KAIPARA DISTRICT COUNCIL

Financial Strategy

January 2018

Kaipara te Oranganui

KAIPARA DISTRICT

Two Oceans Two Harbours

1.0 Overview

1.1 Introduction

Council works with the people of Kaipara to make it a welcoming place with strong communities and active outdoor activities. We will be open and engaged with our communities and strive to lift Kaipara's well-being.

To achieve this Council must ensure it is financially resilient and has equitable and sustainable funding. Through the services we deliver and our community leadership role, we can make a significant contribution to the future success of the District. The delivery of these services will be efficient, effective and appropriate for the circumstances now and in the future.

Council's approach to sustainable management is a simple one:

- run a balanced budget;
- treat the District equitably;
- have a sustainable Plan; and
- prudent use of debt.

1.2 Challenges

The Long Term Plan 2015/2025 made significant progress positioning Council to be operating in a sustainable manner. Operations are funded from current year rates and income with only a few exceptions. Debt has been reduced through tight fiscal management and asset sales. We are halfway through a six year programme to improve asset information.

Challenges preparing the Long Term Plan 2018/2028 and our projected positions include:

- **Policy criteria**

  Many of the district's assets and infrastructure systems have been maintained on an as required basis with renewals deferred as long as possible. In contrast, our communities are demanding improved levels of service. In addition communities are actively engaged in the process of planning for their area and through this seek more and better community amenities. These drive up costs putting our affordability policy and our ability to hold rate increases to LGCI plus 2% under pressure.

- **Reducing debt**

  A success of the past three years is the significant reduction of debt beyond that forecast in the Long Term Plan 2015/2025. Debt is projected to be $54.5 million at June 2018 compared with $70.7 million forecast in the Long Term Plan 2015/2025. Continuing to achieve debt reduction and building infrastructure requires prioritising projects and balancing residents expectations with affordability.

- **Rating structure**

  The rating structure is under strain from two directions. Firstly, the rating revaluations at 01 September 2017 significantly moved the incidence of rates to residential (including lifestyle blocks less than 2 ha) and away from dairy and pastoral farming ratepayers. Within residential some areas, lower valued properties in particular, saw substantial rises in value, and as a consequence a larger than average increase in liability for rates. Council considered options to ameliorate the impact of the revaluations on ratepayers including a cap on annual increases, remissions and adjustments to the level of the UAGC. After consideration the status quo prevailed.

  Secondly, the forward projections indicate large increases to some of the Three Waters (water supply, wastewater and stormwater) targeted rates as renewal catch-ups are undertaken and infrastructure is improved. Assessing the targeted rates for defined capital costs by each scheme may well be constrained by affordability. Refer to Three Waters section.

- **Diverse growth patterns**

  The disparity of growth in areas of the district accentuated over the past three years. The east, Mangawhai, has grown and is forecast to continue to do so. While some of the capital costs required to meet the growth are financed by development contributions, the ongoing operating costs apply pressure on current ratepayers. The growth in the east is not matched in central and western areas. This raises issues of equity; who should pay.

  Managing the consenting processes together with monitoring and if necessary enforcing consent conditions arising from this growth has put Council services under pressure.

- **Council services**

  All councils are judged by their response to customer enquiries, standard of public amenities and other easily observable issues. An outcome of the tight fiscal management and need to balance the budget has resulted in Kaipara District Council's investment in many of these frontline and back office services being neglected or held at a minimal level. There is a need for us to improve performance in many areas. To achieve this requires investment in technology, staff and amenities. Prioritising what some may view as non-essential expenditure was required, and contributed to the increase in rates.

- **Three Waters**

  Operating costs of the Three Waters (Water Supply, Stormwater and Wastewater) are standardised across all schemes other than Te Kopuru. This reflects the principle that the same service is received therefore the recipients should pay the same. For historic reasons Te Kopuru is excluded and rated on a stand-alone basis. Recovery of capital costs are calculated and rated on a per scheme basis. This means as renewals and upgrades are undertaken and the capital portion of the targeted rates adjusted on a scheme by scheme basis affordability may become an issue. While this will occur beyond the term of this Plan, Council considered normalising the capex of the water and wastewater schemes to make it in line with operating costs.

  They also considered a public good element funded by general rates as is done for stormwater. Council recognised the rationale for normalisation and decided to undertake further investigation and consultation before proposing the change. It also acknowledged a need to re-examine the historic separation of Te Kopuru.

- **Non-residential ratepayers**

  The Mangawhai region continues to have a large proportion of non-resident property owners. While all ratepayers, resident and non-resident, contribute to local and district costs, there is a large and significant increase to population during the holiday periods, especially the summer holiday period. This periodic population boom places pressure on all infrastructure for these peaks and now consequential operating costs are funded (local and district-wide) is a challenge.

- **Visitors**

  Kaipara, in common with many small local authorities in New Zealand, has within its district major natural attractions that bring in large numbers of non-ratepayer visitors. While they bring direct economic benefit to local businesses, local ratepayers fund the infrastructure and services required for a good visitor experience. As with non-resident ratepayers, the visitor influx peaks in the holiday periods, particularly summer. Funding the infrastructure and services needed for visitors from a small ratepayer base creates challenges of affordability and equity.

Risk and financial resilience

Reducing our risk and increasing our financial resilience continues as a key driver of our current Financial Strategy. Improving our position has positive flow-on effects and can help with most of the issues outlined above.

- **Debt financing**

  Apart from reducing the quantum of debt, it is important for Council to be able to access the most attractive cost of funding rates. Our financial position has significantly improved over the last three years. Debt is estimated to be $54.5 million at 30 June 2018 against a forecast of $70.7 million in the Long Term Plan 2015/2025.

From 23 February 2016 Kaipara District Council has accessed debt funding through the Local Government Funding Agency (LGFA). Our debt ratios are set at or below those required by the LGFA and are comfortably achieved through the term of this Plan.

- **Interest capitalised**

  Council is limited to setting development contributions based on growth anticipated over the next 10 years. The benefits of the Mangawhai Community Waste Water Scheme extend to properties that will be created after June 2028, the future community. The cost of development and debt attributed to these properties is $20.2 million. Council's policy provides for 50% of the interest on this debt to be capitalised to be recovered from the future community development contributions. The remaining 50% is a charge to the general rate.

- **Debt management**

  Implicit in the use of debt financing is the prudent management of debt levels, maturities and cost of finance. To ensure Council has access to funds we have committed facilities with registered banks in addition to the LGFA facility. Funding debt at the lowest possible cost is important. At current debt levels a 1% margin adds around $543,000 to costs each year. Council manages these obligations after seeking external expert advice on a regular basis.

Options to manage the challenges

Options considered to manage these challenges were to:

- increase rates and/or add new targeted rates;
- manage infrastructure investment requirements by deferring expenditure;
- exit services where possible and/or provide more economical options;
- review the approach to district-wide funding for the Three Waters and/or transitioning arrangements;
- slow the rate of debt reduction down provided that the level remains prudent and affordable; and
- optimise use of development contributions to fund investment required to meet growth.

1.3 Summary

The challenges outlined in the section above, have been worked through, consulted on with the community and the preferred position is set out in the Long Term Plan 2018/2028. The issues are specifically set out in this Financial Strategy and in the Infrastructure Strategy.

The Financial Strategy for 2018/2028 is largely consistent with that set in the Long Term Plan 2015/2025 and remains a simple one. We will run a balanced budget. We will treat the District equitably. We will have a sustainable Plan.

