Horowhenua
DISTRICT COUNCIL

Financial Strategy 2018-2038

Te Rautaki Ahumoni

February 2018

Definitions and Interpretations

Business and Economic Research Limited (BERL)

Leading provider in economic research, analysis, advice, and consultancy for business and public sector clients.

Consumer Price Index (CPI)

Measures changes in the price of consumer goods and services.

Core Infrastructure

Horowhenua defines the following Groups of Activities as Core Infrastructure, Water Supply, Wastewater, Stormwater, and Land Transportation (roading and footpaths).

Deficit

The amount by which expenditures or liabilities exceed income (i.e spend more than you earn).

Funding Assistance Rate (FAR)

A subsidy from New Zealand Transport Agency (NZTA) to partially fund council owned roading networks. The subsidy partially funds maintenance, renewals and minor safety improvements. This is referred to as a “rate” which is different for each Council based on an assessment of the local economy and need.

Infrastructure Strategy

Describes how a local authority intends to manage core infrastructure assets and associated expenditure over 30 years.

Legislation

A reference in this strategy to any law, legislation or legislative provision includes any statutory modification, amendment or re-enactment, and any subordinate legislation or regulations issued under that legislation or legislative provision.

Levels of Service (LoS)

The quality of service a Council Activity is committed to provide to the community.

Local Authority Protection Programme (LAPP)

A disaster fund to assist with the replacement of infrastructure following catastrophic damage caused by a natural disaster.

Local Government Cost Price Index (LGCI)

Measures the cost drivers of Local Government, such as the price of construction material for large infrastructure (i.e. Water reticulation networks and treatment plants and local road maintenance).

Local Government Funding Agency (LGFA)

Provides more efficient funding costs and diversified funding sources for local authorities.

Long Term Plan (LTP)

Council’s key strategic planning document outlining the Council’s financial situation as well as the level of service Council is committed to for the activities it undertakes and capital work programme for at least ten years.

Manawatu-Whanganui Local Authority Shared Services (MW LASS)

Shared service partnership within the Manawatu Whanganui Region to achieve financial savings.

Society of Local Government Managers (SOLGM)

An organisation for local government professionals to support and promote professional management.

Surplus

Operating revenue in excess of what is required to meet operating expenses (i.e. earn more money than is spent).

Contents

Executive Summary

What is a Financial Strategy?

This is a fundamental strategy in Council's Long Term Plan (LTP) that sets out 20 years of prudent financial management. A key aspect of the Financial Strategy is to try and reach a balance between loan and rate funding for the purchasing of new assets and the maintenance of old assets. The Strategy covers Horowhenua District Council's financial goals, challenges, debt limits, rates, etc.

Financial Goals (page 10)

This Strategy is the foundation of Council's LTP goal of managing growth while living within its means. We have signalled higher than inflation rate increases over the first five years of the 2018-2038 Long Term Plan in order to achieve the financial goals of:

- Rate funding asset renewals
- Find alternative sources of income to fund growth projects
- Balance the operating budget

Financial Challenges (page 6)

Currently Council is faced with the following affordability challenges due to the increased costs of material and labour highlighted in the infrastructure revaluations:

- Asset renewals
- Maintaining Levels of Service
- Growth projects

Debt Limits (page 9)

With significant growth on the horizon, Council is considering raising its debt limits. Debt is primarily driven by capital expenditure, and with growth comes a need to fund new infrastructure. Council proposes to raise the debt limit from 175% to 195% of total revenue, still leaving adequate borrowing in the event of a natural disaster.

Rate Limits (page 10)

Rates is Council's primary income source. The proposed rate increases are as follows:

Table 1: Rates Income Percentage Increases

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 and following years
Will not exceed	*7.53%*	6.97%	6.40%	7.42%	5.92%	LGCI +2%
Projected	*6.53%*	5.97%	5.40%	6.42%	4.92%	Range 2.10% to 4.47%
Total Rates Income ($000)						
Will not exceed	*$37,801*	$40,057	$42,223	$44,930	$47,148	$48,711 to $76,318
Projected	*$37,449*	$39,683	$41,826	$44,512	$46,703	From $48,064 to $74,139

Note: Excludes water by meter, penalties and remissions. Individual household rates maybe higher or lower than the above percentage increases.

