SOUTH TARANAKI

THE MOST LIVEABLE DISTRICT

Te Kaunihera ō Taranaki ki Te Tonga
South Taranaki District Council

Rautaki Pūtea
Financial Strategy

www.southtaranaki.com/longtermplan

Rautaki Pūtea

Financial Strategy

About the Strategy

The purpose of this Financial Strategy is to help us prudently manage our finances as we work towards our vision of South Taranaki, the most liveable District. The Strategy guides us to consider proposals for funding and expenditure. It sets out our financial targets, explains how we will manage our resources and highlights areas where there will be a significant financial impact. The Strategy describes what we are aiming to achieve over the next ten years and states the effects of our proposals on our services, rates, debt and investments.

Over the past two decades we have completed upgrades to our water, wastewater, roading and community facilities infrastructure. This upgraded infrastructure will last well into the future; however, we are now required to meet new Government standards that include significant extra compliance work over the next ten years and this, along with several of our resource consents being due for renewal, has added pressure on our budgets. The new Government standards focus on water supply, wastewater and environmental sustainability. We plan to stay on track with other key projects that help to make South Taranaki the most liveable District, such as town centre master plans, Te Ramanui o Ruapūtahanga civic centre and the South Taranaki Business Park. In this Plan we have capped debt levels at $168m and we aim to limit rates increases to 4.75%.

This Strategy focuses on five themes:

Encouraging sustainable growth
Population growth predictions for South Taranaki are low but we know the District has the space and the community appetite for sustainable growth. This LTP includes plans to create the conditions that encourage sustainable growth in key areas and reduce ad hoc development in areas without appropriate infrastructure. Encouraging sustainable growth is expected to benefit the District by providing new jobs, diversifying the local economy and strengthening the rates base. Priority projects to encourage sustainable growth include the South Taranaki Business Park, the western Hāwera structure plan and town centre master plans for Ōpunakē, Manaia, Eltham, Pātea and Waverley.

Ensuring environmental sustainability
A healthy environment is an important part of being a liveable District and our community has highlighted this as a priority. We have many services that directly affect the environment and New Zealand's environmental legislation is undergoing rapid change. This LTP includes plans to implement our Environmental Sustainability Strategy, with significant budgets and workplans covering climate change, biodiversity, air, waste, water, wastewater and stormwater, conservation, development and industry. We are working on how we can conserve the District's natural environment, increase biodiversity and develop an income stream from carbon credits.

Managing our resources effectively
New Government standards, for water supply and wastewater, along with several of our resource consents coming up for renewal, requires significant new investment in infrastructure over the next ten years. Our ability to complete all the work in our capital works programme is always a challenge and COVID-19 has made this even more difficult by limiting access to resources; however, in 2020 we purchased a significant amount of pipe to complete key pipe renewals. We have also taken a more proactive approach to our capital works programme and split the funding allocated to a given project to better reflect the timeframes for completing work. This includes adding a design phase to the front end of capital projects, where appropriate. We need to balance the requirement for higher compliance standards with the community's ability to pay and we do this by spreading the cost of our infrastructure over the generations it will serve. Meeting new freshwater and wastewater compliance standards

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set by the Government is a priority in this Plan.

Keeping rates affordable

South Taranaki - the most liveable District includes being an affordable place to live and do business. In every LTP, our plans for the District must be balanced with the need to keep rates affordable for our community while maintaining our current levels of service. We did not raise rates in the 2020/21 Annual Plan, as we knew many of our residents and businesses were facing a loss of income due to the COVID-19 lockdowns. We have spread the increased costs ($722,000 in total) faced during this time over the first five years of the Plan, to lessen the burden on ratepayers. We aim to achieve the projects in this Plan without raising our rates above the cap of 4.75% per year (the Local Government Cost Index ten-year average of 2.75% plus 2% for growth). Increased compliance costs and planning for growth mean that our rates cap is higher than the previous ten year plan. The cap will be breached in year four mainly to allow for increased levels of service in that particular year. The projected rate increase in year four is 4.94%. The breach is not considered to be significant. The average rates increase for 2021/22 is 4.73% and the average for the next ten years is projected to be 3.99%. We will continue to seek external funds to help our community to pay for key projects.

Effective management of debt

We always aim to find alternative ways to pay for infrastructure, including securing Government funding, where possible. We recognise that the infrastructure we build, maintain and operate serves the community over many generations. We use debt to fund new infrastructure, reflecting the intergenerational value of our water, wastewater, stormwater, roads and community facilities. We also fund the depreciation of our assets, so renewals are largely funded through depreciation. Gross debt levels are high and are capped at $168m in this Plan. The debt is used to pay for vital infrastructure, to meet critical resource consent conditions, to improve the performance of our assets and to meet new standards. Managing our debt effectively is a priority and this is why we are proposing to use funds from the Long Term Investment Fund fluctuation reserve to pay for town centre master plans and Hāwera town centre development ($15.2m).

Financial Strategy

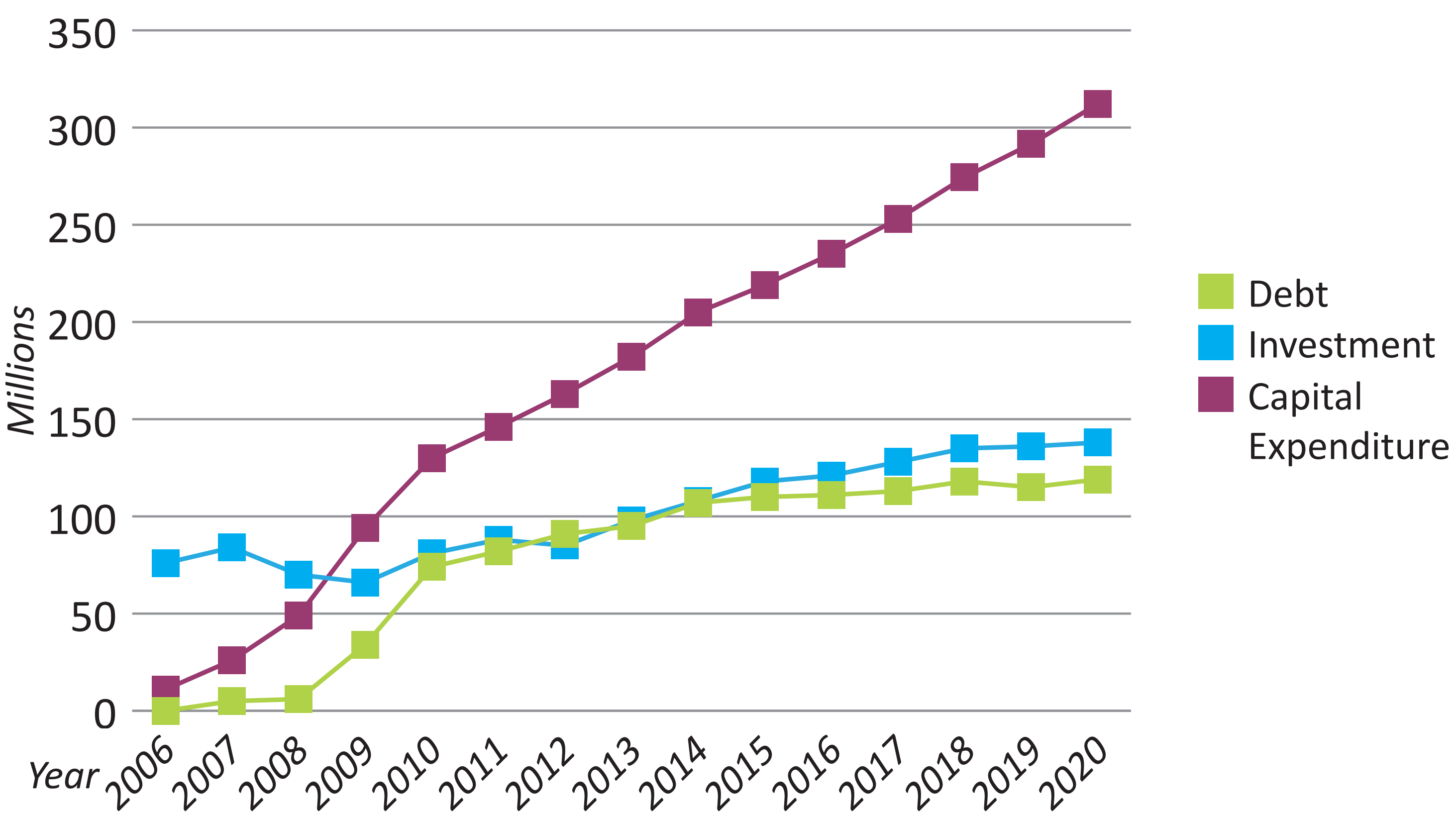
The following sections of this Financial Strategy provide the detail of how the priorities will be achieved.

