

# **MACKENZIE DISTRICT COUNCIL**

## **MINUTES OF A MEETING OF THE MACKENZIE DISTRICT COUNCIL HELD AT THE EVENTS CENTRE IN TWIZEL ON TUESDAY MAY 12, 2015, AT 9.30AM**

### **PRESENT:**

Cr Graham Smith (Deputy Mayor)  
Cr Murray Cox  
Cr James Leslie  
Cr Russell Armstrong

### **IN ATTENDANCE:**

Wayne Barnett (Chief Executive Officer)  
Paul Morris (Finance & Administration Manager)  
Julie Jongen (Committee Clerk)  
Bernie Haar (Asset Manager)  
Suzy Ratahi (Roeading Manager)  
Toni Morrison (Senior Policy Planner)  
Pat Shuker (left meeting at 10.07 when council went into PE)  
Garth Nixon (Community Facilities Manager)

### **OPENING:**

The Deputy Mayor welcomed everyone to the meeting.

### **APOLOGIES:**

Resolved that apologies be received from Cr Noel Jackson, Cr Evan Williams, Mayor Claire Barlow.

**Murray Cox/Russell Armstrong**

### **DECLARATIONS OF INTEREST:**

No declarations declared.

### **BEREAVEMENTS:**

The Deputy Mayor noted the following bereavements:

- Donald Kevin Willetts, died 6 May 2015, father of Judy Willetts & Graham Willetts, late of Winscombe, Fairlie.
- Patricia Mary Ivey, died 8 May 2015, mother/mother in law of Ross & Helen Ivey, late of Glentanner Station, Mt Cook.
- Kevin Pain from Tekapo (name given by member of committee)
- Mrs McClelland (name given by member of committee)

A moment of silence was observed.

## EXTERNAL LIABILITY MANAGEMENT POLICY:

### Resolved:

1. That the report be received.

**Russell Armstrong/Murray Cox**

2. That the draft Liability Management Policy be adopted by Council.

**Graham Smith/Murray Cox**

## FINANCIAL STRATEGY:

### Resolved:

1. That the report be received.

**Graham Smith/Russell Armstrong**

2. That the Financial Strategy 2015-2025 be adopted by Council, subject to audit changes.

Toni Morrison tabled new papers which had changes made by Audit since the agenda was put together. (attached to these minutes).

The 2 changes were the addition of further information about funding impacts and levels of service in relation to roading and NZTA funding, and amendments to the quantified limits on rates and rates increases.

**Murray Cox/Russell Armstrong**

## SIGNIFICANT FORECASTING ASSUMPTIONS:

### Resolved:

1. That the report be received.

**Russell Armstrong/James Leslie**

2. That the Significant Forecasting Assumptions be adopted by Council, subject to audit changes.

**Graham Smith/Russell Armstrong**

## LONG TERM PLAN SUPPORTING INFORMATION - INFRASTRUCTURE, TRANSPORTATION, STORMWATER:

### Resolved:

1. That the report be received.

**Russell Armstrong/James Leslie**

2. That the updates to the Infrastructure Strategy be adopted by Council.

**Graham Smith/Murray Cox**

3. That the updates to the Transportation Activity Management Plan be adopted by Council, subject to audit changes.

**Graham Smith/Murray Cox**

4. That the updates to the Stormwater Activity Management Plan be adopted by Council.

**Graham Smith/Murray Cox**

#### LONG TERM PLAN SUPPORTING INFORMATION – FOUL SEWER, WATER SUPPLY:

Resolved:

1. That the report be received.

**Murray Cox/Graham Smith**

2. That the Foul Sewer Activity Management Plan be adopted by Council as supporting information for the Consultation Document and Long Term Plan, subject to audit changes.

**Russell Armstrong/Murray Cox**

3. That the Water Supply Activity Management Plan be adopted by Council as supporting information for the Consultation Document and Long Term Plan, subject to audit changes.

**Russell Armstrong/Murray Cox**

#### LTP 2015-25 CONSULTATION DOCUMENT:

Resolved:

1. That the report be received.

**Russell Armstrong/James Leslie**

2. That Council adopts the Draft 2015-25 Long Term Plan Consultation Document, subject to audit changes.

**Graham Smith/Russell Armstrong**

Graham Smith congratulated Toni Morrison and Paul Morris for their great effort and the work they have done.

## **REPORTS:**

### **MAYORS ACTIVITIES:**

This was the report of Mayoral activities from February 17, 2015, to May 12, 2015.

James Leslie noted on page 7, May 3 the CEO needs to be deleted as he never attended.

Resolved that the report be received.

**Graham Smith/Russell Armstrong**

### **CHIEF EXECUTIVE'S ACTIVITIES:**

This was the report of the Chief Executive's activity from February 18, 2015 to May 12, 2015.

Resolved that the report be received.

