

# FINANCIAL STRATEGY

*Rautaki Ahumoni*

Supporting the Long Term Plan 2015-25  
Consultation Document

2015-25

# INTRODUCTION

*Our Financial Strategy supports the delivery of Council activities and services in a manner which addresses rates affordability and ensures that the Council remains in a long term stable financial position.*

## Purpose

This Financial Strategy is central to the development of the Council's Long Term Plan 2015-25. It sets out the Council's approach to managing its finances for the next decade, including the key financial parameters guiding the development of our Long Term Plan, including limits on rates increases and debt. It also illustrates the overall financial implications of the Council's operations over the ten years covered by the Long Term Plan 2015-25.

This Financial Strategy provides a review and update of the Financial Strategy developed as part of the 2012-22 Long Term Plan. The preparation of a Financial Strategy is a requirement under section 101(a) of the Local Government Act 2002.

## Background

The Whakatāne District Council's operating costs are currently just over \$55 million a year. Around two-thirds of this spending is paid for through rates income, with the average household currently contributing around \$46 per week.

This funding enables the Council to deliver a wide range of activities and services that people rely on every day, such as water supplies and wastewater treatment and disposal, solid waste management, roads and footpaths, parks and reserves, libraries, economic development and animal control. In total, we deliver 30 different activities, which are supported by internal activities such as human resources, customer services and finance. The Council is also a shareholder in three council controlled organisations, which allow us to receive or deliver services in partnership with other shareholders. The Council is one of the larger employers in the Eastern Bay of Plenty, employing approximately 190 full-time equivalent staff.

The Whakatāne District Council has a healthy balance sheet and is in a stable financial position. The Council runs a balanced budget, as required by legislation, and debt is managed at relatively low levels compared to other local government or commercial organisations. Our portfolio of activities and services includes the management of over \$670 million worth of community assets, compared to total liabilities of \$57 million.

This Financial Strategy aims to ensure that the Council remains in a stable financial position. It also helps to ensure open, sustainable and accountable financial management.

## Principles

Council's Financial Strategy has been developed utilising the overarching principles which guide the development of the Long Term Plan. Those principles endeavour to deliver a Long Term Plan which is "Responsible", "Sustainable", "Affordable" and "Enabling". In the context of the Financial Strategy, the Long Term Plan seeks to achieve the resourcing of Council services and activities in a way that is both responsive to the issue of rates affordability and ensures that the Council remains in a strong, long-term financial position.

<b>Responsible</b>	We will work together with the community to meet their needs with priority on core services and prudent financial management.
<b>Sustainable</b>	We will take good stewardship of our assets and services managing these in a way that does not compromise our ability to provide quality, affordable services to the community in the future.
<b>Affordable</b>	We will be responsive and sensitive to the issue of rates affordability across the District.
<b>Enabling</b>	We will take opportunities to encourage and grow the vibrancy, vitality and prosperity of our district and support others towards this goal.

# OBJECTIVES

This Financial Strategy promises to deliver more of the same, in terms of our current ‘conservative’ ‘disciplined’ and ‘no surprises’ approach to financial management. Long-term financial sustainability and the affordability of rates will continue to be at the forefront of our 2015-25 Long Term Plan and Financial Strategy. This includes the continuation of the conservative limits for rates increases and debt that were set through the previous Long Term Plan. The increased discipline around day-to-day financial management, which has resulted in rating surpluses over the past three years, will continue to be applied.

We have thought hard about how restrictive our budgeting should be, given that we need to ensure that our decisions about affordability do not unfairly burden ratepayers in the future, and that our services and assets are sustained for future generations. We also need to provide sufficient scope within budgets to allow progress to be made towards improved outcomes for the community and ensure that our District retains its viability and vibrancy. These outcomes support the priorities of our Long Term Plan which are:

- Delivering quality core services
- Working together to meet the needs of the community
- Encouraging communities and businesses to thrive
- Keeping rates affordable

In consideration of the overall priorities of our Long Term Plan, the objectives of this Financial Strategy are to achieve balance between the following outcomes:

<p>i. Ensuring resource is available to sustainably manage assets and services, and</p> <p>ii. Retaining capacity to add value to our services and facilities</p>	<p><b>Whilst</b></p>	<p>iii. Maintaining rates at an affordable level,</p> <p>iv. Maintaining our overall debt at around the current level, and</p> <p>v. Manage our finances responsibly and minimising financial risk</p>
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## Objective i:

### Ensuring resource is available to sustainably manage assets and services

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Sustainably managing our assets and services is a core priority of this Financial Strategy. Most importantly, we need to ensure that our infrastructure assets are managed so that we can continue to deliver good quality, affordable services now and into the future.

- Ensuring that we pay our fair share of asset maintenance and renewal now – not overpaying to subsidise future ratepayers but also not underpaying, which would see future ratepayers unfairly burdened by large costs.
- Planning for the expected ‘hump’ in water supply and wastewater system renewal costs which is expected to start from 2025, as indicated by our Infrastructure Strategy.
- Providing additional funding to offset the historical deficit incurred by our Airport.
- Taking a 30+ year view towards asset renewals and depreciation funding, to ensure that reserves are available to maintain our assets in the future.

## Objective ii:

### Retaining capacity to add value to our services and facilities

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While we are planning to continue most of our services at the current levels, we think it is important to make progress towards improved outcomes which will ensure that our District retains its vitality and vibrancy. For this reason, the Financial Strategy provides increased funding for some carefully selected service improvements to support growth and economic development.

- Ensuring our limits for rates and debt, and the budgets we set within those limits, allow increased funding for specified projects and service improvements.
- Securing funding partners for added-value projects that we might otherwise not be able to progress.
- Ensuring that the ongoing operational costs of any new services and facilities are fully considered.

