Financial Strategy

Purpose

The purpose of the financial strategy is to:

a) facilitate prudent financial management by providing a guide for Westland District Council to consider proposals for funding and expenditure against; and

b) provide a context for consultation on the Council'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 Council's financial strategy has been formulated with regards to Council's vision:

"By investing in our people, caring for the environment, respecting the Mana Whenua cultural heritage, and enabling investment, growth and development we will enrich our district and the people that reside here."

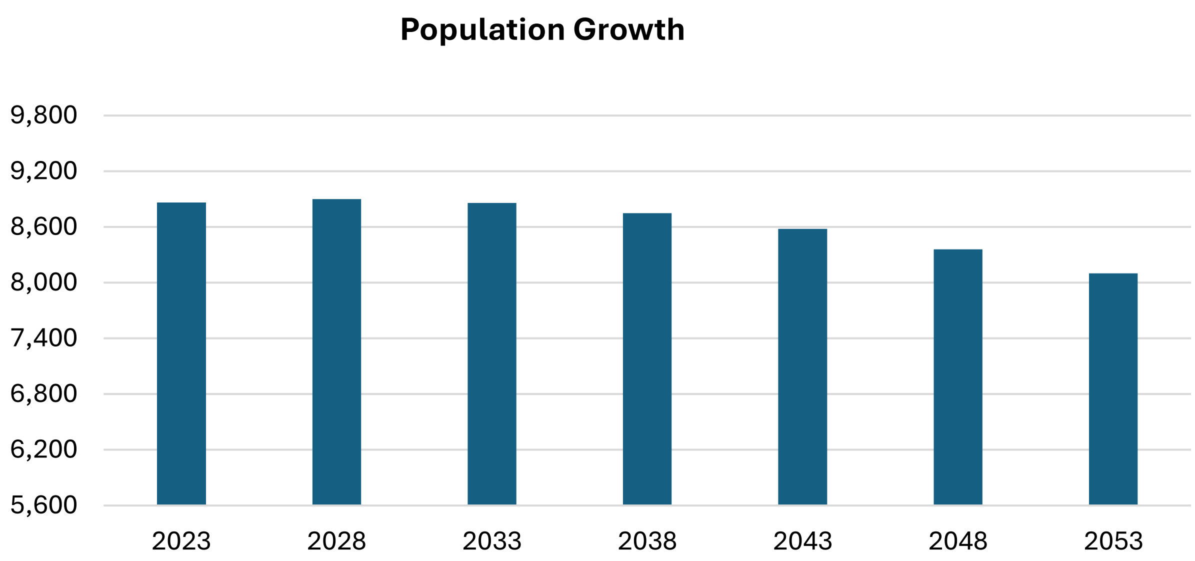
The strategy provides a framework within which this vision and these objectives can be delivered through financially prudent and sustainable principles throughout the life of the 10-year plan, by outlining our overall approach to managing Council's finances.

Significant Factors

This financial strategy is influenced by key assumptions about the factors that are expected to have a significant impact on Council's ability to achieve its vision.

Affordability

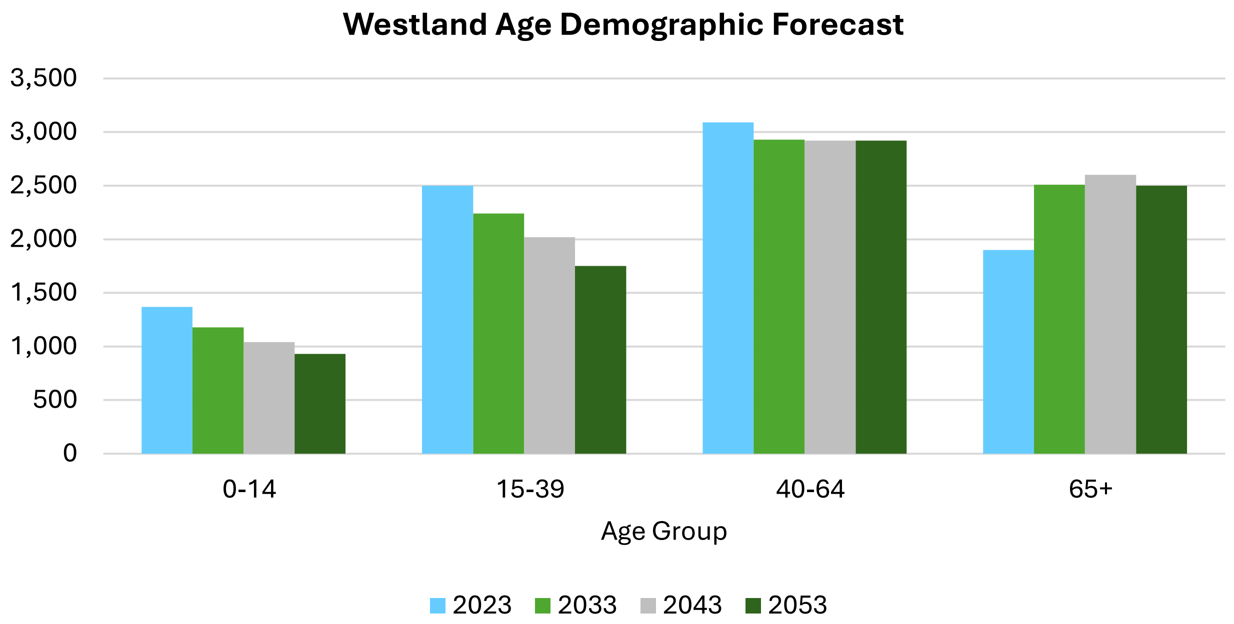
Westland District is a large district stretching 400 kilometres along the West Coast, and includes conservation land of over 80%. The townships are spread around the district, the population is low and is forecast to decline further. Having the availability of housing could result in less staff shortages due to working age people coming to the district and bringing children with them. Having a greater population can create lower rates per rating unit as the rates intake required is spread over more properties provided that the infrastructure and support services are sufficient to meet the needs of a higher population.



Westland has used Stats NZ 2023-2053 medium projection which is the latest census data available.

The data shows that the population is expected to increase minimally until 2028 when the population will start to decline.

Westland is predicted to experience an ageing population over the life of this Long Term Plan. It is forecast that the number of residents aged over 65 will increase by 32% over the 10 year period of this plan. Residents aged 15-39 are expected to decrease by 10% over the 10 years therefore younger people do not replace the retiring workers.



The council services in Westland are subject to high seasonal tourist demand, which means that some service capacity must be built into our asset management and operational plans. Residents have to pay for the extra service capacity regardless of tourism benefits. Westland is vulnerable to changes in tourism as seen throughout the COVID-19 pandemic. This had a significant effect on the tourist towns such as Franz Josef and Fox Glacier with some businesses closing and others being hibernated. Difficulties in attracting staff contributes to staff shortages and is further impacting the recovery of these townships.

Legislative changes particularly with the new water regulatory requirements is affecting the cost of provision of these services as council must continue to upgrade schemes to meet these requirements.

Future regulatory changes to waste collection with mandatory glass collection and food scrap collection in larger townships will further increase the financial burden on ratepayers.