Balancing the Budget (page 11)

Balancing the budget means Council's revenue is equal to or exceed the operating expenditures so there is no budget deficit. Council has a history of budget deficits, which had been planned to turn-around by 2018-2019. However, due to increased costs of replacing infrastructure assets, Council plans to balance the budget by year 4 (2021-2022) of this LTP.

Introduction

“Balancing the budget while planning for growth and maintaining sustainable infrastructure”

The Financial Strategy covers the key financial parameters Council will operate within, including limits on rates and debt. Council has extended its Long Term Plan (LTP) focus to 20 years to better understand the effects of new projects related to Horowhenua’s anticipated growth.

The focus of the Financial Strategy continues to be on balancing the budget over the next few years and to maintain a surplus from year 4 (2021/22) while ensuring that our infrastructural assets are maintained and comply with legislative requirements. However, our community is currently experiencing growth as a result of the Wellington Expressway project and high New Zealand-wide immigration. Council is now faced with the challenge of not only maintaining existing infrastructure assets, but also providing new infrastructure to support the growing population.

The Financial Strategy is a requirement of s101A of the Local Government Act 2002. The Strategy outlines the key financial parameters and limits Council will operate within. It sets out how Council will achieve a balanced budget, and return to operational surpluses within four years in a challenging environment. Council faces the need to renew our infrastructural assets to meet new environmental standards as well as new health standards such as the water quality standards and as previously mentioned providing for growth. The Strategy takes into account the need to increase income to balance the operating budgets to avoid increasing debt.

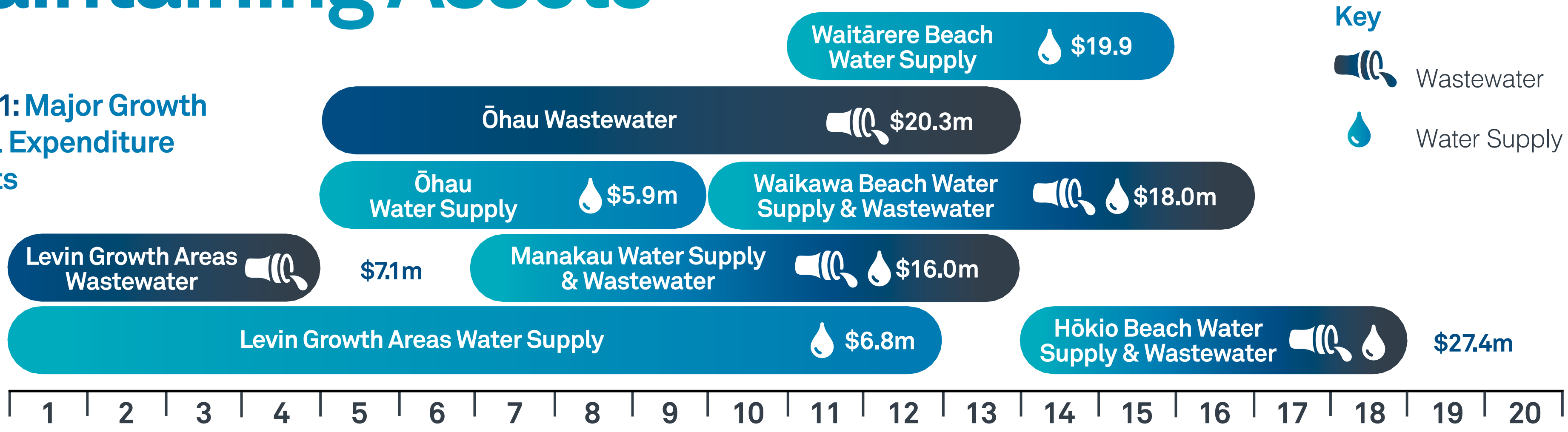
Operating deficits have become a norm, since many asset renewals have been loan funded rather than rate funded. The approach taken to-date is not sustainable and needs to be remedied.

