FINANCIAL STRATEGY 2018-28

Te Rautaki Pūtea

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

Introduction

This Financial Strategy is central to the development of the Council's Long Term Plan. It sets out the Council's approach to managing our finances for the next decade, including the key financial parameters guiding the development of our LTP, 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 LTP 2018-28.

This Financial Strategy provides a review and update of the Financial Strategy developed as part of the 2015-25 LTP. 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 $59 million a year. Around two-thirds of this spending is paid for through rates income, with the average household currently contributing around $55 per week.

This funding enables us to deliver a wide range of activities and services that people use and rely on every day. In total, we deliver 30 different activities, which are supported by internal activities such as Human Resources, Customer Services and Finance. We are also a shareholder in four 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 214 full-time equivalent staff.

The Whakatāne District Council has a healthy balance sheet and is in a stable financial position. We manage debt at relatively low levels compared to other local government or commercial organisations and our levels of rates are not dissimilar to other similar sized territorial local authorities. Our portfolio of activities and services includes the management of over $672 million worth of community assets, compared to total liabilities of $71 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

Our Financial Strategy has been developed utilising the overarching principles which guide the development of the LTP. Those principles endeavour to deliver an LTP that is "Responsible", "Sustainable", "Affordable" and "Enabling".
In the context of the Financial Strategy, the LTP 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.

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 2018-28 LTP and Financial Strategy. This includes the continuation of conservative limits for rates increases and debt in line with the limits set through the previous LTP. Increased discipline around day-to-day financial management 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 LTP which are:

- Resilient People and Places
- Vibrant Communities
- Thriving Economy
- Responsible Money Management.

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

i. Ensuring resource is available to sustainably manage assets and services, and
ii. Retaining capacity to add value to our services and facilities.

Whilst

iii. Maintaining rates at an affordable level,
iv. Maintaining our overall debt at around or just above current levels, and
v. Manage our finances responsibly and minimising financial risk.

OBJECTIVE I:

Ensuring resource is available to sustainably manage assets and services

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.
- The costs for obtaining resource consents and some capital works for the Murupara wastewater system upgrade have been brought forward. This was to 'smooth out' the impact of the associated costs across a number of years. The remainder of the resource consents for wastewater upgrades are budgeted later in the LTP, with the associated 'cost hump' expected from 2025. The remainder of the capital costs are not yet budgeted for in the LTP.
- Providing additional funding to ensure the continued financial viability of the Whakatāne 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

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.
- Maximising the benefits from the Harbour Fund while managing this resource in a sustainable way.

OBJECTIVE III:

Maintaining rates at an affordable level

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 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 we provide for some services, where savings could be made with minimal disruption to the community.
- Funding depreciation over a longer period to provide more certainty and stability to ratepayers by levelling out costs over a longer period of time.

OBJECTIVE IV:

Maintaining overall debt at around or just above current levels

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 of debt and for debt servicing costs that support the retention of debt at 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, or to offset the requirement for new 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 a Balanced Budget

The Council intends to operate a balanced budget over the course of this LTP. This means there is an operating surplus budgeted for all years, with an approximate overall operating surplus of $41.6 million.

The Council intends to continue its approach to funding depreciation based on an assessment of the renewals programme over a 30 year period, rather than funding renewals as they are required. This approach provides 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. This also aligns with the Council objective of intergenerational equity; not to unfairly burden ratepayers in the future. 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.