**Russell Armstrong/Graham Smith**

The Chief Executive spoke about the gas services in Tekapo and all costs would be met by "On Gas". It was noted a correction to the wording was required, it was worded at "Twizel" and should read "Tekapo".

The Chief Executive met with E-Can re issues on the water restrictions in Fairlie during the summer that Council were not compliant with their resource consent. There will be costs associated with this.

James Leslie enquired about the monitoring of Lake Poaka, Bernie Haar stated Geoff Horler has the information about this and he will request Geoff to report back to James Leslie.

Charles Anderson land deal is getting close to a signed agreement and the Chief Executive has instructed Council's solicitor to draw up a deed.

Graham Smith questioned about the DOC Tenure Review as there appears to be different opinions given to Bernie Haar and the Chief Executive, they will have a discussion together.

### **ROAD STOPPING PROPOSAL – BUCHANAN STREET, FAIRLIE:**

Resolved

1. That the report be received.

**Murray Cox/Russell Armstrong**

2. That Council agrees to commence the Local Government Act 1974 (LGA) Schedule 10 process to stop the unformed section of Buchanan Street in Fairlie.

**Graham Smith/Russell Armstrong**

## LILYBANK ROAD SPOT METALLING PROPOSAL:

### Resolved

1. That the report be received.

**Russell Armstrong/James Leslie**

2. That council recommends option 1. Do nothing at this stage.  
Noting this is on the agenda for work next year.

**James Leslie/Russell Armstrong**

## REMIT TO LGNZ – PROHIBITION ON SMOKING OUTSIDE CAFES, RESTAURANTS AND BARS:

### Resolved

1. That the report be received.

**James Leslie/Russell Armstrong**

Question asked who will police this.

James Leslie has spoken to business owners and they commented that they monitor this now and wouldn't be happy to have a blanket rule.

What has LGNZ have to do with this and it should be a government issue.

2. That Council do not support the remit to the Annual General Meeting of LGNZ requesting Government to create a prohibition on smoking outside cafes, restaurants and bars.

**James Leslie/Russell Armstrong**

## FUNDING REQUEST - AORAKI MACKENZIE INTERNATIONAL DARK SKY FESTIVAL:

### Resolved:

1. That the report be received.

**James Leslie/Murray Cox**

2. That the Council consider whether or not to make this grant.  
Council agree to make a matching grant of \$1000.00

**James Leslie/Russell Armstrong**

## **COMMUNITY BOARD RECOMMENDATIONS AND MINUTES:**

This report from the Chief Executive was accompanied by the minutes of the meetings of the Twizel Community Board on May 4, 2015, and the Fairlie Community Board on April 13, 2015.

Resolved that the report be received.

**Russell Armstrong/James Leslie**

### **TWIZEL COMMUNITY BOARD:**

1. Council noted the following resolution regarding the removal of trees:

Resolved that the Twizel Community Board grants permission to have the seven trees bordering Grants Motel Ltd at Wairepo Road removed on the provision that all costs and cleaning up activities be met by Grants Motels Ltd.

James Leslie asked if they need public liability insurance?

Garth Nixon responded the trees will be felled by a suitable contractor, isolate the site and have Public Liability insurance.

**Murray Cox/James Leslie**

2. Council noted the following resolution regarding a request from the Twizel Tekapo Community Vehicle Trust requesting a piece of land to build a double garage to house the community vehicles:

Resolved that the Twizel Community Board instructs Garth Nixon to pursue the option of using Rec A land next to the Twizel Events Centre.

**Murray Cox/James Leslie**

### **FAIRLIE COMMUNITY BOARD:**

No resolutions were passed at the Fairlie Community Board meeting.

### **TEKAPO COMMUNITY BOARD:**

The meeting of the Tekapo Community Board was postponed due to the illness of the committee secretary.

### **RECEIVE COMMITTEE MINUTES:**

Receive the minutes of the committee meetings held on April 28, 2015, including parts taken with the public excluded.

Resolved that the minutes of the meeting of the Asset and Services Committee held on April 28, 2015, including such parts as were taken with the public excluded, be received.

Murray Cox noted on page 100, 1<sup>st</sup> paragraph should read  
"Placement of the bins at the Lake Tekapo Waterfront Development".

**Russell Armstrong/Murray Cox**

### **COUNCIL MINUTES:**

Resolved that the minutes of the meeting of the Mackenzie District Council held on March 31, 2015, including such parts as were taken with the public excluded, be confirmed and adopted as the correct record of the meeting.

James Leslie noted on Page 112 of PE should read "Glen Lyon" Road

**Russell Armstrong/James Leslie**

### **EXTRAORDINARY COUNCIL MINUTES:**

Resolved that the minutes of the extraordinary meeting of the Mackenzie District Council held on April 16, 2015, including such parts as were taken with the public excluded, be confirmed and adopted as the correct record of the meeting.