## Objective iii:

### Maintaining rates at an affordable level

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There are limits to the level of contribution ratepayers are able or willing to make towards the services and activities the Council delivers. In developing this Financial Strategy, we have been mindful of the level at which rates are set, and of the impact of rates on different sectors of the community.

- Setting conservative limits for rates and rates increases and setting budgets well within those limits.
- Maintaining a strong focus on affordability through our rating philosophy and system.
- Delivering most services at the current level, unless we can make improvements with minimal cost to ratepayers.
- Looking for opportunities to deliver services in a more productive or innovative way to either improve services for the same cost, or deliver the same service at a lower cost.
- Reviewing the level of service for our Solid Waste activity when contracts are renewed to help offset expected increases in costs.
- Funding depreciation over a longer period to provide more certainty and stability to ratepayers by evening out costs over a longer period of time.

## Objective iv:

### Maintaining overall debt at around the current level

Debt is an effective tool to help spread the cost of projects over time, but a large amount of debt can become crippling. Our current level of debt is conservative for an organisation of our size and we would like to keep it this way.

- Setting limits for the overall level debt and for debt servicing costs that support the retention of debt at current sustainable and affordable levels.
- Sourcing external contributions (such as subsidies and grants) towards the costs of capital projects wherever we can and not taking on some projects unless a certain portion of funding is sourced externally.
- Deferring some projects to help us stay within limits for debt and debt repayment.
- Committing income from any asset sales to the retirement of debt.

## Objective v:

### Managing our finances responsibly and minimising financial risk

Any organisation, but particularly one that is responsible for public funds, needs to ensure that finances are managed responsibly and prudently and that risk is minimised wherever practicable.

- Ensuring that we set realistic and achievable budgets, including the assumptions around levels of available external funding, such as subsidies and grants.
- Maintaining discipline in day-to-day financial management to help stay within budgets.
- Ensuring that the impacts of inflation and other cost increases are adequately considered and provided for in budgets.
- Ensuring that we reserve enough funding each year to pay for asset renewals when they arise.
- Continuing to set aside reserve funds to manage the costs of unforeseeable events such as storms.

## Operating an unbalanced budget

Under the Local Government Act 2002, local authorities are required to set balanced budgets - where operating revenue is equal to expenditure. Council's may operate an unbalanced budget only where this can be shown to be financially prudent.

The Council intends not to operate a balanced budget for seven of the 10 years covered by the Long Term Plan. This means that there is an operating deficit in each of these years, and an overall deficit of approximately \$10 million. The primary reason for the unbalanced budget is due to the Council's approach to funding depreciation based on an assessment of the renewal programme over a 30 year period, rather than funding renewals as they are required. We will also continue our approach of not fully funding depreciation on some assets so that ratepayers aren't being rated for assets that Council does not intend to replace.

This approach will provide more certainty to ratepayers by evening out renewal costs over a longer period of time while retaining the necessary financial capacity to maintain assets as required. Given the strength of the Council's financial position and the detailed assessments that have been made of the anticipated renewals programme, the Council is confident that a high degree of financial sustainability will be retained on an on-going basis.

# EXPENDITURE

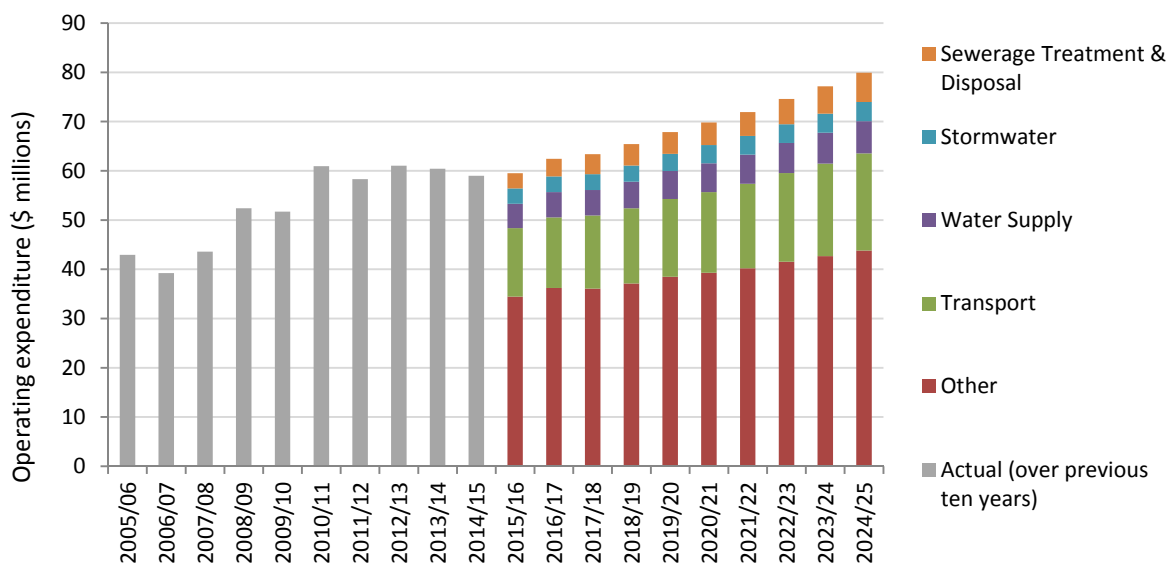
## 1. Operating Expenditure Over Ten Years

Operating expenditure pays for Council’s day-to-day cost of delivering services, maintaining existing assets, or other expenditure which does not buy or build a new asset (the latter being ‘Capital Expenditure’ which is covered on the next page).