Housing

Housing remains an issue in the Westland District, with high demand. New subdivisions are planned mainly in and around Hokitika with new housing stock to be built, this includes a number of affordable housing options.

Rental properties remain in short supply which affects the ability of employers to attract both seasonal and permanent workers to the district.

With the forecast increase in the age of the population of Westland, there is a shortage of elderly housing and care facilities in the Westland district resulting in long waiting lists and migration away from the coast. This can result in working age families also relocating, further impacting the age of the population.

Climate change and Natural Hazards

With the expectation that climate change is likely to increase the frequency and severity of natural disasters, resilience of council's infrastructure is critical.

In the Westland district there are specific natural hazards that will impact infrastructure that must be considered, for most this will involve a longer term solution than this plan, and would require government collaboration.

Westland is susceptible to coastal erosion, earthquakes, high rainfall and landslides.

Franz Josef's location to the Waiho River and particularly the South side of the river is becoming increasingly difficult to protect. Although protection is the responsibility of the regional council, Council must work with the community and regional council on mitigation of the risks with a future focus.

As of writing this strategy, the Waiho River is also currently cutting northwards into the Tatare River, this could impact council infrastructure and future solutions such as moving the infrastructure will need to be considered.

The Alpine fault which runs along the Westland district has potential to cause a large earthquake and is likely to destroy most underground infrastructure and will be devastating for the whole of the district. Insurance is limited, especially if other districts are impacted by an earthquake along the fault.

Proposed legislative changes by the government are aimed at providing a climate-resilient future and improve sustainable practices, these may be unaffordable for the Westland district.

Our plan

Council's aim is to deliver the best cost effective solutions by taking a risk management approach to managing infrastructure. Data around the condition of assets is continuing to improve, which allows for better management of these assets.

This allows for better planning of capital works both in the short and long term by balancing risk and performance.

Council will strengthen the resilience of infrastructure assets when undertaking capital and renewals work and continue to improve sustainable practices. This includes where extra capacity is required to meet tourism demands.

Some level of service increases may be included within the renewals program to further strengthen the resilience of the Westland district infrastructure.

Regional collaboration will continue where practicable; there are opportunities to collaborate with neighbouring councils, current collaborations are land transport and regional waste management.

The Infrastructure Acceleration Fund has the potential to create new affordable housing at the racecourse, at the same time supporting the wellbeing of the community with new recreational facilities where profits returned to Council from the development will be used towards the recreational facilities.

Council will make the most of any opportunities for Government funding, subsidies and any other incentives to reduce the financial burden on our ratepayers especially those on lower fixed incomes.

Some activities previously managed by Destination Westland Ltd have been returned to Council management to increase transparency and provide more effective direct control. These activities are primarily social activities as normally carried out by Councils. Commercial activities such as the Hokitika Airport remain with Destination Westland Ltd.

With the transfer of these activities, there should be a more stream-lined approach. There will be changes to Council staffing levels however, there are opportunities to provide these services more cost effectively.

Following the disestablishment of Westland Holdings Ltd, accountability of the Council Controlled Organisations Westroads Ltd and Destination Westland Ltd should be easier with the establishment of a Council sub-committee providing clear expectations.

Land Transport

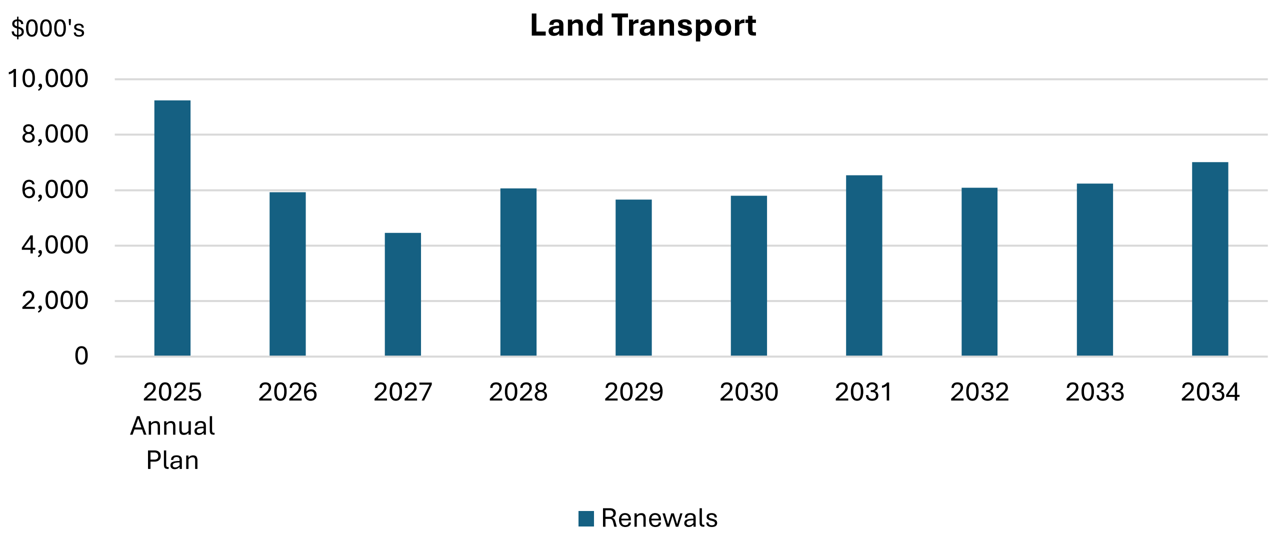
The major issues for Westland's land transport are resilience and affordability. Council maintains Jackson Bay Road, which is a special purpose road. This road provides access to the Jackson Bay Wharf, which is used by both recreational and commercial boats.

Waka Kotahi provides a subsidy to Council of 64% towards the upkeep of council's land transport activity, and 100% for the special purpose road. This is set for the first two years of the plan, however council will endeavour to work with Waka Kotahi to continue these subsidies throughout the plan.

The subsidy funds both capital and operational works on the network. Primarily renewals are the basis of the land transport expenditure for this plan.

For the first three years of the plan the main items council has budgeted is renewals of bridges and structures, and also renewal of the special purpose road at Jackson Bay. This is because of the agreement with Waka Kotahi to continue with the current subsidy of 100% for special purpose roads for the first two years.

Through the rest of the plan renewals are fairly even across the years.



Drinking Water

Council has improved the drinking water schemes and most schemes are substantially new or upgraded. Asset information has improved since the last long term plan 2021.

Whataroa and Kumara have had plant upgrades, and Fox Glacier and Arahura have had new plants commissioned.

The key challenge for drinking water is the cost of complying with new compliance regulations set by the new water regulator.

With the control of three waters now remaining with councils under 'Local Water Done Well' the cost of compliance may become unaffordable for ratepayers without some form of funding from the government. At the time of writing the long term plan, it is unknown what form any government funding will be. However, Councils are expected to provide a plan on how they intend to provide the services going forward, at this time, Council has proposed that a joint Council Controlled Organisation is the most affordable for Westland. This will be in the form of a jointly owned water organisation with Grey and Buller District Council. Due to the timing of the consultation and the uncertainty of this outcome, this plan is based on Council retaining control and setting up an internal business unit.