Key points of the Financial Strategy are:

- a balanced budget is maintained[1];
- operating expenditure is projected to be $523 million and capital expenditure is $219 million for the 10 years to 2028. Funding of this expenditure is primarily through rates, user charges and NZTA subsidies, development and financial contributions;
- general rates will increase around 5.45%;
- rates increases averaging approximately 4.13% per annum over the life of the Plan together with fees and subsidies will generate sufficient income to manage ongoing renewals, continue progress on catch-up renewals and to fund reserves;
- capital costs (reflecting the costs of capital works and remaining debt) for each scheme will be combined with the operational costs, which are being allocated uniformly across all schemes, to calculate the targeted rate payable in each community for water supply, stormwater and wastewater[2]. Te Kopuru is an exception and funded on a stand-alone basis;
- capital contributions, collected as targeted rates, to fund the capital cost of the Mangawhai Community Wastewater Scheme (MCWWS) and reduce debt continue as does the district-wide funding of a portion of the debt as part of the general rate; projected income from Development Contributions has been spread over a longer timeframe;
- other capital costs are funded by NZTA funding[3] (for roading); Financial Contributions (for reserves) and Development Contributions (for some wastewater and stormwater schemes and roading) fund capital costs of growth; and
- debt requirements[4] are projected to trend downwards and reduce to approximately $46 million by 2027/2028 at the end of the 10 years covered by the Plan. At all times during the duration of the Plan, debt requirements fit within Council's preferred debt ratio parameters.

[1] i.e. Operational revenue funds operational expenses (before depreciation) except for a portion of interest attributable to future development. In addition, desludging costs for cleaning out wastewater ponds are loan funded rather than rates funded to avoid spikes in rates unless new technology can provide a more economical alternative in future.
[2] The annual network charge.
[3] NZ Transport Agency funding also funds operational expenditure on roads.
[4] Projected debt plus increasing capacity to fund reserve expenditure.

Three points to note in the Financial Strategy are set out in more detail below.

- **Introducing additional funding phased over time for renewal expenditure on water supply, stormwater and wastewater infrastructure assets**

  While further information about asset condition is available for the Long Term Plan 2018/2028, there is still a high level of uncertainty about expenditure needs and relative priorities. As discussed in the Infrastructure Strategy, further work is scheduled over the next 3 years to inform the Long Term Plan 2021/2031. In the meantime, the level of renewal expenditure has been increased on an incremental basis as affordability permits. The adequacy of this provision will be reassessed with the Long Term Plan 2021/2031.

- **Introducing additional funding for roads for six years from 2015/2016 to 2020/2021 inclusive**

  In order to maintain a level close to current standards for roads, the targeted rate for exotic forestry has been extended for the period of this plan. In addition the level of the targeted rate currently $390,000 (exclusive of GST) will be increased annually by the appropriate LGCI index.

- **Growth and Development Contributions**

  Population and rating base projections indicate that there will be some growth within the Kaipara District over the term of the Long Term Plan 2018/2028 and the 30 years of the Infrastructure Strategy. Growth is expected largely in Mangawhai and its surrounding district. Other areas are expected to have only slight increases (central Kaipara) or no increases (west and north Kaipara). This puts the quantum of the Development Contributions collected for areas other than Mangawhai in question.

2.0 Financial Strategy

Background

Local authorities need a sustainable funding base to continue delivering services to their communities in the future. This involves a balancing act of delivering services while keeping the income required affordable, ensuring equity between current and future generations, along with fairly sharing service delivery costs between different users.

The Local Government Act 2002 (LGA) requires Council to take account of a number of principles when determining how it wishes to fund its different activities. These include:

- the contribution that each activity makes to Community Outcomes;
- the distribution of benefits between different sections of the community;
- the period over which benefits are expected to occur;
- the extent to which the actions (or inactions) of a particular group contribute to the need to undertake the activity;
- the costs and benefits of funding an activity distinct from other activities; and
- the overall impact of its policy decisions on the community.

In addition to the requirements of the LGA, Council has a set of policy criteria to guide decisions on the Financial Strategy and other financial matters. They are:

- simplicity - Council's plans and policies should be clear and easy to understand. Overly complex plans and policies detract from this and have an unnecessary cost;
- community support - The revised plans and policies should be acceptable to the community;
- equity - Plans and policies should be fair and treat like with like both now and in the future. Further, those who contribute to the need for the activity should pay more;
- stability/durability - The plans and policies should be stable and have longevity and so give some certainty to people over time;
- affordability - The levels of services and costs of the activities need to produce rates, fees and charges that are affordable for people; and
- fair distribution - Use the Uniform Annual General Charges (UAGC) to ensure a fair distribution of costs across all ratepayers given the marked difference in land values across the District.

The financial statements included in this Financial Strategy use the actual results reflected in the Annual Report 2016/2017.

Population, Land Use and Rating Base Growth

The 2013 Statistics New Zealand census data indicates that the Kaipara District as a whole is expected to have little or no growth in the long term. Within that there are area differences with the east growing faster than the west and north, where growth is predicted to be flat or, in some areas, declining. To some extent actual data from rating base figures supports the census data. However, even in times when growth was slow there was steady upward movement in other areas.

Using the statistics and rating base data, we are predicting the levels of growth set out in the table below.

Figure 1a: Annual Rating Unit Growth Forecasts 2018/2028

Area	Years 1 – 5 2018/2019 – 2022/2023	Years 6 – 10 2023/2024 – 2027/2028
Ruawai, Te Kopuru, North and Kaipara Coastal	0.4%	0.4%
Kaiwaka	2.0%	2.0%
Mangawhai	2.4%	2.5%
Maungaturoto	0.2%	0.2%
Dargaville	0.2%	0.2%
Rest of District (including all other areas)	1.2%	1.3%
Kaipara District (all)	1.0%	1.0%

Mangawhai Development Contributions[5] has a different growth profile, as set out below.

Figure 1b: Annual Development Contributions Growth Forecasts 2018/2028 - Mangawhai

Area	Year 1 2018/2019	Year 2 2019/2020	Year 3 2020/2021	Year 4 2021/2022	Year 5 2022/2023	Year 6 2023/2024	Year 7 2024/2025	Year 8 2025/2026	Year 9 2026/2027	Year 10 2027/2028
Mangawhai	4.3%	4.2%	5.1%	4.9%	4.6%	4.4%	4.2%	4.1%	3.9%	3.5%

[5] The Mangawhai development contributions growth profile is different from the growth projection for Mangawhai as a whole because (1) it is a much smaller area, and (2) much of the growth in the Mangawhai wastewater area will not attract a Development Contribution as they have either paid already or are paying a capital contribution through rates.

Land use is expected to remain largely the same over the 10 year period.

A particular characteristic of the Kaipara is that approximately 74% of the ratepayers reside within the District and 26% outside the area. For Mangawhai these figures are 47% within the District and 53% outside the area[6]. The percentage of ratepayers residing outside of the district has reduced from the Long Term Plan 2015/2025.

In general, the forecasts assume that the additional demand for services created by the increased growth will be absorbed by the rating base growth and by more efficient delivery of services.

The key exception is the wastewater plant at Mangawhai, where the Development Contributions growth forecasts are an essential part of the forecasted revenues. This is discussed further in this Strategy and in more detail in the Revenue and Financing Policy and the Development Contributions Policy which is part of the Long Term Plan 2018/2028.

Financial Overview

To deliver our services to the community and maintain the District's assets to the level forecast over the next 10 years (2018/2028) will require an investment of $523 million for operating expenditure and $219 million for capital expenditure.