Council aims to find a cost effective and efficient balance between the operating budget, prudent debt levels, levels of service, providing for growth and the resulting rate increases.

In recent years, Council has focused on increasing its income to balance the operating budget and keep debt to a minimum by increasing the proportion of rate funding of infrastructure renewals. This approach led to above inflation rate increases since the 2013/14 financial year. A similar high-level of rate increase needs to occur over the first five years of the LTP to ensure a balanced operating budget and a return to surplus from year 4 onwards.

Purchasing and Maintaining Assets

Figure 1: Major Growth Capital Expenditure Projects



Council is facing a challenging environment and must respond to these challenges while trying to reach a balance between loan and rate funding.

The primary challenges are:

- Provision of affordable funding for asset renewals to:
  - Increase pipe condition and lower water leakage in the water network;
  - Reduce stormwater infiltration to the wastewater network;
  - Lower on going operational costs by reducing reactive maintenance and renewal works; and
  - Maintain treatment plant asset condition.
- Provision of affordable funding to maintain Levels of Service, particularly meeting increased resource consent requirements and quality standards including:
  - Achieving compliance with Horizons Regional Council's 'One Plan';
  - Achieving compliance with New Zealand Drinking Water Standards;
  - Sustainability of the water source at Foxton and Foxton Beach;
  - Improve quality of stormwater discharge into Lake Horowhenua;
  - Eliminate backlog maintenance of road surface renewal; and
  - Maintain road surface condition.

Assets, especially core infrastructural assets such as Land Transport (Road and Footpaths), Water Supply and Wastewater networks, need to be maintained to continue delivering the Levels of Service ratepayers have come to expect and as defined in the Council Activity Statements section of the LTP.

To overcome the challenges of maintaining our ageing assets as well as new standards and growth, Council will need to spend more in the early years of the LTP as assets need to be renewed over 30 years to avoid failures. Deferring the renewal of these assets will result in higher overall costs. Specifically growth will be a major component of capital spend in the years to come. For more information about growth, refer to page 12.

In Figure 1 is a graphic of the Major Growth Capital Expenditure Projects that feed into Figure 2 on page 7.

Figure 2 reflects Council's ability to fund proposed projects as well as maintain the existing Levels of Service within its financial limits. Where the loan line sits within the green renewals bar graph is where council is loan and reserve funding renewals.

To reduce the need to borrow Council intends to progressively spend more on assets from rates and operating surpluses as opposed to loans. Achieving a higher level of rate funding of assets (and subsequently reducing loan funding) will result in higher than inflation rate increases (i.e. above Local Government Cost Index (LGCI) plus 2%) for the first five years of the LTP.

The principle of intergenerational equity is that growth and new assets including increases in Levels of Service (LOS) should be paid for by loan funding to ensure future generations pay their fair portion of new assets which they will use. Whereas, rates funding should be used for the replacement (renewal) of assets, ensuring that current generations contribute to the asset replacement as they use the asset. Council has not always funded renewals from rates in the past. This has resulted in the need to loan fund some of those renewals to maintain assets. The use of debt in this way is not sustainable. Therefore rates income needs to increase to cover long-term renewals and to ensure that the limit to debt is manageable.

Infrastructure Assets

Council revalued its infrastructural assets last financial year (2016/17) and the cost to replace assets increased significantly more than expected. This increased the depreciation expense so that it was $1.05m more than was budgeted for in the last LTP. Assets are valued at the Depreciated Replacement Cost – that's how much it would cost to replace them with modern materials and techniques. However, the Depreciated Replacement Cost also takes into account that the asset is part-way through its lifecycle and therefore not new.

The higher deprecation valuation, primarily for the Land Transportation Activity (roading and footpaths), means Council would have to increase rates considerably to fully fund depreciation to fund asset replacements. To keep rates as affordable as possible, Council has decided to reduce the funding of Land Transport asset replacement (called renewals) in the first five years of the LTP. However, this reduced funding is sufficient to cover the actual costs of replacing infrastructural assets. This means that Council has rate funded $1.3m of the increased depreciation cost from last financial year. This leaves $1.1m unfunded and, therefore, creates an unbalanced operational budget for the first three years. Alternatively, to avoid an unbalanced budget, Council would need to increase rates by the $1.1m unfunded depreciation resulting in a further 3.1% rate increase in addition to the indicative 6.53% increase for year 1.