There are further challenges through the impact of natural disasters particularly on underground water assets.

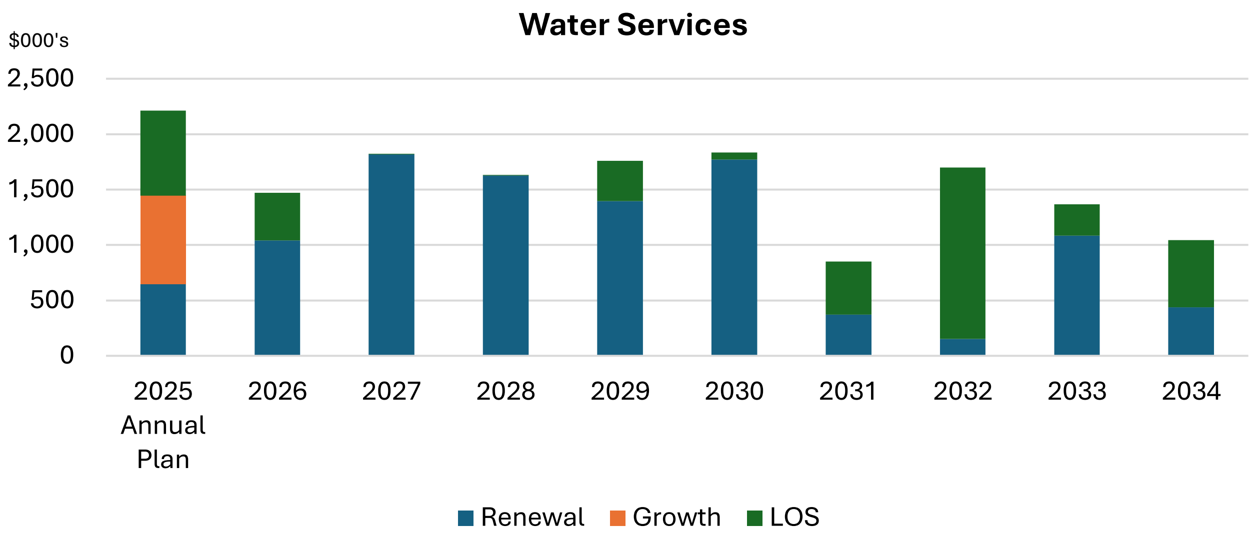
Drinking water plant and pipelines will mainly be renewed throughout the plan, some levels of service improvements have been built into the plan, primarily for safety aspects such as security cameras and fencing. Where there are improvements in the materials or size of pipelines renewed this will be considered an increase in level of service.

In year one the Blue Spur plant Chlorination building will be renewed, in years two and three the membranes will be replaced at this plant. The plant in Ross will have replacement membranes in year eight.

The Blue Spur plant will also have replacement reservoirs in years four and seven.

In year one all plants will have SCADA system replacements which provides live monitoring of the systems.

The plants are considered to have the capacity to service both residents and tourists and therefore no further capacity growth has been included in this plan.



Wastewater

48% of Council's Wastewater assets are in a poor condition, 47% are in either excellent or good condition. No assets are considered in very poor condition.

Asset information has been improved through a program of CCTV surveys, where 60% of council's Wastewater network has been surveyed.

Franz Josef Wastewater Treatment Plant has been replaced and meets compliance standards, and the pump station has been upgraded. Fox Glacier mains have also been upgraded.

Council is currently undertaking a long term project to replace the Hokitika wastewater treatment ponds with a resilient and sustainable mechanical solution. This project was originally notified in the long term plan 2021. As the Resource Consent expires in 2026 it is unlikely that the consent would be renewed to continue with ponds as a solution.

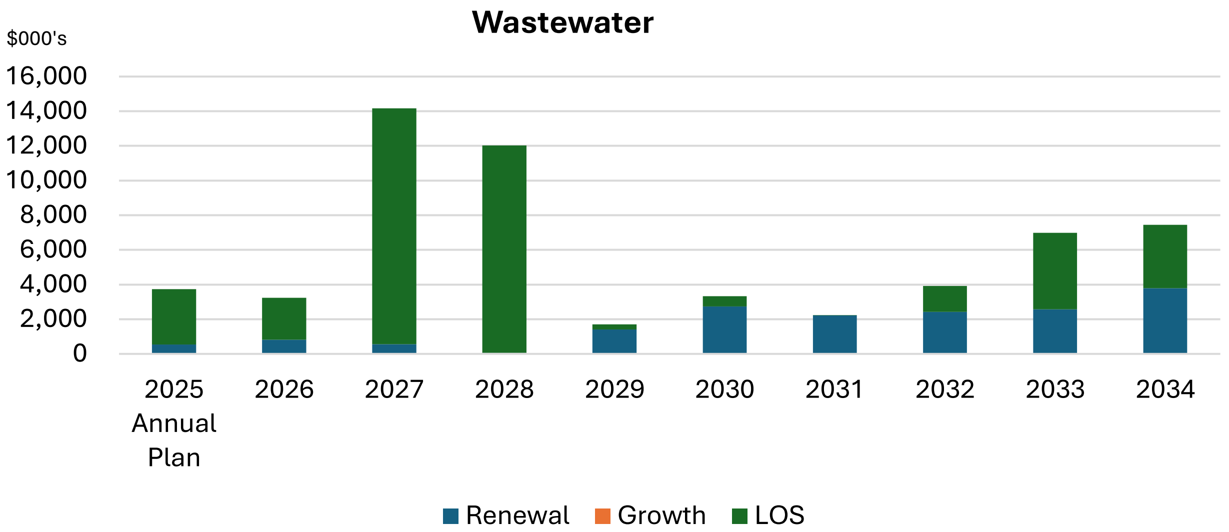
At the time of writing, the Franz Josef wastewater treatment ponds are under threat from flooding as the Waiho River is currently flowing towards the North Bank. This impacts the resilience of the service and could potentially cause environmental challenges. The solution would be to move the ponds elsewhere. However, consent for new ponds is unlikely to be granted so a mechanical solution would be optimal. This is a long term project that is included in the later years of the plan, however the cost would likely be unaffordable for ratepayers without some external funding.

The first three years of the plan incorporate significant level of service increases due to the Hokitika Wastewater Treatment Plant project, as this project provides improved resilience and environmental improvements into the future.

From years four to nine of the plan, a mains replacement program will be undertaken for Hokitika. There will also be a mains replacement program in Fox Glacier and Franz Josef in later years of the plan.

In years 2032, 2033 and 2034 further level of service increases relates to upgrades of the Franz Josef Wastewater Treatment Plant.

All schemes will have pump station and component replacements throughout the life of the plan.