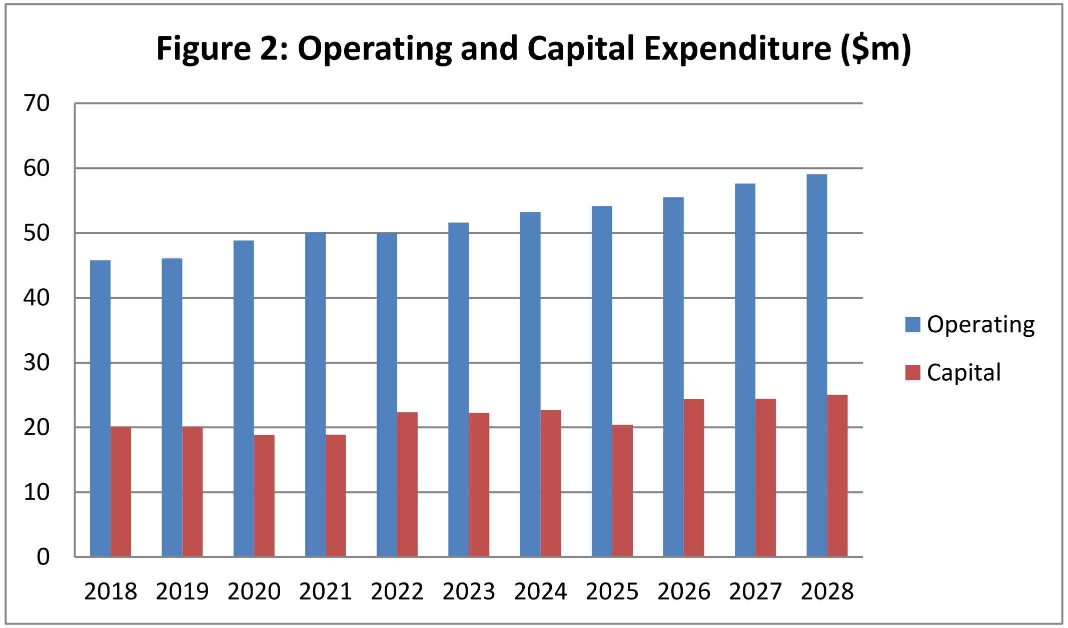
For operating expenditure this means the level of expenditure is relatively even in the earlier years, each subsequent year largely reflecting a LGCI rise.

The exception is employee benefits. Over the last two-three years increase demand on Council's services has largely been absorbed by current staff. The cumulate effect of this is:

- service levels falling below desired levels in some areas;
- Council not adequately addressing some statutory obligations; and
- internal infrastructure, particularly IT, falling below that required to support Council's customer facing activities.

The Plan incorporates an increase in staff numbers in 2018/2019 in key areas. Beyond 2018/2019 there are no budgeted increases to staff numbers. The increased staff numbers is reflected in employee benefit costs in 2018/2019.

Figure 2: Operating and Capital Expenditure (including depreciation) ($m)



We will fund operating and capital expenditure in accordance with the Revenue and Financing Policy:

- operating expenditure will be funded primarily through rates and activity revenue (user charges and water rates), grants and NZ Transport Agency (NZTA) funding. Debt will be used to spread the cost of desludging;
- capital expenditure will be funded primarily through rates, development contributions and NZTA funding debt; and
- borrowing is used minimally over the forecast period given that it reduces over the plan period.

Overall, while not fully rate funding depreciation until 2021/2022 (with the exception of roading as it has funding from the NZTA and Mangawhai Community Wastewater Scheme (MCWWS) until 2025) and part of the interest costs related to growth in the MCWWS, the books will be balanced from the outset and for the duration of the Long Term Plan. Forecasted revenues are sufficient to cover both operating and capital expenditure over the 10 year period and to provide for net debt repayment.

The forecasted operating surplus together with total revenue and expenditure, as detailed in the Prospective Statement of Comprehensive Revenue and Expense, is summarised in the table below.

Figure 3a: Forecasted Total Revenue, Expenditure and Operating Surplus 2018/2028[7] ($million)

Year end June	2018[8]	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Revenue	54.0	54.3	57.1	60.0	62.0	62.8	66.4	66.8	69.4	70.4	72.6
Total Expenditure	45.7	45.9	48.4	49.7	49.6	51.3	52.9	53.8	55.2	57.4	58.8
Net Surplus (Deficit)[9]	8.2	8.4	8.6	10.3	12.4	11.6	13.5	13.0	14.2	13.0	13.7

Forecasts have been inflated using the LGCI produced by Business and Economic Research Ltd (BERL). The forecast interest rates are the actuals for existing loans and swaps. The interest cost of the new debt or refinanced debt is assumed to be at an average of 5.07%, which is a conservative estimate, using the long term average forecasts and a margin applicable to Council on borrowings from the Local Government Funding Agency (LGFA).

Finding the Right Balance

This Financial Strategy is based on continuing to balance our operating budget and a sustainable level of debt while recognising the need to maintain reasonable levels of service, provide for the renewal of our assets and ensure that our rates remain affordable for ratepayers. While Council debt levels are within its debt limits, we need to maintain discipline in order to remain so. If we relaxed our Policy to fund operating and renewal expenditure from increased revenue rather than borrowing we would soon be outside our debt limits. This would mean that either borrowing would become very expensive or in the worst case scenario that Council would be unable to raise the loans we needed. To ensure that Council continues to move towards a more financially sustainable position it is projecting to increase revenue, predominantly by increasing rates, and to maintain the debt reduction programme, albeit at a slightly reduced level.

Intergenerational equity means that, over time, users or people who benefit from a particular asset contribute a reasonable amount towards its cost. If an asset lasts 20 years for example, people who benefit from that asset should pay for a fair proportion during the time they have used it. It is fair and helps with affordability. Managing intergenerational equity has two different impacts depending on the type of asset and expenditure.

[7] Refer Prospective Statement of Comprehensive Revenue and Expense.
[8] The 2018 figures represent Forecast 1 for the 2017/2018 financial year.
[9] Net Surplus (deficit) prior to Gain/Loss on Asset Revaluations.

If the asset is new, it is appropriate to fund it by debt which is then repaid from rates over a maximum of 20 years. If there is a growth related component it is also appropriate that Development Contributions are utilised.

The main growth related project is the MCWWS. To date it has largely been debt funded. The forecasts for the next 10 years project that the portions paid by the Mangawhai Community and the District will be repaid over the original 30 years. The projections for future users have been revised downwards to reflect that not all the new growth developments will be charged a Development Contribution. As a consequence the future users portion of the debt is now projected to be repaid over the 40 years.

For assets that already exist, renewal expenditure is required. Depreciation recognises that the value of the asset diminishes over time. By funding the depreciation, a reserve is set up that can be used to fund the renewal expenditure when it falls due. This means that those who use the asset contribute to its upkeep and replacement ensuring that there is intergenerational equity. Depreciation is fully funded for all asset classes other than water, stormwater and wastewater from year 1 of this Long Term Plan. The impact of this is that:

- asset renewals are kept to a basic but manageable level;
- over time funding capacity for additional work will become available should it be required; and
- rates can be maintained at a lower level in the short term to assist with affordability.

This effect of progressively funding depreciation can be seen in the next table.

