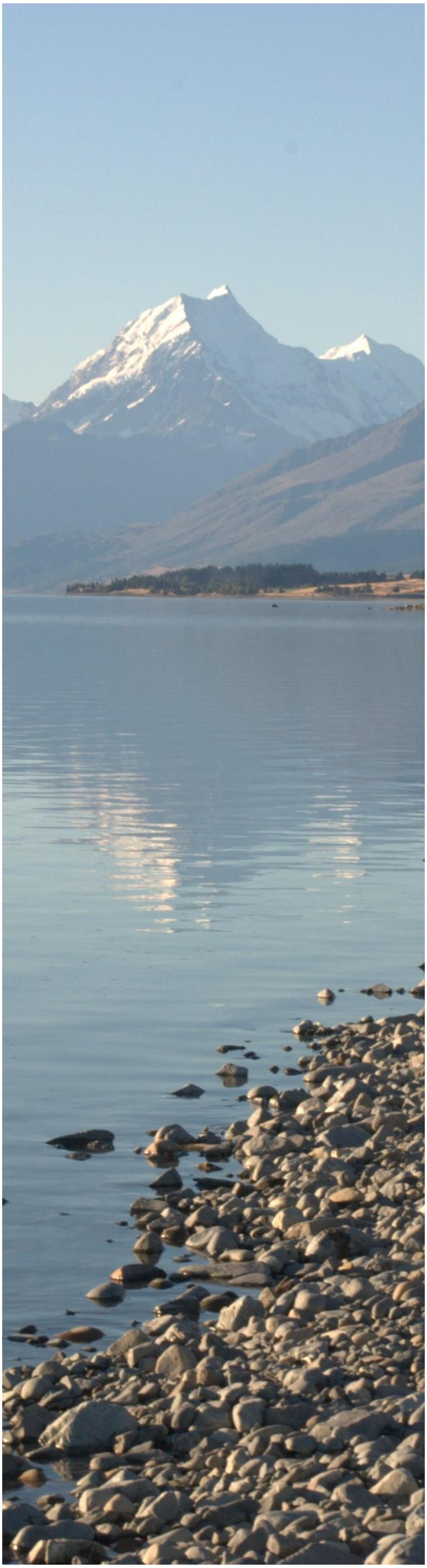


Mackenzie District Council

Financial Strategy

2018-2028

Contents

1 INTRODUCTION

The financial strategy guides the way the Council makes decisions over income, expenditure, borrowing and investments. It helps explain how Council plans to manage its financial challenges and opportunities, and summarises the implications of these plans for ratepayers.

In setting the budget the Council has had to make choices about what it can fund, to ensure that rates rises remain stable and that our communities can afford their key infrastructure. In the next ten years and beyond, significant programmes of work to renew and upgrade our roads, wastewater and water supply systems are planned. These works are necessary to ensure our infrastructure continues to provide quality services and meet required standards.

Overall, Council has sought to put the long term needs of the community first and has taken a proactive approach to addressing the opportunities and challenges facing our district now and in the future. While Council has budgeted prudently in the Plan, our proactive approach means that the headline rate increase for the next ten years will be higher than rate increases have been in previous years. We are confident, however, that this will put the district in a stronger position to meet the needs of our current and future community.

2 COUNCIL'S VISION

Our vision is that Mackenzie District will be a district in which:

- We foster the unique attributes and strong sense of community that makes the Mackenzie District special.
- Our natural environment is protected and enhanced in balance with achieving social and commercial objectives.
- A dynamic economy provides employment and investment opportunities consistent with the quality of life aspirations of existing and future generations.
- Democracy is respected and equal opportunity and the rights of the individual are upheld.
- A variety of sporting, recreational, cultural, spiritual, welfare and educational resources are available to enrich the lives for our people.
- Safe, effective, sustainable water, waste, communication, energy and transport systems are in place.
- People are encouraged to use their skills and talents for the benefits of the community.

This Financial Strategy provides the parameters for delivering this vision, describing the Council's approach to funding infrastructure and assets, maintenance and enhancement of community services and facilities, protection of the natural environment, and managing growth in visitor numbers while recognising the economic benefits from that growth to our community.

3 FINANCIAL GOALS

The Council's financial goals are:

1. To ensure Council remains financially stable, while giving focus to financing key Council priorities.
2. To promote the prudent use of ratepayers' money together with other funding available to deliver agreed levels of service, cater for growth and to maintain a sound asset management approach.
3. To ensure Council rates and fees are kept to a level commensurate with its levels of service obligations.
4. To provide financial parameters in which Council's work programmes are to be achieved.

The key components of this strategic destination are to:

- Manage and fund Council's community and infrastructure assets to maintain current levels of service, or where there is increased demand for services, to meet community expectations;
- Undertake borrowing for capital expenditure in community facilities 3 waters [1]and roading areas to achieve equitable outcomes for current and future generations, but within policy limits and while maintaining headroom for funding recovery from significant natural disasters long term;
- Provide adequately for tourism and visitor growth without adversely affecting our communities and the environment;
- Ensure rates are set at a level that is sustainable both for the community, and for the Council to enable it to function in a way that meets the community's needs and to deliver appropriate services locally;
- Maintain the current prudent financial management while providing good quality levels of service to both current and future generations.

This financial strategy is aimed at responding to the needs of the community in an affordable way, while funding long term projects so that future generations who benefit from community infrastructure pay their share. As we plan for maintenance and renewal requirements for our infrastructure and the growing requirements of national standards, these cost drivers have a constant pressure on increases in rates. It is expected that net debt will be required for asset renewals to maintain levels of service and undertake required improvements, respond to community expectations and achieve compliance with national and regional standards.

4 OVERVIEW

The Council is in a sound financial position after three years of increased activity. While the rise in ratepayer numbers has remained relatively constant, (from 4319 in 2012, 4414 in 2015, to 4453 at present), the district has experienced a significant increase in visitor and tourist numbers and associated growth, particularly in Tekapo and Twizel.

Although this growth is very positive for the district, it has resulted in the Council experiencing increased activity across almost all of its functions. Areas in which demand has risen include the

[1] 3 waters infrastructure consists of wastewater, water supply and stormwater networks

regulatory area, particularly building and resource consent processing; planning and monitoring activity; and township facilities such as public toilets, parking, and waste management. There has also been an increase in administrative and information requirements and increased obligations in terms of demonstrating statutory compliance. Over the last three years the Council has needed to meet these increased demands.