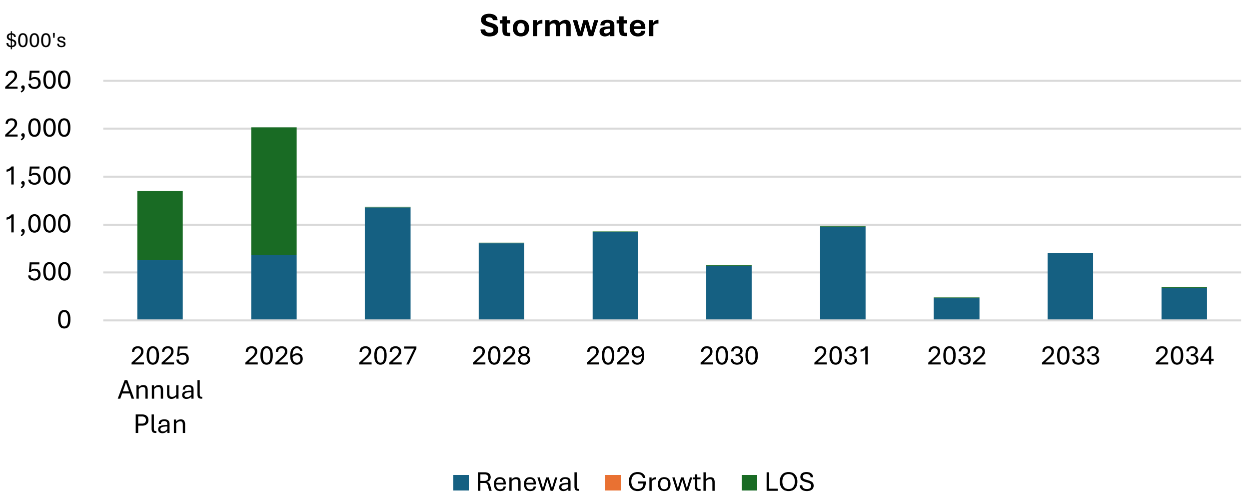
Stormwater

With the expectation that climate change will increase the frequency and intensity of natural disasters such as flooding, Stormwater upgrades, particularly in the reticulated system in Hokitika, are required.

Capacity needs to be built into any upgrades or Stormwater design to allow for increases in rainfall intensities which will result in increased levels of service.

Upgrades to the pump stations have been included in the first two years of the plan together with further CCTV work to understand the condition of the Stormwater assets. The CCTV work continues into years three and four at the time of the Hokitika mains replacement program.

As renewals of lines and sumps take place through the plan, upgrades where necessary will be included to increase the resilience of the network.



Other Factors

It is assessed that other factors affecting Council's ability to maintain existing levels of service and to meet additional demands for services will be regulatory, national policy and macroeconomic.

Activity plans have been formulated with consideration of known and anticipated regulatory developments in their respective areas, such as drinking water standards.

The policies of national governing bodies are a major determinant of the affordable levels of service that can be provided, for example the Funding Assistance Rate administered by Waka Kotahi.

Interest rates and inflation are factored into Council's financial forecasts. The former are derived from Treasury forecasts using Council's current cost of finance as a baseline and are used to ensure that Council's debt position and debt servicing capability remain within policy parameters. These are examined further below and in detail in the Liability Management Policy.

Council recognises that different types of expenditure have varying inflation factors. Asset management plans have been prepared at the component level using the Local Government Cost Adjuster Forecasts from BERL. Similarly, separate inflation rates have been calculated for specific types of expenditure within operational budgets.

How Operating Expenditure is funded.

Operating revenue includes the following revenue streams:

Year ended 30 June	2026	2027	2028	2029	2030	2031	2032	2033	2034
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Rates	26,154	29,149	32,123	35,130	36,390	37,737	38,621	39,520	40,959
Subsidies & grants	8,025	6,017	6,285	6,088	6,241	7,116	6,891	6,693	7,244
Fees & charges	2,816	2,898	2,954	3,028	3,100	3,171	3,241	3,309	3,379
Interest & Dividends	783	810	844	911	902	1,026	1,166	1,315	1,416
Others	2,143	2,107	2,181	2,306	2,295	2,429	2,664	2,771	2,918
TOTAL	39,921	40,981	44,387	47,462	48,928	51,478	52,584	53,609	55,915

Rates

While Council will seek to maximise all other revenue sources in preference to rates, this will remain by far the greatest proportion of revenue. Within its rating methodology, Council seeks wherever possible to achieve an appropriate link between the types and amounts of rates and the delivery of benefit. The ratios and factors affecting the differentials are reviewed annually.

The rates system contains the following features:

Capital Value Based General Rate

The general rate is used to recover the cost of those services that benefit the entire district and cannot be attributed to specific groups or users. Council set and assess the general rate using capital value because it believes this naturally identifies the use of land, and hence its demand for services and resources, rather than just its location.

Uniform Annual General Charge

In setting a level for the Uniform Annual General Charge, Council recognises that a rating system with a high proportion of rates charged on a uniform basis can be regressive and compromises the benefits of employing a capital value based general rate. Council seeks to attain a balance in its rating system where everyone pays a reasonable share. Therefore, the proportion of the general rate that is applied through the UAGC will be reviewed annually subject to the limits prescribed by the Local Government (Rating) Act 2002.

Community Rates

Nine community zones have been created with targeted rates attached for local amenities, projects and services. This gives each township community the opportunity to directly influence the levels of service provided in their area, and at what cost.

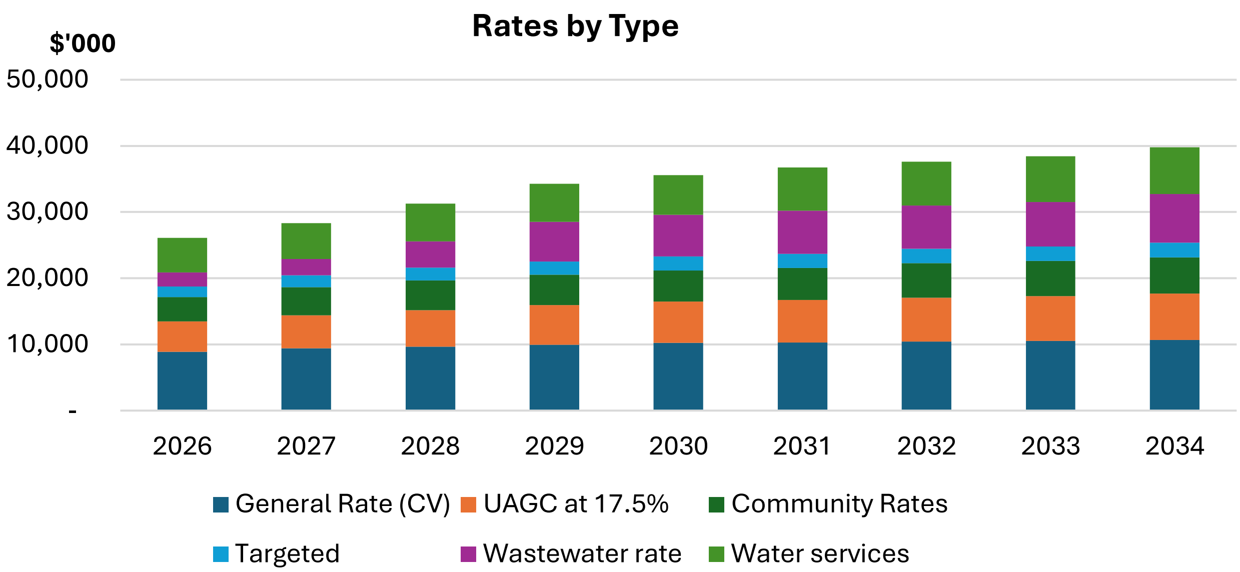
Differentials

Council has identified four sectors, based on land use, for which differentials are applied to both the General Rate and the Community Rates. These are used to determine what proportions of each rate should be applied to each sector. Council will review these annually and may identify further differentials during the life of the long term plan.