**Russell Armstrong/Murray Cox**

### **EXTRAORDINARY COUNCIL MINUTES:**

Resolved that the minutes of the extraordinary meeting of the Mackenzie District Council held on April 28, 2015, including such parts as were taken with the public excluded, be confirmed and adopted as the correct record of the meeting.

**Russell Armstrong/Murray Cox**

### **PUBLIC EXCLUDED:**

Resolved that the public be excluded from the following part of the proceedings of this meeting namely:

|   |     |
|---|-----|
| A) SALE OF LAND - LAKEFRONT DEVELOPMENT, TEKAPO | 127 |
| B) SALE OF LAND - LOT 2, (MINI GOLF SITE)       | 156 |
| C) SALE OF LAND – LOT 4, MT NESSING RD          | 178 |
| D) PREVIOUS MINUTES COUNCIL MARCH 31            | 102 |
| E) PREVIOUS MINUTES COUNCIL APRIL 28            | 120 |

| <b>General subject of each matter to be considered</b> | <b>Reason for passing this resolution in relation to each matter</b> | <b>Ground(s) under section 48(1) for the passing of this resolution</b> |
|--|--|---|
| Sale of Land – Tekapo Lakefront Development            | Enable commercial negotiations                                       | 48(1)(a)(i)   |
| Sale of Land – Lot 2 (Mini Golf Site)                  | Enable commercial negotiations                                       | 48(1)(a)(i)   |
| Sale of Land Lot 4 Mount Nessing Rd                    | Enable commercial negotiations                                       | 48(1)(a)(i)   |
| Previous minutes Council March 31                      | Enable commercial negotiations                                       | 48(1)(a)(i)   |
| Previous minutes Council April 28                      | Enable commercial negotiations                                       | 48(1)(a)(i)   |
| Previous minutes Twizel Community Board May 4          | Commercial sensitivity   | 48(1)(a)(i)   |

This resolution is made in reliance on Section 48(1)(a)(i) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows: *Sale of Land Tekapo, Sale of Land Lot 2, Sale of Land Lot 4, Previous minutes Council March 31 and Previous minutes Council April 28 under section 7(2)(i). Previous minutes Twizel Community Board under section 7(2)(b)(2).*

#### **PUBLIC EXCLUDED:**

Council moved into Public Excluded to discuss Meridian issue.

**Russell Armstrong/James Leslie**

Council moved into Public Excluded again.

**Russell Armstrong/James Leslie**

**THE DEPUTY MAYOR DECLARED THE MEETING CLOSED AT 12.57PM**

**MAYOR:** \_\_\_\_\_

**DATE:** \_\_\_\_\_



# Financial Strategy 2015-2025

The Council is required to have a financial strategy as part of its Long Term Plan (LTP). The purpose of the Financial Strategy is to facilitate prudent financial management by providing a guide to consider proposals for funding and expenditure against, and to show the overall effects of funding and expenditure proposals on the Council's services, rates, debt and investments.

In the strategy, the Council is required to specify the factors expected to have a significant impact on Council for the period covered by the LTP.

We have outlined below the factors we consider to be significant. These include:

- a) Affordability of key infrastructure, including implementation of the Drinking Water Standards.
- b) Levels of internal debt currently held by Council and plans to repay that debt over a 25 year period.
- c) Reduction in Central Government roading subsidy contribution.

We are also required to cover the following:

- a) Expected changes in population and changes in the use of land within the District and the impact on operating and capital costs of providing those changes;
- b) The expected capital expenditure on network infrastructure required to maintain existing levels of service currently provided by Council; and
- c) Other significant factors affecting our ability to maintain existing levels of service and to meet additional demands for service.

We must as part of this strategy:

- a) Place a quantified limit on rates, rate increases and borrowing
- b) Assess our ability to provide and maintain existing levels of service and to meet additional demands for service within those limits
- c) Detail our policy on the giving of securities and
- d) Specify our objectives for holding and managing financial investments and equity securities.

Each of these are discussed in more detail below.

## **FACTORS EXPECTED TO HAVE A SIGNIFICANT IMPACT**

### **Affordability of Key Infrastructure**

The Health (Drinking Water) Amendment Act 2007 requires water suppliers to take all practical steps to comply with the (previously voluntary) NZ Drinking Water Standards. To comply with the Act, Council must have in place a public health risk management plan which is approved by the Ministry of Health for each water supply. Dates for compliance with the Act are staggered depending on the size of the community.

For Fairlie, Tekapo and Twizel the compliance date was 1 July 2014. For Burkes Pass, Allandale and Albury, the compliance date is 1 July 2016. (The Albury Water Supply is managed by the Albury Rural Water Supply Society Inc. under an agreement with Council, and expenditure on this scheme is not included in Council's budgeting process). Council currently does not comply with the drinking water standards.