Coupled with this has been a period of low interest rates and a reduction in investment income to offset rates, with a consequent need to adjust rates to meet these requirements. The Council is also planning to undertake a significant strategic study in Year 1 of the LTP, the outcomes from which will inform specific infrastructure, planning and funding programmes in the following years.

Our infrastructure assets and community facilities are essential contributors to future growth and to achievement of our community outcomes. In the upcoming LTP period and beyond, Council is focussed on the need to ensure community facilities, roading and infrastructure assets continue to be maintained to a level that meets the community’s needs, for both residents and the growth in visitor numbers. The LTP includes a significant programme of maintenance and renewals in water supply, stormwater, wastewater, and roading areas to achieve this.

Capital expenditure in the upcoming ten year period includes the following projects:

- Twizel wastewater disposal works
- Fairlie water supply upgrade
- Stormwater treatment facilities in Twizel, Tekapo and Fairlie
- Roading maintenance across the district
- Roading projects in Tekapo, Twizel and Fairlie
- Twizel swimming pool upgrade
- Market Place landscaping and upgrade, Twizel
- Tekapo Domain landscaping and upgrade works
- Off-roading a section of Hayman Road for the Alps2Ocean Cycle Trail

It is the funding of this expenditure that is the major financial challenge for the Council and ratepayers over the next 10 years. Council has carefully considered its funding approach and options, given the scale of expenditure required. It is proposing that these major projects are funded from a combination of existing cash reserves, borrowing, rate increases, contributions from developers and external sources including the NZTA. Without using existing cash reserves or borrowing, these major projects would require rate increases that would be unaffordable for many ratepayers.

While rates will need to increase above the rate of inflation, the level of increase will be tightly managed and rates will remain reasonable. Similarly the level of borrowing will be controlled so that it will not leave an unreasonable burden for future ratepayers.

The Council is forecasting average rate rises of 8% per year for Years 1 – 5 and 7% thereafter over the remaining term of the LTP. The Local Government Act 2002 (LGA) requires local authorities to set a limit on rate increases. The limit set by the Council is that the average increase should not exceed 6% plus LGCI (Local Government Cost Index) in any one year for the life of the Plan. This is an average increase across the District and the actual increase for individual properties may exceed these amounts.

For some areas of Council activity the Council has made a decision not to fully fund expenditure in the year that it is incurred, which will result in unbalanced budgets across the first three years of the LTP. This approach is considered financially prudent, as it recognises that the benefits of certain activities occur over succeeding periods and not just in the year that the work is undertaken. Spreading these costs intergenerationally in this way is considered to be more equitable rather than placing all of the costs on current ratepayers.

The Council forecasts that net borrowing will rise to a peak of $7.4 million in 2025/26 within the period of the LTP. This borrowing will be used to help fund the Council's major capital projects. The forecast debt is well within the debt limits included in this financial strategy. The Council is satisfied that the forecast level of borrowing is affordable and will not overburden future ratepayers.

5 WHO PAYS FOR WHAT?

The Council aims to be prudent in the management of its finances and fair in determining how much ratepayers, customers and developers should pay for the services they receive. This also means being fair to future ratepayers who will inherit the impact of decisions we make today. This approach requires a fine balancing act and calls for the Council to make complex judgements. These judgements require consideration of:

- What activities are needed to achieve the Council's objectives;
- Who benefits from the activity;
- The period over which the benefit occurs; and
- The extent to which the actions of individuals or groups require the activity to be undertaken.

The Council meets this challenge by using a tried and tested financing policy.

- Where the service is of direct benefit to a customer with little or no broader community benefit, most or all costs are recovered through user charges, for example, dog registration.
- Where the service is of direct benefit to a property, household or specific community, costs are recovered through targeted rates on those that benefit from the service, for example, township costs, water and wastewater.
- Where the service is of broad community benefit, costs are recovered through the general rate across the whole District, for example, planning and civil defence. Projects with a broad community benefit may also be funded from Council's general reserves.

In some cases there is a mix of these factors. For example, for solid waste services where customers gain most of the benefit but the community as a whole also benefits, costs are recovered through a mix of user charges and the general rate.

Where the benefit is spread over a number of years, for example the upgrade of the Twizel pool, the Council may borrow to fund the initial expenditure and then recover the cost from ratepayers over a number of years. This spreads the cost fairly across current and future ratepayers.

The Council's Financial Contributions Policy provides that the Council can seek financial contributions from developers at the time of subdivision or development. Such contributions are used to fund the extension of asset life for network and community infrastructure, and for reserves. Where new or additional services are required as part of new developments, this work is undertaken and funded by developers. The Council does not seek financial contributions for capital expenditure in regard to growth of this nature, as there is considered to be sufficient capacity within existing facilities and assets infrastructure in our townships to accommodate projected growth.

Full details of the Council's approach to funding are set out in the Revenue and Financing Policy.

Council remains aware of the additional demands being placed on our facilities and infrastructure as a result of increasing visitor numbers, and it would like to be able to do more without overburdening our community. In addition to continuing to lobby Government over this issue, in the near future we will be undertaking a comprehensive review of our funding and rating approach to identify more ways of ensuring those who benefit most from increasing visitor numbers, such as short-term accommodation providers, are paying a fair share.

As part of the review, we will also look at more opportunities for 'user pays' where it is cost-effective to do so. Our review will include looking at ways to charge (or charge more) for services and facilities such as public toilets, water use, parking and Council property leases.

6 CURRENT FINANCIAL SITUATION

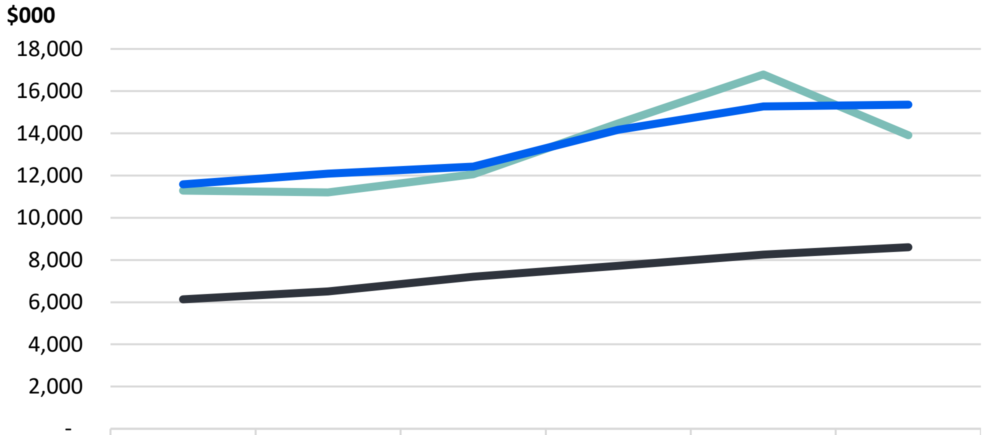
6.1 Net assets

The Council had net assets of $243 million as at 30 June 2017. The majority of the Council's assets are the roads, water, wastewater and stormwater networks that provide the district's essential infrastructure.