Targeted Rates

Where specific users can be readily identified, for example utilities and refuse collection, the costs of providing these services are recovered through targeted rates.

This graph illustrates the forecast rates by type:



__Subsidies and Grants__

Council will apply for any external funding that is available to reduce the rates burden.

The largest single area of expenditure is on the transportation network. Council optimises the Waka Kotahi Funding Assistance Rate (FAR) by satisfying the requirements for an approved roading programme. The District receives 64% funding on qualifying expenditure from 2025 to 2027 with 100% on special purpose roads (SPR) at the present time. These factors are set for three years, after which these rates may change, including the SPR which means that council will need to consider affordability against reduced levels of service for these roads in future years. For the purposes of this plan, the SPR rate has not been reduced following the first three years of the plan.

Other grants where Council may qualify for infrastructure or community activities will be applied for if they become available.

__Fees and Charges__

A ‘user pays’ philosophy is widely advocated. Where activities are sufficiently divisible to identify discrete user groups, some of the cost of provision is fully or partially recovered through fees. Examples are solid waste management, licensing, consents and dog registration.

Solid waste management has two distinct components; being delivery to landfill and treatment on site. Where delivery is by kerbside collection a targeted rate is applied, with the total cost divided equally among the number of bins deployed. On-site treatment is homogenous but is allocated between the general rate and gate fees by estimating the ratio of volumes delivered through kerbside collection against the volumes delivered by users.

Interest and Dividends

Following the amalgamation of Westland Holdings Ltd (WHL) into Destination Westland Ltd (DWL), Council receives dividends from its Council Controlled Trading Organisation (CCTO) Westroads Ltd (WRL), and interest from cash deposits.

The impact of Covid-19 had seen interest rates increase including those from cash deposits and interest rate swaps, these are now reducing which is reflected in the interest revenue that Council now receives. However, Council is still able to obtain sensible term deposit rates and therefore will continue to utilise this option. Council actively manages interest effects through treasury management and interest rate swaps.

Other Revenue

Additional income streams are explored and realised, including rental of office space in the headquarters building, a share of regional petrol tax and retail income.

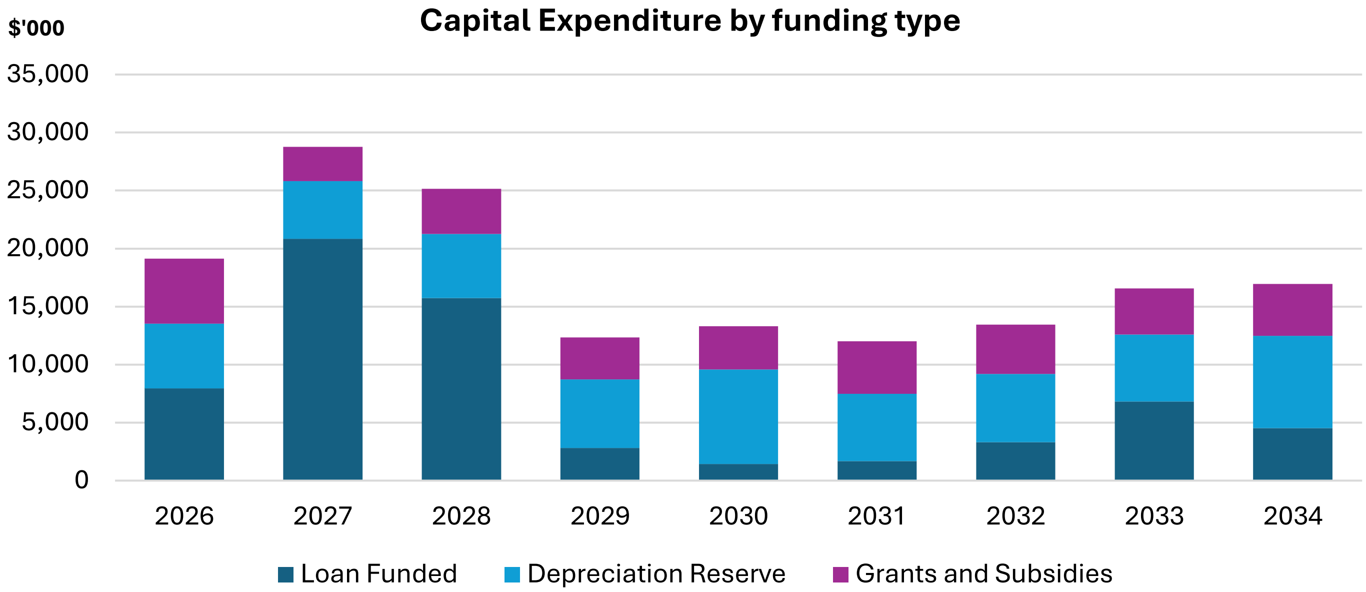
Council does not generally use debt to fund operating expenditure, however Council has provision to draw on short term debt from the Local Government Funding Agency if required for the purposes of funding operating expenditure and will use this if no other options are available.

How Capital Expenditure is funded.

When considering methods for funding capital renewals and upgrades Council considers the following factors:

- Period and area of benefit – this includes the concept of intergenerational equity, where Council uses debt to spread the costs of assets so that those who benefit from them, pay a fair share of the costs of those assets over the assets’ lifetime.
- Availability and cost of funding sources – the infrastructure strategy guides when renewals are scheduled.
- Scale and duration of projects – the installation of shelving in the library would have a very different funding profile to the upgrade of a water plant.

The forecast capital expenditure by funding source in this plan is shown below:



As stated earlier, significant upgrades are required to maintain resilient services throughout the district. Council will loan fund these level of service increases which means that loan funding makes up a significant amount of funding through the first three years of the plan.

Later in the plan, much of the capital plan will be for renewals of infrastructure.

Grants and Subsidies

As with operating revenue for qualifying expenditure transportation renewals also attract the Waka Kotahi FAR. It has been assumed that this will be available throughout the life of the plan at the rates set for the first two years.

Council intends to apply for all areas of external grants to fund infrastructure where upgrades and new assets are required through the impact of growth in tourism and for the potential cost of complying with the new drinking water standards.

As the three waters are to stay with councils, it is hoped there will be some funding mechanism from government otherwise maintaining this infrastructure may become unaffordable for ratepayers. At the present time this strategy assumes no external funding.

Depreciation Reserves

Recovering depreciation costs as part of operating revenue generates cash surpluses that can be allocated to renewal funds for assets and loan repayments.

This is most appropriate for long life assets where a fund can be steadily accumulated, and intergenerational equity is created because each generation of users pays for their consumption.