Our Current Financial Position

Where Are We Now

Our financial position remains reasonably strong, in terms of continued increased investment income and total net assets and, as at 30 June 2020, our net debt was zero. However, our gross debt is high and increasing compliance costs mean that debt is expected to increase in the first seven years of this Plan. Our priority has been to consolidate and pay off debt up to now, but the priority has changed in this Plan to allow for the need to meet legislative compliance and sustainable growth. Despite this change, paying off debt remains a priority. The following two graphs demonstrate this.

Current Financial Position ($m)



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Income and Expenditure ($m)

Capital Works

Over the past two decades, we have implemented a capital works programme to bring our core infrastructure up to standard. The implementation of the New Zealand Drinking Water Standards for potable water affected the District's water supply schemes and new reservoirs and water treatment plants have been constructed. Over several years water treatment plant upgrades have been completed at Kāpuni, Ōpunakē, Eltham, Rāhotu, Pātea, Waverley, Inaha, Waimate West, Waverley Beach and Waiinu. The capital works programme also included renewals on the roading network and community facilities such as TSB Hub, Aotea Utanganui District Museum, Waverley and Normanby Community Centres, Public Toilets and Swimming Pool upgrades at Eltham, Kaponga, Waverley, Pātea and the Hāwera Aquatic Centre.

Three Waters Reform

The Taumata Arowai – Water Services Regulator Act 2020 established a new Crown entity, Taumata Arowai – the Water Services Regulator. The new entity is responsible for administering and enforcing a new drinking water regulatory system. We will continue to manage our three waters services in the meantime until we have further information from the Government. We have budgeted for the significantly increased costs associated with the new regulations and upcoming consents for water extraction and wastewater treatment, which are now expected to require further infrastructure upgrades to meet environmental standards over the next ten years.

As part of the Three Waters Reform, we have entered into a Memorandum of Understanding with the Government that will provide us with up to $5.4m for infrastructure improvements. The first part of that funding ($2.7m) has been received.

How We Fund Our Infrastructure

We fund our infrastructure in a way that is fair to current and future users. Before considering new debt, we first consider other funding mechanisms such as funded depreciation, external contributions, capital contributions and special reserves as well as considering the correct method of ensuring that intergenerational equity is maintained. Our debt will reach a peak debt level of $166.2m (includes internal borrowings) in 2027/28.

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Effects of COVID-19

The Long Term Investment Fund (the LTIF) has performed very well over the past ten years with an average return of 7.50% on a target of 4% after inflation and fees. The effect of COVID-19 on our investment was considerable and the Fund was reduced by $12m to $137m in March 2020. In April and May 2020, the markets recovered as governments around the world introduced significant programmes to address the effects of the pandemic. This saw the LTIF fully recover by December 2020 and it is currently performing above expectations We did not raise rates in 2020, as a measure to assist businesses and households who lost income during the Government enforced lockdowns. To achieve a 0% rate increase for that year we made a one-off payment of $722,000 from the LTIF. The expenditure for 2020/21 was not reduced and the shortfall in rates income for that year has been spread over the next five years.

Long Term Investment Fund

In 1997 the Council sold its shares in the power company, Egmont Electricity. The net proceeds from the sale ($88m) were transferred to a Long Term Investment Fund. The LTIF remains our only long term investment fund and since that time the money held in the LTIF has grown to $153m (January 2021, note, this includes internal borrowing.)

We contribute $3.87m for a rates subsidy from returns on the LTIF on an annual basis, another $1.73m for servicing the interest and loan repayments for specific community facilities and projects and $860,000 for servicing the interest and loan repayments for the Hāwera Town Centre Strategy and projects associated with Earthquake Prone Buildings. In this way the LTIF has returned $115m back to the community since 1997.

Since it began in 1997 to 30 June 2020, the LTIF has achieved an average gross return (before subsidy and inflation) of 7.02%.

Current Management of the LTIF

The LTIF carries a degree of risk as the value can go down as well as up, and we saw this over the initial COVID-19 lockdown period. Ultimately, a decrease in value could diminish the original amount invested. To mitigate the risk we employ investment advisors, Mercer to advise on the LTIF. We also have a Statement of Investment Policy and Objectives (SIPO), which outlines our preferred approach to portfolio diversification. Currently 60% of the LTIF is in growth investments and 40% is held in conservative investments. Mercer monitors the LTIF's performance on a daily basis and the Audit and Risk Committee meets quarterly to review the LTIF's performance and make any required decisions.

The impact of not receiving investment returns great enough to fund the annual rates subsidy, the servicing of repayments for specific community projects and facilities and the Hāwera Town Centre Strategy and projects associated with Earthquake Prone Buildings would be $6.5 million per year.

Our Challenges

Demographics

As with most rural councils the geographic land area of the District is large (362,000 ha) and includes several distinct urban settlements (seven main ones) connected by a sizeable network of roads. Each of the seven urban settlements has its own facilities (for example, LibraryPlus, hall, swimming pool, transfer station, parks, cemetery) and services (for example, kerbside rubbish and recycling collection). With only 14,800 rateable properties this is inherently a higher cost model than a city or large urban area, which can provide the same facilities in a more compact area. However, this relative higher cost model is considerably offset by the annual rates subsidy the LTIF provides to the ratepayers.

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Our services:

- 10 water treatment facilities
- 37 reservoirs
- 8 wastewater treatment facilities
- 1634 kms of roads, 229 bridges, 2,252 streetlights, 163 km footpaths and more than 96km of stormwater pipes.
- 7 transfer stations
- 7 libraries
- 7 campgrounds
- 7 swimming pools
- 9 urban halls and support to 34 privately owned halls
- 38 playgrounds
- 10 cemeteries
- 36 public toilets
- 65 pensioner housing units
- 220ha of parks and reserves
- TSB Hub , Aotea Utanganui Museum, Cinema 2 and the i-SITE

Due to the nature of our District, we face a number of challenges that will have an impact on our finances over the next 10 years:

- Increasing costs related to health and environmental compliance requirements;
- How we manage our debt levels;
- Supporting economic growth in the aftermath of COVID-19;
- Minimising the impacts of climate change; and
- Ensuring environmental sustainability.

To meet these challenges our focus for the next ten years is to:

- Complete key projects identified and started from our previous Long Term Plan;
- Continue to upgrade our water, wastewater and stormwater infrastructure with a focus on wastewater;
- Implement our Environment and Sustainability Strategy;
- Encourage sustainable economic growth with development of the South Taranaki Business Park, the Western Hāwera Structure Plan and town centre upgrades for Manaia, Eltham, Ōpunakē, Pātea and Waverley.

In 2010 we proposed some rationalisation of duplicated facilities and consulted the public on the possibility of reducing the level of service or discontinuing some services. However, during the consultation process the public soundly rejected the proposals, preferring to retain the current model and levels of service and therefore pay a bit more for the services they received.

Our ongoing challenge is how to provide the services and facilities our communities expect while keeping rates at an affordable level, from a relatively small base of ratepayers spread across a large geographic area.