6.2 Income and operating expenditure

The operating costs for Council are approximately $15 million per annum (2016/17 actual). A summary of the Council's income and operating expenditure over the past five years plus the budget for 2017/18 is set out in the chart below:

Income and Expenditure



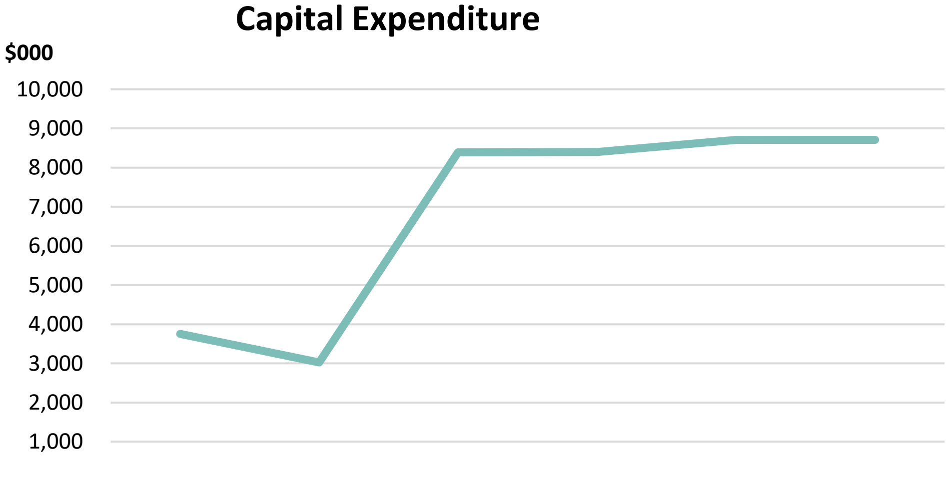
	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Budget
Operating Revenue	11,284	11,202	12,065	14,474	16,790	13,911
Rates Revenue	6,135	6,502	7,211	7,728	8,247	8,603
Operating Expenditure	11,585	12,095	12,423	14,174	15,275	15,360

6.3 Capital expenditure and borrowing

The council has invested significantly in capital items in recent years, including:

- Water supply upgrades
- Stormwater treatment associated with the Council's commercial development in Tekapo
- Addressing the backlog of roading network maintenance
- Significant asset renewals in roading, wastewater, and water networks

To fund these projects, the Council has utilised reserve funds. Internal loans are utilised in some activities and we have not needed to undertake external borrowing. A summary of the Council's capital expenditure over the past five years plus the budget for 2017/18 is set out in the chart below.



	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Budget
Capital Expenditure	3,754	3,026	8,389	8,398	8,709	8,708

7 DESTINATION 2028

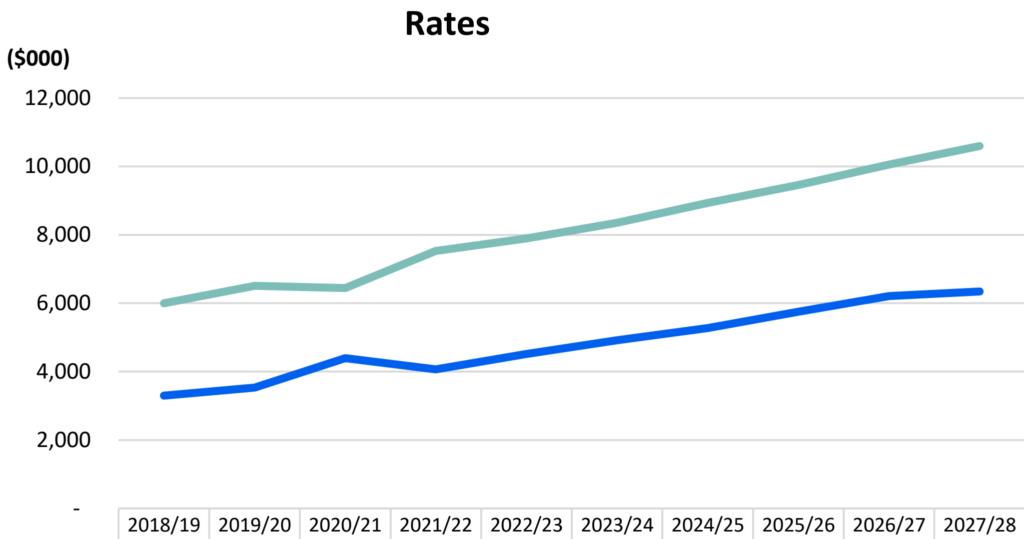
7.1 Council's Financial Position

Council's financial projections for the next 10 years show the following picture:

- Council's total assets in 2028 are forecast to be $341 million (2017: $247 million)
- Total equity is forecast to be $331 million (2017: $243 million)
- Debt is forecast to be $6.6 million (2017: $0 – no debt) and to be 1.9% of total assets
- Council's cash investments are budgeted to be $20 million, largely as a result of land sales and internal loan repayments over the 10 years
- Rates revenue is budgeted to contribute 64% of total income (2017: 55%)
- At no time over the period 2018 – 28 is Council expecting to breach its debt ratio limits
- Council will retain an ability to respond to unexpected events such as unanticipated failure of assets or natural events; and to respond to opportunities. This will be done through the establishment of a roading reserve and through retention of capacity to borrow
- Council will remain in a strong financial position.