Expenditure

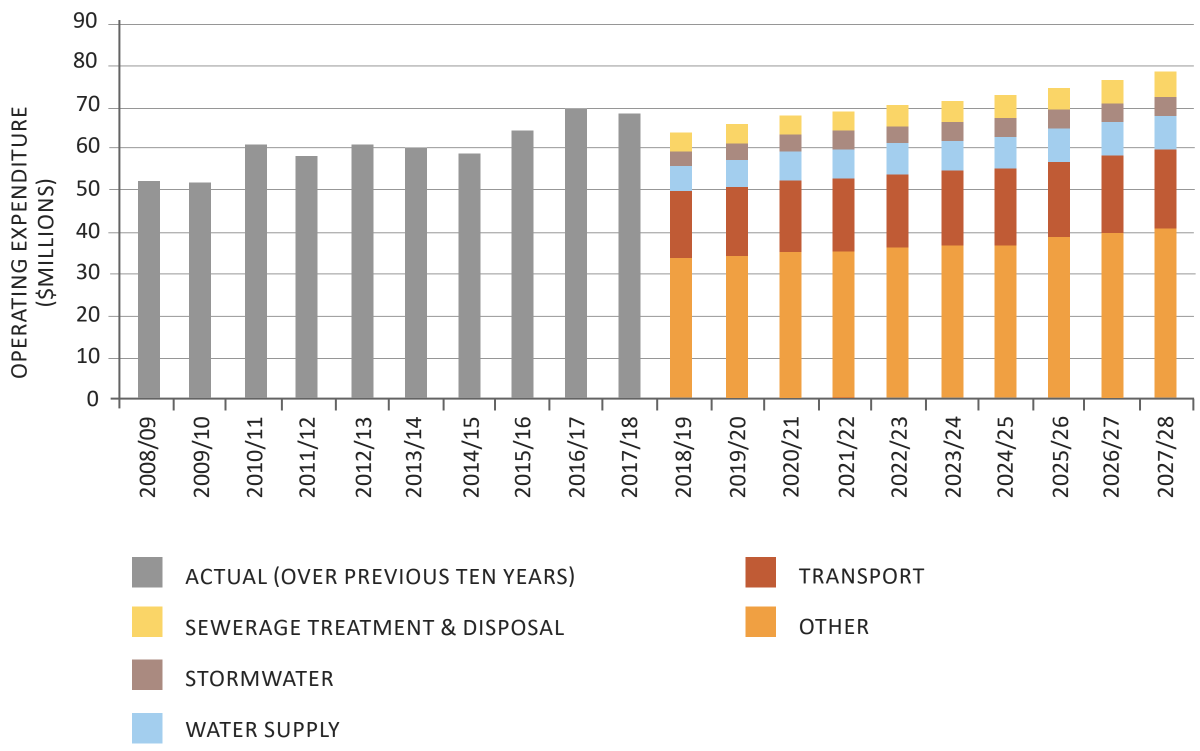
1. OPERATING EXPENDITURE OVER TEN YEARS

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, a large proportion of our operating expenditure is related to the four core network infrastructure activities including Roads and Footpaths, Water Supply, Stormwater Drainage and Sewage Treatment and Disposal. Together, these account for 48.3% of our operating expenditure over the life of the LTP.

The graph shows that the Council's total operating expenditure is set to increase progressively from $64.55 million in 2018/19 to $78.44 million by 2027/28. While inflation is a major driver of this increase, there are a number of other factors which also influence our operating expenditure. The major drivers and features of expenditure are discussed in section five of this Strategy.