The following graph shows our total operating expenditure over the last ten years and what we are planning for the next ten years. As shown in the graph below, a large proportion of our operating expenditure is related to the three core network infrastructure activities including Roads and Footpaths, Water Supply, Stormwater Drainage and Sewage Treatment and Disposal. Together, these account for 45.7% of our operating expenditure over the life of the Long Term Plan.

The graph shows that the Council’s total operating expenditure is set to increase progressively from \$59.51 million in 2015/16 to \$81.61 million by 2024/25. While inflation is a major driver of this increase, there are a number of other factors which also influence our operating expenditure. These are discussed over the page.

Figure 1: Actual and forecast operating expenditure 2005-2025

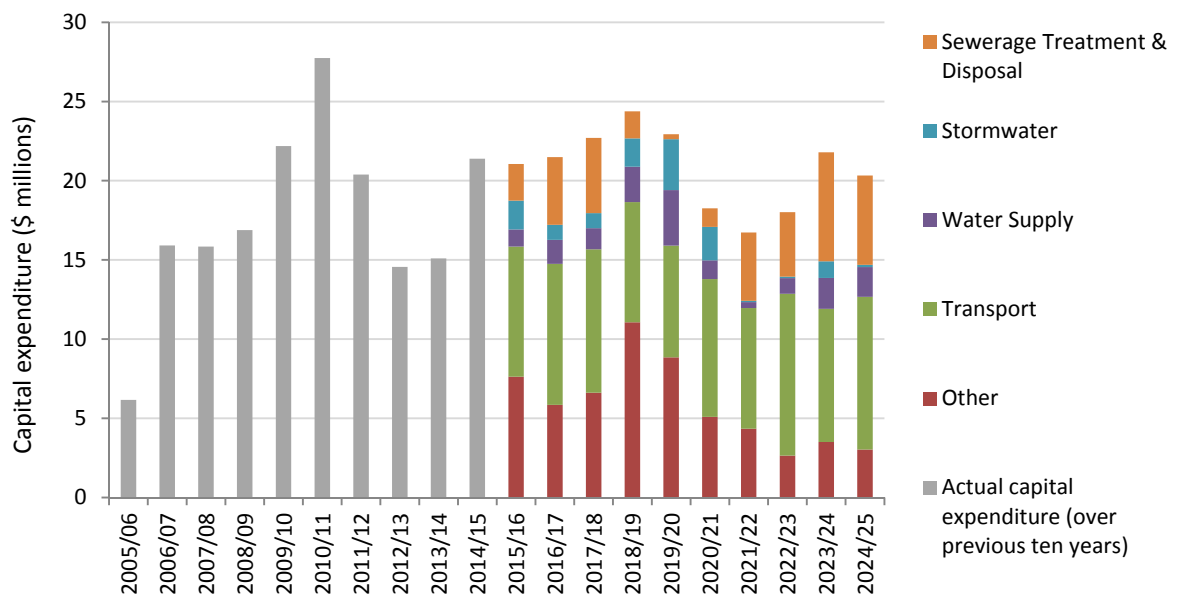


## 2. Capital Expenditure Over Ten Years

Capital Expenditure pays for buying or building new assets, renewing an existing asset or improving an existing asset to deliver a better service. The following graph shows our capital expenditure over the last 10 years and the planned spending for the next 10 years. Council’s capital expenditure can vary substantially from year to year, depending on when works are undertaken.

As shown in the graph, much of our capital expenditure is related to core network infrastructure (Roads and Footpaths, Water Supply, Stormwater Drainage and Sewage Treatment and Disposal). Over the life of the Long Term Plan, these account for 71.8% of our capital expenditure.

Figure 2: Actual and forecast capital expenditure 2005-2025



## 3. Proportion of Capital Expenditure for Renewals

The following graph illustrates our proposed capital expenditure over the coming ten years with the costs categorised as renewals, improvements to levels of service, or growth.

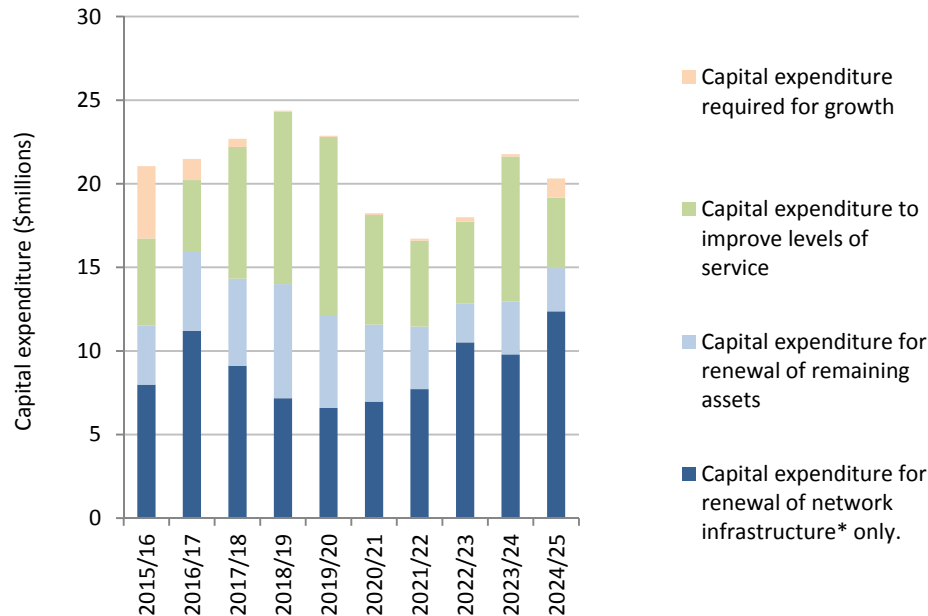
The graph shows that the majority of our capital expenditure is for renewals – the replacement of assets that have reached the end of their lifespans. In particular, the renewal of network infrastructure, including Roads and Footpaths, Stormwater Drainage, Water Supply, and Sewage Treatment and Disposal, accounts for 48.7% of our planned capital expenditure over the course of the Long Term Plan. Other renewals (of non-network infrastructure such as halls, public toilets, playgrounds etc.) account for a further 15.2% of our capital expenditure.