The expected capital outlay to enable Council to comply is expected to be approximately \$2.459 million for the Fairlie town supply.

Upgrades to sewerage and stormwater systems are also required in the Long Term Plan (LTP)



period. While no significant change to the operation of most of the Council's stormwater assets is proposed, the Council is required to develop 'stormwater management plans' under the Land and Water Regional Plan, and stormwater discharges will be required to be progressively upgraded to improve discharge quality.

Changes to environmental standards, climatic conditions and growth will also require upgrades to some of the district's sewerage systems. Replacement of deteriorating infrastructure is also required over the term of the LTP.

### **Level of Internal Debt Currently Held By Council**

Council has two types of internal debt; being operational and capital.

Capital debt for an activity occurs when that activity's capital expenditure is incurred in advance of capital receipts. This tends to occur where larger infrastructure costs are incurred ahead of rate funding through funded depreciation and financial contributions. It is a buy now/pay later mentality that effectively spreads the cost of the asset over its useful life. Interest is charged on these debts as a cost to the activity, as they tend to be of a longer term and remove Council's ability to invest that cash externally.

Operational debt tends to occur when an activity is not appropriately funded in a particular year, so that it creates an operational deficit. This means current ratepayers have received a benefit (a lower cost service) at the expense of future generations. Current policy does not require a monetary cost (interest) on this type of debt. However Council increases rates in subsequent years to repay the deficit.

Council's policy, adopted as part of the LTP 2012-2022, is that no capital debt should have a life of longer than 25 years. If income from funded depreciation and financial contributions is insufficient to make up the total repayment in any year, the Council increases rates to make up the required repayment. This ensures the debt is paid off within a 25 year period.

Operational debt will be repaid over a period of 10 years, which will increase the level of rates paid to ensure repayment schedules are met. The shorter timeframe is used for this type of debt because there is no interest component being charged.

### **Intergenerational Equity**

Council has to balance the equitable sharing of debt load over the life of its assets compared with the interest burden of that is associated with long term debt. Repaying debt over 25 years on assets that have a longer life than that was considered by Council to be a reasonable compromise.

### **Reduction of Central Government Roothing Subsidy**

There are three significant factors affecting the roading network. The first is that the government has conducted a review of how they will assist councils in funding local roads in the future. We currently undertake our roading programme based on a contribution from our ratepayers and a contribution from government through the New Zealand Transport Agency (NZTA). NZTA has set Council's funding assistance rate (FAR) at 54% for the year ended 30 June 2016, reducing by 1% per annum until the rate of 51% is reached. This will then remain at that rate for the remainder of the LTP period.

The second factor is the introduction of the One Network Road Classification (ONRC) by the government. The ONRC is a new system that will apply to all roads nation-wide. It will influence the availability of funding for district roads but its exact impact is unknown at this time.

The third aspect is the need for funding to increase if the Council is to maintain the current levels of service for roading in the district. This is required because of:

- the ageing of our district's roading infrastructure (particularly the age of the seals).
- the changing use on our network, for example the impact of heavier trucks, farm machinery and heavy traffic wearing out our roads faster.
- increases in contract costs.



The Council sought a 36% increase in funding from NZTA in order to keep our roads at their current standard. NZTA have indicated that they will fund a 10% increase (above what they funded us in 2012).

This reduction will place a greater burden on ratepayers to be able to fund current levels of service. The estimated shortfall over the next three years is \$1.9m. This means ratepayers will have to either shoulder more of the cost of the local roading network or agree to a drop in the level of service. The Council is reluctant to allow a reduction in levels of service, given the importance of the roading network. The Council proposes to use rates and proceeds from the sale of forestry land to maintain current service levels.