Shared Services and Partnerships with External Organisations

We have a strategy of pursuing 'Shared Services' and partnerships with external organisations where we can achieve efficiencies and cost savings. We are involved in about 50 Shared Service arrangements with the other Taranaki councils, ranging from library services to insurance, civil defence to purchasing vehicles (where there is a financial or economic benefit due to economies of scale to the ratepayers of the Region). A good example of this collaborative approach is the Taranaki Regional Waste Collection Contract, which has resulted in major cost savings to ratepayers.

During the Long Term Plan process we considered total expenditure (including capital expenditure) in maintaining current levels of service (factoring in inflation and additional demand/ increase in levels of service). We believe we will be able to meet existing levels of service with the forecast rate increases for the next ten years.

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Encouraging Sustainable Growth

Projected population growth for South Taranaki is low but there is significant interest in land development across the District and particularly in Hāwera. We want to encourage strategic, sustainable growth so we can maximise the benefits of new infrastructure. Historically, ad hoc development across the District has resulted in residential development sprawling into semi-rural areas and making infrastructure costs prohibitive.

In order to encourage strategic, sustainable growth, two urban growth areas have been identified in Hāwera. The first structure plan covers Hāwera West and is focused on residential development. The second is focused on industrial and business development through the South Taranaki Business Park, a strategic initiative designed to support the COVID-19 recovery and help drive investment, resilience, jobs and economic growth in the District.

The structure plans indicate where we support growth and where growth is sustainable. In 2020, $3m was allocated to stage one of the South Taranaki Business Park from the LTIF for water, stormwater and roading infrastructure. This funding will be largely recovered over time, through financial contributions. Funding of $12.2m for stages two and three is included in this Plan and was a key proposal we asked the community to provide feedback on.

In 2015, we adopted the Hāwera Town Centre Strategy, which includes a series of specific actions that enable positive change to continue to take place in the Hāwera Town Centre. The realignment of roading networks in the centre, along with the creation of lanes and other connections have started to lift the visual and functional amenity of the town centre. We purchased the building on the corner of High and Regent Streets for the development of Te Ramanui o Ruapūtahanga civic centre. Demolition is underway and construction is expected to be finished by the end of 2022. We allocated an additional $4.6m to Hāwera Town Centre Strategy projects in this Plan, which will be funded through the LTIF's fluctuation reserve.

We worked with the community to develop town centre plans for Eltham, Manaia, Ōpunakē, Pātea and Waverley. We have included $10.6m to implement the plans over the next 10 years. This work will be funded through the LTIF's fluctuation reserve.

Ensuring environmental sustainability

Environmental sustainability and climate change are important issues that affect the way we live, work and play in South Taranaki, both now and into the future. To meet these challenges and our legal obligations/requirements from the Government, we have developed an Environment and Sustainability Strategy that identifies the impact we have on our environment and looks at changes we can make in order to move towards increased sustainability.

A range of actions associated with environmental protection, climate change and waste minimisation focus on the areas where we believe we can have the greatest impact on our journey to become more environmentally sustainable, reduce our emissions and our waste, and adapt to climate change effects. Implementing most of the Environment and Sustainability Strategy will be done with existing resources, however, there are some significant cost implications that we sought the community's feedback on.

Managing our resources effectively

Our Infrastructure Strategy covers our infrastructure networks including water supply, wastewater, stormwater and roads. It covers the financial overview of these assets and the operational and capital expenditure over a 30 year period. The Strategy considers the costs associated with renewals, increases in levels of service and growth. Future commitments have been identified and managed to ensure it's affordability for the community.

The projections for all infrastructure activities are driven by our Asset

Management Plans (AMPs) and the Infrastructure Strategy.

Water Supply

We plan to spend $147.1m in the next ten years on operational expenditure across the urban and Waimate West water supply schemes. The operational expenditure is funded from targeted rates and other income.

We have included funding of $96.8m in this Plan for capital expenditure on water supply. This expenditure is funded through depreciation, financial contributions, capital contributions and loans.

Based on the information in the asset database there will be a significant apparent spike in renewals of $19.8m in 2023/24 and $17.3m in 2025/26. The impact of spending an additional $15m in 2023/24 and $11m in 2025/26 would be an additional average rate increase of 5.80% in 2023/24 and 3.5% in water rates. This would also require additional borrowings of that amount. The likelihood of this scenario is low as we have allowed for this expenditure to be spread over a number of years. At the end of ten years the budgeted renewal programme will largely align with what is required as per the database. The Infrastructure Strategy further explains this risk and the reasons for spreading the renewal programme over a number of years.

Wastewater

We are planning to spend $82.1m on wastewater operational costs over the next ten years. Operational expenditure is funded through targeted rates, trade waste charges and other income. We have included $64.8m in this Plan for capital expenditure on wastewater over the next ten years, funded from depreciation, financial contributions, capital contributions and loans.

The asset database indicates a significant apparent spike in renewals of $11m in 2023/24. Spending a further $9.4m would increase rates by an additional average of 7.9% in 2023/24. The wastewater asset database predicts renewals based wholly on the installation year; however, analysis of the wastewater network performance shows that a significant amount of rehabilitation is required to reduce the amount of water that enters the wastewater networks.

Wastewater renewals have been predicted based on network performance. We have begun by putting more resources into condition assessment in the past few years, which will continue in the future. The condition assessment of the reticulation network will be used to improve our predicted renewals dates. Improved asset data will be reconciled with the amount we have invested to improve the network performance and, depending on the results, the ongoing expenditure planned may be different to what is currently predicted in the Plan. The Infrastructure Strategy further explains this risk and the reasons for spreading the renewals programme over a number of years.

Stormwater

We have included $15.9m of operational expenditure for the stormwater activity over the next ten years, funded from the general rate. We have planned $10.2m of capital expenditure in the next ten years, which is funded from depreciation, financial contributions, capital contributions and loans.

Using the information in the database, there will a significant apparent spike in renewal expenditure of $5.7m in 2023/24. The impact of an extra $5.4m would be an additional average rate increase of 1.1% and would also result in additional borrowings of that amount. The likelihood of this scenario is low as we have allowed for this expenditure to be spread over a number of years. The infrastructure Strategy further explains the risk and reasons for spreading the renewal programme over a longer period.