Council has been steadily building these reserves, however during the 2023-24 year Council did not fund depreciation for the three waters to use up these reserves. This was to reduce the amount of reserves that would be transferred to the new water entity, which reduced the rates requirement. As Council will now maintain the responsibility for the three waters assets, the depreciation will now continue to be funded.

Council will firstly attempt to obtain funding from external sources for renewals, however, any shortfall in depreciation reserves will then need to be loan funded.

Council is forecasting that the depreciation reserves for the Infrastructure renewals over the 30 year period of the Infrastructure Strategy will mainly be sufficient to fund the renewals. The only reserve that will require some unfunded depreciation to be transferred to funded depreciation will be in Land Transport from year 2029 forwards.

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035-39	2040-44	2045-49	2050-54
Storm water Reserve													
Opening Balance	$436,067	$289,337	$192,704	$135,662	$128,264	$27,424	-$154,873	$291,003	$757,880	$1,173,192	$3,364,635	$4,845,699	$7,979,449
Transfers In	$498,665	$552,426	$618,527	$619,016	$617,063	$676,320	$679,861	$693,659	$756,527	$4,292,688	$4,990,626	$5,826,727	$6,747,035
Transfers Out	($645,395)	($649,059)	($675,569)	($626,414)	($717,903)	($858,617)	($233,985)	($226,782)	($341,214)	($2,101,245)	($3,509,561)	($2,692,978)	($4,076,444)
Storm water Reserve Clos Balance	**$289,337**	**$192,704**	**$135,662**	**$128,264**	**$27,424**	**-$154,873**	**$291,003**	**$757,880**	**$1,173,192**	**$3,364,635**	**$4,845,699**	**$7,979,449**	**$10,650,040**
Wastewater Reserve													
Opening Balance	$1,205,703	$1,237,822	$1,540,092	$2,455,281	$2,990,393	$2,315,049	$3,192,916	$3,067,748	$3,719,094	$2,301,782	$15,895,875	$32,260,567	$54,134,484
Transfers In	$1,040,393	$1,064,147	$1,181,118	$2,203,014	$2,179,719	$2,304,915	$2,301,503	$2,320,713	$2,368,232	$14,641,961	$18,281,739	$22,474,423	$27,382,986
Transfers Out	($1,008,274)	($761,877)	($265,929)	($1,667,902)	($2,855,063)	($1,427,048)	($2,426,671)	($1,669,367)	($3,785,544)	($1,047,868)	($1,917,047)	($600,506)	($940,612)
Wastewater Reserve Clos Balance	**$1,237,822**	**$1,540,092**	**$2,455,281**	**$2,990,393**	**$2,315,049**	**$3,192,916**	**$3,067,748**	**$3,719,094**	**$2,301,782**	**$15,895,875**	**$32,260,567**	**$54,134,484**	**$80,576,858**
Water Reserve													
Opening Balance	$206,452	$149,773	-$333,788	-$379,000	-$328,664	-$517,650	$871,904	$2,956,049	$4,243,630	$6,009,093	$14,473,850	$30,115,673	$45,322,514
Transfers In	$1,740,183	$1,739,474	$1,945,272	$1,946,430	$1,947,741	$2,193,018	$2,256,555	$2,371,095	$2,608,841	$14,658,513	$17,548,573	$21,329,271	$25,488,690
Transfers Out	($1,796,862)	($2,223,035)	($1,990,484)	($1,896,094)	($2,136,727)	($803,464)	($172,410)	($1,083,514)	($843,378)	($6,193,756)	($1,906,749)	($6,122,430)	($3,027,649)
Water Reserve Clos Balance	**$149,773**	**-$333,788**	**-$379,000**	**-$328,664**	**-$517,650**	**$871,904**	**$2,956,049**	**$4,243,630**	**$6,009,093**	**$14,473,850**	**$30,115,673**	**$45,322,514**	**$67,783,555**
Transportation Reserve													
Opening Balance	$1,014,845	$756,937	$531,290	-$134,081	-$370,430	-$657,803	-$940,788	-$1,064,488	-$1,246,232	-$1,446,984	$1,286,272	$1,631,162	$1,167,787
Transfers In	$1,255,966	$1,263,980	$1,525,323	$1,809,797	$1,801,525	$2,072,415	$2,068,811	$2,063,518	$2,323,323	$19,387,466	$18,913,415	$20,239,447	$22,394,937
Transfers Out	($1,513,874)	($1,489,627)	($2,190,694)	($2,046,146)	($2,088,898)	($2,355,400)	($2,192,511)	($2,245,262)	($2,524,073)	($16,654,210)	($18,568,525)	($20,702,822)	($23,082,546)
Transportation Reserve Clos Balanc	**$756,937**	**$531,290**	**($134,081)**	**($370,430)**	**($657,803)**	**($940,788)**	**($1,064,488)**	**($1,246,232)**	**($1,446,984)**	**$1,286,272**	**$1,631,162**	**$1,167,787**	**$480,178**
Land Transport Unfunded depreciation:													
Unfunded depreciation	$2,104,825	$2,125,783	$2,125,783	$2,125,783	$2,125,783	$2,125,783	$2,125,783	$2,125,783	$2,125,783	$9,020,120	$9,020,120	$9,020,120	$9,020,120
Transfer to Funded depreciation				($300,000)	($300,000)	($300,000)	($300,000)	($300,000)	($300,000)	($5,858,048)	($2,500,000)	($1,250,000)	($1,250,000)
	$2,104,825	$2,125,783	$2,125,783	$1,825,783	$1,825,783	$1,825,783	$1,825,783	$1,825,783	$1,825,783	$3,162,072	$6,520,120	$7,770,120	$7,770,120

__Special Reserves__

Council maintains certain restricted reserves and special funds. These can be used, in very limited circumstances with Council approval and in compliance with any covenants to fund specified local community projects.

__Rates__

Short life assets with relatively low cost are funded by rates. This is because they are renewed regularly and so a longer term funding option would not be appropriate. Intergenerational equity is not a consideration with these type of assets.

__Loans__

Loan funding is most appropriate for long life assets where insufficient depreciation reserves are available. This option is therefore preferred in the case of new assets or substantial upgrades. Council policy is to repay such borrowings over 20 years, linking to intergenerational equity because repayments will be spread over the estimated period of consumption. Council may consider repaying loans over a longer period at times where an asset life is significantly longer than 20 years and the value of the loan is high. Consideration of extended loan repayments will take into account future debt requirements and limits on debt. Council will fully fund depreciation and the loan repayments will be rated going forward. Some debt repayments are currently financed from depreciation reserves, however this is not sustainable, and these repayments will gradually need to be rates funded.

This approach provides affordable long term financing and a level of stability in budgeting and therefore rates.