FIGURE 1: ACTUAL AND FORECAST OPERATING EXPENDITURE 2008-28

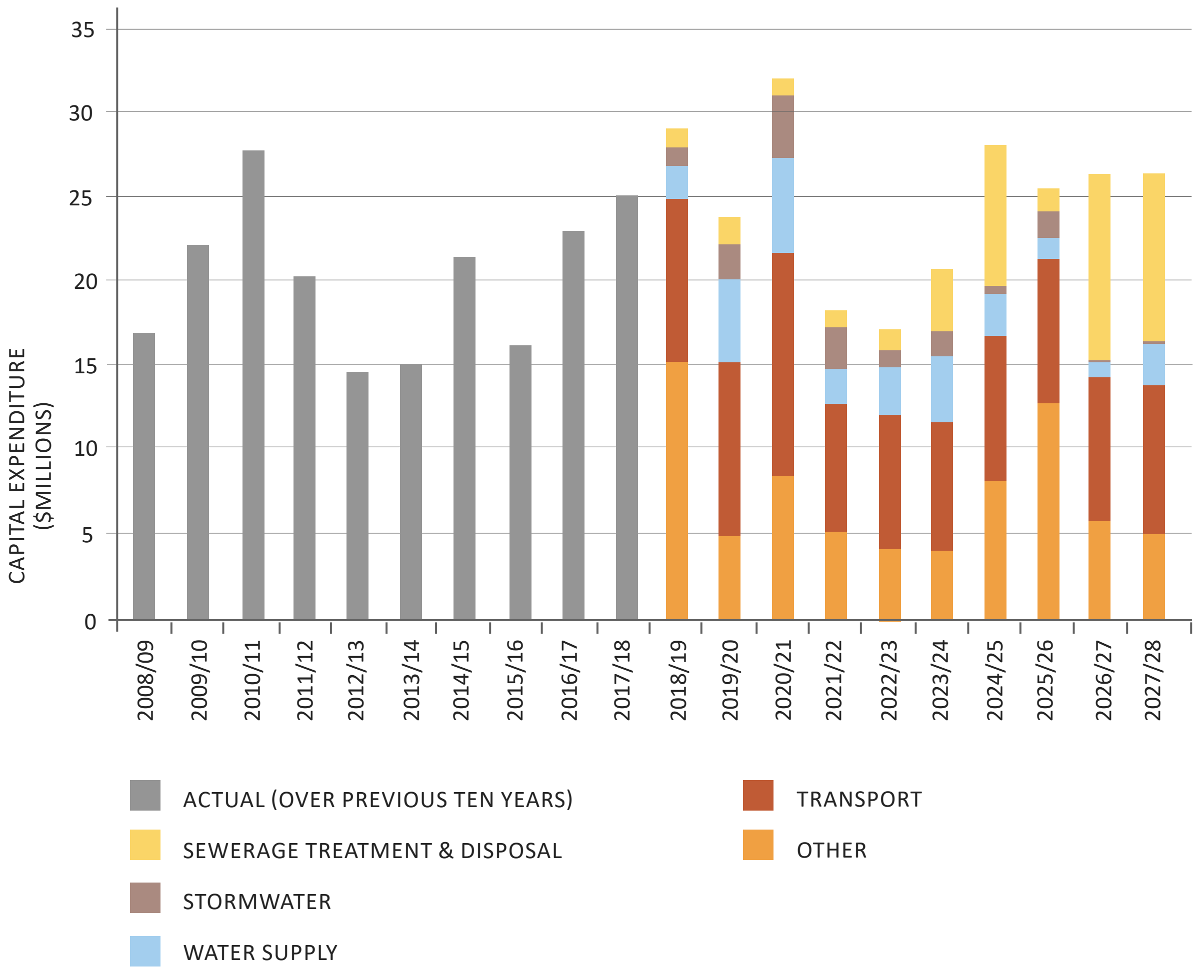


2. CAPITAL EXPENDITURE OVER TEN YEARS

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 ten years and the planned spending for the next ten 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 LTP, these account for 75.42% of our capital expenditure.

FIGURE 2: ACTUAL AND FORECAST CAPITAL EXPENDITURE 2008-28



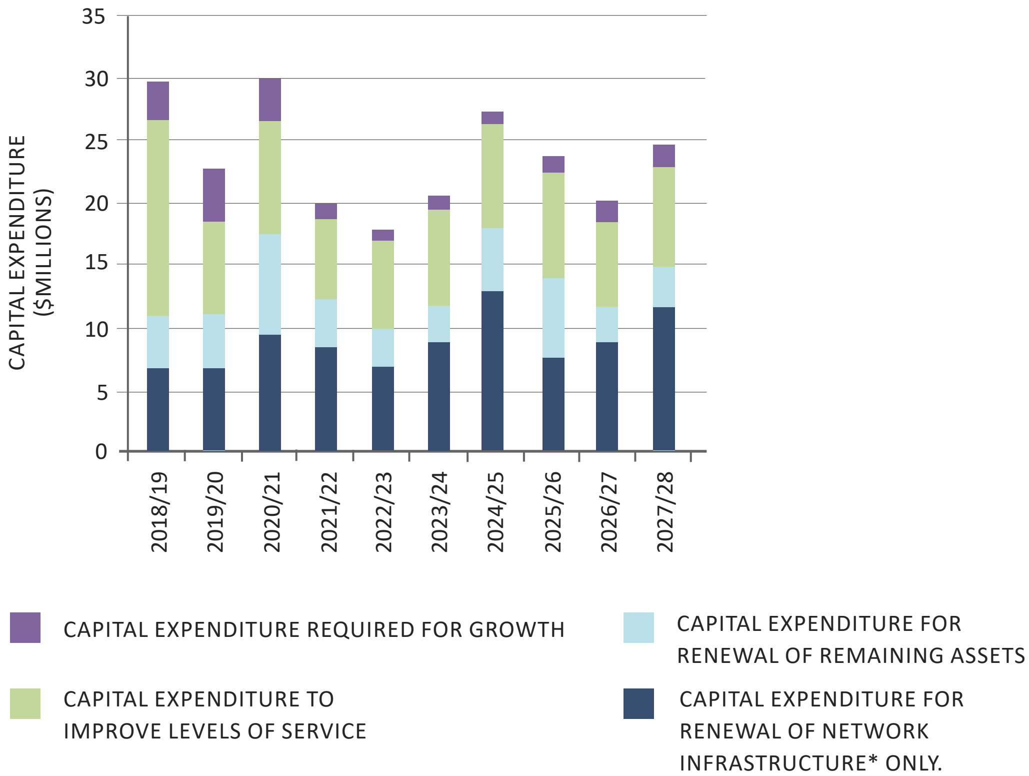
3. PROPORTION OF CAPITAL EXPENDITURE FOR RENEWALS

