

- a) The expected financial return.
- b) Contribution of the investment in furthering the Waitomo District's community outcomes as documented in the 10YP.
- c) How the investment 'fits' within the existing investment portfolio in terms of Council's preference to spread and minimise risk.
- d) Contribution towards the good of the local government sector either nationally, regionally or within a sub group of Councils.

The following table lists Council's shareholding investments, the objectives these align with, and the target rate of return.

Investment	Objective of Holding Equity	Target rate of return
Inframax Construction Limited	Economic benefits like job creation thereby furthering community outcomes	0%
Waikato Local Authority Shared Services (WLASS)	To ensure WLASS remains viable as a provider of shared services within the Waikato region	0%
Civic Financial Services Ltd	Contribution towards the local government sector	0%