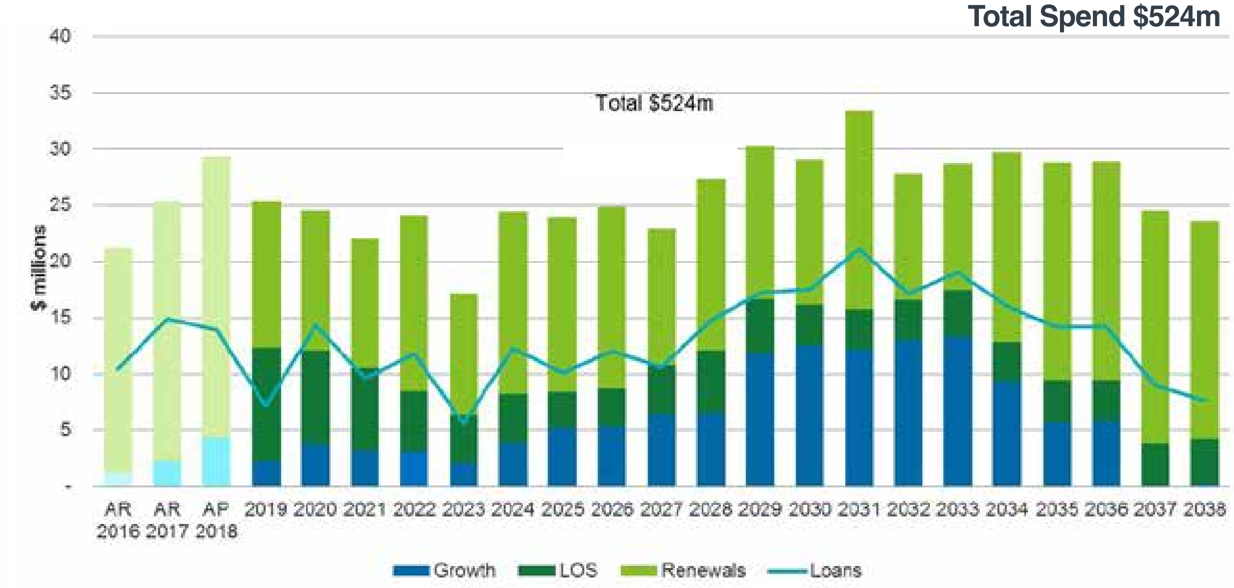


Figure 2: Asset Expenditure and Loans

Note: Loans include a combination of reserves and external loans.

Community Facility and Property Assets

The community facility and property asset replacements and renewals are not funded from rates. Instead, they are loan funded. The renewals pertaining to these assets have historically been underfunded from rates revenue. If Council chose to fund the renewals fully, then the proposed rates increase would need to increase by an additional 6.3%. Therefore, Council has chosen to use loan funding to keep rates affordable while still maintaining the assets and retaining the current Levels of Service. However, Council has endeavoured to keep the replacement of these assets scheduled over 20 years to mitigate the loan funding of these assets.

Figure 3 below shows Council still has the intention of fully funding depreciation in the long-run including all Council assets.