Figure 3b: Funded depreciation ($000's)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total depreciation	**9,837**	**10,352**	**10,892**	**11,480**	**12,133**	**12,718**	**13,198**	**13,690**	**14,254**	**14,861**
Total funded depreciation	**5,093**	**5,681**	**6,253**	**7,006**	**7,596**	**8,129**	**8,560**	**8,870**	**9,240**	**9,641**
Unfunded depreciation:										
Roads and Footpaths[10]	3,795	3,901	4,017	4,149	4,305	4,465	4,637	4,820	5,014	5,220
Mangawhai Community Wastewater Scheme	549	478	408	325	231	124	-	-	-	-
Other	400	292	214	-	-	-	-	-	-	-
Total unfunded depreciation	**4,744**	**4,671**	**4,638**	**4,474**	**4,537**	**4,589**	**4,637**	**4,820**	**5,014**	**5,220**

[10] Overall, between the NZTA and Council, Roads and Footpaths is 100% funded

The table shows the total level of depreciation and what is funded, together with the unfunded portions for Council. The key point to note is that funded depreciation steadily increases until unfunded depreciation is zero for everything other than Roads and Footpaths and the MCWWS by 2022 i.e. depreciation is fully funded for these activities. Roads and Footpaths project expenditure, including renewals, is partially funded by the NZTA subsidy at the time the project is undertaken which means that fully funding depreciation is not required. Fully funding the depreciation for the MCWWS is scheduled for 2025 rather than 2022 as it is with other activities to coincide with maximum term of the current operating contract.

Fully funding depreciation will allow Council to fund normal renewal levels of expenditure within projected revenues and reserves. However, we have catch-up renewals to manage as well. While the exact need and relative priority is not known at present, where possible a provision is being built up to manage this additional expenditure. Beginning in the later years of the Long Term Plan 2015/2025 catch-up renewal is expected to be prioritised and cleared over a 30 year period.

We are mindful of the impact that rates increases have on ratepayers. Not dealing with the sustainability and intergenerational issues is also not a viable alternative and in the long run the negative impact would be much greater.

Our strategy, in regards to keeping rates within affordable bounds where possible, is to:

- keep expenditure to base levels of service, no “extras”, and operate a “just in time” policy in regard to undertaking capital expenditure. This will see levels of service generally being maintained at current levels;
- smooth the impact of desludging costs by loan funding rather than rates funding in the year it occurs[11];
- phasing in rate increases where it is prudent to do so, for example the move to fully fund depreciation and to set up provisions for priority expenditure over and above depreciation levels to restore assets to an appropriate condition and to avoid loan funding for operating expenditure in the future; and
- moving towards allocating the costs to wider groups who benefit from the service or who cause the costs.

As part of the Infrastructure Strategy, reviews are programmed to complete the condition assessment of assets and to investigate affordable alternatives.

The increase in rating levels in 2018/2019 through to 2020/2021 means that Council results in a more sustainable funding base. This means our base level of services can be funded within current income, financial risk is reduced and financial resilience is increased as debt is steadily retired over the 10 year period and there is some, albeit limited, capacity to make investments for our communities in outer years.

We believe that the respective trade-offs are workable. While there is a risk that assets may fail before they are renewed we are comfortable that this is manageable and overall the combination of measures present a good balance among the different factors that we have had to consider.

[11] Unless new technology provides an economical alternative and loan funding of rate spikes is not required.

Investing In Our Communities

Making the Kaipara a district with welcoming and strong communities is a key goal for Council. Council works with the people of Kaipara to support community involvement, improve infrastructure and to support achievement. Through the range of services that we deliver and our community leadership role we make a significant contribution to the future success of the District. The delivery of these services will be efficient, effective and appropriate for the circumstances, both now and in the future.

Council's contribution needs to be balanced with the need to keep rates at an affordable level and for the organisation to operate in a financially prudent manner. We recognise that there are limits to the level of rating that the community can afford to pay. In this regard Council has compared its levels of rating with the threshold for an affordable level of rating against the median household income as suggested by the Rates Inquiry[12]. We also need to strike a fair balance between what today's ratepayers pay for, the assets and services they consume versus those who will come in the future, and ensure we are to be able to deal with the unexpected when it happens.

Operating in a financially sustainable way is a delicate balancing act. The Long Term Plan 2015/2025 moved towards achieving a more appropriate balance over time by reducing our levels of debt and increasing our rating base so that today's ratepayers are paying for the services that they receive. This Long Term Plan continues these principles.

Council believes that we need to support our communities by providing for renewals, being mindful of our level of debt and preserving a more conservative financial position in order to reduce risk and increase flexibility and resilience for the future.

Making this happen will require $523 million in operating expenditure and $219 million of capital expenditure over the 10 years of the Plan. A significant driver of this expenditure is the need to operate and maintain Council's assets. Of the total operational spend, around 63% is directly related to the delivery of core infrastructural asset services (roading, water supply, stormwater and wastewater services). Core infrastructural assets account for around 92% of Council's capital expenditure.

The pie charts below show the allocation of expenditure to the different activities. It is important to recognise that roads and footpaths are the single biggest expenditure item, representing 37% of operating expenditure and 59% of capital expenditure. Most of this expenditure relates to roading. The next biggest activity is Sewerage and the Treatment and Disposal of Sewage at 16% and 16% for operating and capital expenditure respectively. The MCWWS alone represents approximately 66% of the total operating expenditure for the sewerage activity.

[12] The Local Government Rates Inquiry report indicated that rates are affordable if they equate to 5% of gross household income.

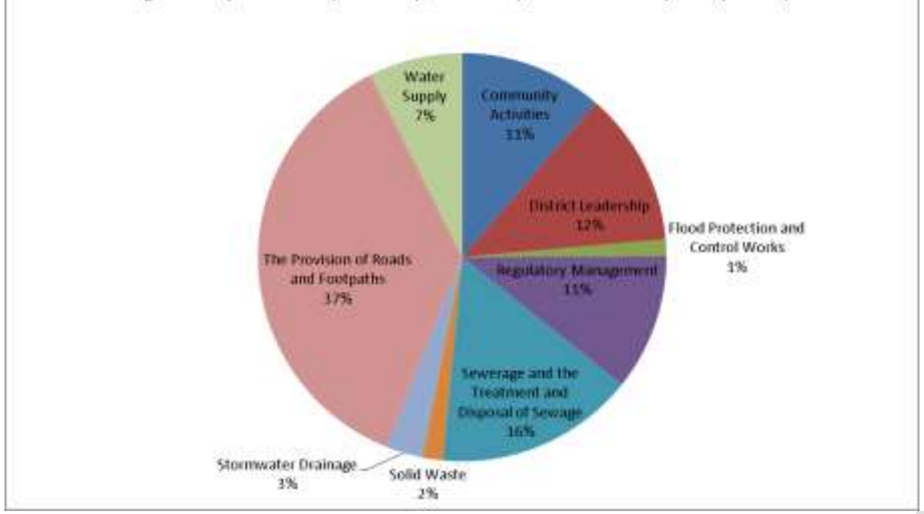


Figure 4a: Operational expenditure ($523 million) over the next 10 years by activity

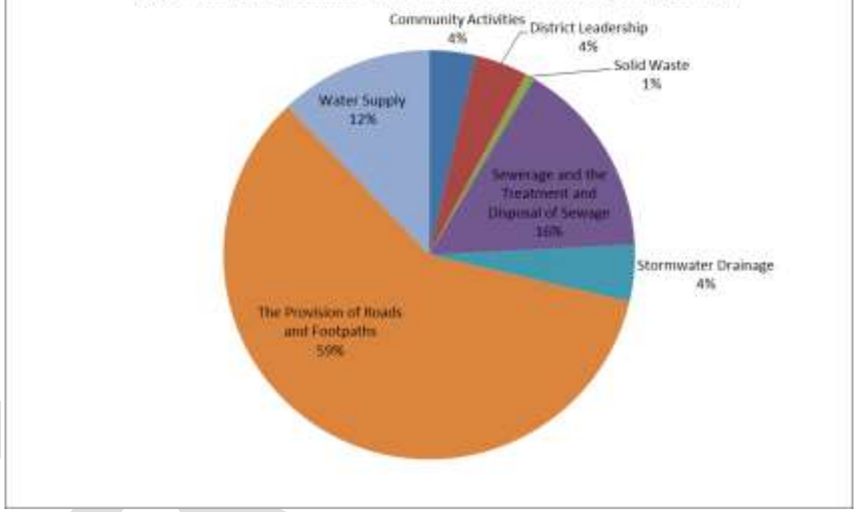


Figure 4b:Capital expenditure $219 million over the next 10 years by activity

Council's assets at the beginning of the period, 30 June 2018, are forecast to be $627 million and at the end of the 10 years, 30 June 2028, are forecast to be $907 million.