The following graph illustrates our forecast 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 37.7% of our planned capital expenditure over the course of the LTP. Other renewals (of non-network infrastructure such as halls, public toilets, playgrounds etc.) account for a further 18.4% of our capital expenditure.

Projects required to improve the services we deliver account for 35.6% of capital expenditure over the coming ten years. Examples of key projects include costs associated with gaining resource consent for sewerage disposal and water supply, continued improvements to stormwater systems; improving and expanding our harbour assets; and redeveloping the Whakatāne and District War Memorial Hall.

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 8.0% of capital expenditure over the life of the LTP.

FIGURE 3: FORECAST CAPITAL EXPENDITURE FOR ASSET RENEWALS 2018-28



*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 and grants 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 LTP, we have calculated our need for depreciation funds on infrastructural assets over 30 years. Setting aside funds for infrastructure renewal over a longer period of time 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 that 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 $89.3 million over the course of the LTP. Other renewals (of non-network infrastructure such as halls, wharves, playgrounds etc.) account for a further $43.52 million.

Our 30 year Infrastructure Strategy and Asset Management Plans (both available on our website), set out what is required to manage and maintain our assets over the coming ten years of our LTP and beyond.

5.3. Providing for specific growth areas

Our District population is forecast to increase slightly over the next ten 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 2018-28 LTP. However, there are expected to be areas of growth in Whakatāne and Ōhope and the LTP proposes to include provision for infrastructure needs in those areas.

5.4. Improving and enhancing selected services

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 and to redevelop the Whakatāne and District War Memorial Hall into a modern multisport venue.

5.5. Continuing to advance committed projects

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

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 LTP 2018-28. 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. There may be times when property owners who live on an unsealed road wish to fund the cost of a seal extension. Where this is the case, the Council will work with property owners to find an appropriate solution. This could include a targeted rate on property owners on the road planned for reseal.

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 LTP. This Financial Strategy sets limits that support our intention to hold debt and debt repayments at conservative 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 Roading Storm Damage Reserve and the Disaster Recovery Reserve.

The Roading Storm Damage Reserve covers the relatively common costs of storm damage to roading. The payment to this reserve has been reinstated at $275,000* per annum. To smooth the impact of introducing this payment, the first year has been funding from the surplus balance in the Roading Rate Reserve. The Disaster Recovery Reserve is for events that are not covered by the Roading Storm Damage Reserve or other funding such as insurance. The payment to this reserve has been reinstated at $100,000* per annum and will be introduced in the LTP from year two (2019/20) for affordability reasons.

There is a reduction in the amount transferred to the Weathertight homes reserve account of $50,000. A transfer of $200,000 was included in the 2018 Annual Plan; however, this LTP has budgeted to transfer a reduced amount of $150,000* for the first 4 years of the LTP, 2018-19 to 2021/22.

*Uninflated

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.