Projects required to improve the services we deliver account for 32.3% of capital expenditure over the coming 10 years. Examples of key projects include the construction of the Matatā sewerage system; continued improvements to stormwater systems; improving and expanding our harbour assets; redeveloping of the Whakatāne War Memorial Hall; and upgrading the Whakatāne Museum.



Only minor expenditure is planned for projects needed to expand or extend services as a result of population growth (for example, a water supply system expansion for a new subdivision). This accounts for 3.9% of capital expenditure over the life of the Long Term Plan.

Figure 3: Forecast capital expenditure for asset renewals 2015-25



**\*Note:** Network infrastructure includes the following activities: Roads and Footpaths, Stormwater Drainage, Water Supply, Sewerage Treatment and Disposal.

## 4. Funding Capital Expenditure over time

Spending on capital projects is usually funded, through loans or depreciation reserves. These funding methods allow project costs to be spread over time. Loan repayments and depreciation reserves are both funded through rates.

Loans are used to fund new assets. Repaying loans over time means that current and future ratepayers contribute to the cost of the asset over its lifetime. External funding such as subsidies, grants and local contributions are also often a major funding source of new assets. Information about our debt levels and limits can be found later in this Strategy.

Depreciation reserves are funds that we set aside from year to year to meet the costs of renewing an asset as it nears the end of its lifespan, ensuring that we can continue to deliver the service it provides. As with loans, this means that both current and future ratepayers are making a contribution to the asset over its lifetime. Under this Long Term Plan, we have calculated our need for depreciation funds on infrastructural assets over 30 years, whereas previously, this has been calculated over 25 years. Setting aside funds for infrastructure renewal over a longer period of time increasingly equalises the costs making them more affordable and predictable for ratepayers. It also aligns with the 30-year timeframe of our Infrastructure Strategy.

## 5. Major Drivers and Features of Expenditure

Putting this Financial Strategy into action has implications for what Council can and cannot deliver. We believe we have an appropriate balance between the level and quality of services and the cost impact for ratepayers. A summary of items that drive, or have a significant impact on our costs, is set out below.

### 5.1. Delivering most services at the current level

For most of our services and facilities, we are not looking to make significant changes to the levels of service that we provide, unless this can be achieved at little or no cost to ratepayers. That being said, for some activities we are proposing some carefully selected service improvements. Holding most services at the current levels will help us to stay within the parameters set out in this Financial Strategy, including the limits on rates increases and debt.

### 5.2. Maintaining reliable infrastructure

A large portion of our capital expenditure is focused on asset renewals which will support the continued delivery of services at the current level. Renewals projects are those which replace existing assets when they are nearing the end of their lifespan, but do not increase or improve the service provided. The renewal of core network infrastructure, including Transport Networks, Stormwater Drainage, Water Supply, and Sewage Treatment and Disposal, is expected to cost around \$82.1 million over the course of the Long Term Plan. Other renewals (of non-network infrastructure such as halls, wharves, playgrounds etc.) account for a further \$49.6 million.

Our 30 year Infrastructure Strategy and Asset Management Plans set out what is required to manage and maintain our assets over the coming ten years of our Long Term Plan and beyond. These documents are available on our website for your reference. A number of our assets will require major renewal works over the next ten years as summarised below:

- Undertaking an ongoing programme to maintain transport networks at \$60.91 million over the next ten years.
- Reinstating a footpath maintenance programme.
- Progressively replacing water supply pipes, 70% of which are over 50 years old.
- Renewing resource consents for all of our six sewerage schemes and for the Whakatāne Water Treatment Plant which are set to expire by 2026. It is anticipated that new consents may require higher levels of treatment.
- Undertaking major structural repair work is needed for the existing Quay Street Wharf and the Port Ōhope Wharf.
- Replacing existing street lights with longer lasting and more efficient LED lighting.

### 5.3. Providing for specific growth areas

Our District population is forecast to be stable over the next 10 years. The need to expand or improve services to cater for an expanding population, or significant changes in land use, is therefore not expected to be a major driver of costs in the 2015-25 Long Term Plan. However, there are expected to be areas of growth in Whakatāne and Ōhope and the Long Term Plan proposes to include provision for infrastructure needs in those areas.

## 5.4. Improving and enhancing selected services

While we are planning to continue most of our services at the current levels, we think it is important to make progress towards improved outcomes, to ensure that the District retains its vitality and vibrancy. For this reason, the Financial Strategy provides increased funding for some specific and carefully selected service improvements. In particular, we intend to increase our focus on economic development and growth in our District. We are also looking to progress projects to improve and expand our harbour assets; to redevelop the Whakatāne War Memorial Hall into a modern multisport venue; and to upgrade the Museum to modern standards. More detail about these proposals is available in our Long Term Plan Consultation Document available from Council offices or on our website.

## 5.5. Continuing to advance committed projects

The Council has already made commitments to a selection of service improvements which are ongoing. These will continue to be advanced and require a commitment of funding over the course of the coming Long Term Plan.

In particular, this includes a project to build a new fully reticulated sewerage system in Matatā. This is expected to be completed in 2017 at a total cost of \$13.2 with a substantial contribution coming by way of grants from the Ministry of Health (\$6.7 million) and the Bay of Plenty Regional Council (\$1.88 million).

We are also continuing our commitment to increase the capacity of stormwater systems in Edgecumbe, Ōhope and Whakatāne including a project (amongst others) to control stormwater in the upper Wainui te Whara stream catchment. Over the next ten years the total cost of storm water improvement projects is expected at just over \$8 million.