Roading

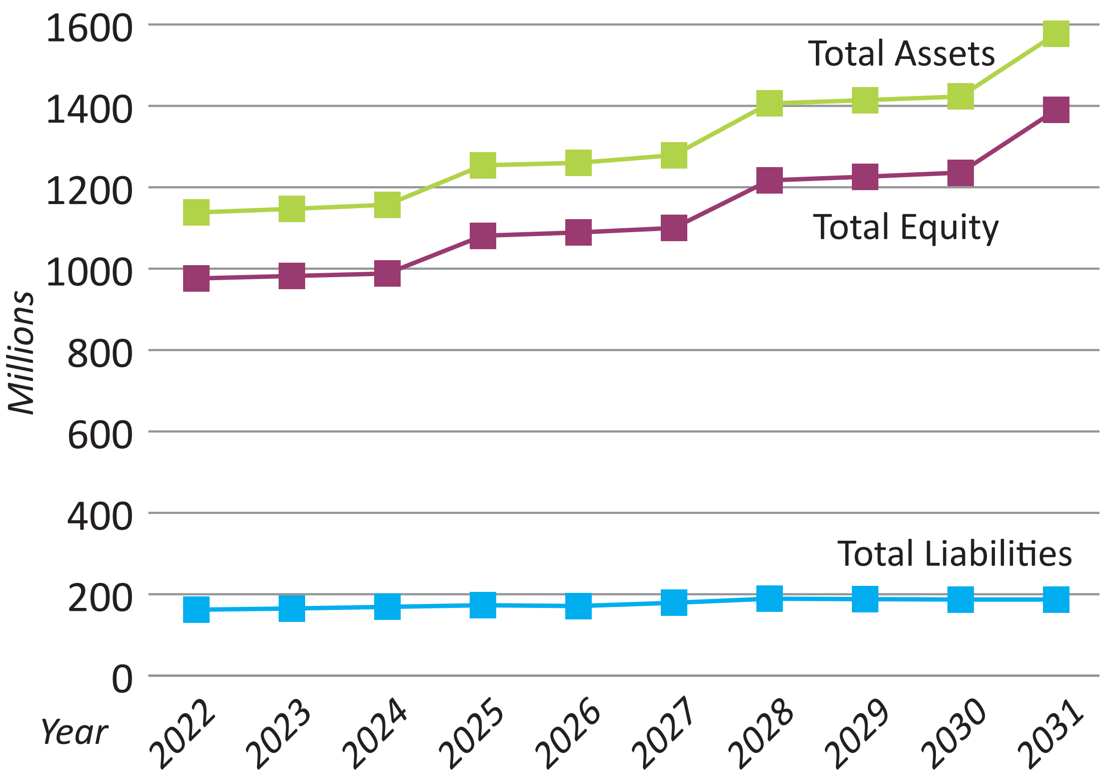
We are planning to spend $212.9m in the next ten years on operational expenditure for the Roading activity. This expenditure is funded from the Roading Rate, Waka Kotahi New Zealand Transport Agency (Waka Kotahi) subsidy, financial contributions, grants and other income. We plan to spend $111.2m in the next ten years on capital expenditure for the Roading activity, funded by depreciation, capital contributions, Waka Kotahi Subsidy and the Roading Rate.

Using the database, there is a significant apparent spike in renewal expenditure of $60m in 2021/22. The renewals consist largely of roading basecourse that is beyond its expected remaining life as per the database. We use asset condition to determine our forward renewal programme. While the roading surface above the basecourse has had its life extended through condition assessments and renewals (resealing), the remaining life of the basecourse underneath has not been adjusted when roads have been resealed. This is fundamentally a data quality issue and remaining life will need to be revised to match actual condition.

Forecast Financial Position – so what will happen to our Financial Position for the next 10 years?

The projected financial position shows what we own (Assets) and what we owe (Liabilities) and the difference between them (Equity) is effectively the net value belonging to the Council. Over the ten years it is forecast that our equity will grow from about $979.8 million to $1.4 billion. The anticipated increase in the value of our fixed assets, including the Hāwera Town Centre Strategy implementation, town centre plans, South Taranaki Business Park, water, wastewater, stormwater and roading assets, reflects the investment made in these areas as well as future investment and the revaluations of the assets over the next ten years.

Forecast Financial Position ($m)



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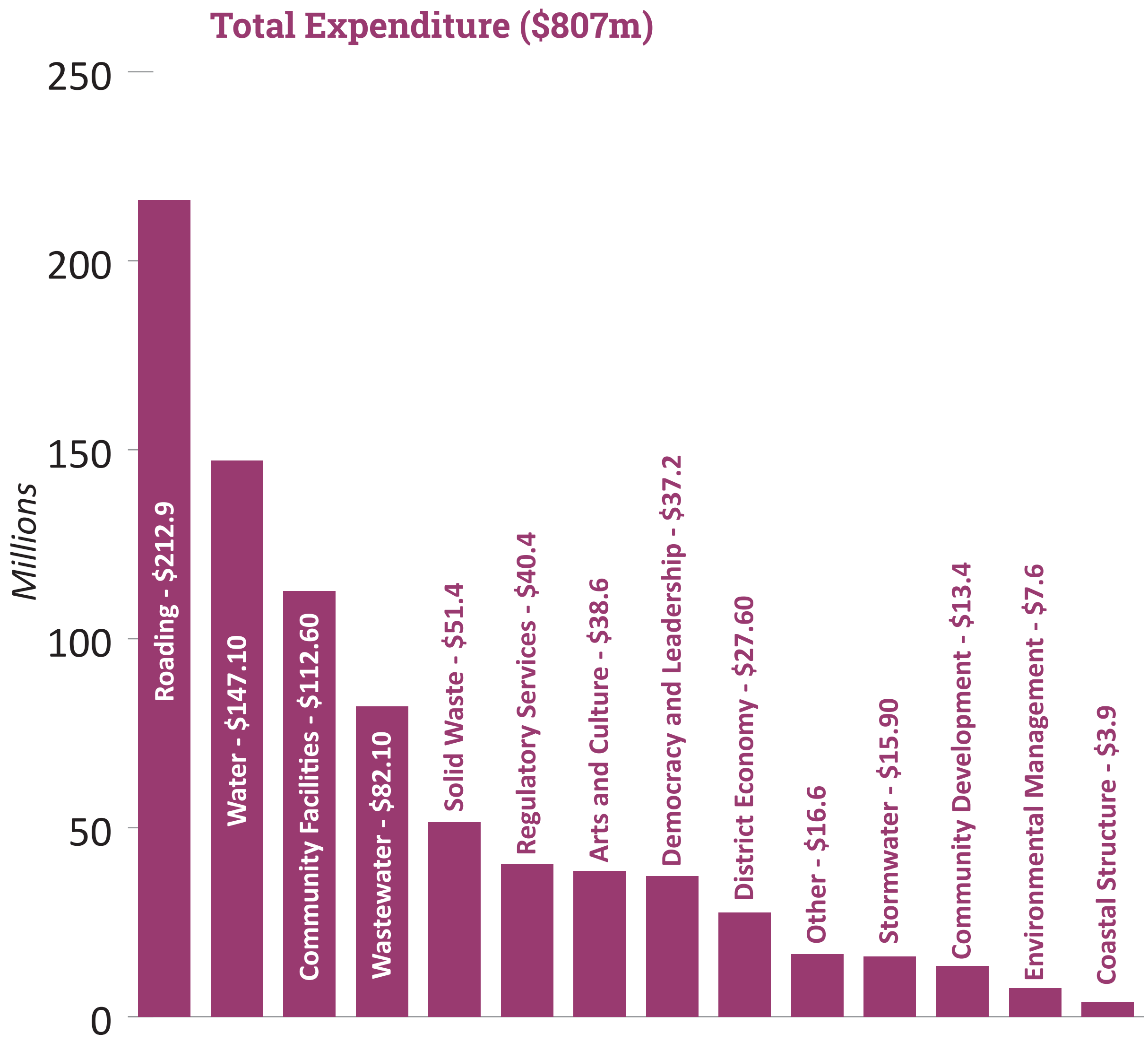
Forecast Expenditure and Income (over the next 10 years)

The forecast expenditure shows what we intend to spend on each group of activities. The forecast spending on water, wastewater, stormwater, roading, solid waste and community facilities totals about 77% of our overall spending.