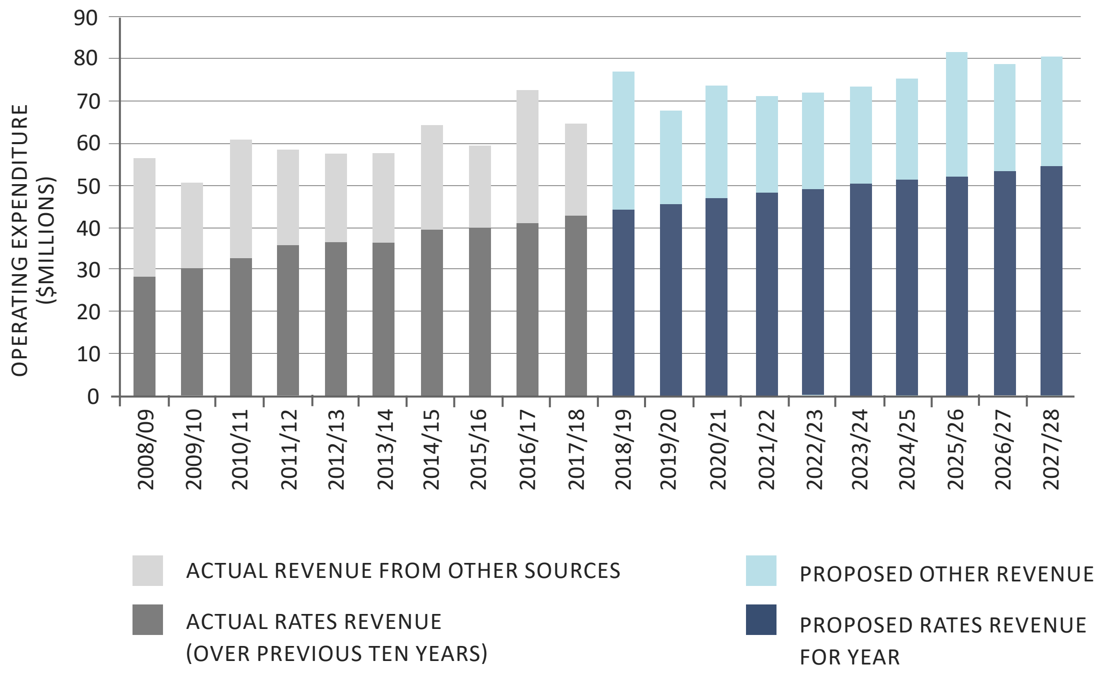
Income

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 ten years and what proportion of revenue is budgeted to come from rates versus other funding sources during the next ten years.

FIGURE 4: ACTUAL AND FORECAST SOURCES OF OPERATING REVENUE 2008-28



7. MAJOR DRIVERS AND FEATURES OF REVENUE

7.1. Affordability of rates

Rates affordability is a fundamental driver in the development of the LTP. 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 LTP, 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 LTP. Following these reviews, we have made some minor changes to our rating system as summarised below. Our Revenue and Financing Policy is available later in this chapter or on the Council website.

- Additional funding of $150,000 has been included in the Tourism and Marketing budget. This has been funded $50,000 funded from the Harbour Fund and the remaining $100,000 funded by the targeted district growth rate applying the existing methodology.
- The funding philosophy for the Resource Management Policy activity has been amended to reflect the public benefit of this activity.
- The funding philosophy for the Libraries and Ports & Harbour activities have been amended to indicate a greater public benefit of this activities.

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 LTP rely on significant levels of external funding, in particular from partnerships with the New Zealand Transport Agency (NZTA) and the Ministry of Health, but also from many other sources. The amount of external funding in our LTP 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. We also have 2 large projects which we have not included funding for in this LTP, but which we are hoping to deliver on within the next 10 years; an Integrated Wastewater System and Awatarariki Debris Flow Risk Management. These projects are heavily reliant on external funding or investment from other agencies and will only progress if that funding is provided.

7.3. Development contributions

Development contributions are fees charged to developers at the time of obtaining a development-related resource consent, building consent or authorisation for service connection. The principle underlying development contributions is that the developer should meet the costs attributable to the growth they are creating. Our Development Contributions Policy was reviewed alongside the development of this Financial Strategy to ensure consistency. The Development Contributions Policy is available from Council offices and on the Council's website.