7.2 General and Targeted Rates

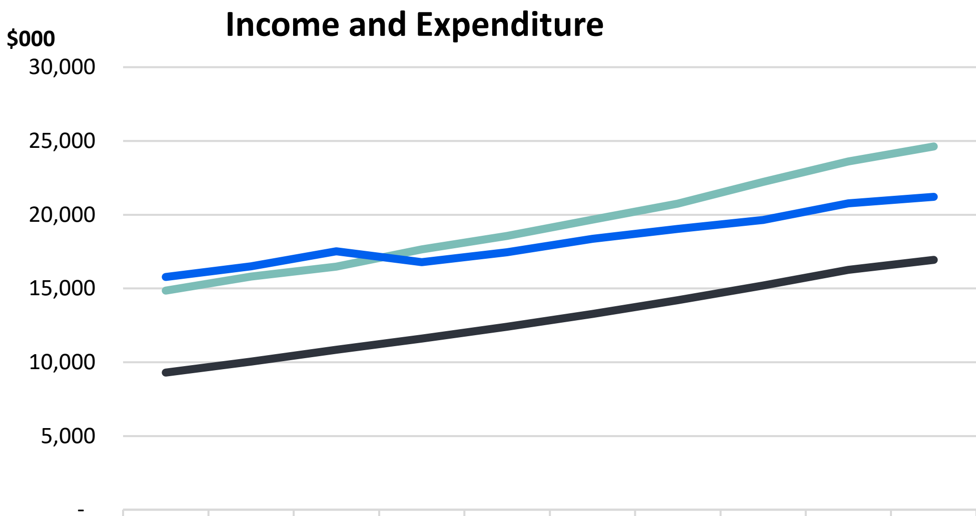
The graph below shows the movement in the general rate and the targeted rate across the ten years of the plan. This shows the effect of proposed capital works, which are largely funded through targeted rates. Costs associated with activities funded by the general rate are not proposed to increase significantly over the term of the LTP.



	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
General Rates	3,298	3,528	4,396	4,064	4,512	4,921	5,271	5,746	6,204	6,342
Targeted Rates	5,998	6,506	6,441	7,531	7,894	8,353	8,932	9,451	10,056	10,595

7.3 Income and Operating Expenditure

Trends over the next ten years for rates, operating revenue and expenditure are shown below. An unbalanced budget is projected for the first three years of the plan as a way of spreading costs over future years.

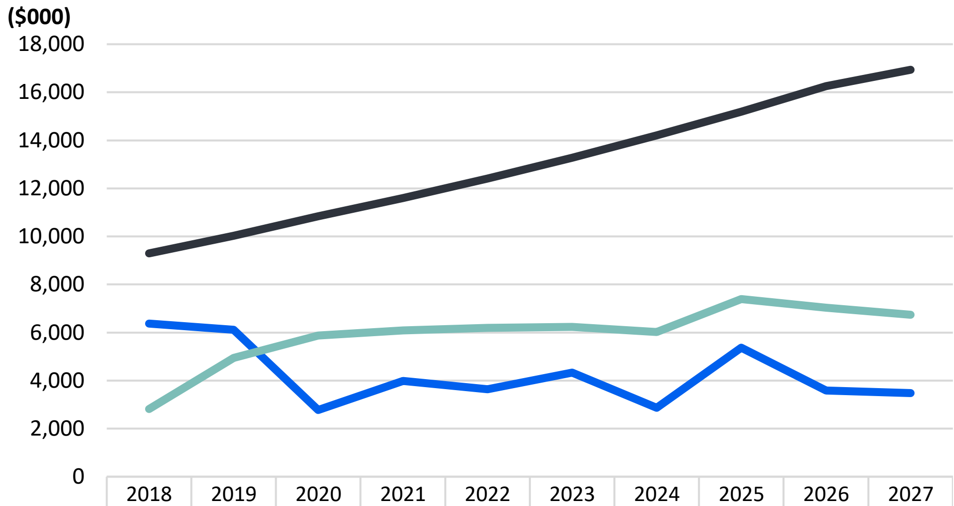


	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Operating Revenue	14,853	15,800	16,477	17,642	18,561	19,664	20,757	22,221	23,619	24,625
Rates Revenue	9,296	10,034	10,837	11,595	12,406	13,274	14,203	15,197	16,260	16,937
Operating Expenditure	15,777	16,504	17,515	16,781	17,457	18,372	19,038	19,648	20,765	21,211

7.4 Capital Expenditure and Borrowing

There is significant capital expenditure projected in years 1-2 of the LTP for water upgrades in Fairlie as well as costs associated with upgrading the Twizel pool, Twizel town centre and wastewater upgrades in Twizel. In Year 8, the major capital spend relates to a new reservoir for Fairlie. This will be funded through a combination of rates and external borrowing. Debt levels increase to mirror the capital spend programme, with rate levels increasing to repay the raised debt. The following chart shows the Council's upcoming rates, capital expenditure (excluding vested assets) and the borrowing profile.

Capital expenditure and debt



	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	2023 /24	2024 /25	2025 /26	2026 /27	2027 /28
Capital Expenditure by Year	6,373	6,122	2,776	3,989	3,640	4,330	2,864	5,368	3,593	3,474
Projected Peak Borrowing	2,817	4,948	5,873	6,088	6,191	6,237	6,022	7,393	7,035	6,735
Rates Revenue	9,296	10,034	10,837	11,595	12,406	13,274	14,203	15,197	16,260	16,937

One option for securing external borrowing is via the Local Government Funding Agency (LGFA). The LGFA is a Council Controlled Organisation that was established by a number of councils and the Crown, to enable councils to borrow at lower margins than would otherwise be available. To enable it to borrow from the LGFA, the Council proposes to become a guaranteeing member of the agency. This option is preferred over borrowing from commercial banks as it will provide savings in annual interest costs.

8 CONTEXT AND STRATEGIC ISSUES

8.1 Demographics

At the time of the 2013 Census, the population of Mackenzie District was 4,300. Our main population centres are Twizel (pop. 1,137), Fairlie (pop. 696) and Tekapo (pop. 369). We rank 65th in size out of 67 districts within New Zealand.

Mackenzie's population is projected to grow from around 4,300 to around 4,880 over the next ten years, based on medium projections by Statistics New Zealand. It is anticipated that projected population growth will not impact significantly on Council activities.

Like much of New Zealand, the proportion of people aged 65 years and older will grow within the district. The Mackenzie District has a higher proportion of people aged over 65 years than the national average, with an increasing proportion of population growth at 55 years and above. Population projections show this change in population structure continuing, with 21.7% of the district population projected to be in excess of 65 years of age by 2028 as compared to the projected national level of 19.4% (Statistics New Zealand).

The Council proposes to maintain its current pensioner housing activity. It will also remain open to opportunities for potential partnering or other agreements with private or community providers where subsidies may become available, or as part of other Council processes and activities.

8.2 Households and dwellings

A 'household' is either one person who usually resides alone, or two or more people who usually reside together and share facilities (such as for eating, cooking, or a living area; and bathroom and toilet) in a private dwelling. Council anticipates a growth in household numbers that is consistent with estimated population growth. Changes to household composition will also generally reflect forecast changes to demographics (that is, an ageing population). This is not expected to create any significant impact on demand for infrastructure and services, given the relatively small increase in total population projected to occur.