Funding the investment

Council will fund our forecasted expenditure primarily through rates, user charges, NZTA funding, and Development Contributions. We are also funding past expenditure through borrowings. This section describes our general strategy around how we intend to use these sources of funding and indicates some of the key risks. It also outlines our limits in these areas.

The specific funding mechanisms for each activity (and hence how the funding raised will be used) are set out in the Revenue and Financing Policy.

Rates

Rate funding is applied to operating expenditure after other available funding sources have been used. Rates are also collected for renewals via depreciation and servicing corporate debt (interest and principal) repayment.

Council maximises all sources of non-rate income, especially subsidies and grants. Over the three years to 2017/2018 we increased the percentage of income collected by rates. In 2017/2018 we forecast collecting 55% of income from rates. During the period covered by this plan this increases from 57% in year 1 to 60% in year 10, well within the policy limit of 76%.

Figure 5: Annual Operating Rates Revenue and Forecasted Movements 2018/2028[13]

Year End June	2018[14]	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Rates ($m)	29.4	31.2	33.1	34.8	36.0	36.9	38.9	39.6	40.7	42.2	43.4
Total Revenue ($m)[15]	53.9	54.4	57.1	60.0	62.0	62.8	66.4	66.7	69.3	70.4	72.6
Total Rates % of Total Revenue[16]	54.61%	57.37%	57.94%	57.98%	58.11%	58.71%	58.54%	59.40%	58.64%	60.02%	59.85%
Forecast Increase for Total Rates (Excluding growth)	2.65%	5.45%	5.53%	4.76%	3.02%	1.88%	4.88%	1.50%	2.06%	3.38%	2.29%
Rates Increase Policy	5.1%	4.0%	4.2%	4.2%	4.2%	4.3%	4.3%	4.4%	4.5%	4.6%	4.7%

In the Long Term Plan 2012/2022 Council established a ceiling to rate increases to guide financial planning. The limit was established at Local Government Cost Index (LGCI) plus 2%. The LGCI is prepared and published by independent economic consultants BERL. The 2% was to provide funding for new capital works required from time to time. Rate increases are measured on income after deducting penalties, water targeted rates and growth in the rating base.

The Long Term Plan 2018/2028 forecasts the ceiling to be exceeded in each of the first three years. In years 4-10 rate increases are forecast to be less than the ceiling, other than 2023/2024. Over the 10 year long term plan period cumulative increases will be less than the ceiling. In 2018/2019 the increased rate revenue is forecast at $1.751 million or 5.95%. From this growth of 0.5% is deducted to give an increase of 5.45% against a ceiling of 4%. The forecast increases for 2019/2020 and 2020/2021 are 5.53% and 4.76% respectively compared to ceilings of 4.20% in each year.

It is important to recognise that the percentage increases outlined above are only averages. Hence, the specific rates paid by an individual ratepayer could vary widely around this number with some being higher and others being lower. In addition, the specific targeted rates (e.g. water and wastewater) applying to a particular property will also need to be considered. Tables showing the impact of the movements on a selection of individual properties are included in the Funding Impact Statement set out in the Long Term Plan 2018/2028.

In developing the above limits Council has sought to balance ratepayer affordability, the demands for services and maintenance of its assets with its need to be financially sustainable.

[13] Excluding rate penalty income and water supply rates.
[14] Annual Plan 2017/2018.
[15] Excludes non-cash items.
[16] Calculated on $000's.

Rating Structure

The Revenue and Financing Policy and the Funding Impact Statement set out in the Long Term Plan 2018/2028, incorporates Council's rating structure.

The rating structure is largely unchanged from that applied structure in the Long Term Plan 2015/2025.

The key elements of the structure are:

General rate

- Calculated on Land Value with two differentials (100% for residential and lifestyle land under 2 hectares; 155% for all other land use categories)
- UAGC set at $728.00 which is close to the maximum limit permitted under the Local Government (Rating) Act 2002;

Network infrastructure rates

- There is one rate for each scheme (except for the Te Kopuru wastewater scheme), made up of operating costs (excluding depreciation and interest) across the District divided by the number of units in the District, together with individual scheme costs for defined capital costs (including funded depreciation, interest and loan repayments) for each scheme divided by the number of scheme users. Specifically:
  - Stormwater. Targeted rates for the five networks (Baylys, Dargaville, Te Kopuru, Kaiwaka and Mangawhai) based on land value;
  - Wastewater. Targeted rates for five schemes (Dargaville, Glinks Gully, Maungaturoto, Kaiwaka and Mangawhai) for connected properties at 100%, 75% connectable properties and 50% for multiple pans beyond the second (non-residential only). The charge is per SUIP for residential purposes and per rating unit and pan for non-residential;
  - Water. Targeted rate for six networks (Dargaville (including Baylys), Glinks Gully, Ruawai, Maungaturoto (Station Village), Maungaturoto (Township) and Mangawhai) on a differential basis between metered and other properties. Volumetric charges apply for the metered properties and a fixed amount for other properties;
- Te Kopuru wastewater. For affordability reasons, Council has calculated the targeted rate based on land value for the Te Kopuru network separately on a scheme basis manner as all other schemes (as set out above). For Te Kopuru, there is one rate for the scheme made up of individual scheme costs. Specifically:
  - A targeted rate at 100% for connected properties, 75% connectable properties and 50% for multiple pans beyond the second (non-residential only). The charge is per SUIP for residential purposes and per rating unit and pan for non-residential; and

- Other targeted rates
  - Land Drainage. 29 targeted rates for the 29 committees, value based rates on undifferentiated land value for 28 schemes and differentiated land value for Raupo.
  - Mangawhai Harbour Restoration Area undifferentiated uniform charge.
  - Ruawai Tokatoka Hall area an undifferentiated uniform charge.
  - Forestry Targeted rate. A value based rate on undifferentiated land value for exotic forestry properties.
  - Mangawhai Community Wastewater Scheme (MCWWS). Four capital contributions continue to fund part of the capital cost of the MCWWS and to ensure equity amongst current and future users of the scheme.

The Funding Impact Statement, which forms part of the Long Term Plan 2018/2028, sets out the structure in more detail and illustrates this impact on sample properties.

Mangawhai Community Wastewater Scheme

The debt attributable to the MCWWS was $58 million at June 2012. The debt was, under the original funding arrangements prior to the adoption of the Long Term Plan 2012/2022, forecast to grow significantly as interest and other operating costs were to be funded from additional borrowing until further development had occurred.