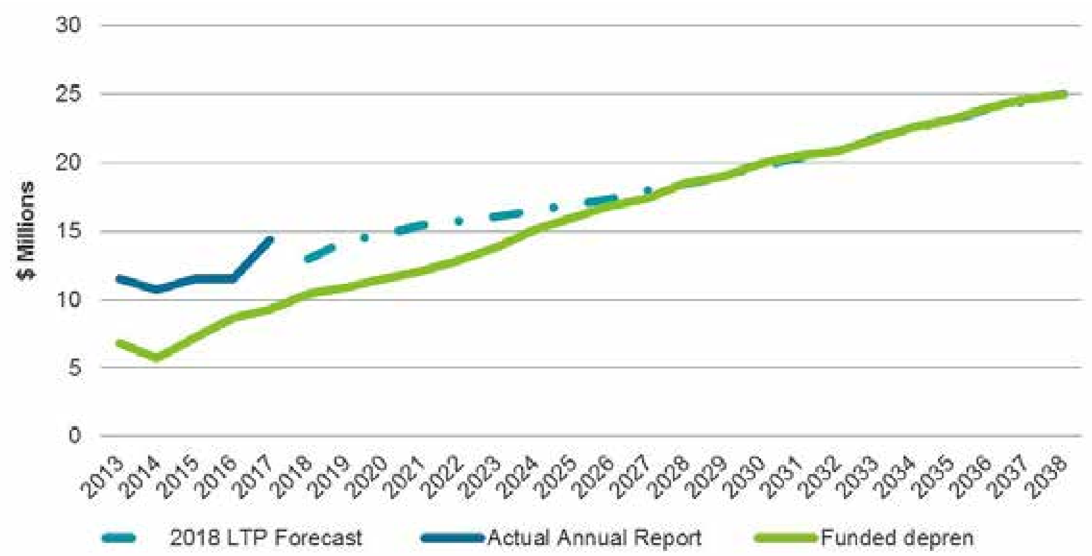


Figure 3: Depreciation Funding

Asset Sales

Council is investigating selling some of its non-core property assets to pay off debt earlier than originally projected.

Council is anticipating $7m of such asset sales in year 1 of the LTP. It is expected there will be future decisions based around selling additional non-core assets in year 2, following the agenda of Council's existing Property Strategy.

Debt

By June 2018 Council expects to have 'net debt' of $78m (i.e. Loans of $88m offset by Cash $10m) which equates to approximately $2,400 debt per resident.

As discussed above Council faces the need to spend higher amounts in asset expenditure. In the past, Council has used debt to fund some of the renewals of assets and to keep rates affordable. This is unsustainable and has resulted in above average debt and an unbalanced budget. In the future, Council has decided that debt should be used to fund new assets to improve the Level of Service or growth projects as previously described in Figure 2. The proposed work programme over the years has been phased to keep the debt below Council's new debt limit capped at 195% of Council's operating income.

Council net debt is predicted to peak at $157m in 2036. Figure 4 shows the debt profile and the Council's current limit to debt of 175% of Council's operating income. This limit is set by the Local Government Funding Agency (LGFA) for unrated local authorities. The LGFA is the Agency where Council sources the bulk of its loan funding. However, to fund the proposed $126m worth of growth projects, Council proposes to reset the debt limit at 195% of Council's operating income.

Council first received a credit rating from Standard and Poors in May 2015 and has maintained an A+ credit rating with each annual review since. This credit rating enables the LGFA limit to be set at 250% of Council's operating income. Gaining a credit rating has also helped to reduce Council's interest rates on new borrowings since May 2015.

Council will be within $17m of the new proposed limit in year 13 (2030/31). Council has deliberately set the new limit substantially below the maximum LGFA limit for Councils that have a credit rating. Council made this decision to provide sufficient headroom to cover an emergency event or natural disaster (e.g. earthquake).

The new debt limit of 195% will ensure that Council can handle future growth and provide for disaster recovery. Council ensures that there are funding sources and cash immediately available in excess of 110% of total net debt. Refer to Policy and Security on page 13 for more information regarding disaster recovery. Preserving the capacity to borrow in exceptional circumstances is part of Council's long-term strategy to be financially sustainable and have the ability to respond to emergencies or natural disasters.