However, it is a different picture for numbers of dwellings in the district. A 'dwelling' is a building or structure (or its parts) that is used, or intended to be used, for human habitation. Dwellings can therefore include motels and hotels.

Current dwelling numbers are significantly higher than population figures. The Mackenzie District is unique in that the district has a significantly high proportion of non-resident ratepayers. This is most noticeable in the townships of Tekapo and Twizel.

The following shows the usually resident population figures and the proportion of households to unoccupied dwellings:

Demographic Indicators	Population (Usually resident)	Households (Occupied Dwellings)	Unoccupied Dwellings
Fairlie	696	324	78 (19%)
Tekapo	369	207	249 (55%)
Twizel	1,137	513	765 (60%)
Other areas / Rural	2,098	774	57 (7%)
TOTAL	4,300	1,818	1,149 (44%)

Key Demographic Indicators. Source: Statistics New Zealand – 2013 Census

Based on current demand and development, residentially zoned land and the current economic environment, it is projected that during the first three years of the LTP (2018-2021) up to around 350 new residential or lifestyle sections may be created through subdivision within the district. This is likely to be a response to growth in demand for dwellings, rather than households as a response to population growth.

8.3 Tourism and visitor growth

Mackenzie has experienced unprecedented growth in visitor numbers (both domestic and international) in recent years. This is indicated by a range of data including the Statistics New Zealand Commercial Accommodation Monitor, which for the year ended September 2016 compared with the year ended September 2015 reported:

- Guest nights rose 23.1 per cent to 705,316
- International guest nights rose 19.9 per cent to 489,769
- Domestic guest nights rose 31.1 per cent to 215,547
- The average length of stay rose from 1.32 nights to 1.33 nights
- The overall occupancy rate rose from 44.4 per cent to 50.2 per cent
- Accommodation capacity, excluding holiday parks, rose 3.1 per cent

International tourism numbers are expected to continue rising by 5.4 per cent per annum from 2016 until 2022. Based on this, there could be nearly 6 million tourists visiting New Zealand by 2028. It is assumed the average growth in international visitors to Mackenzie District will be at least equivalent to, or greater than, the growth in international visitors forecast for New Zealand over the coming ten years. This is based on current data which indicates growth in international visitors to Mackenzie District is occurring at a rate higher than the national average and forecast growth.

The LTP also assumes that growth in domestic visitors to Mackenzie District will continue to occur at a rate similar to international visitor numbers. However, there is more uncertainty around this assumption based on the lack of current domestic visitor survey data.

Visitor growth is very positive for the district, raising demand for sections in the area, increasing business opportunities, supporting local services and businesses, and enhancing the vibrancy of our townships. However it also has implications for Council services.

Potential Effect on Council Services	Council's Response
Increased volumes of solid waste	Council has planned for a small increase in resourcing in this area to make adequate provision for handling predicted waste volumes. This will be coupled with initiatives that seek to reduce waste going to landfill.
Localised pressures on our roading network	Council's programmes include planning for improvements to the network in Tekapo, Twizel and Fairlie, for example intersection improvements and car parking.
Increased requirement for regulatory services, for example: • increases in resource and building consents and monitoring requirements for tourist-related business opportunities, visitor accommodation, bylaw enforcement, etc. • possible increase in demand for food safety and liquor licensing functions	Council has adequate staffing and contract arrangements to cope with increased demand in this area. Funding of building and resource consent processing and monitoring is user pays and there is little impact on the ratepayer. Minor additional budget is planned for to provide increased monitoring of the District Plan and bylaws.
Potential impacts on our water and wastewater networks through increased volumes/ requirements	Our current systems have generally coped with the present level of growth, but there is a need to plan for increased pressure on infrastructure from future development and predicted increases in visitor numbers. Council plans to undertake a significant

	strategic study in 2018/19 for each of our townships which will review pressures and address growth issues. This will enable appropriate planning for infrastructure needs, to ensure our systems are able to meet future demand.
Increased usage of public toilets and dump stations	Over the last two years Council has upgraded its public toilets or provided new facilities in Tekapo, Twizel, Lake Wardell, Lake Pukaki and Lake Ruataniwha. Plans are underway for additional toilets at Burkes Pass and in Tekapo. Council has been successful in previous years in obtaining co-funding from central government's Tourism Infrastructure Fund for new toilets. Ongoing maintenance and upgrades are planned.
Increased use of Alps2Ocean Cycle Trail	This is seen as a significant positive for the district. Council plans to continue its present level of funding for maintenance of the cycle trail and to provide for off-roading of a section of the trail for safety improvements. No additional expenditure is planned.

8.3.1 Tourism Infrastructure

In setting the budget the Council has had to make choices about what it can fund, to ensure that rates rises remain stable and that our communities can afford their key infrastructure. This budget does not include provision for new tourism infrastructure that may attract subsidy from central government. Council had several concerns about co-funded projects to consider when making this decision. This included the fact there was no guarantee suitable projects would be identified that could attract the Government subsidy, and that any project that did so would incur ongoing costs for ratepayers - that is, in addition to capital costs, the Council would need to fund ongoing maintenance and depreciation. The decision not to include a budget for co-funded tourism infrastructure projects also keeps the estimated annual rates rises within the policy limit in this Financial Strategy over the 10-year period.

The Council considers that that Mackenzie's tourism industry is benefitting not just our district, but the whole country. The Council doesn't believe that the current co-funding available is helping our community deal with the impacts of tourism as well as it could be. Council will continue to lobby Central Government to consider additional ways it can offer the Council more sustainable financial support for tourism infrastructure.

In addition to the planned strategic studies for the townships, Council will also look at ways of working closely with other agencies such as the Department of Conservation who are developing a Tourism Strategy, to look at ways of addressing both the challenges and opportunities presented by growing tourism numbers to the district.

8.4 Land use change

It is anticipated that there will continue to be intensification in the agricultural sector over the life of the LTP. This intensification is due in part to the implementation of resource consents for irrigation, as well as general on-farm intensification. The pace of irrigation works in the district is expected to slow from that experienced over recent years, given regional and district planning frameworks are now taking effect. Further development may also depend on water availability in the district. New planning rules for the Mackenzie Basin as part of Plan Change 13 have introduced constraints that may limit the conversion of rural land for residential or other development.