The Long Term Plan Amendment adopted with the Annual Plan 2013/2014, refined the attribution of debt and rates for the different communities' debt allocations. In summary the attribution was; existing community (connected and connectable) $13.4 million, future communities (development contributions) $26.2 million and district-wide community $18.4 million to be funded from general rates.

The Long Term Plan 2018/2028 continues the strategy set out in the previous Long Term Plan. The existing community will continue debt repayments at the same rate per annum. Development contributions will be collected at the rate per unit set out in this Long Term Plan. District-wide ratepayers will continue to repay attributed debt as part of general rates.

While the existing community and future community debt repayment continues for the originally planned thirty to forty years respectively, the district-wide community will see a reduced term. Sales of surplus assets and other general surpluses have been applied to reduce the debt. It is expected the debt will be fully repaid within the next 10 years.

The operational costs of the MWWS continue to be charged to the existing community subject to any equalisation as set out in the Long Term Plan.

Roading Activity Funding

Roading costs are a dominant feature of Council's costs.

Operating costs amount to around $191 million or 36% of the operating budget over the 10 years covered by this Plan. Capital costs also amount to $129 million or 59% over the same period. It is important to balance the allocation of the costs associated with roading between those who benefit from the activity and those who create additional maintenance demands (i.e. exacerbators).

Roading costs in the general rate contribute to differentials on land use categories (100% for residential and lifestyle land under two hectares; 155% for all other land use categories). This reflects the view that roads are a public good where everyone benefits and can use them and that there is a difference, assessed by using land use categories, as to how much each category uses the roading network and the extent to which they contribute to the costs of the network.

A Forestry Roading Targeted Rate was introduced in 2015/2016 for the six years to 2021 in order to fund the impact of forestry and logging trucks and maintain close to current standards on Council roads. The heavy metalling funded by the targeted rate is achieving the objectives, but logging activities are continuing beyond the originally expected completion date. This plan extends the targeted rate to the year ended 30 June 2028 and increases the $390,000 rate by the appropriate LGCI.

Further detail is set out in the Funding Impact Statement included in the Long Term Plan.

Water Supply, Stormwater and Wastewater Services

We believe that the District as a whole benefits from having healthy and vibrant urban areas. Everyone needs to go to town to visit shops and complete their day to day business. The creation of urban or residential areas can lead to the need for reticulated systems, such as for water supply and stormwater. These systems ensure that wastewater and stormwater, for example, are disposed of in environmentally acceptable ways while also protecting public health.

Given the broader public benefits associated with these services Council believes that it is appropriate that a portion of these costs should be funded via the general rate. This funding of scheme stormwater costs from the general rate remains at 10% for the life of the Plan.

The status quo also remains for the calculation of water supply, stormwater and wastewater network charges (i.e. defined operating costs averaged across the schemes with defined capital costs are charged per individual scheme), except for Te Kopuru.

Further detail is set out in the Revenue and Financing Policy and the Funding Impact Statement included in the Long Term Plan 2018/2028.

Fees and User Charges

Fees and charges are applied where there is a clear link between the user and the service. This area includes the regulatory Fees and Charges that are set out as part of this Plan and activity charges such as water rates. Activity revenue is forecasted to be $58 million over the 10 years of the Plan. The full cost of the service is charged where possible although there is sometimes an element of public good included in the service which is funded by the general rate. Further details are set out in the Revenue and Financing Policy.

NZ Transport Agency Funding and Grants

Council is projecting to receive $53 million in operating revenue and a further $77 million for capital works predominantly from the NZTA for roading. This level of funding reflects the 61% funding assistance rate for the 10 years of the Long Term Plan 2018/2028 for most undertakings. This means that existing base levels of service and limited improvements can be funded. A reduction of funding of any significance would have a corresponding impact on our roading network. We have assumed that central government will continue to provide funding at 61% for the term of this plan.

Development and Financial Contributions

Income from Development Contributions has been calculated in accordance with the Development Contributions Policy which forms part of the Long Term Plan 2018/2028. It relies on the identification of the growth related portion of capital expenditure and assumptions about the rate of growth. The growth assumptions need to be continually monitored to ensure that our forecasts are on track.

Council is projecting to receive Financial and Development Contributions of $27.6 million for growth related capital expenditure (including the MCWWS) over the 10 years of the Plan.

Figure 7: Forecasted Development and Financial Contributions 2018/2028 ($000's)

Year end June	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Development Contributions	1,954	1,980	2,509	2,489	2,487	2,491	2,494	2,498	2,501	2,330	23,733
Financial Contributions	540	551	562	574	587	445	341	233	119	-	3,952
Total Contributions	2,494	2,531	3,071	3,063	3,074	2,936	2,836	2,730	2,620	2,330	27,686

Other Income

Council is projecting to receive income from other sources of $3.5 million over the 10 years of the Plan. It is primarily made up of local authority fuel tax, fines and infringement fees.

Investments

Our Investment Policy incorporated in the Treasury Policy was adopted and is available on Council's website.[17]

Council is currently a net borrower and is likely to remain so for the foreseeable future. We will look to internally borrow in the first instance to meet future capital expenditure requirements, unless there is a compelling reason for establishing external debt. Investments are maintained to meet specified business needs. Unless otherwise determined by way of Council resolution, internal borrowing to/from reserves will be undertaken at the weighted average external cost of borrowing, or in accordance with the fund agreements.

In our financial investment activity, our primary objective is the protection of Council's investment capital. As a result we adopt a conservative approach to the risk/return trade-off. Accordingly, only approved creditworthy counterparties are acceptable.

The LGFA is an acceptable counterparty for both investments and for borrowing. This is explicitly covered in both the Investment and Liability Management policies.

Council owns a few forestry assets. All income from forestry is included in the consolidated revenue account. Any disposal of these assets requires specific approval.

Council has an equity investment in the New Zealand Local Government Insurance Corporation Limited. This investment is held for strategic business purposes and we do not seek to make a given rate of return.

Any other potential equity investments will only be considered if they are seen as contributing to a strategic business need.

Council's overall objective is to own only property that is necessary to achieve its strategic objectives. As a general rule we will not retain a property investment where it is not essential to the delivery of relevant services, and property is only retained where it relates to a primary output. We review property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. We generally follow similar assessment criteria in relation to new property investments.

All income, including rentals and ground rent from property investments is included in the consolidated revenue account.

[17] A copy of this report is available on the Council website (www.kaipara.govt.nz).

Our Investment Targets

- We will aim to exceed the weighted average official cash rate over the financial year from any external financial investments.

Borrowing

Council's Liability Management Policy incorporated in the Treasury Policy was adopted and is available on Council's website[18]. Normally we would borrow to fund new capital expenditure and repay the debt over the life of the loan to promote intergenerational equity and manage the impact of significant expenditure over time. Borrowing is also used to address timing issues and to fund short term needs.

We utilise internal reserves before borrowing externally and this internal borrowing is effectively on call. As a general rule, Council provides rates revenue as security for borrowings. In exceptional cases a charge over a particular asset could be considered.

We will source borrowings through the LGFA along with traditional sources in order to achieve the lowest possible cost of debt. Primarily we source borrowings from the LGFA but maintain relationships with traditional sources to ensure we achieve the lowest possible cost of funds.

Our biggest risk in regards to borrowing is that there is an increase in interest rates. We manage this risk by maintaining an interest rate strategy, keeping the debt profile within policy limits and by maintaining adequate liquidity facilities. Council expects to be able to refinance loans as they mature and puts in place strategies to ensure this can be achieved.