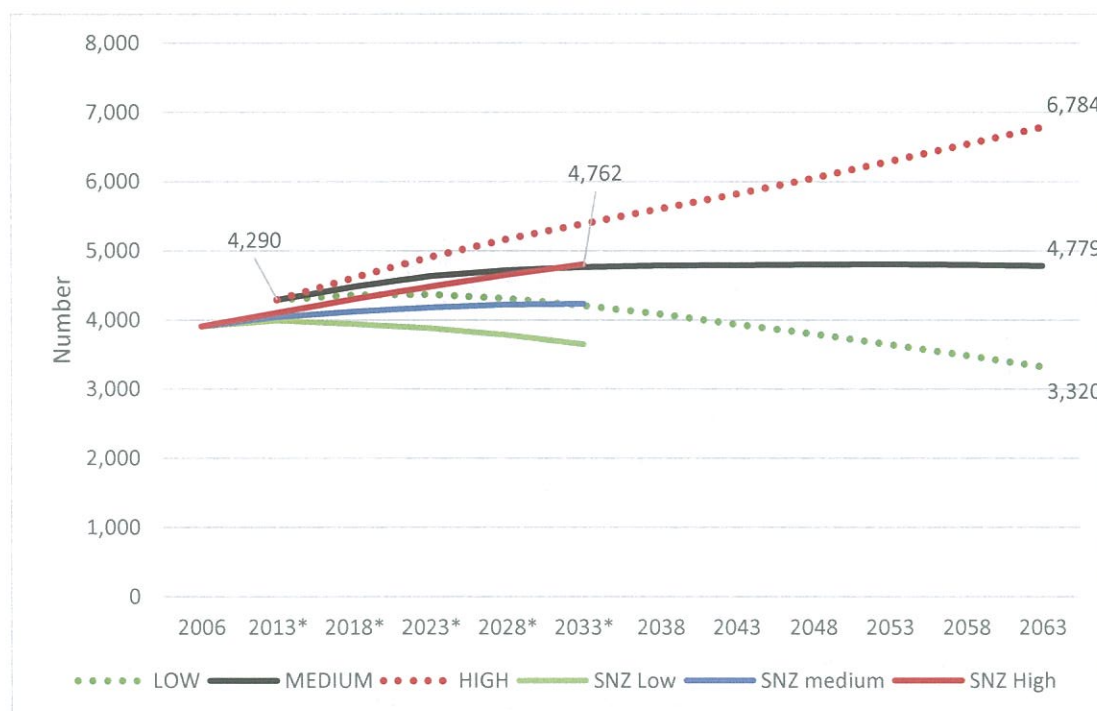
### Property Sales

There are risks and additional effects associated with adopting such a financial strategy, particularly that, in addition to balancing affordability, community needs and aspirations, with the proposed capital expenditure outlays, the success of the strategy hinges on the sale of subdivided land and a build up of significant cash reserves by 2025.

### Population Changes

The LTP has been prepared on the basis that population will continue to grow. We have used the population projections from the 2013 census as a base for the period of the LTP. The following graph shows the population projection for the Mackenzie District between now and 2063. It comes from a population study conducted by Natalie Jackson at the University of Waikato.

**Projected Population of the Mackenzie District 2013-2063 and Comparison with Statistics New Zealand Projections (2006-2031), by Projection Variant**



It is acknowledged that the population of the Mackenzie is older than the national average and that the percentage of people aged over 65 is growing. This presents issues around ensuring there are appropriate facilities and services for older people. We are committed to providing buildings for medical centres to ensure that health services are adequately provided to the community. The following graph shows the growth in the older population.

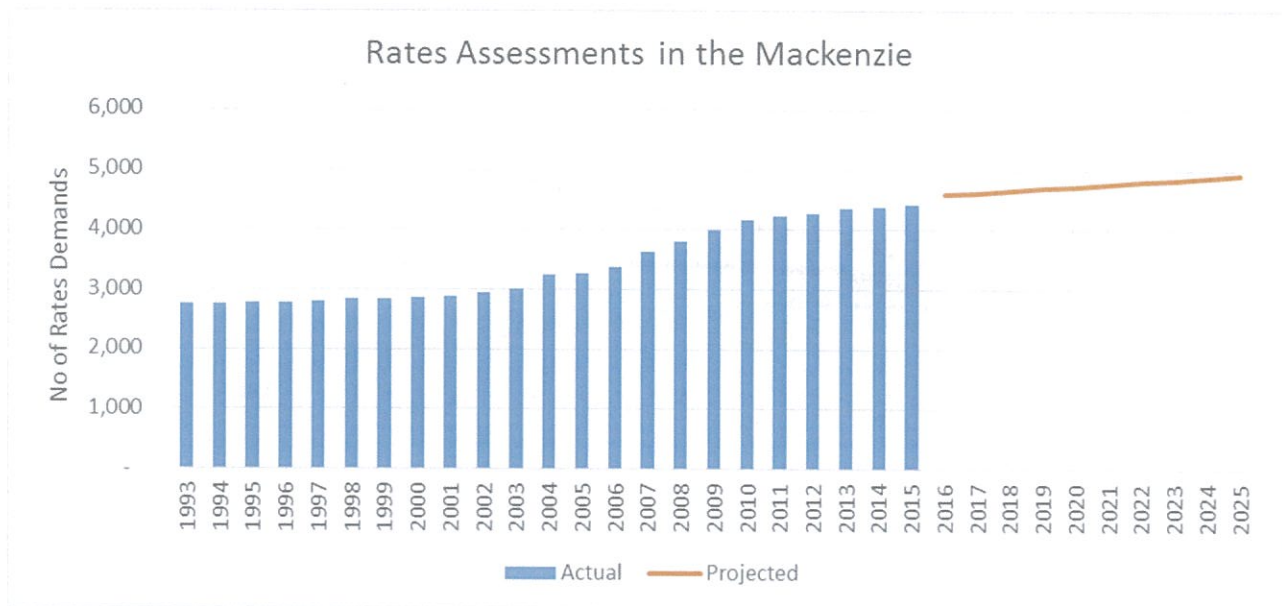
**Projected Percentage Aged 65+ Years 2013-2063 by Projection Variant, Mackenzie District**



The problem with using the census figures is that Mackenzie has a high proportion of absentee ratepayers. It is difficult to plan using the census figures as they do not account for this.