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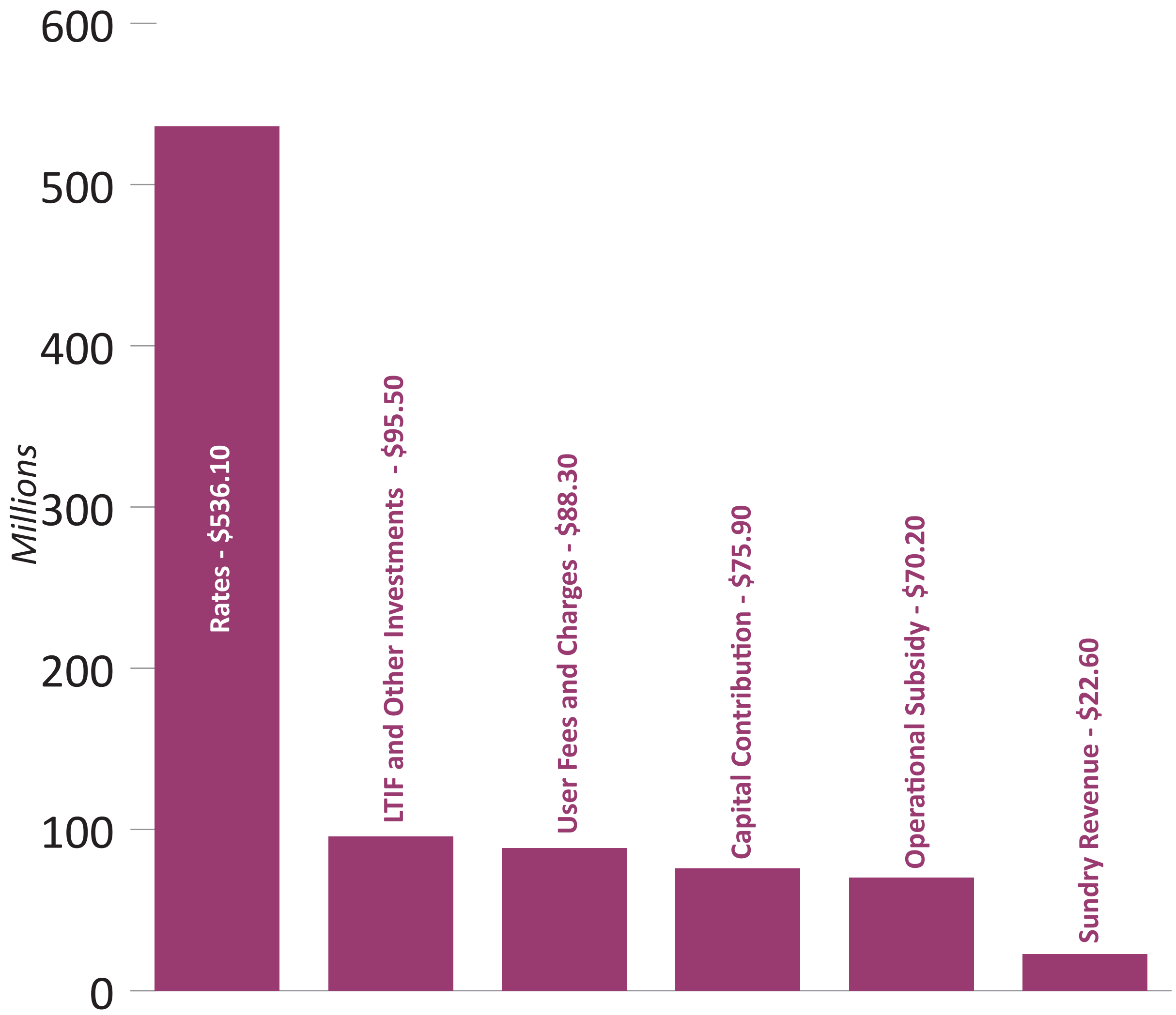
Forecast Income (over the next 10 years)

The following graph shows the income we are forecasting from different sources. Our income from rates makes up about 60% of the total income, followed by 11% from the LTIF.

Total Income ($889m)



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Keeping rates affordable

Limits on Rates and Rates Increases

Our total rates income is forecast to increase from $42.9m in 2020/21 to $44.0m in 2021/22 and to $61.8m by 2030/31. We want to provide ratepayers with a degree of certainty over future rates movements and propose to limit average rate increases over the next 10 years to no more than 4.75%. This 'cap' is made up of the forecast 2.75% increase in the Local Government Cost Index (LGCI) plus 2%, for District growth and some changes to levels of service.

The majority of our forecast income for 2021/22 will be made up of rates (58%), investment income and subsidies (19%) and user fees and charges (9%).

The quantified limit for rates income is 65% of total projected revenue, and will seek to reduce the amount collected by rates while continuing to fund activities as per our Revenue and Finance Policy.

The District Rate (includes General Rates, UAGC and the Roading Rate)

In 2021/22 the District Rate will increase by 3.75%. Over the ten years it will increase by an average of 3.63% per annum. The increase mainly reflects inflation and increased costs related to anticipated maintenance, repairs and renewal expenditure.

Targeted Rates

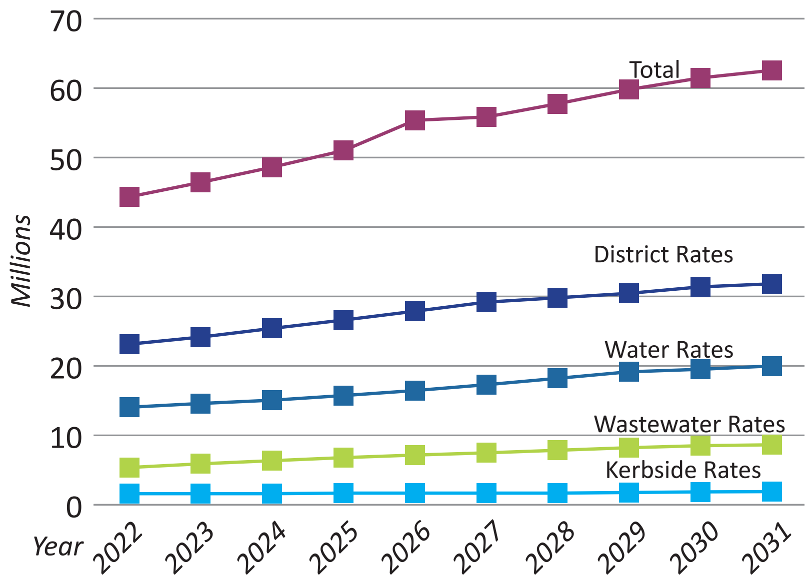
The wastewater targeted rate will increase by an average of 5.78% per annum over ten years.

The kerbside collection rate will reduce by 17.39% in 2021/22 to $218.50, down from $264.50 in 2020/21. It will remain the same until 2023/24, increase by 5.26% in 2024/25 and then remain the same until 2027/28. The rate will increase by an average of 4.01% per year for the remaining three years.

The urban water targeted rate will increase by an average of 3.70% per year over ten years.

We have different Urban Water Supply rates for various metered water users. For extra high users, the per cubic metre rate will increase by an average of 2.63% per year, over ten years. For all other users, the rate will increase by an average of 3.45% per year over ten years. From 2025/26, the per cubic metre rate for town, high and extra high users will be the same.

Future Rates ($m)



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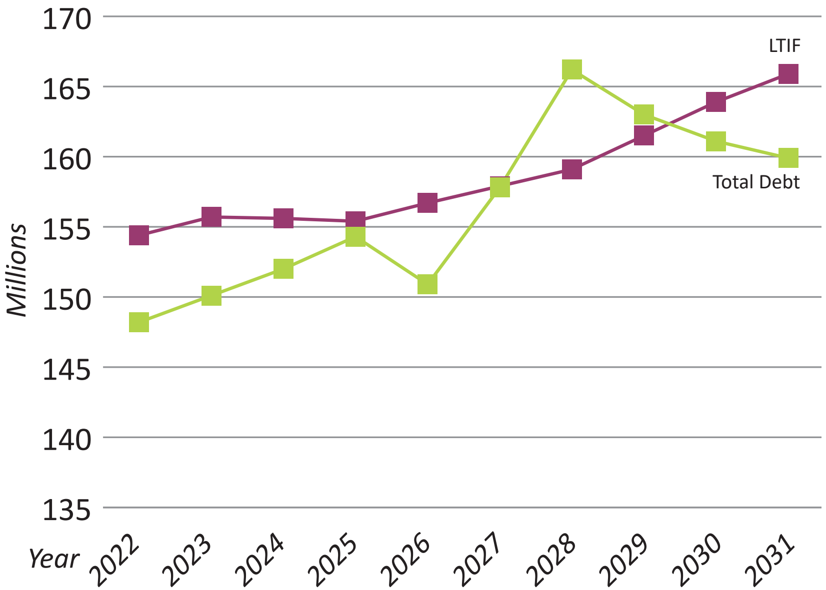
Our debt is forecast to be $166.2m in 2027/28, reducing to $159.9m in 2030/31. (These numbers include internal borrowing).