## 5.6. Saving costs through reduced projects and services

In the interests of rates affordability, a number of projects and service improvements have been revised and are not intended to be included in our Long Term Plan 2015-25.

While Council is currently upgrading the water supplies to Awakeri and Edgecumbe, further implementation of the Plains Water Supply Strategy is proposed to be deferred until further work is completed on the financial and economic viability of this project. The Council currently does not fund road seal extensions or power undergrounding and it is proposed that this approach should be continued unless there are clear economic benefits.

We will also need to review and possibly reduce the service we provide for solid waste services to offset cost increases that are anticipated with future waste management contracts. This will be considered and consulted with the public when more information is available. As the information is not yet at hand, the budgets in our Long term Plan are based on the current costs.

## 5.7. Servicing debt

The Council's current debt level is conservative for an organisation of our size and as such, servicing of debt is not a major driver of costs in our Long Term Plan. Just over 11% of the income received from rates is currently used to repay interest. This Financial Strategy sets limits that support our intention to hold debt and debt repayments at the current levels. Information about our current debt levels and limits can be found later in this strategy.

## 5.8. Meeting the costs of storm damage and other unexpected events

Natural hazard events can result in substantial costs for the initial response effort, clean-up, and capital work required to rebuild damaged assets. Planning for the financial impact of such events is difficult, because we don't know when they will happen or what impact they may have. Depending on the scale of an event(s), this could require the reprioritisation of projects and budgets and unbudgeted spending.

The Council will initially attempt to meet any costs from within existing budgets and where available, from insurances and external subsidies. As part of our budgets, we hold two reserve funds to help meet the cost of responding to natural hazard damage. The first covers the relatively common costs of storm damage to roading and is projected to have a balance of \$1.08 million as at 30 June 2015. The second, a general Disaster Recovery Reserve, is for events that are not covered by the Storm Damage Roading reserve, or other funding sources such as insurances. This has a projected balance of \$298,000 as at 30 June 2015. Our Long Term Plan budgets do not include further contributions to these reserves. This approach will be reconsidered if a significant portion of these funds has to be used.

## 5.9. Inflation

Just as the cost of running a household increases every year with inflation, the cost of providing Council services also continues to increase. This is because costs like energy, labour and construction typically increase. The rate at which this occurs is measured as the Local Government Cost Index or LGCI. This varies from the rate at which household costs inflate which is known as the Consumer Price Index or CPI. Ultimately this means that even to maintain Council services at the current level, the cost of the service will increase. The expected rates of LGCI over the coming ten years can be found later in this Strategy.

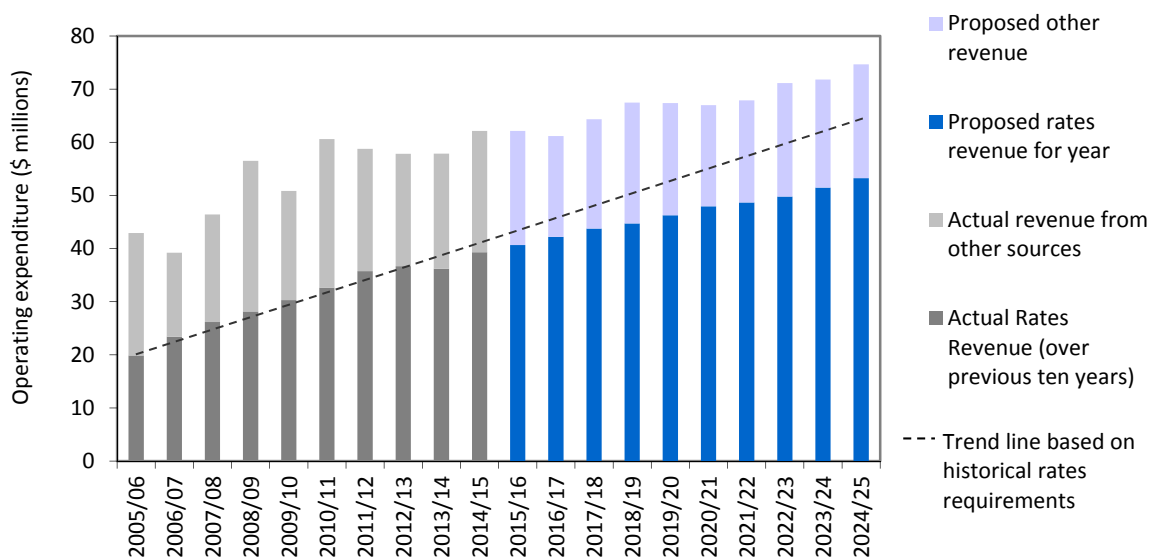
# INCOME

## 6. Sources of Revenue

Rates provide most of the income required to pay for the services and facilities delivered by the Council. This typically accounts for 65-70% of our income each year, with the balance coming from other sources. We endeavour to secure funding from sources other than rates to help make our services and facilities more affordable.

Apart from general and targeted rates, examples of major funding sources include user fees and charges, subsidies, grants and development contributions. The following graph shows what our revenue needs have been over the last 10 years and what proportion of revenue is budgeted to come from rates versus other funding sources during the next 10 years.

Figure 4: Actual and forecast sources of operating revenue 2005-25



## 7. Major Drivers and Features of Revenue

### 7.1. Affordability of rates

Rates affordability is a fundamental driver in the development of the Long Term Plan. The Council acknowledges the socio-economic vulnerability of parts of the District and, that within other sectors, wealth can be tied up in property rather than disposable income. While rates contribute towards the delivery of many fundamental community services and facilities that people rely on and use every day, we understand that rates must be as affordable as possible.