Development in Tekapo is expected to be largely commercial development with some residential sections created by subdivision, whilst Twizel will experience higher growth in the number of residential subdivisions. A small number of residential or lifestyle sections are expected to be created in and around Fairlie.

Council is proposing to undertake strategic planning work across the district's three towns in 2018/19. This would be undertaken in consultation with each community to determine suitable development objectives for the townships. The question of development pressure and urban spread particularly at Tekapo will be addressed within this work. The results will be carried through to the District Plan review and used for programming of infrastructure.

8.5 Climate change/community resilience

The Mackenzie District is likely be affected by climate change. In preparing the LTP, the Council has reviewed Ministry for the Environment climate reporting[2] and regional projections calculated for the period from now to 2100[3]. The LTP assumes that climate change is happening, and whilst the impacts are expected to be relatively minor within the period covered by the Plan, they will increase in future. Climate change is not expected to create new hazards, but it may change the frequency and intensity of existing risks and hazards, as well as introduce some long-term shifts in climate patterns across the country.

The Council is responsible for a range of functions that may be affected by climate, including natural hazards and resource management, land-use planning, building control, and the provision of infrastructure such as stormwater drainage and water supply. Climate change risk assessment is best undertaken as part of ongoing council activities, not as a separate issue. It is not necessary to address the impacts of climate change on all functions and services at once. This should be undertaken as part of the risk management process for each activity.

Some responses will include capital works, or changes to infrastructure standards and operations. Emergency management planning and response will require ongoing review in accordance with changes in risk.

Council is proposing several programmes in this LTP which will have the effect of improving or increasing our resilience in relation to climate change impacts. These include the following:

- Council has provided additional staff resourcing from that funded in previous years to assist readiness and work with communities on resilience as part of its civil defence function
- The installation of a water reservoir for Fairlie will increase resilience and security of supply providing for increased storage
- Council is proposing to build a reserve for roading works to fund its share of emergency reinstatement following an extreme event

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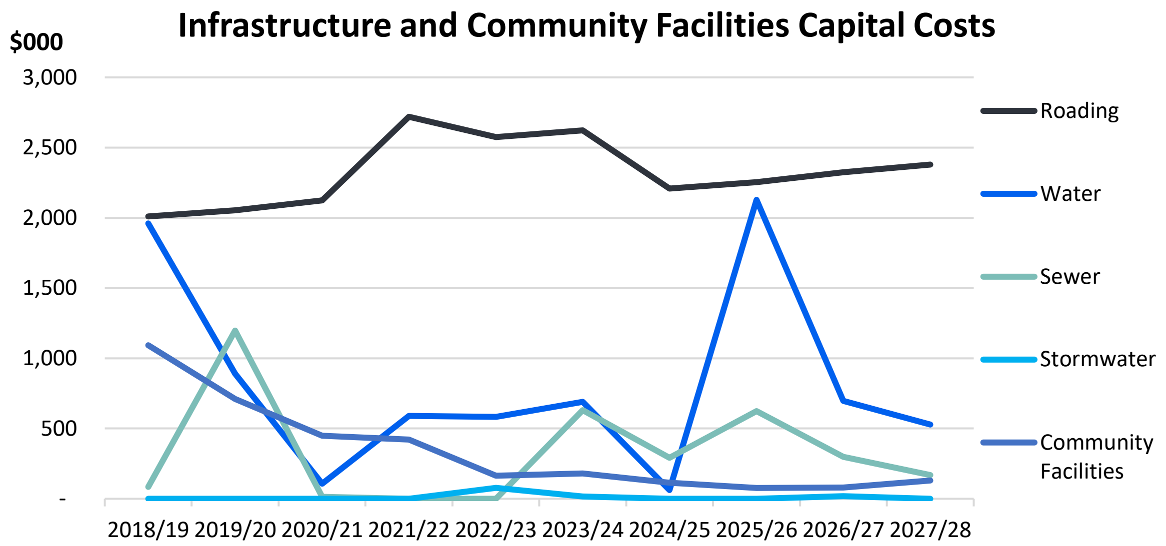
[2] Ministry for the Environment & Stats NZ (2017). New Zealand's Environmental reporting Series: Our atmosphere and c*limate 2017*. Retrieved from www.mfe.govt.nz and www.stats.govt.nz.
[3] Ministry for the Environment (2016). Climate change projections for New Zealand: Atmosphere projections based on simulations undertaken for the IPCC 5th assessment. Retrieved from www.mfe.govt.nz.

8.6 Infrastructure and Community Facilities Capital Costs

As outlined above, there are a number of significant capital works planned in the LTP. It is these capital works which are driving our costs over the next ten years and beyond. This expenditure is largely in the following areas:



Note: this graph excludes vested assets.

8.6.1 Roading

The Council views the roading network as vital infrastructure, underpinning the district's economic wellbeing and supporting significant activities such as farming and tourism. The provision of roading services is the biggest single cost item for the Council.

Maintenance
The Council plans to match what NZTA will co-fund to undertake required maintenance to maintain current levels of service. The maintenance budget is largely 'business as usual' with no major increases above previous years. Council considers it essential to maintain our roads to current standards. This approach ensures our roads do not require costly rebuilding if allowed to deteriorate, thereby avoiding increased costs in future.

Improvements
As set out in the Infrastructure Strategy, there are localised pressures from growth on our roading network which could be addressed through Council undertaking a number of roading improvement projects. Examples of improvement projects include the provision of additional car parking, bus shelters, and improvements to intersections, footpaths, improving traffic flow and parking throughout the district. Most of these projects will result in increased levels of service.

These projects are known as 'low cost low risk' projects. While they attract 51% co-funding from NZTA, our share of these projects is funded through a district-wide targeted roading rate. Preliminary planning for the next ten-year period indicates the various programmes will range from an annual cost of $90,000 to $1.15m. Actual costs will depend on Council decisions as to which programmes are undertaken, and this may include further site specific consultation with communities. Fully funding all identified projects would require an increased level of borrowing, with a consequent impact on rates. Therefore for reasons of fiscal responsibility and prudence, and after consultation with ratepayers, Council has allocated an annual budget of $300,000 for these projects ($144,000 being our share).

This means some projects have to be prioritised and some may be delayed. However it appropriately manages the impact on ratepayers in terms of funding the improvements.

The following table summarises key projects for which capital expenditure is planned.