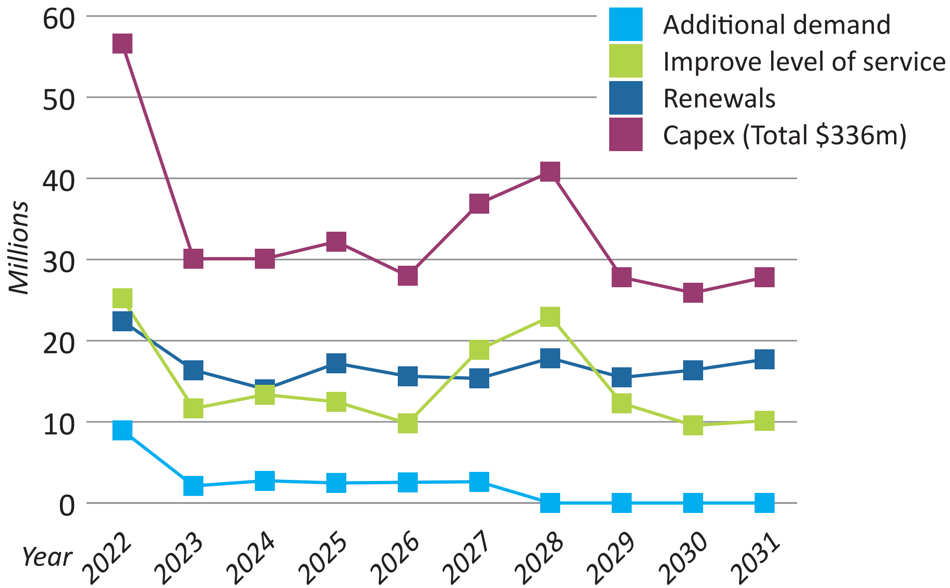
The LTIF is forecast to be $159.1m in 2027/28 increasing to $165.9m in 2030/31. (These numbers include internal borrowing).

Our total forecast capital spending is $336m for the ten years. The total capital spent on infrastructure assets is forecast at $282.9m for the ten years. We have completed the final stages of our major network infrastructural improvements and spending will mostly be on renewals for the next 10 years, except for the Hāwera Town Centre Strategy projects.

Forecast Debt and LTIF ($m)



Forecast Capital Expenditure ($336m)



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Effective Management of Debt

How will we manage our debt?

We have incurred debt to help pay for infrastructure across the District. We could pay off debt by using our investments; however, we consider it is more prudent to continue borrowing while the cost of borrowing is low and the return on investments outweighs the cost of financing debt and associated debt repayment. Our focus is to make sure the debt repayment profile matches the life of the assets and the repayment period for loans will on average be 30-35 years.

Before taking on new debt, we need to consider other funding mechanisms such as funded depreciation, external contributions, capital contributions and special reserves as well as considering the correct method of ensuring that intergenerational equity is maintained.

Renewal expenditure is usually funded from depreciation reserves. The loan repayments and interest costs are funded from depreciation, savings made from the Local Government Funding Agency (LGFA) and rates.

As a Principal Shareholding Local Authority of the LGFA we are able to access long term funding at cheaper rates than previously. Over the last six years we have used these savings to increase loan repayments.

Our Net Debt

If you consider our peak debt of $166.2m and our investment Fund of $159.1m in 2027/28, including internal borrowing, our net debt is expected to be $7.1m in 2027/28. We are forecasting to repay about $66.1m (including $12.4m for internal loan repayment) in loan repayments for the next ten years and forecast a $99m increase in new loans over the same period. The repayment periods for loans will on average be 30-35 years.

It is important to highlight the risk associated with the LTIF and as a result the net debt position can go down or up depending on the performance of the LTIF. The worst case scenario is the net debt position being $140m by 2030/31, if the LTIF performed at a negative return for the next ten years, although the risk of this happening is extremely remote. We believe the forecast debt levels are sustainable as they are within the Liability Management Policy limits.

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The debt limits and interest rate limits are as follows for the next ten years:

Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Net Debt as a % of total income <150%	(16%)	(12%)	(9%)	(7%)	(11%)	(8%)	(2%)	(12%)	(24%)	(34%)
Net Interest Exp.% of total Rates <25%	5%	4%	4%	4%	3%	2%	2%	1%	0%	1%
Net Interest Exp.% of Total Annual Income < 15%	3%	2%	3%	2%	2%	1%	1%	1%	0%	0%
Net Debt per Capita < $2000	($420)	($331)	($260)	($191)	($333)	($246)	($63)	($399)	($800)	($1,162)

We will maintain our liquidity ratio at a minimum of 110% as per the Policy depending on the cash and capital expenditure over the ten years.

If we reduce loan repayments, loan balances will remain at higher levels and put pressure on our future borrowings. We have to comply with our Liability Management Policy and as a result, future projects may have to be delayed if loans are not repaid within time. Increasing loan repayments and paying off loans before time will result in overcharging current ratepayers. Our Liability Management Policy explains how we manage our interest rate risk by various ratios between fixed and floating interest rates. We review the Policy on a regular basis and Price Waterhouse Coopers provides regular advice to manage the risk.

Limits on Borrowing

We manage our borrowings prudently and this is demonstrated by borrowing within our ability to service and repay debt without increasing the various limits in our Treasury policies and managing our future borrowing needs within these limits.

Security for Borrowing

We provide securities against our borrowings from external lenders. We recently provided a guarantee to the LGFA and the amount of the guarantee will be reduced as more councils join the LGFA as shareholders in the future. We provide different types of guarantees, such as our assets and rates revenue.

Economic Climate and Population

South Taranaki continues to grow marginally and mostly in the residential sector. The District will continue to feel pressure to maintain, create and improve infrastructure at affordable rates. Our forecasting assumption for population change and change in land use assumes the risks for growth and change in land use are low.

We have contributed to the development of Tapuae Roa: Make Way for Taranaki, the Taranaki Regional Economic Development Strategy August 2017. The core focus of Tapuae Roa is people, as it is people that take economies forward. Our partnership with Venture Taranaki continues to provide valuable information relating to economic trends in the local economy and statistics, which assists our planning for the future.

Digital technology presents one of the biggest opportunities and challenges for our District. The roll-out of ultrafast fibre by the Government will have an impact on our rural townships. A Digital Strategy is to be developed to ensure some groups do not miss out on the social and economic opportunities to access and adopt new technologies and new ways of doing things.

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Financial Strategy

Return on Investments

Our LTIF strategy clearly states the objectives and risks associated with the Investment Fund. After seeking advice from our Investment Advisor, we believe the investment mix (listed on the next page) reflects the appropriate mix to achieve our objectives:

- To deliver income to subsidise rates by $3.87m each year and an additional subsidy of $1.73m to service loans for specific community projects and $860,000 for the Hāwera Town Centre Upgrade and Earthquake Projects. The subsidies are reviewed every three years.
- To maintain the real value (as opposed to face value) of the LTIF capital over time with respect to inflation.
- An investment fluctuation reserve has been established at a level appropriate for the risk.
- The LTIF aims to earn an overall net real return (that is, after fees and inflation) of 4% per annum over the longer term (rolling over 10 year periods).

The LTIF currently has a healthy inflation fluctuation reserve (IFR) of approximately $32m. As a result, we are proposing to use $15m from the IFR to fund some of the projects relating to town centre developments including additional funding for the Hāwera Town Centre Project.