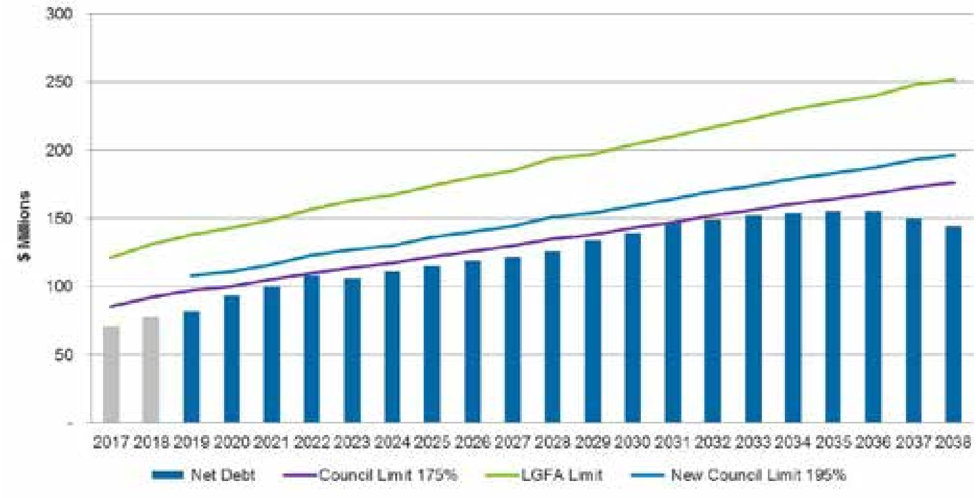


Figure 4: Net Debt

(Note: The figure of $78m for 2018 is not as per the Annual Plan but is a modified figure to reflect reality)

Council is committed to exploring other sources of revenue to cover growth project costs in the next financial year with the view of implementing any alternative funding sources in year 2 (2019/20) of the LTP. These may include, but are not limited to, Development Contributions under the local Government Act as well as Targeted Rates and Capital Contributions under the Local Government (Rating) Act 2002.

Council will also continue to negotiate with developers for growth contributions as part of the resource consent process.

Limit – Debt

The net debt to revenue ratio will be within the maximum of 195% of Council's operating income as calculated for LGFA covenant disclosures.

Rates

Council remains committed to a long-term programme of increasing income to;

1. Increase rates funding of asset renewals expenditure,
2. Find alternative sources of income to fund capital growth projects, and
3. Balance its operating budget.

Council has been loan funding asset replacements and renewals and also technically living beyond its means by running operational deficits since 2008/09. This is considered unsustainable and must be fixed. Over the last six years ratepayers have experienced above inflation rate increases. These higher than desirable rate increases will continue to occur for the first five years of the LTP before coming within a more 'normal' range (i.e. Local Government Cost Index (LGCI) plus 2%) as shown in Figure 5.

As Council works to balance the budget and plan for growth, it understand these levels of rate increases are neither desired nor sustainable, and are committed to getting the most value out of every dollar spent with the right balance between progress and affordability.

The above inflation rate increases reflect the proposed asset expenditure in Figure 2 and the need to balance the budget as shown in Figure 6. From year 6 in the LTP, Council will set the rate increase limit at (LGCI) plus 2%. However, the first five years are set higher to balance the budget and return to a surplus by year 4. Council's year 1 (2018/19) rates figure of $37.449m is $142k (0.38%) higher than the identified $37.307m for year 4 of the last LTP 2015-2025.

The LGCI is the inflation index relating to local government as opposed to the Consumer Price Index (CPI) which measures inflation for households. Local government inflation differs from household inflation mainly due to the greater influence of petroleum inflation on local government than individual households.