A more appropriate measure is to use rate demands issued as this accounts for absentee ratepayers.

The table below highlights the growth in rate demands experienced by Mackenzie since 1993 (blue) which has equated to a 56% increase over that period or 76 additional rate demands per year. We expect this level of growth to reduce and have estimated the levels of growth (based on the last 4 years of data) to be an average of 36 rate demands per annum.



We consider our infrastructure networks to have sufficient capacity so as not to require any capital or operational expenditure to increase that capacity over the next ten years.

### Land Use Changes

The Mackenzie District has historically been an agriculture based district; primarily beef and sheep. Over the past ten years, there have been marked changes to the use of land throughout the District.

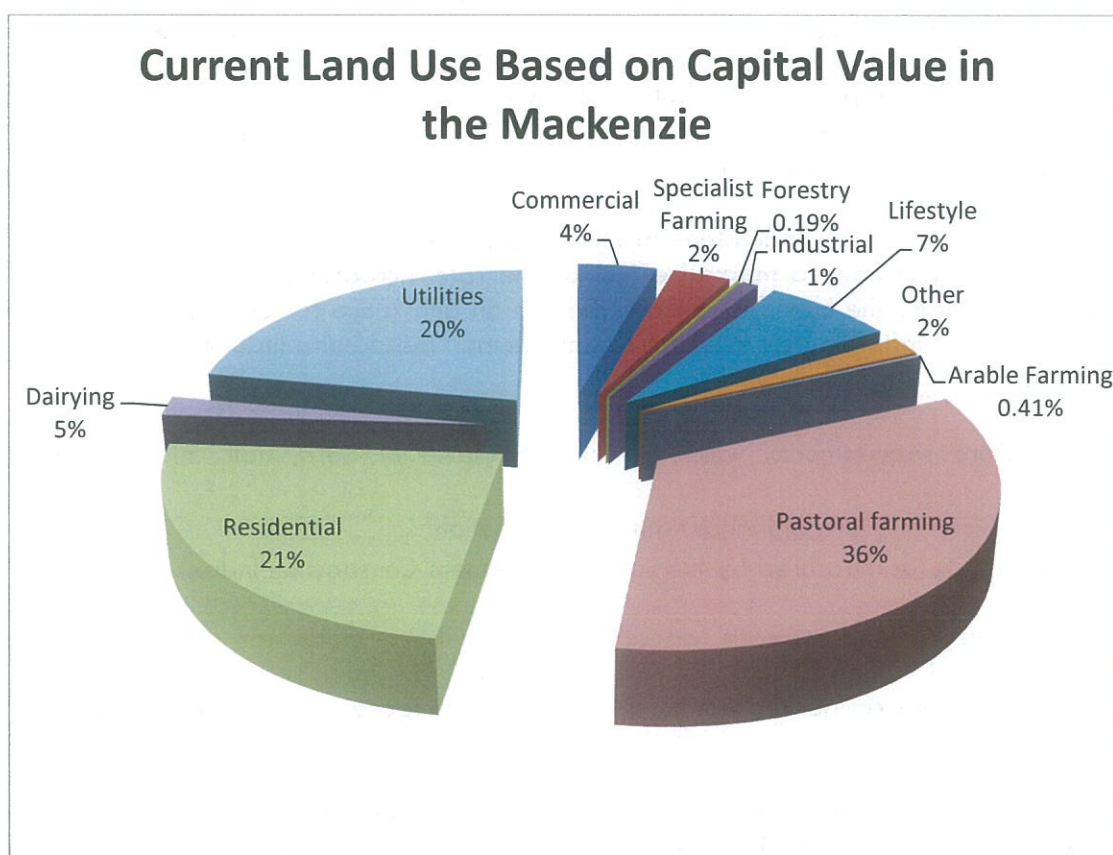
The growth in tourism has resulted in increased number of accommodation providers and other businesses associated with tourism, as well as more holiday homes.

The Fairlie Basin has seen an increase in the number of dairy farms and that trend is likely to



increase if access to further irrigation can be secured.

The following pie chart shows the current land use of properties in the Mackenzie District as at July 2014 (the date of the last district revaluation).



There is considerable uncertainty associated with future changes in land use within the district. Additionally, any land use change will most likely be between similar categories that have limited impact on infrastructural services (eg converting from pastoral farming to dairy). We therefore have made no allowance for this in this Financial Strategy.