After seeking advice from our Investment Advisor, we have determined a Strategic Asset Allocation or Benchmark Portfolio that, in our view, best reflects our risk preference and is appropriate given our investment objectives:

Sector	Benchmark %	Ranges %
Trans-Tasman Equities	12.5	7.5 – 17.5
Global Equities	31.0	21.0-41.0
Low Volatility	6.5	0.0-13.0
Total Equities	**50.0**	
Global Property	5.0	0.0-10.0
Global Listed Infrastructure	5.0	0.0-10.0
Total Real Assets and Alternatives	**10.0**	
Total Growth Assets	60.0	50.0-66.0
NZ Fixed Interest	9.0	6.0-12.0
Global Fixed Interest	26.0	18.0-34.0
Cash and Short Term Securities	5.0	0.0-15.0
Total Income Assets	**40.0**	**34.0-50.0**

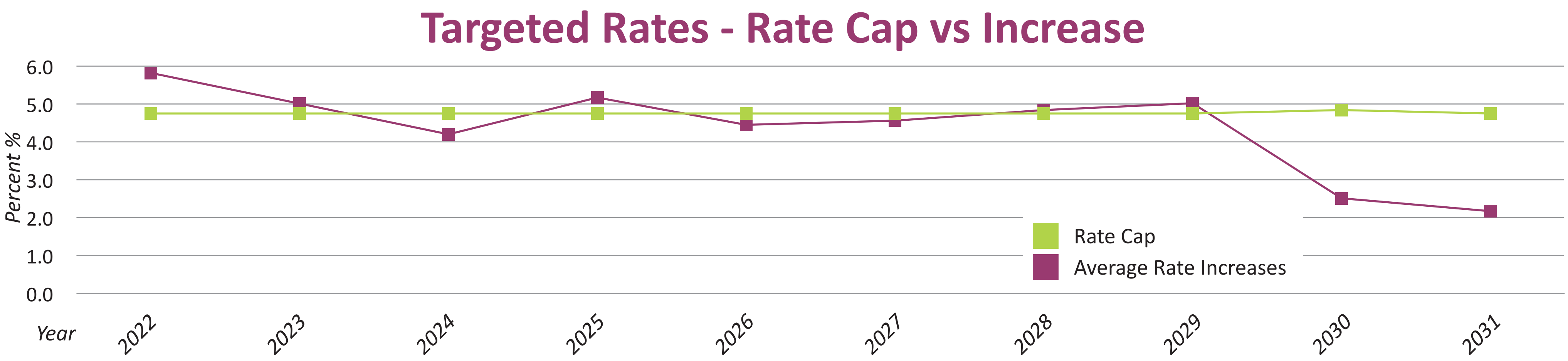
We have budgeted for the LTIF to return an average of 4% (net of fees and inflation) over the next ten years. According to the risk associated with the LTIF, 63% of the LTIF is currently invested in Global Equities, Trans-Tasman Shares, Global Property and Global Listed Infrastructure. These investments are subject to market movements and the LTIF has a potential risk of losing its value completely; however, as mentioned previously the risk is extremely remote.

Affordability

Our costs (Local Government Cost Index) are increasing at a higher rate than the consumer price index. The ongoing cost of servicing existing infrastructure and new assets is projected to continue to increase at higher rates. We acknowledge that balancing the increase in rates and maintaining and improving levels of service is a challenge and we are actively trying to encourage economic activity in our District.

Total Rate Limit (review for next 10 years

Rate Cap	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
LGCI	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Plus 2%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Total Rate Cap	**4.75%**	**4.75%**	**4.75%**	**4.75%**	**4.75%**	**4.75%**	**4.75%**	**4.75%**	**4.75%**	**4.75%**
Average Rate Increases	4.73%	4.68%	4.72%	4.94%	4.61%	4.64%	3.43%	3.54%	2.80%	1.77%
Difference	**0.02%**	**0.07%**	**0.03%**	**-0.19%**	**0.14%**	**0.11%**	**1.32%**	**1.21%**	**1.95%**	**2.98%**



Explanation:
The total rate limits on the overall rate collection is on average 4.75% for the ten years. Our rate increases for the next ten years total rate collection is 3.99% on average.

Mō ō Reiti / About Your Rates

Ten Year Projections for General and Targeted Rates (includes an allowance of inflation) - Including GST

For the year ended 30 June	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
RATE											
District Rate*	0.00%	3.75%	4.39%	5.20%	4.72%	4.76%	4.71%	2.14%	2.15%	3.08%	1.39%
General Rate – Cents per $	0.08783	0.09225	0.09439	0.10004	0.10359	0.10676	0.10740	0.10340	0.10494	0.10430	0.10284
Roading Rate – Cents per $	0.06789	0.06372	0.06738	0.06979	0.07412	0.07873	0.08610	0.09221	0.09355	0.10098	0.10493
UAGC	$604	$663	$700	$740	$776	$818	$862	$896	$926	$949	$965
TARGETED RATES**											
Water Targeted Rate	$624	$661	$690	$713	$730	$759	$794	$828	$863	$874	$897
Wastewater Targeted Rate	$679	$759	$834	$897	$960	$1,006	$1,047	$1,093	$1,139	$1,173	$1,185
Kerbside Collection Rate	$265	$219	$219	$219	$230	$230	$230	$230	$242	$253	$259
Water meter only charge <= 32mm	$150	$150	$150	$150	$150	$150	$150	$150	$150	$150	$150
Water meter and backflow charge <= 32mm	$260	$260	$260	$260	$260	$260	$260	$260	$260	$260	$260
Water meter only <= 40mm	$175	$175	$175	$175	$175	$175	$175	$175	$175	$175	$175
Water meter and backflow charge <= 40mm	$325	$325	$325	$325	$325	$325	$325	$325	$325	$325	$325
Water meter and backflow charge <= 50mm	$460	$460	$460	$460	$460	$460	$460	$460	$460	$460	$460
Water meter and backflow charge >50mm	$630	$630	$630	$630	$630	$630	$630	$630	$630	$630	$630
WATER BY METER RATES PER CUBIC METRE											
Town	$2.62	$2.75	$2.86	$2.94	$3.05	$3.16	$3.29	$3.43	$3.57	$3.61	$3.68
Urban Water High User	$2.62	$2.75	$2.86	$2.94	$3.05	$3.16	$3.29	$3.43	$3.57	$3.61	$3.68
Urban Water Extra High User	$2.84	$2.97	$3.06	$3.11	$3.13	$3.16	$3.29	$3.43	$3.57	$3.61	$3.68
Waimate West / Inaha Water	$1.08	$1.10	$1.13	$1.16	$1.22	$1.28	$1.33	$1.40	$1.46	$1.48	$1.51

** The district rate includes the UAGC, general rate and roading rate. The general and roading rates are calculated on the capital value of the property, so each property pays a different amount.*

*** Targeted rates are uniform charges (every property pays the same amount) with the exception of the water by meter charges which are volumetric (you pay for what you use)*

Rautaki Pūtea

Financial Strategy

Hei Tauira Reiti - me te GST / Rating Examples – Including GST

Below are six property examples to show the impact of the rates increases for the next ten years.