Through the development of the Long Term Plan, rates affordability has been considered in two key ways. The first is through the budgets that we have set for each of our activities because the more we spend, the higher rates will be. We are proposing conservative limits for rates increases and borrowing and have set our activity budgets accordingly. These limits are set out later in this

Strategy. While this approach helps rates affordability, it also means less money is available for investing in community services and facilities.

Secondly, Council has also considered affordability through the distribution of the rates to different sectors of the community. This involves careful consideration of how the Council's costs are to be divided given that ratepayers do not all pay the same. The distribution of the rates requirement is determined through our Revenue and Financing Policy and Rating System both of which have been reviewed as part of our process of developing the Long Term Plan. Following these reviews we are proposing some minor changes to our rating system as summarised below. Our draft Revenue and Financing Policy is available for consultation from Council offices and on the Council's website.

- The use of general rates to fund Matatā Disaster Mitigation stormwater costs will increase from 75% to 100% to be phased in over three years.
- Economic Development will continue to be funded 70% through the general rate and 30% as a targeted 'District Growth' rate to the commercial/ Industrial sector. Differentials will be applied to the District Growth rate to increase the portion of this rate targeting Whakatāne urban properties.
- A sewerage rate for Matatā will be implemented from 2017 upon completion of the Matatā sewerage system.

## 7.2. Availability of external funding

Accessing external funding allows us to deliver projects and services that we might not be able to afford otherwise. The budgets we have set through the Long Term Plan rely on significant levels of external funding, in particular from the New Zealand Transport Agency (NZTA) and the Ministry of Health, but also from many other sources. The amount of external funding in our Long Term Plan budgets has been set at realistic levels, based on the best information currently available. However, achieving that budgeted funding is ultimately dependent on the policies and priorities of our funding providers, which may be subject to change. If anticipated levels of external funding are not realised, this may affect the delivery of some Council projects and services.

## 7.3. Asset sales

The Council is proposing to sell a number of assets over the course of this Long Term Plan. The purpose of these asset sales is either to help achieve strategic priorities, or because the assets are surplus to the Council's long term strategic needs. Notable proposals include the sale of land at Piripai to facilitate residential/retirement village development and (subject to community consultation) the transfer of Pensioner Housing to a registered Community Housing Provider. Income from these and other minor asset sales is expected to return approximately \$8.5 million.

The Council intends to apply income gained from asset sales to retire debt, which would otherwise need to be funded (over time) by ratepayers. However, as the timing and details of sales cannot be accurately estimated, a conservative approach is being applied to our budget assumptions, whereby income from asset sales is set aside as a separate investment to accrue interest. This will help to ensure that rating requirement is not understated should the asset sales be delayed.

## 7.4. Development contributions

Development contributions are fees charged to developers at the time of obtaining a development-related resource consent. The principle underlying development contributions is that the developer should meet the costs attributable to the growth they are creating. Our Development Contributions Policy is being reviewed alongside the Development of this Financial Strategy, in part driven by recent legislative changes. The draft Policy generally proposes to reduce the level of development

contributions that we charge. The draft Development Contributions Policy is available for consultation from Council offices and on the Council's website ([www.whakatane.govt.nz](http://www.whakatane.govt.nz)).

## 7.5. Harbour fund

The Council owns a number of harbour properties which were originally vested in the Council in 1976 when it took over the functions of the Whakatane Harbour Board. The majority of these are commercially zoned land holdings around the Whakatāne Central Business District, but the holding also includes a small number of properties in Ōhope. Many of these properties are leased and provide a commercial return to the Council. The income from leases and from any sale of harbour endowment assets is held as the Harbour Endowment Fund. The Harbour Endowment Fund is of great benefit to the District because it allows the Council to undertake some projects at little or no cost to ratepayers. It is also used to fund the maintenance of assets that were developed through the Harbour Fund. The rules around the Harbour Fund mean that any income derived from leases or the sale of assets, must be invested back into the maintenance or improvement of the harbour or harbour properties.

The Council can only access the Harbour Endowment Fund for other purposes with approval from the Minister of Local Government, which it has done in the past to contribute to major storm-related costs. The Council will also continue to use the Harbour Fund for internal borrowing.

## 7.6. Investments

Under legislation, our Financial Strategy is required to disclose any objectives for holding and managing investments and equity securities and any targets for those. Council's investment holdings and equity securities are minimal and these are not expected to make any significant return over the course of the 2015-25 Long Term Plan. The Council has an Investment Policy in place setting out its approach to managing any Investments. The Investment Policy is available for reference from Council offices and on the Council's website ([www.whakatane.govt.nz](http://www.whakatane.govt.nz)).

# 8. Limits on Rates

## 8.1. Limits on rates increases

The Council will continue the current limits on rates increases over the course of the 2015-25 Long Term Plan. This will limit rates increases to inflation (based on the Local Government Cost Index or LGCI) plus two percent. It should be noted that the limit applies to the average increase across the District, with actual rates increases varying from property to property. Some individual property increases are likely to exceed this limit. Figure 5(a) and (b) below sets out the average rates increases against the limit for rates increases (where applicable). As shown the introduction of limits has helped to contain and provide much more predictability to rates increases. The table also indicates that the rates increases proposed over the next 10 years are often well below the set limits.

We expect there to be a small increase of 0.5% in the number of rating units over the ten year life of our Long Term Plan. However, a conservative approach is being applied to our budget assumptions that involves rates requirements being spread across the existing number of rateable properties.