## LEVELS OF SERVICE

### Capital Expenditure Programme

Capital expenditure requirements for our infrastructural assets and roads are dictated by the levels outlined in our asset management plans (AMPs) for each activity. The AMPs are updated on a regular basis to ensure that various changes to the plan in the interim period are accounted for.

The table below details our capital expenditure programme for major infrastructure required to maintain our existing levels of service.

| Network Activity | 30 Jun 16<br>(\$000) | 30 Jun 17<br>(\$000) | 30 Jun 18<br>(\$000) | 30 Jun 19<br>(\$000) | 30 Jun 20<br>(\$000) | 30 Jun 21<br>(\$000) | 30 Jun 22<br>(\$000) | 30 Jun 23<br>(\$000) | 30 Jun 24<br>(\$000) | 30 Jun 25<br>(\$000) |
|------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Water            | 751                  | 421                  | 3,394                | 550                  | 585                  | 1,944                | 1,930                | 321                  | 830                  | 361                  |
| Sewer            | 902                  | 31                   | 343                  | 17                   | 398                  | 1,189                | 306                  | 0                    | 626                  | 0                    |
| Stormwater       | 0                    | 0                    | 666                  | 17                   | 0                    | 150                  | 0                    | 57                   | 222                  | 0                    |
| Roading          | 2,108                | 2,138                | 2,642                | 2,228                | 2,294                | 2,739                | 1,903                | 1,952                | 2,293                | 2,583                |
| Other            | 653                  | 169                  | 845                  | 648                  | 726                  | 158                  | 157                  | 231                  | 125                  | 90                   |
|                  | ====                 | ====                 | ====                 | ====                 | ====                 | ====                 | ====                 | ====                 | ====                 | ====                 |
|                  | 4,414                | 2,759                | 7,890                | 3,460                | 4,003                | 6,180                | 4,296                | 2,561                | 4,096                | 3,034                |

We have prepared this strategy expecting there will be no impediments to providing services in maintaining our existing levels of service for our infrastructural assets. However the Long Term Plan Consultation Document will be asking questions about levels of service in these areas and may prompt changes.

## Rates

In general terms, we try to minimize the overall rate increase each year. We do not use the Consumers Price Index (CPI) as our absolute target but more as a guide. This is because the inputs used by Council tend to increase by more than the CPI. The actual increases in rates from an organisational point of view do change from year to year depending on the funding options chosen and also the fact that there are operational costs that are not carried out every year, but need to be funded in the year they are incurred. As a result, as the overall rates increase is an amalgam of many individual rate increases, we intend to set the rates at the level that is required, rather than to ensure the overall rate increase matches inflation.

The Mackenzie District has a small population (one of the smallest in New Zealand), and because of this, relatively minor factors can have a marked effect on the rate increases in any one year as there are fewer people to share the cost. As a result, there is an allowance for any rate increases being higher than the level of inflation due to extraordinary items. These items include, but are not limited to, the following:

- Capital expenditure requirements, which increase the level of debt, both internal and external.
- Increased expenditure due to compliance with new legislation.
- Increases in input costs (as measured by the Local Government Construction Index).

When determining the overall rate increase, an allowance has been made for a \$58 million increase per annum in capital value of the district over ten years. This may be reviewed if there are significant areas of growth experienced in excess of this. The increase is applied to all capital values.

Because of the structure of our rating system, the overall increase in rates will not be consistent for each property throughout the District. It will depend on the targeted rates that are charged to that particular property and also the capital value of the property. We monitor the relative rate impacts on 32 sample properties from throughout the District. For each town we measure an average section value, the lower and upper quartile and the mid-point property. For rural areas we measure mainly in increments of \$1.0 million as there is no difference in rating factors in the rural area.

## QUANTIFIED LIMITS ON RATES, RATE INCREASES AND BORROWING

All Councils are required to set a limit on rates and rates increases over the 10 year period of the LTP. There are no rules around how we are to determine what limits are appropriate.

### Quantified Limits on Rates

Total rates will not exceed the 0.35% of the total capital value of the district.

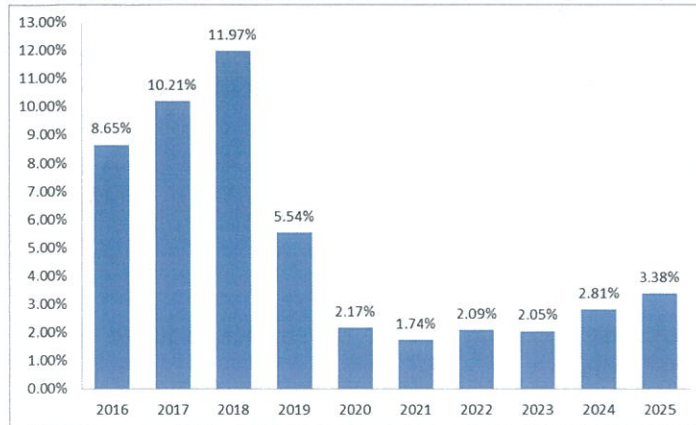
### Quantified Limits on Rates Increases

The total rates increase will be no greater than:

- 9% in 2015/16;
- 10.5% in 2016/17;
- 12% in 2017/18;
- 5% +LGCI thereafter.