Activity	Town	Area	Year	Work Type	Cost (2018)
Roading					
	District	Roading	Annual	Resurfacing	$500,00.00 pa
	District	Roading	Annual	Un-sealed Roads Maintenance Metalling	$650,000.00pa
	Council	Roading	Annual	Low Cost Low Risk Projects	$300,000.00
	Council	Roading	Annually	Transportation Strategy Projects -	$500,000.00pa ave

8.6.2 Community Facilities

Council is proposing a number of Community Facilities capital works. Council will borrow to fund these works. Township rates will increase to fund repayments, and provide for depreciation and ongoing maintenance of any new facilities.

The following table summarises key projects for which capital expenditure is planned.

Activity	Facility	Year	Work Type	Cost (2018)
Community Facilities				
	Twizel Swimming Pool	2018/19	Upgrade	$500,00.00
	Twizel Market Place	2019/20	Landscaping and upgrade	$100,000.00
	Lake Tekapo Domain	2018-22	Landscaping and upgrade	$916,000
	Mackenzie Community Centre, Fairlie	2018-21	Upgrade	$144,000

8.6.3 Water Supplies, Wastewater and Stormwater Infrastructure

The planned capital programme for water supplies, wastewater and stormwater has been established through the Infrastructure Strategy and Activity Management Plans prepared as part of the LTP process. The following table summarises key projects for which capital expenditure is planned.

Activity	Town	Area	Year	Work Type	Cost (2018)
Wastewater					
	Fairlie	Wastewater	2021	Desludge Oxidation Ponds	$189,000.00
	Fairlie	Wastewater	2023-26	Earthenware pipeline replacement programme	$250,000.00
	Tekapo	Wastewater	2021/22	Lakeside Drive PS Upgrade	$99,000.00
	Tekapo	Wastewater	2020/21	Aerator Renewal	$78,000.00
	Tekapo	Wastewater	2024/25	Desludge Oxidation Ponds	$150,000.00
	Tekapo	Wastewater	2025/26	Pumps replacements-Sealy & Domain	$132,000.00

Activity	Town	Area	Year	Work Type	Cost (2018)
	Twizel	Wastewater	2019/20	Consent Renewal	$60,000.00
	Twizel	Wastewater	2019/20	Consolidate Disposal	$900,000.00
	Twizel	Wastewater	2023/24	Upsize Rising Main	$300,000.00
	Twizel	Wastewater	2026/27	Pump Renewal – Mackenzie Park	$50,000.00
Water Supply					
	Fairlie	Water	2018/19	Treatment	$900,000.00
	Fairlie	Water	2019/20 to 2022/23	Pipeline Renewals	$120,000.00pa
	Fairlie	Water	2018-20	Eversley Reserve -upsize water mains	$148,000.00
	Fairlie	Water	2025/26	New Reservoir	$1,500,000.00
	Twizel	Water	2018/19	Bore Meters	$70,000.00
	Twizel	Water	2018/19 to 2035/36	Pipeline Replacements	$220,000.00pa
	Twizel	Water	2018/19	Connect Pukaki Airport to Twizel	$250,000.00
Stormwater					
	Fairlie	Stormwater	2027/28	Treatment	$15,000.00
	Tekapo	Stormwater	2022/23	Treatment	$30,000.00
	Twizel	Stormwater	2023/24	Treatment	$15,000.00

8.7 Assumptions and Uncertainties

This Financial Strategy is also based on the assumptions set out in the Significant Forecasting Assumptions companion document. The nature of these assumptions means that each is sensitive to a range of factors that may lead to either over- or under-estimating the financial forecasts or the impacts of an activity.

9 LEVELS OF SERVICE

Annual surveys show that there is a relatively high level of satisfaction with Council services. Our plan is to continue to deliver the full range of services we currently offer. Council intends to maintain current levels of service across all areas of Council activity, with the exception of minor changes outlined below.

There are five programmes of work in the water, wastewater and stormwater activity areas outlined in the Infrastructure Strategy which will result in an increase in levels of service provided:

- Fairlie water treatment upgrade
- Improved stormwater treatment in Fairlie, Tekapo and Twizel
- Upgrade of Pukaki airport water supply
- Twizel wastewater oxidation pond disposal consolidation including new screens
- New reservoir for Fairlie water supply

With respect to roading, current levels of service over most of the activity will be maintained. The exception to this could be the replacement of three weight restricted bridges. If renewed they will all be able to take Class 1 traffic loading, which is an improved level of service. There is also a possibility that one bridge may not be replaced, with the structure being left for emergency access only. If that is decided then this would be a reduced level of service.

Council is proposing to construct a section of the Alps2Ocean Cycle Trail off Hayman Road. This will address a significant safety issue by removing cyclists from a narrow road which is used by significant numbers of heavy vehicles and other traffic. This safety improvement will result in an improved level of service.

Based on careful management of its work programmes and a prudent approach to funding, the Council is satisfied that it can continue to fund these levels of service across the life of the LTP and beyond.

10 FUNDING APPROACH

10.1 Rates Limits

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.

The Council has set the following quantified limits on rates increases across the term of the LTP:

- rates increases will not exceed 6% + Local Government Cost Index (LGCI)[4] in each year over the life of the Plan.

The forecast LGCI[5] for the period to June 2027 is as follows:

Year Ending:	% change (on year earlier)
June 19	2.5
June 20	2.5
June 21	2.5
June 22	2.6
June 23	2.6
June 24	2.6
June 25	2.6
June 26	2.6
June 27	2.6

Because of our rates structure, 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.

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

[4] The Council uses the Local Government Cost Index (LGCI) forecasts by BERL in its LTP financial planning. The LGCI is used rather than CPI because CPI assesses the cost of goods and services relevant to households, whereas the LGCI reflects expenditure that is relevant to Council activities

[5] BERL Forecast of Price level Change Adjustors – 2016 Update, Note to Society of Local Government Managers, September 2016

10.2 Borrowing

The Council has not previously had external debt. However the Council has considered the required programme of work for infrastructure and community facilities, both now and in to the future. It considers that the impacts on rates would be significant if additional sources of funding were not to be considered. The Council has decided it is both prudent and financially responsible to take on low levels of debt. This will ensure appropriate levels of service are maintained for our infrastructure and facilities in the long term.

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) Financing costs will not be more than 10% of total rate income.

10.3 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.

10.4 Investments

10.4.1 Target for Investments

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

10.4.2 Cash Investments

The Council will be undertaking significant capital projects during the period. In conjunction with external borrowing, 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.

10.4.3 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.

10.4.4 Forestry Investments

We hold approximately 1,040 hectares of trees. No 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 Prospective Statement of Comprehensive Revenue and Expenditure, and this is used to fund replanting of the land. Where there is an excess of funds, we may distribute this in a manner decided by Council.