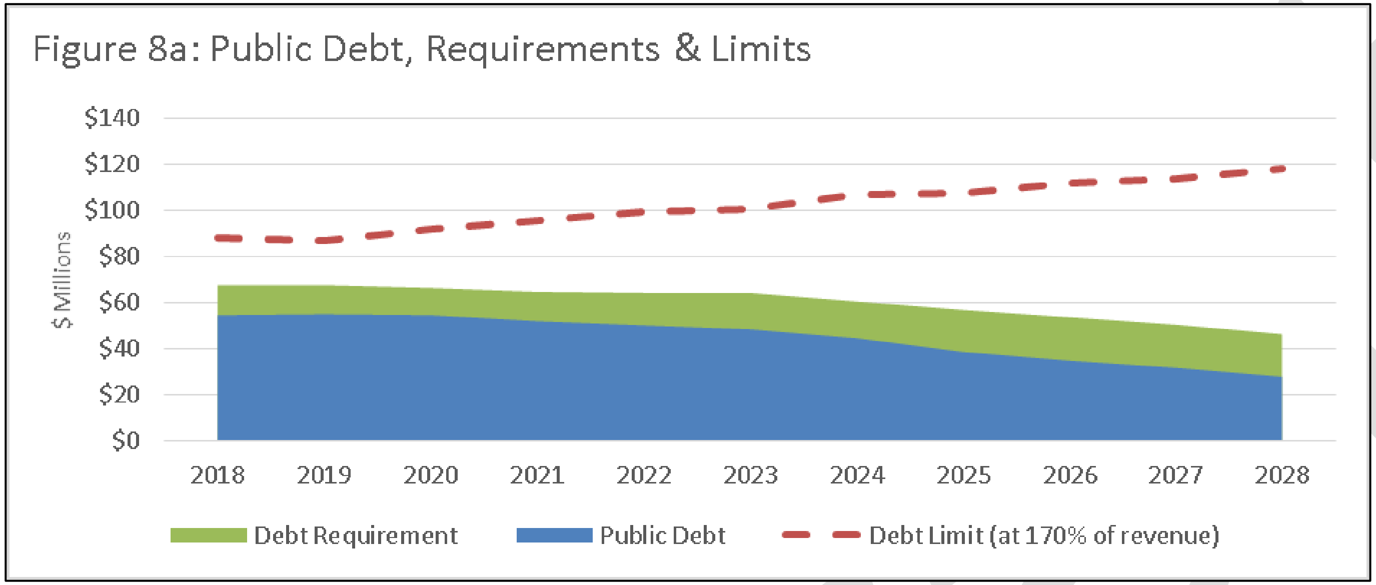
Council's external debt was $76.3 million at 30 June 2014. Over the three years to June 2018 Council's debt has been reduced more than forecast in the Long Term Plan 2015/2025. It is anticipated debt will be $54.5 million at June 2018 (compared with $70.7 million forecast in the plan).

This reduction was achieved through asset sales and tight control of spending costs resulting in greater than forecast spending surpluses.

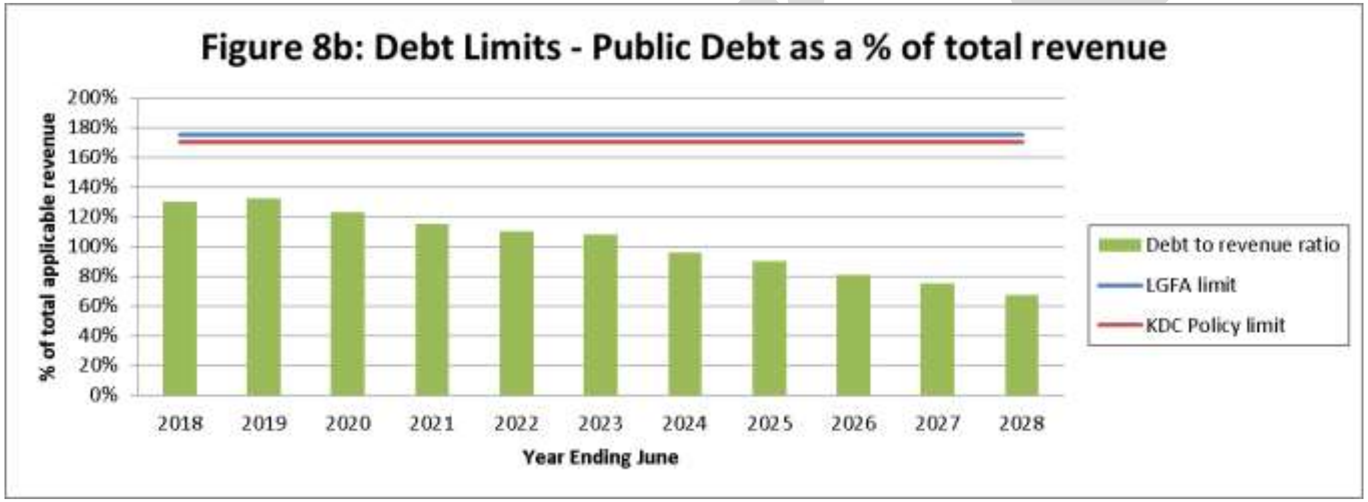
The aggressive reduction of debt has been modified in the plan returning to the more modest reduction of the 2015/2025 plan. Debt will increase from its current level to $54.9 million at June 2019 then track down each year reaching $27.8 million in June 2028. The increased debt in 2018/2019 is a result of a higher capital works programme.

Council has set debt limits in order to provide services, undertake its stewardship obligations while managing its debt and keeping it within fiscally responsible levels. The graphs below show the debt requirements (projected debt plus increasing capacity to fund reserve expenditure) over the 10 years and compares them with Council's maximum allowable limit and the preferred limit. It shows that the debt to revenue ratio steadily declines and that it is within Council's preferred limit at all times during the 10 years of the Long Term Plan 2018/2028.

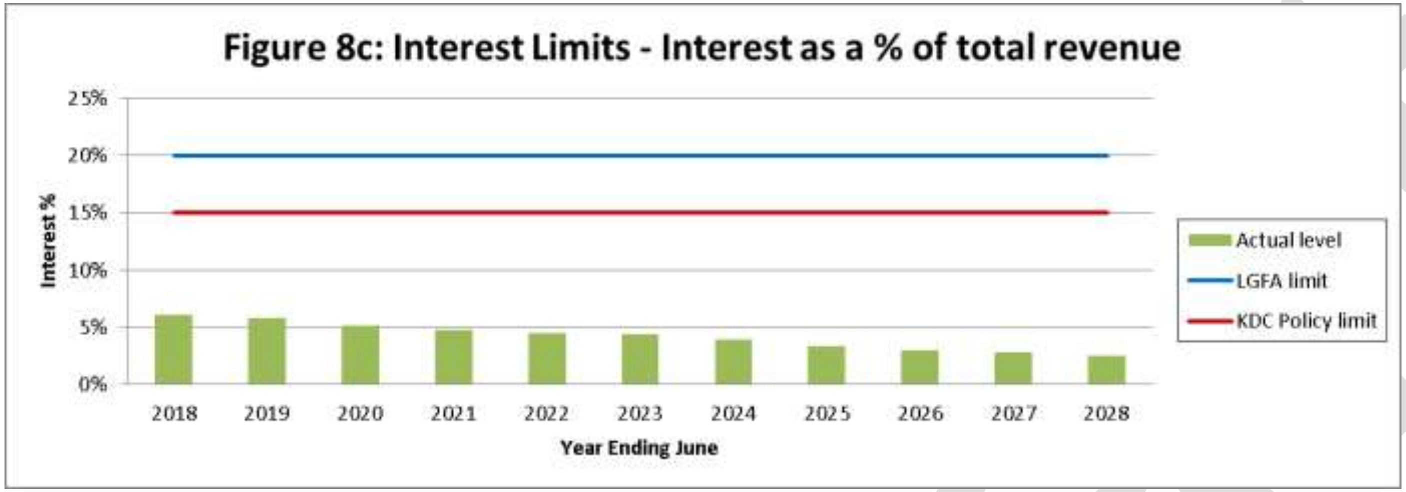
[18] A copy of this report is available on the Council website (www.kaipara.govt.nz).