## Predicted Rates Increases in the Mackenzie District over the next 10 years



### Borrowing

We do not anticipate taking on any external debt in the next 10 years. If we do, the following ratios will be used to limit the level of debt we can incur.

- a) Debt will not be more than two times our rate income
- b) Debt will not be more than 100% of total operating revenue (excluding property sales, capital type contributions or vested assets).
- c) Financing costs will not be more than 10% of total rate income.

The following table details Council's maximum levels of debt and financing costs compared to levels proposed in the plan.

|   | 2015/16<br>(\$000) | 2016/17<br>(\$000) | 2017/18<br>(\$000) | 2018/19<br>(\$000) | 2019/20<br>(\$000) | 2020/21<br>(\$000) | 2021/22<br>(\$000) | 2022/23<br>(\$000) | 2023/24<br>(\$000) | 2024/25<br>(\$000) |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Maximum debt level (2x rates level or 100% of operating revenue)</b> | 13,417             | 14,788             | 16,558             | 17,476             | 17,855             | 17,166             | 18,546             | 18,927             | 19,458             | 20,115             |
| <b>*Debt levels predicted in this plan</b>                              | 105                | 116                | 152                | 24                 | 68                 | 293                | 237                | 127                | 22                 | 73                 |
| <b>Maximum level financing costs</b>                                    | 671                | 739                | 828                | 874                | 893                | 908                | 927                | 946                | 973                | 1066               |
| <b>**Financing costs predicted in this plan</b>                         | 3                  | 11                 | 19                 | 25                 | 28                 | 36                 | 46                 | 49                 | 49                 | 49                 |

\*These debt levels relate to our share of the Downlands Water Joint Venture.

\*\*In the case of Downlands Joint Venture interest is cumulative while borrowing is net.

We consider these to be appropriate affordability measures.

### Assessment of our ability to provide and maintain existing levels of service and to meet additional demands for service within the rate limits and rate increase limits:

We face potential issues in the future in regards to the level of funding that is expected to be provided for roading from NZTA as discussed previously in this financial strategy. This shortfall will be required to be funded in the longer term by rates or levels of service may be cut back. However

Council recognises it is a significant step to make up the shortfall in NZTA funding in one year so it is proposed to fund a portion of its roading capital expenditure from land sales. We may also face potential issues relating to future borrowing requirements for renewal of infrastructural assets (water, stormwater and sewer). Rates affordability in individual communities of interest may have implications for that community's ability to fund large infrastructure projects.

Any significant additional demands for services from the community, or reduction in financial assistance could result in these limits needing to be increased.

### **Assessment of our ability to provide and maintain existing levels of service and to meet additional demands for service within those debt limits:**

We are not contemplating taking on any debt. However, if required the maximum amount of interest expected to be charged on the external debt is budgeted at less than \$0.329m. Therefore, our assessment is that we do have the ability to maintain the existing levels of service and to meet additional demands for service within those debt limits.

## **SECURITY**

Council has the ability to offer as security a charge against rates. This allows us to offer strong security and should help secure lower interest rates.

Depending on the type of debt we take on we may need to prepare a debenture trust deed. The policy details are provided in our external liability management policy.

## **INVESTMENTS**

### **Target for Investments**

Our quantified target for returns on investments and equity securities is 5%.

### **Cash Investments**

During the period of the last LTP, we have managed to build up our cash reserves to a significant level. The Council will be undertaking significant capital projects during the period. These cash reserves will be used to fund those programmes, in the form of an internal loan to that activity or project. The loans will be repaid over a 25 year period. The cash investment income along with the interest earned on internal loans are used to offset the district-wide general rate.

### **Equity Investments**

Currently, we hold one equity investment being 4.96% share in Alpine Energy Ltd. This asset is not readily tradeable on the open market, but our objective is to retain ownership of this investment.

### **Forestry Investments**

We hold approximately 1,040 hectares of trees. Some of the key plantations are due for milling during the life of this plan. Forestry assets are held as long term investments on the basis of net positive discounted cash flows, factoring in projected market prices and annual maintenance and cutting costs. All income from forestry is included in the statement of comprehensive income, and this is used to fund replanting of the land. Where there is an excess of funds, we may distribute this in a manner we see fit.

During this Long Term Plan period Council is proposing to sell two blocks of forestry land in the Opuha Ward and maintain the balance of its forestry operation.