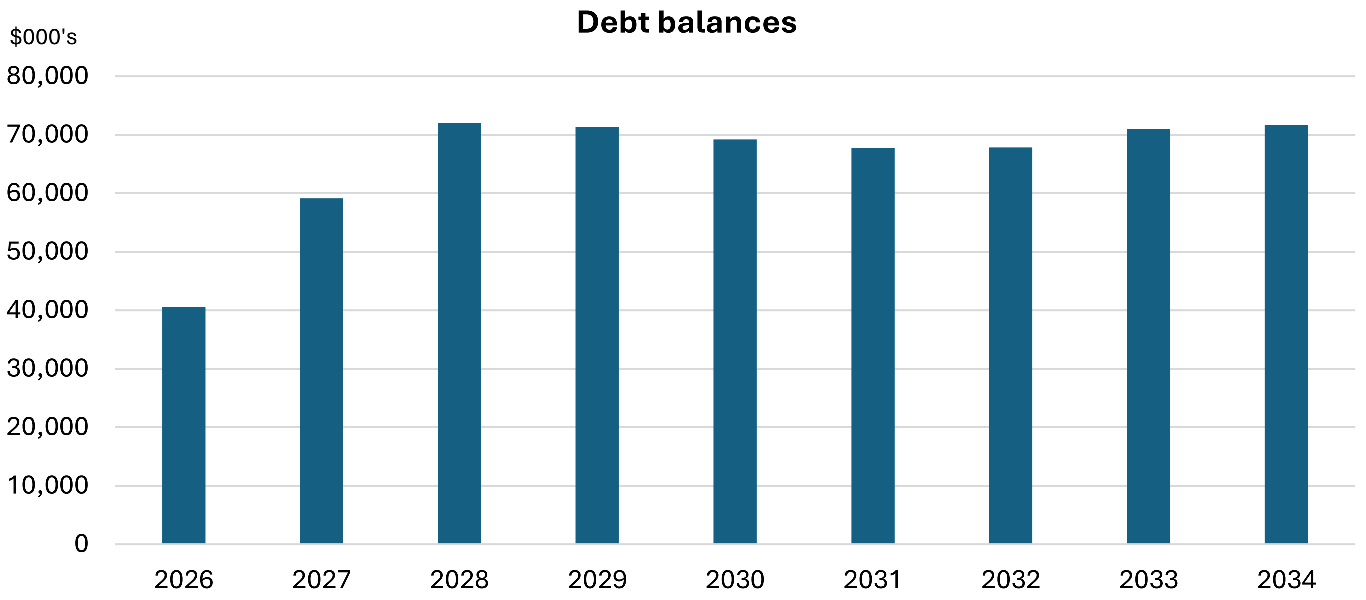
Where possible internal borrowing arrangements will be utilised in preference to external debt at rates not exceeding Council's cost of borrowing. However, through the life of this plan, internal borrowing has not been considered.

Council was accepted as a guarantor borrower in the Local Government Funding Agency (LGFA) in November 2020 and can access a greater level of borrowings from the agency with further savings to the cost of borrowing. There are opportunities with the LGFA for further preferential cost savings where council can identify projects that fulfil the criteria for green loans or climate action projects. Most of Council's debt is now held with the LGFA.

The LGFA now also have a short-term funding instrument which can be utilised for periods of one month or more, this allows for any shortfall in cash reserves where there may be timing differences between funding and payments.

At times Council may pre-fund loans that are maturing up to twelve months ahead in order to manage interest rate risk and comply with the Liability Management Policy.

Council has further debt facilities with its banker Westpac up to $4 million.



Debt is forecast to increase until 2028, then to even out with further increases from 2032. This aligns with Council's Infrastructure capital plan where upgrades will be carried out towards the start of the plan and renewals expenditure later in the plan.

Interest rate ceilings are fixed by a portfolio of swaps through Westpac and with the option to transact with ANZ in order to spread risk. With most borrowing through LGFA, this allows Council to utilise more competitive rates from institutions other than Westpac.

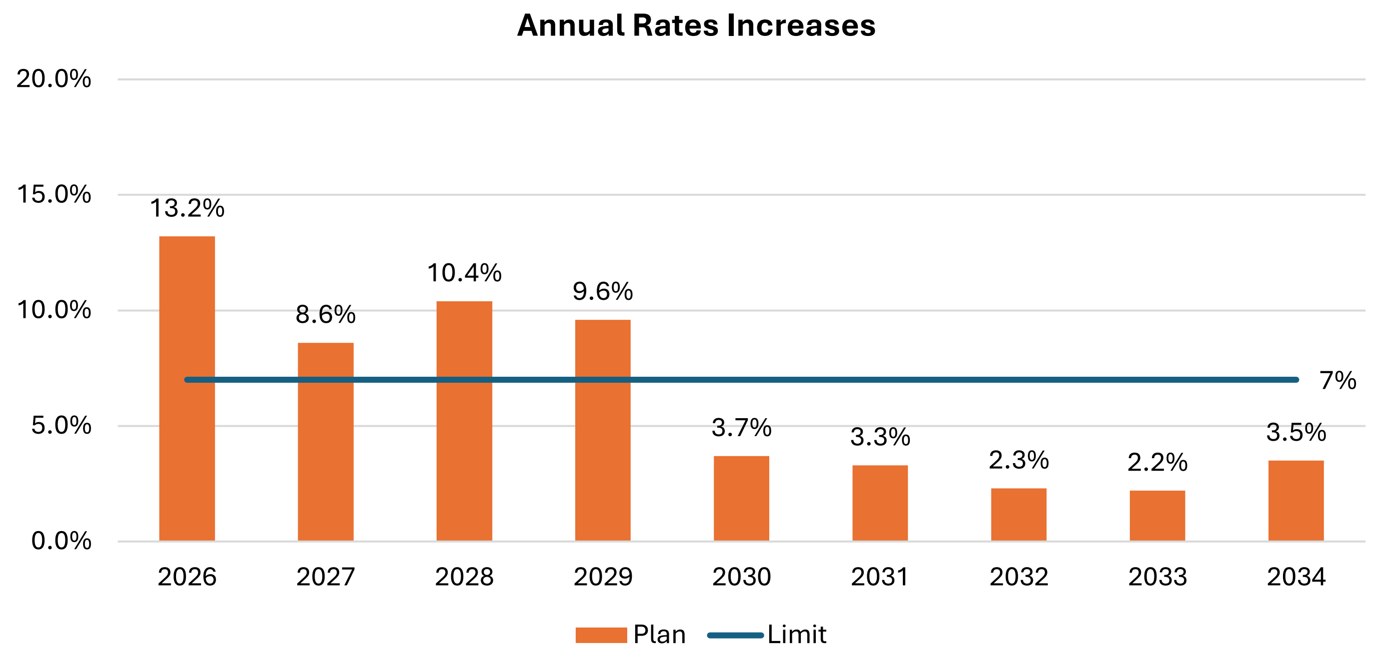
Financial Management

Council's goals for this long term plan are for resilience, sustainability and affordability.

However, the financial strategy also provides for increases in level of service based on the projected growth in tourism as international tourism returns to pre Covid-19 levels and also to enable Council to meet the requirements of the water regulator.

In reviewing its levels of service and capital expenditure programme Council prescribed a financial framework to ensure that this mantra was reflected in the financial strategy.

Limits on Rates increases



The limit on rates increases has been increased to 7% from 5%. This is to reflect the ongoing costs of regulation on Local Water Done Well and the increase in tourism.

It has been determined that the first three years of this plan will exceed that limit, however future years the benchmark will be met. Leaving the benchmark at 5% with changing regulation would mean the benchmark would have been breached several times over the life of the plan. A 7% limit is more realistic in the changing environment.