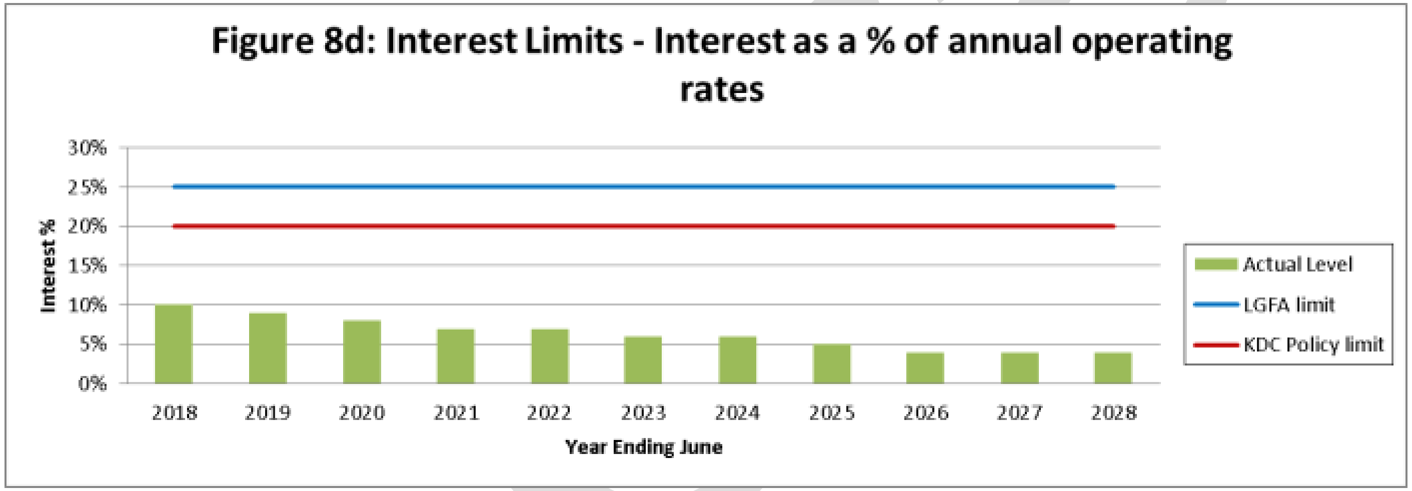
Public Debt decreases from forecast $67.4 million at June 2018 to $46.2 million at June 2028.



At all times the debt to revenue is within Council's Treasury Policy limit of 170%.



At all times this interest ratio is below Council's Treasury Policy limit.



At all times this interest ratio is below Council's Treasury Policy limit.

During the course of the Long Term Plan 2018/2028, debt projections are generally lower than the debt requirement because of internal borrowing[19]. Council may temporarily use reserve funds for a different purpose from that for which they were received. However, the debt requirement and therefore capacity is needed for the time that these funds are called on. As a result the ratios are calculated on debt requirements rather than debt projections. The difference between the two is shown in the table below.

Figure 9: Public debt projections compared to public debt requirements 2018/2028 ($millions)

Year End June	2018[20]	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Public Debt projections	**54.5**	**54.9**	**54.5**	**51.8**	**50.0**	**48.3**	**44.5**	**38.5**	**34.7**	**31.6**	**27.8**
Future Reserve Obligations	12.9	12.6	11.9	12.8	14.1	15.7	15.9	18.2	18.9	18.7	18.4
Debt requirement	**67.4**	**67.5**	**66.3**	**64.6**	**64.1**	**64.0**	**60.4**	**56.7**	**53.6**	**50.3**	**46.2**

Our Policies on Securities for Borrowing and Local Government Funding Agency Guarantee

Just as with a mortgage for a property, Council gives securities against our borrowing from external lenders. If we defaulted on our loan payments, the lender would have access to those securities. Council will continue to secure its borrowing and interest rate risk management instruments against rates and future rates revenue. We will also provide this security for our commitment under the Guarantee required to borrow from the LGFA. In unusual circumstances, security may also be offered by providing 'a charge' over one or more of our assets. Physical assets will only be charged where:

- there is a direct relationship between the debt and the purchase or construction of the asset which it funds; and
- we consider a charge over physical assets to be appropriate.

Securities are not provided for our own internal borrowing.

Financial Implications of Service Provision

The Council is required to provide a statement on our ability to provide and maintain existing levels of service and to meet additional demands for services within the rates and borrowing limits. As outlined in this Strategy for the 10 years to 2028 the expenditure incurred to maintain existing services, increase service levels and provide for additional capacity falls within the limits set in this Strategy and its associated financial policies.

[19] In accordance with Council's Treasury Management Policies.
[20] Annual Plan 2017/2018.

Infrastructure Strategy – beyond the 10 years

Kaipara's infrastructure – its roads, water, wastewater, stormwater and flood protection – are its backbone, making it easy to live in functional and connected communities. Infrastructure is Council's biggest spend. The funds needed to provide and keep this infrastructure working mainly come from rates. There are significant issues facing Council and ratepayers because this infrastructure is getting old and is in need of costly renewal. Some communities will not be able to afford the upgrades required on their own. The Infrastructure Strategy suggests the preferred way Council can deal with these issues.

In essence preferred options for maintenance, renewal and development of infrastructure covering the different assets classes have been developed using the criteria of maintaining appropriate service levels and affordability.

To this end, Council will generally institute an affordable renewals programme that meets consent conditions and addresses the backlog of renewals required over time. For water supply, stormwater and wastewater the programme will be refined as follows:

a. Preliminary conditions assessments completed by 2018; and
b. Detailed assessments with preferred approach by 2021.

In addition, for some of the smaller water supply and wastewater schemes Council will investigate alternatives for funding and/or the mechanism for provision of the service.

The first 10 years of the Infrastructure Strategy is covered in this Financial Strategy. At the end of the 10 years, public debt will be $27.8 million which is considered a prudent and sustainable level for the long term. It provides Council with financial resilience and capacity should the need arise. Equally by the end of 2028, depreciation will be fully funded and provide for normal levels of renewals. Additional funding for catch-up renewals is incorporated in the 10 years of the Long Term Plan 2018/2028, from year one for roading, from year eight for wastewater and stormwater and for years four to seven for water supply. The combination of fully funded renewals together with the modest but affordable funding for additional expenditure will see the level of theoretical backlog diminish over a 30 year timeframe. These levels of funding, given current levels of knowledge and uncertainty, together with the available debt capacity should the need arise, is expected to provide for any essential renewal expenditure over the 30 years of the Infrastructure Strategy. This position will be revisited in 2021 and 2024 as further definitive information is available.

Further information is available in the Infrastructure Strategy included in the Long Term Plan 2018/2028.