7.4. 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 Whakatāne Harbour Board. The majority of these are commercially zoned land holdings around the Whakatāne Central Business District. 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 (Harbour Fund).

The Harbour Fund is of great benefit to the District because it allows the Council to undertake some projects at little or no cost to ratepayers. The rules around the Harbour Fund, set through legislation, 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 Harbour Fund may be used for non-ports and harbour activities only to the amount of operating surplus available in the Ports and Harbour activity in any given year, or, with express approval from the Minister of Local Government. The Council's LTP 2018-28 continues to use the Harbour Fund for internal borrowing.

At the time of writing this Long Term Plan, the Council has initiated the development of a policy framework to review and provide guidance to the future management of the Harbour Fund. The Policy Framework will guide more strategic management and application of the Harbour Fund portfolio and resources.

7.5. 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 2018-28 LTP. 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.

7.6. Financial instruments disclosure

Council holds financial investments, such as term deposits, as part of managing its cash flow to finance expenditure on operations. These investments are not significant. For example, Council holds on to these funds to:

- Invest surplus cash and working capital funds
- Invest proceeds from the sale of assets
- Invest funds allocated for approved future expenditure to implement strategic initiatives or to support inter-generational allocations.
- Invest amounts allocated to accumulated surplus, Council created and restricted reserves such as renewal reserves, operational reserves, development contributions and the harbour fund.

It is expected that Council's primary objective in holding these investments is to protect its investment, so only creditworthy counter-parties are acceptable. Whilst Council would endeavour to maximize its return on investments, these investments usually need to remain fairly liquid and therefore the returns reflect this position.

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 2018-28 LTP. 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) 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 forecast rates increases over the next ten 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 LTP. 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 FORECAST LIMITS ON RATES 2008-28 (INCLUDING INFLATION)

		TOTAL RATES INCREASE OVER PREVIOUS YEAR	LIMIT ON TOTAL RATES INCREASE (LGCI + 2%)*
ACTUAL	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%
	2015/16	3.21%	4.24%
	2016/17	3.84%	4.45%
	2017/18	3.55%	3.8%
FORECAST	2018/19	3.83%	4.0%
	2019/20	2.88%	4.2%
	2020/21	3.40%	4.2%
	2021/22	1.97%	4.2%
	2022/23	2.18%	4.3%
	2023/24	2.61%	4.3%
	2024/25	1.99%	4.4%
	2025/26	1.63%	4.5%
	2026/27	1.96%	4.6%
	2027/28	1.78%	4.7%

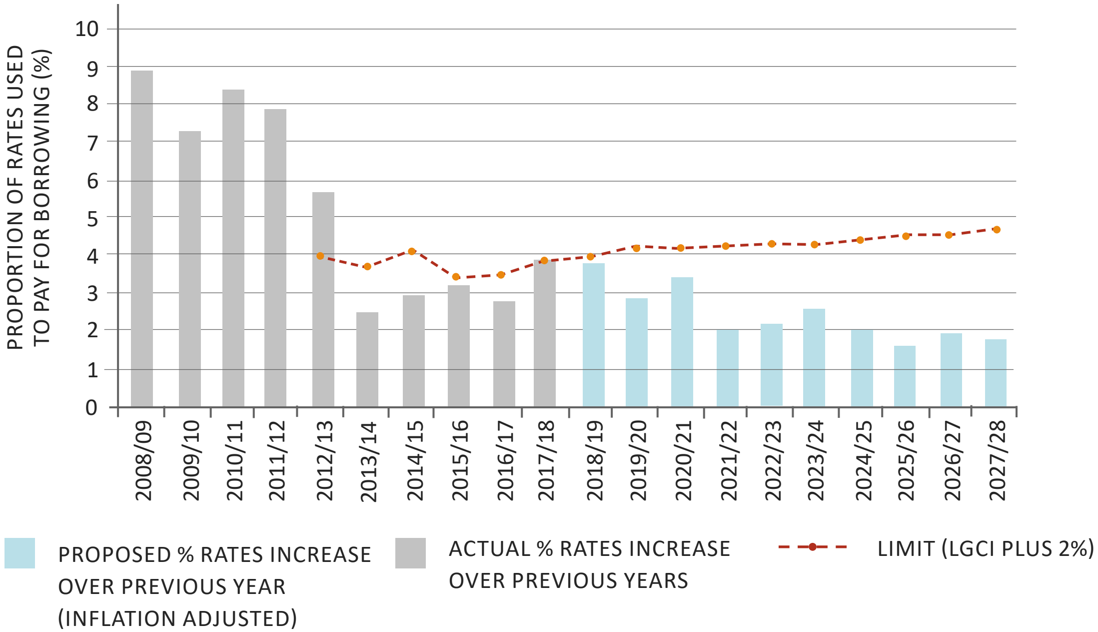
What is the LGCI?