10.5 Depreciation / Renewal Funding

The balanced budget provisions of the LGA (s100) allow a council to not fully fund all expenditure (including depreciation) provided it can demonstrate that it is financially prudent to do so. The Council has previously decided not to fully cash fund the depreciation cost of various assets, and planning costs associated with District Plan reviews.

Council has resolved that it will not cash-fund depreciation on certain assets for a variety of reasons. The most significant of these is where Council believes it will receive money from third parties to help fund any asset replacement. The most important of these third parties is the NZTA which co-invests in the roading network. It has also been assumed with some community assets such as community halls that third party funding would be received to help build or develop the facility. For community assets where this is not the case, such as for community centres and pensioner housing stock, Council has altered its approach and is moving towards fully funding depreciation on those assets over a period of five years.

The other major reason depreciation is not funded is when we do not expect to renew or replace an asset at the end of its useful life. Council has also made the decision to not fully fund depreciation on an asset where a loan was raised to construct the asset and the loan is still being repaid, and when annual maintenance expenditure is sufficient to maintain the asset in perpetuity. A full schedule of the assets whose depreciation will not be fully funded and the reason for those decisions is shown below.

Over the life of the LTP a total amount of $15.0m, of which $11.2m is attributable to roading, will not be directly funded by the Council. However, Council considers that in most instances where an asset needs to be replaced there will be sufficient funds available to do this. Council believes this approach is prudent.

10.5.1 Depreciation schedule

Assets that Council will not cash-fund depreciation:

Asset Name	Reason for Unfunding Depreciation	Date that unfunding stops
Albury Water Supply	The Scheme is managed on behalf of Council by the users of the scheme. User charges are set at a level that anticipates future capital expenditure.	Council does not anticipate funding depreciation on the activity.
Ashwick/Opuha Water Supply	The scheme is a stock water scheme. The users of the scheme contribute through work in kind to keep the scheme operational. Any major Capital Expenditure is funded through reserves which have built up over time or paying off internal debt as the expenditure is incurred.	Council does not anticipate funding depreciation on the activity.
Downlands Water Supply	Council is a small (less than 5%) stakeholder in the scheme which is administered by Timaru District Council. Council collects the rates levied in our area set by Timaru District Council. These rates are passed on.	Council does not anticipate funding depreciation on the activity.

Asset Name	Reason for Unfunding Depreciation	Date that unfunding stops
Kimbell Water Supply	The scheme is a stock water scheme. The users of the scheme contribute through work in kind to keep the scheme operational. Any major Capital Expenditure is funded through reserves which have built up over time or paying off internal debt as the expenditure is incurred.	Council does not anticipate funding depreciation on the activity.
School Road Water Race	The scheme is a stock water scheme. The users of the scheme contribute through work in kind to keep the scheme operational. Any major Capital Expenditure is funded through reserves which have built up over time or paying off internal debt as the expenditure is incurred.	Council does not anticipate funding depreciation on the activity.
Roading	Council receives subsidy from NZTA. It is not appropriate to fund depreciation on the portion of assets that is funded by NZTA. Council fully funds the remainder through rates.	Council does not anticipate fully funding depreciation on this activity. The activity is funded through rates and subsidy in the year the expenditure is incurred.
Solid Waste	Council contracts the service out to third parties. This has led to a change in the solid waste disposal process.	The Council does not anticipate providing the solid waste service where it needs to replace assets. Therefore it does not fund depreciation on those solid waste assets.
Medical Facilities	Council provides the buildings for the Fairlie medical centre to operate. Council partially funds depreciation (50%) and expects the community will be involved in raising the balance	Council will continue to fund 50% depreciation to provide its share towards any replacement.
Pensioner Housing	Council expected to be able to access funding from other sources in the future. This is not now expected.	Council is expected to raise the level of funded depreciation from 50% to 100% over 5 years at 10% per year.
Halls	Council currently funds 50% depreciation on the main halls and community centres in the district. It also has a number of rural community halls on which it does not fund depreciation. It does not fund depreciation on rural halls as it expects the community support for these halls to fund raise for repairs and replacement. Regarding the main halls Council has decided to increase the level of funded depreciation as it is difficult to expect fundraising to occur in a timely manner.	Council is expected to raise the level of funded depreciation from 50% to 100% over 5 years at 10% per year.

Asset Name	Reason for Unfunding Depreciation	Date that unfunding stops
Swimming Pools	Council currently funds 50% depreciation on pools in the district. Council has decided to increase the level of funded depreciation as it is difficult to expect fundraising to occur in a timely manner.	Council is expected to raise the level of funded depreciation from 50% to 100% over 5 years at 10% per year.
Townships	Council does not fund depreciation on these activities as council rate funds for the work in the year that it is incurred or if major expenditure is planned then a separate improvement rate is levied to pay for the internal debt created.	Council does not anticipate funding depreciation on the activity.
Pukaki Airport	Council does not fund depreciation on this activity but funds capital expenditure from income earned from investments	Council does not anticipate funding depreciation on the activity.
Tourism - Alps2Ocean	Council does not fund depreciation on the cycle track Alps2ocean. It is expected that the assets will be suitably maintained removing the need to replace the asset.	Council does not anticipate funding depreciation on the activity.

10.6 Implications of Mackenzie's Financial Strategy

Overall, in making decisions for the Long Term Plan, Council has sought to put the long term needs of the community first and has taken a proactive approach to addressing the opportunities and challenges facing our district now and in the future.

While Council has budgeted prudently in the Plan, our proactive approach means that the headline rate increase for the next ten years will be higher than rate increases have been in previous years. We are confident, however, that this will put the district in a stronger position to meet the needs of our current and future community.

The LGA requires us to assess whether we have the ability to provide and maintain existing levels of services and meet additional demands for services within the rates and debt limits set out within the financial strategy.

The district is experiencing a period of growth, and this has had implications for Council in terms of increased pressure on its services. We have adjusted for this by increasing our resourcing to be able to respond, for example in the building and regulatory areas. We are also facing a number of necessary infrastructure projects such as water supply upgrades, pipe renewals, wastewater treatment and stormwater management upgrades. These will require significant capital expenditure and the Council will borrow to fund much of this work.

Council has adopted a ten-year budget that provides for maintenance of current levels of service across all activity areas. There will be an increase in levels of service associated with five projects in the 3 waters area which involve necessary upgrades to meet environmental or health standards or to result in savings in the medium to long term.

Our assessment is that we do have the ability to maintain the existing levels of service and to meet additional demands for service within the rates and debt limits set out above.