Figure 5(a): Historical and proposed limits on rates 2005-25 (including inflation)

		Total rates increase over previous year	Limit on total rates increase (LGCI + 2%)*
actual	2005/06	13.9%	-
	2006/07	6.41%	-
	2007/08	12.24%	-
	2008/09	8.92%	-
	2009/10	7.32%	-
	2010/11	8.42%	-
	2011/12	7.95%	-
	2012/13	5.69%	5.79%
	2013/14	2.49%	5.46%
	2014/15	2.95%	5.17%
forecast	2015/16	3.22%	4.24%
	2016/17	3.67%	4.45%
	2017/18	3.70%	4.53%
	2018/19	2.15%	4.61%
	2019/20	3.40%	4.75%
	2020/21	3.59%	4.90%
	2021/22	1.34%	5.04%
	2022/23	2.21%	5.19%
	2023/24	3.33%	5.36%
	2024/25	3.33%	5.53%

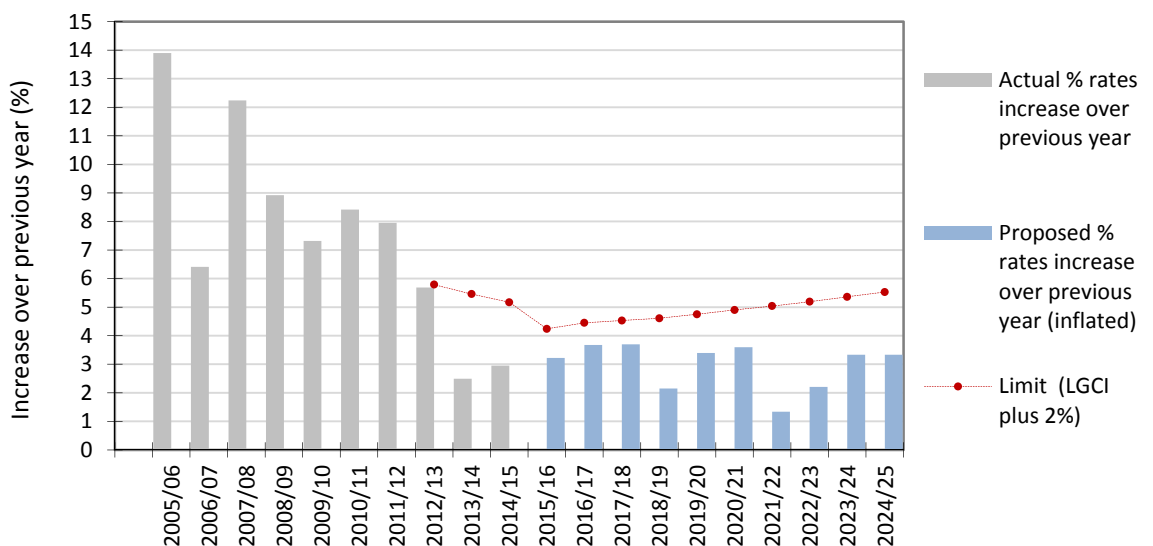
**What is the LGCI?**

The LGCI or Local Government Cost Index is a measure of inflation, as it relates to costs specifically affecting the Local Government sector.

LGCI inflation figures are produced for the local government sector by Business and Economic Research Limited (BERL) a leading provider of economic research, analysis, and advice for business and public sector clients in New Zealand.

The forecast limits for rates increases (at LGCI plus 2%) are based on the LGCI forecast at the time this Financial Strategy was written. As annual updates are made to LGCI, the limits will be adjusted accordingly.

Figure 5(a): Historical and proposed limits on rates 2005-25





## 8.2. Limit on rates as a proportion of total operating revenue

The Council will limit rates to a maximum of 80% of total operating revenue. This means we will need to continue to secure at least 20% of our revenue requirement from sources other than rates. The table below sets out forecast levels of operating revenue against the 80% limit. This indicates that over the ten years of the Long Term Plan 2015-25 we expect to remain well within the set limit.

Figure 6: Limits on rates as a proportion of total operating revenue 2015-25 (including inflation)

	Operating revenue (\$millions)	Rates revenue (\$millions)	Ratio: (limit = 80%)
2015/16	62.15	40.60	65%
2016/17	61.17	42.12	69%
2017/18	64.33	43.70	68%
2018/19	67.48	44.66	66%
2019/20	67.38	46.20	69%
2020/21	66.99	47.90	72%
2021/22	67.88	48.59	72%
2022/23	71.14	49.71	70%
2023/24	71.80	51.41	72%
2024/25	74.69	53.19	71%

Typically we gain around 65-70% of our revenue from rates with the remaining approximately 30-35% coming from other sources such as the New Zealand Transport Agency for roading costs and the Ministry of Health for projects to improve quality of drinking water. Over the course of this Long Term Plan we will continue to secure funding from sources other than rates wherever we can.

## 9. Borrowing and Debt

We use loan funding to spread asset costs over current and future ratepayers. Borrowing to pay for assets with a long life, for example 25-50 years (rather than just increasing rates to cover the full cost of an asset), means that those who benefit from the service provided, now and in the future, will contribute fairly towards its cost. This also helps to even out the impact on rates, avoiding steep cost increases and providing greater certainty for ratepayers.