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(B): HISTORICAL AND FORECAST LIMITS ON RATES 2008-28 (INCLUDING INFLATION)



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. Figure 6 sets out forecast levels of operating revenue against the 80% limit. This indicates that over the ten years of the 2018-28 we expect to remain well within the set limit.

FIGURE 6: LIMITS ON RATES AS A PROPORTION OF TOTAL OPERATING REVENUE 2018-28 (INCLUDING INFLATION)

	OPERATING REVENUE ($MILLIONS)	RATES REVENUE* ($MILLIONS)	RATIO: (LIMIT = 80%)
2018/19	78.10	44.29	57%
2019/20	70.49	45.56	65%
2020/21	74.60	47.11	63%
2021/22	71.55	48.04	67%
2022/23	72.50	49.09	68%
2023/24	73.99	50.37	68%
2024/25	78.96	51.38	65%
2025/26	82.12	52.21	64%
2026/27	78.94	53.24	67%
2027/28	80.43	54.18	67%

**Excludes penalties*

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 LTP we will continue to secure funding from sources other than rates wherever we can.

9. BORROWING AND DEBT

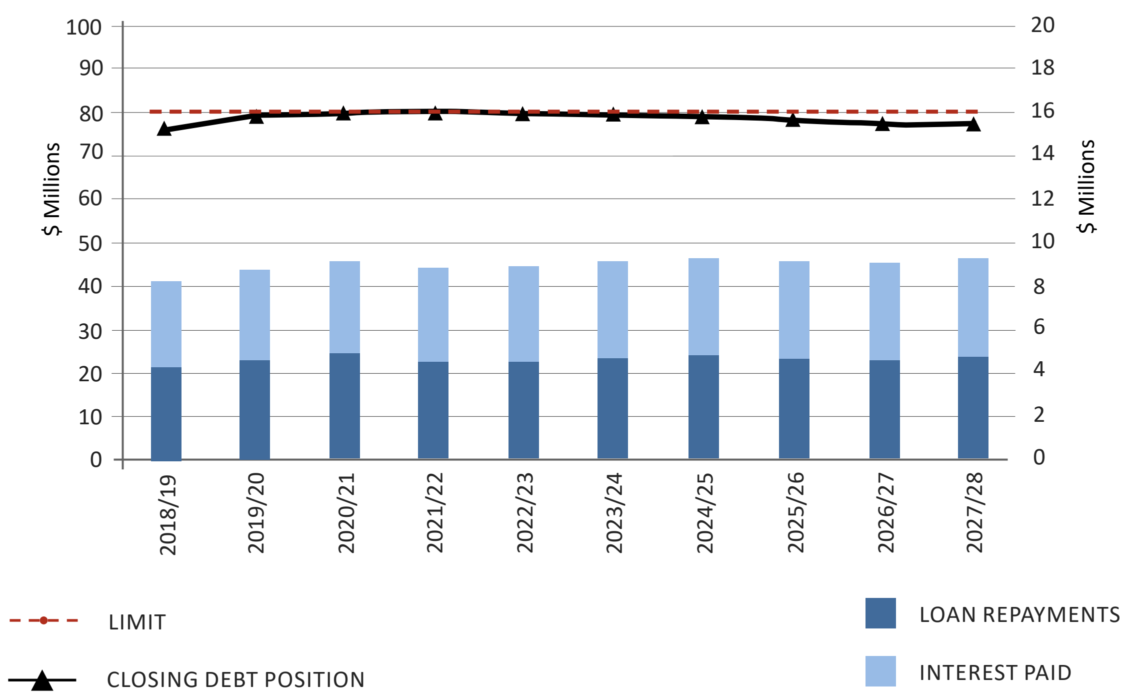
We use loan funding to spread asset costs over current and future ratepayers. Borrowing to pay for assets with a long life, for example 25-50 years (rather than just increasing rates to cover the full cost of an asset), means that those who benefit from the service provided, now and in the future, will 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.