External Debt and Limits on Borrowing

Council assumes that debt should only be used to finance new or upgraded assets, however, some loan funding throughout the life of the plan for renewal expenditure will be required where there are insufficient depreciation reserves.

Council suffered depleted depreciation reserves through the Depreciation Austerity Policy adopted by Council in 2013, this was in part due to the desire of councillors to keep the rates increases low. This now means that Council will not have enough reserves to fund renewals throughout the life of the plan and loan funding will be required.

Renewals will be funded through depreciation reserves where there are reserves available. Low value assets will be funded through rates. Each tranche of debt generally is to be repaid over a period of 20 years; however, this may be longer as determined by asset life and cost. Interest is paid in the year it is applied and not accumulated with the principal.

The Council is a guarantor borrower with the LGFA, which gives Council a limit of up to 175% of net debt to revenue. The Liability Management Policy has been written to facilitate compliance with the scheme. Council employs a Multi Option Credit Line with Westpac to provide a flexible borrowing facility of $4m. Currently $18,352.00 is drawn from this facility.

The LGFA also now offers short-term loans from 1-3 months duration. Council also maintains a swap portfolio to fix its short, medium and long-term interest rates. This is forecast to continue and will be managed to adequately provide for Council’s requirements through the life of this plan.

The limits for borrowing are set at levels that ensure Council remains within the LGFA threshold, and net debt is forecast to remain within these limits throughout the life of the plan. Net debt for these purposes is the borrowing requirements minus cash reserves that are built up for asset renewals.

Debt will be managed within the following limits as per Councils Liability Management Policy:

80% of the Local Government Agency Net Debt/Total Revenue limit of < 175%. This gives an internal limit as per the table below:

Measure	**Limit**
Net Debt/Total Revenue	140%

Net debt to total revenue

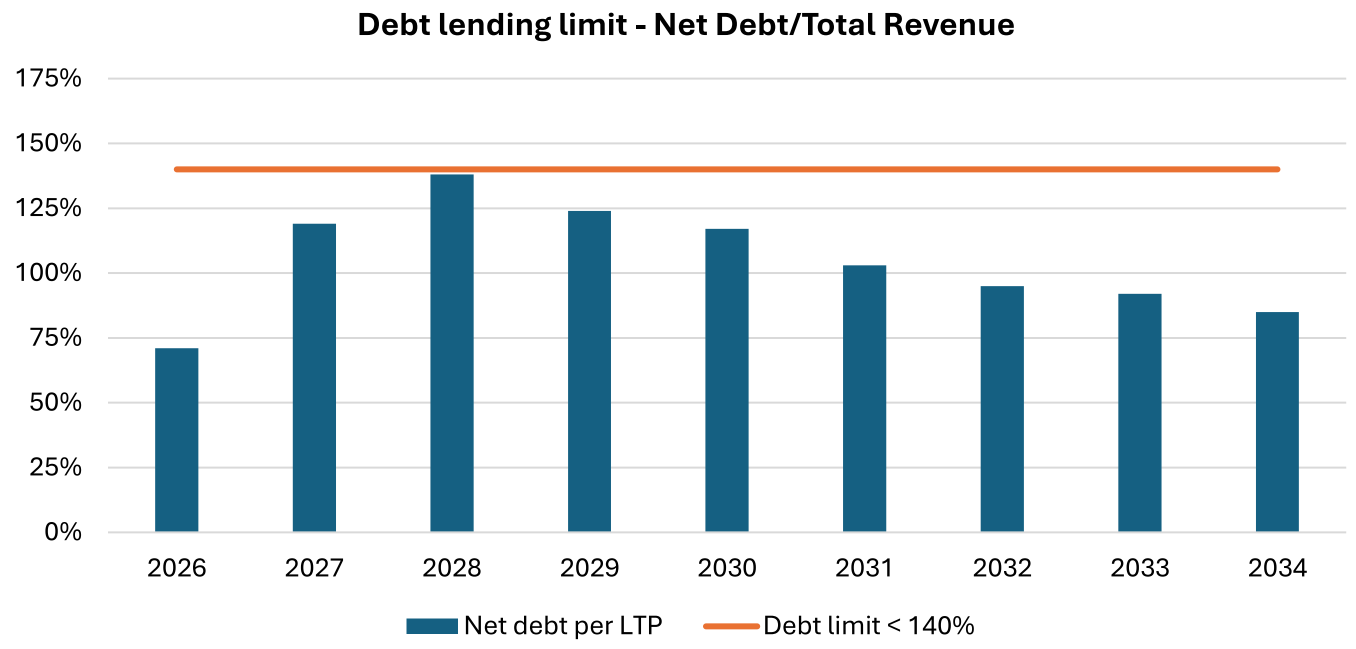
It is proposed to maintain a borrowing limit of 80% of the Local Government Funding Agency Net debt to operating revenue covenant of < 175%. The limit of 80% of this covenant is 140%. This will provide a tool to monitor debt limits and provide early warning signs of potential covenant breaches. This also provides flexibility for council where debt is increasing.

Council remains within the policy limit of 140% of the Local Government Funding Agency limit of < 175% of Net Debt/Total Revenue throughout the life of the plan.

As Westland Holdings Ltd has been amalgamated into Destination Westland Ltd, debt that WHL borrowed has been transferred to Council, the limit stated is now a group limit. Council is on-lending this debt to the CCO's directly 100% owned by Council.

As Westroads Ltd is a Council Controlled Trading Organisation, Council can offset the debt as a financial asset. Destination Westland Ltd is a Council Controlled Organisation and as such Council is unable to offset this debt.

Council receives a small margin for administration from the CCO's which is accounted for as revenue to Council.



Security for Borrowing

Council's external borrowing and interest-rate risk management instruments are secured by way of a Debenture Trust Deed. Under the Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government (Rating) Act 2002.

Investments

Liquid investments

Council no longer maintains a bonds portfolio. The return on bonds was not significant and tied up liquid funds for a two-year period. This is reviewed from time to time to ensure that Council is managing cash efficiently. Council has been able to obtain some reasonable term deposit rates for short-term deposits. The portfolio currently provides a rate of return of 4.8%

As Council's cash flows are not uniform, with monthly operating costs, quarterly rates income and irregular peaks arising from capital projects, it is necessary to retain a level of liquid funds. This level will be set in accordance with cash flow projections. Short-term deposits of three, six and twelve months will be utilised to earn additional interest income while these funds are held.

Equity Investments

Council holds 100% of the shareholding in Westroads Ltd and Destination Westland Ltd. An annual dividend of $250,000 has been included in Council's financial forecasts for all years.

Council also normally receives a subvention payment of approximately $200,000. Together these represent a return on investment of 3.6%.

There is a core amount of debt in relation to the shareholding where it is considered that this debt is not required to be repaid at this time, as this investment is long-term and not likely to change.

Council also holds a $26,000 shareholding in Civic Financial Services Ltd (previously Civic Assurance) as at June 2024. This is a legacy investment and since the restructure of Civic Assurance and the advent of the Local Authority Protection Plan, there are no provisions or income expectations in respect of this asset.