Urban $320,000 capital value property

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
General	$281.07	$295.20	$302.06	$320.13	$331.48	$341.64	$343.68	330.88	335.79	333.76	329.10
Roading	$217.26	$203.90	$215.61	$223.34	$237.20	$251.95	$275.51	295.09	299.35	323.14	335.78
UAGC	$604.00	$663.16	$700.34	$739.57	$775.64	$817.74	$862.09	896.39	926.10	949.15	965.21
Water	$624.45	$661.25	$690.00	$713.00	$730.25	$759.00	$793.50	828.00	862.50	874.00	897.00
Wastewater	$678.50	$759.00	$833.75	$897.00	$960.25	$1,006.25	$1,046.50	1,092.50	1,138.50	1,173.00	1,184.50
Kerbside	$264.50	$218.50	$218.50	$218.50	$230.00	$230.00	$230.00	230.00	241.50	253.00	258.75
Total Rates	**$2,669.78**	**$2,801.01**	**$2,960.26**	**$3,111.53**	**$3,264.82**	**$3,406.58**	**$3,551.28**	**3,672.86**	**3,803.74**	**3,906.05**	**3,970.34**
Increase each year		**$131.23**	**$159.25**	**$151.27**	**$153.28**	**$141.76**	**$144.70**	**121.58**	**130.88**	**102.31**	**64.28**
Percentage increase		**4.92%**	**5.69%**	**5.11%**	**4.93%**	**4.34%**	**4.25%**	**3.42%**	**3.56%**	**2.69%**	**1.65%**

Urban $480,000 capital value property

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
General	$421.60	$442.80	$453.09	$480.19	$497.21	$512.45	$515.52	$496.32	$503.69	$500.64	$493.65
Roading	$325.89	$305.85	$323.42	$335.02	$355.80	$377.92	$413.27	$442.63	$449.03	$484.71	$503.67
UAGC	$604.00	$663.16	$700.34	$739.57	$775.64	$817.74	$862.09	$896.39	$926.10	$949.15	$965.21
Water	$624.45	$661.25	$690.00	$713.00	$730.25	$759.00	$793.50	$828.00	$862.50	$874.00	$897.00
Wastewater	$678.50	$759.00	$833.75	$897.00	$960.25	$1,006.25	$1,046.50	$1,092.50	$1,138.50	$1,173.00	$1,184.50
Kerbside	$264.50	$218.50	$218.50	$218.50	$230.00	$230.00	$230.00	$230.00	$241.50	$253.00	$258.75
Total Rates	**$2,918.94**	**$3,050.56**	**$3,219.10**	**$3,383.27**	**$3,549.15**	**$3,703.37**	**$3,860.87**	**$3,985.85**	**$4,121.31**	**$4,234.50**	**$4,302.78**
Increase each year		**$131.62**	**$168.54**	**$164.17**	**$165.89**	**$154.21**	**$157.51**	**$124.97**	**$135.47**	**$113.19**	**$68.27**
Percentage increase		**4.51%**	**5.52%**	**5.10%**	**4.90%**	**4.35%**	**4.25%**	**3.24%**	**3.40%**	**2.75%**	**1.61%**

Hei Tauira Reiti - me te GST / Rating Examples – Including GST

URBAN

Urban $600,000 capital value property

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
General	$527.00	$553.50	$566.36	$600.24	$621.52	$640.57	$644.40	$620.40	$629.61	$625.80	$617.06
Roading	$407.36	$382.31	$404.27	$418.77	$444.75	$472.40	$516.59	$553.29	$561.29	$605.88	$629.59
UAGC	$604.00	$663.16	$700.34	$739.57	$775.64	$817.74	$862.09	$896.39	$926.10	$949.15	$965.21
Water	$624.45	$661.25	$690.00	$713.00	$730.25	$759.00	$793.50	$828.00	$862.50	$874.00	$897.00
Wastewater	$678.50	$759.00	$833.75	$897.00	$960.25	$1,006.25	$1,046.50	$1,092.50	$1,138.50	$1,173.00	$1,184.50
Kerbside	$264.50	$218.50	$218.50	$218.50	$230.00	$230.00	$230.00	$230.00	$241.50	$253.00	$258.75
Total Rates	**$3,105.81**	**$3,237.72**	**$3,413.23**	**$3,587.07**	**$3,762.41**	**$3,925.96**	**$4,093.07**	**$4,220.58**	**$4,359.49**	**$4,480.84**	**$4,552.11**
Increase each year		**$131.91**	**$175.50**	**$173.84**	**$175.34**	**$163.55**	**$167.11**	**$127.51**	**$138.91**	**$121.35**	**$71.27**
Percentage increase		**4.25%**	**5.42%**	**5.09%**	**4.89%**	**4.35%**	**4.26%**	**3.12%**	**3.29%**	**2.78%**	**1.59%**

HĀWERA COMMERCIAL

Hāwera commercial/industrial $600,000 capital value property

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
General	$527.00	$553.50	$566.36	$600.24	$621.52	$640.57	$644.40	$620.40	$629.61	$625.80	$617.06
Roading	$407.36	$382.31	$404.27	$418.77	$444.75	$472.40	$516.59	$553.29	$561.29	$605.88	$629.59
UAGC	$604.00	$663.16	$700.34	$739.57	$775.64	$817.74	$862.09	$896.39	$926.10	$949.15	$965.21
Water	$624.45	$661.25	$690.00	$713.00	$730.25	$759.00	$793.50	$828.00	$862.50	$874.00	$897.00
Wastewater	$678.50	$759.00	$833.75	$897.00	$960.25	$1,006.25	$1,046.50	$1,092.50	$1,138.50	$1,173.00	$1,184.50
Hāwera Business Rate	$538.11	$542.04	$551.25	$560.62	$569.59	$580.42	$592.02	$605.05	$618.97	$633.20	$647.77
Total Rates	**$3,379.42**	**$3,561.26**	**$3,745.98**	**$3,929.19**	**$4,102.00**	**$4,276.38**	**$4,455.10**	**$4,595.63**	**$4,736.96**	**$4,861.04**	**$4,941.12**
Increase each year		**$181.84**	**$184.72**	**$183.21**	**$172.81**	**$174.38**	**$178.72**	**$140.54**	**$141.32**	**$124.08**	**$80.08**
Percentage increase		**5.38%**	**5.19%**	**4.89%**	**4.40%**	**4.25%**	**4.18%**	**3.15%**	**3.08%**	**2.62%**	**1.65%**

Hei Tauira Reiti - me te GST / Rating Examples – Including GST

RURAL

Rural $5.3 million capital value property

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
General	$4,655.15	$4,889.28	$5,002.87	$5,302.08	$5,490.08	$5,658.34	$5,692.20	$5,480.24	$5,561.57	$5,527.92	$5,450.67
Roading	$3,598.33	$3,377.08	$3,571.09	$3,699.13	$3,928.62	$4,172.90	$4,563.17	$4,887.39	$4,958.02	$5,351.97	$5,561.40
UAGC	$604.00	$663.16	$700.34	$739.57	$775.64	$817.74	$862.09	$896.39	$926.10	$949.15	$965.21
Total Rates	**$8,857.49**	**$8,929.51**	**$9,274.30**	**$9,740.7**	**$10,194.34**	**$10,648.98**	**$11,117.45**	**$11,264.02**	**$11,445.69**	**$11,829.04**	**$11,977.27**
Increase each year		**$72.03**	**$344.79**	**$466.47**	**$453.57**	**$454.64**	**$468.47**	**$146.57**	**$181.66**	**$383.36**	**$148.23**
Percentage increase		**0.81%**	**3.86%**	**5.03%**	**4.66%**	**4.46%**	**4.40%**	**1.32%**	**1.61%**	**3.35%**	**1.25%**

Rural $8 million capital value property

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
General	$7,026.64	$7,380.04	$7,551.51	$8,003.13	$8,286.91	$8,540.89	$8,591.99	$8,272.07	$8,394.82	$8,344.03	$8,227.42
Roading	$5,431.44	$5,097.47	$5,390.33	$5,583.59	$5,929.99	$6,298.72	$6,887.80	$7,377.19	$7,483.81	$8,078.44	$8,394.56
UAGC	$604.00	$663.16	$700.34	$739.57	$775.64	$817.74	$862.09	$896.39	$926.10	$949.15	$965.21
Total Rates	**$13,062.09**	**$13,140.67**	**$13,642.17**	**$14,326.29**	**$14,992.54**	**$15,657.35**	**$16,341.88**	**$16,545.65**	**$16,804.72**	**$17,371.63**	**$17,587.20**
Increase each year		**$78.58**	**$501.50**	**$684.12**	**$666.25**	**$664.81**	**$684.53**	**$203.77**	**$259.07**	**$566.90**	**$215.57**
Percentage increase		**0.60%**	**3.82%**	**5.01%**	**4.65%**	**4.43%**	**4.37%**	**1.25%**	**1.57%**	**3.37%**	**1.24%**