Total borrowing as at 30 June 2017 was $68.98 million (around $4,416 per rating unit), of which $47.5 million was external borrowing through the banks. 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.

9.1. Limits for debt

Council will be required to increase its debt level for the 2018-28 LTP in order to acquire funds for essential infrastructure while not breaching our debt level. Careful consideration has been given to prioritising and scheduling only necessary capital projects. To support the objective of maintaining debt at a conservative level, Council proposes increasing our debt limit to $80 million. This is an increase of $5 million from the 2015-25 LTP debt limit level.

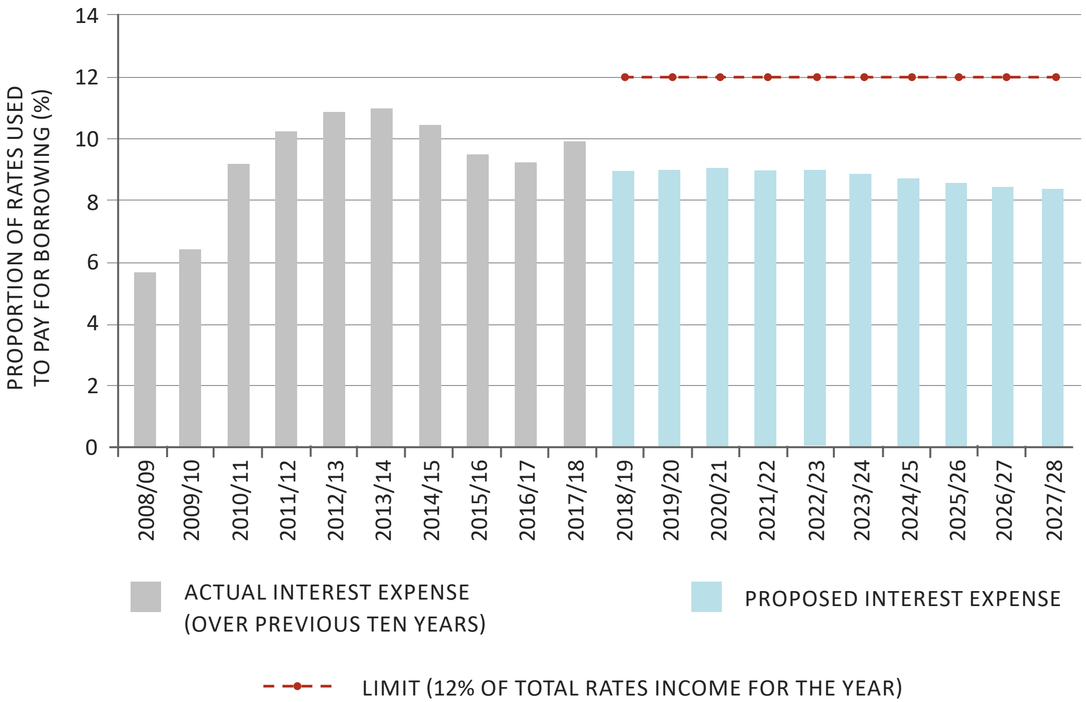
FIGURE 7: DEBT PROFILE AND DEBT SERVICING COSTS 2018-28



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 debt-servicing costs. This is because it is debt repayments, rather than our overall level of borrowing, that affects ratepayers from year to year. The following graph shows the proportion of rates required to repay interest over the past ten years and the forecast level over the life of the 2018-28 LTP.

FIGURE 8: LIMIT ON INTEREST EXPENSE AS A PROPORTION OF RATES REVENUE 2008-28



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 2018-28 LTP, we will reassess the favourability of the borrowing options available, as loans mature.

FORECAST INTEREST EXPENSE

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.