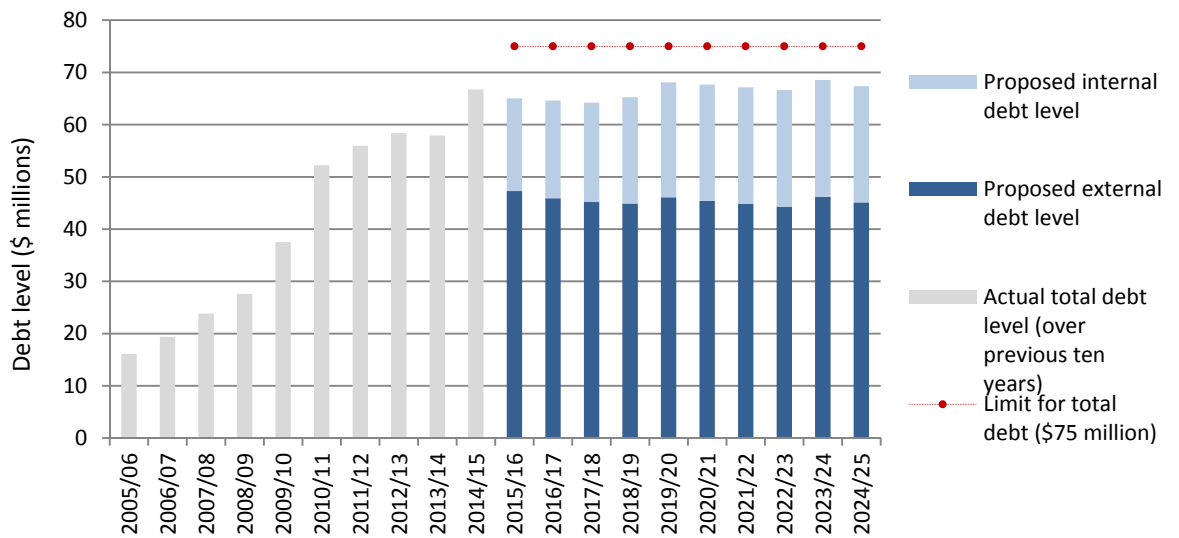
As at 30 June 2014, our external debt (owed to banks and the Local Government Funding Agency) was \$45.5 million or around \$2,741 per rating unit. This is consistent with or favourable to the debt levels of many similar sized local government authorities around New Zealand. On top of this external debt, like most other councils, we also borrow from our own reserves, which are being held for other specific purposes, but are not yet required. When we include internal borrowings, our total debt, as at 30 June 2014, was \$57.9 million.

### 9.1. Limits for debt

Over the course of the 2015-25 Long Term Plan, we intend to maintain our debt at around the current level. This will mean only taking on new debt as we repay existing debt. To achieve this outcome, careful consideration has been given to prioritising and scheduling planned capital projects.

To support the objective of maintaining debt at the current levels, we are also retaining our previous debt limit. As shown in the graph below, this will see the limit for total debt (including internal and external debt) held at the current level of \$75 million over the life of the 2015-25 Long Term Plan.

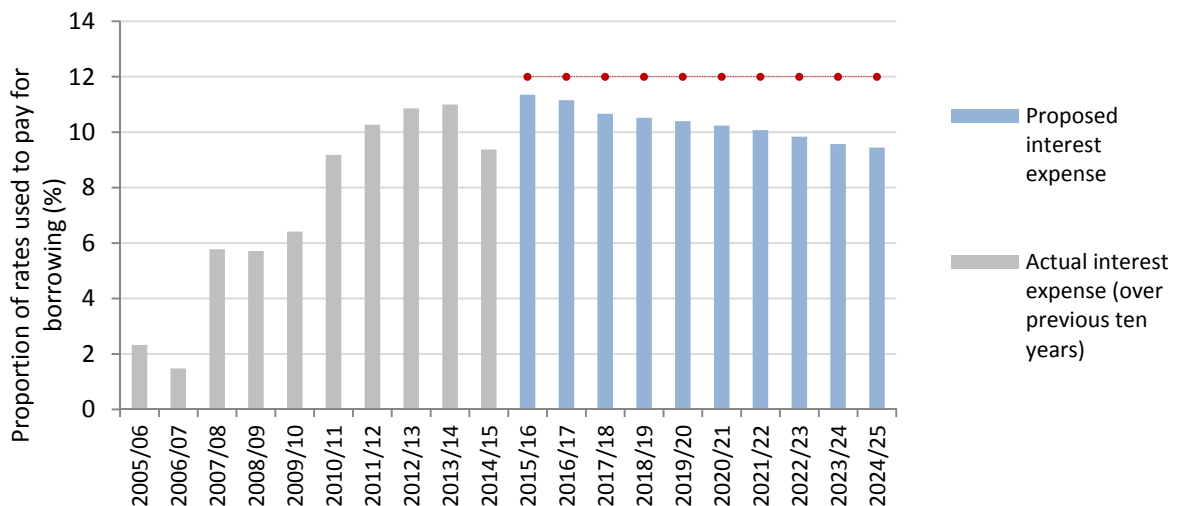
Figure 7: Limit for total debt 2005-2025



## 9.2. Limits for interest costs met from rates

To provide further certainty to ratepayers, we have set limits on the amount of rates revenue used to meet interest costs. This is because it is debt repayments, rather than our overall level of borrowing, that affects ratepayers from year to year. This will see the interest expense of our borrowing limited to 12% of total rates income. The graph below shows the proportion of rates required to repay debt over the past 10 years and the forecast level over the life of the 2015-25 Long Term Plan.

Figure 8: Limit on interest expense as a proportion of rates revenue 2005-25



### 9.3. Borrowing from the Local Government Funding Agency

The Whakatāne District Council has been a shareholder in the Local Government Funding Agency (LGFA) since 2012. The LGFA is a partnership of participating local government authorities which has enabled borrowing at more secure and favourable rates than those provided by banks. Over the course of the 2015-25 Long Term Plan, we will reassess the favourability of the borrowing options available, as loans mature.

### 9.4. Policy on securities for borrowing

To borrow money (either from banks or the LGFA), the Council has to offer lenders some security (just as homeowners do with their mortgages). Like most councils, we secure our debt against our rates income, rather than against physical assets like land or buildings. This means that lenders can make us increase rates to repay debt under certain circumstances. Using this form of security helps to keep the interest rates on our debt low. The Council's full policy on security for borrowing is known as the Liability Management Policy. This is available on the Council's website ([www.whakatane.govt.nz](http://www.whakatane.govt.nz)).