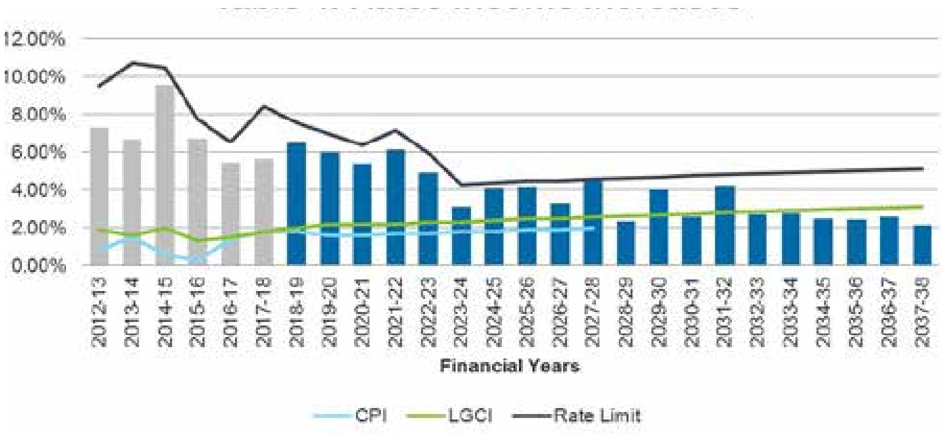


Figure 5: Rates Income Increases

Note: Neither the CPI or LGCI provide forecasts past 2027-28. The LGCI trend-line was simulated from 2028-38 based on the previous 10-years of data.

Table 1: Rates Income Percentage Increases

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24 and following years
Will not exceed	*7.53%*	6.97%	6.40%	7.42%	5.92%	LGCI +2%
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Note: Excludes water by meter, penalties and remissions. Individual household rates maybe higher or lower than the above percentage increases.

The Society of Local Government Managers (SOLGM) has commissioned Business and Economic Research Limited (BERL) to forecast inflation/price changes for 2018-2028 for local authorities as a basis on which to prepare their forecast LTP financial information. These forecasts are used within Council's Significant Forecasting Assumptions outlining inflation over the 20 years of the LTP.

Council has programmed the growth projects in such a way as to try and limit, as much as possible, the use of debt and rates increases over the 20 year period. Consequently, Council has chosen to prioritise the Levin growth projects over the first 3 to 4 years. These projects are the most cost-effective and will potentially enable up to 8,000 new lots in the north east and east of Levin.

Balancing the budget

The proposed above inflation rate increases and the adoption of an affordable asset expenditure programme will allow Council to maintain an operating surplus from 2021/22.

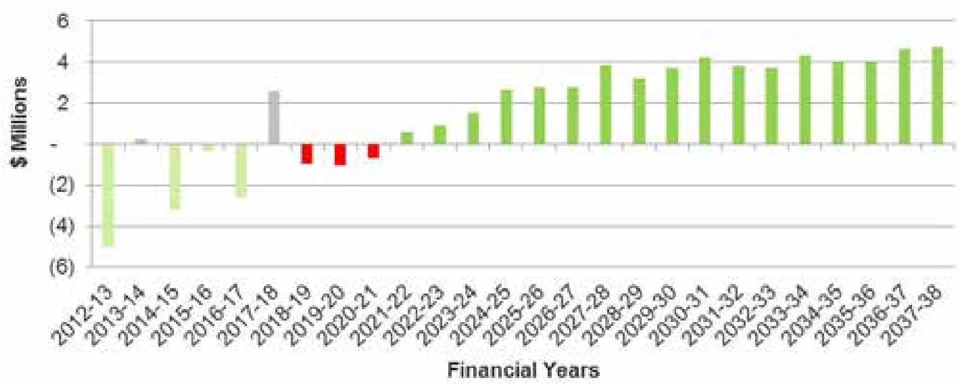


Figure 6: Benchmark Operating Surplus/Deficit

The balanced budget measure (as shown in Figure 6) is calculated by excluding income from development contributions, vested assets, asset revaluation gains/ losses and other non-operating income and expenses. By 2021-2022 Council will be operating in surplus, which will for allow Council to pay-off more capital project loans (debt) and fund renewals even faster.

Council has a history of budget deficits, which had been planned to turn-around by 2018-2019. However, due to increased costs of replacing infrastructure assets, Council plans to pass a resolution to adopt the unbalanced budget and commit to the new goal of balancing the budget by year 4 (2021-2022) of this LTP.

Returning to a surplus more quickly would require larger rate increases, and this could place an unreasonable burden on parts of our community. As such, Council

has decided that the most prudent approach is to return to an operating surplus in four years. It is still Council's intention to maximise the use of fees and charges as a source of income, set under the Revenue and Financing Policy parameters. Council will consider development contributions or similar mechanisms to fund infrastructure growth projects.

Council has resolved that for this LTP, pursuant to section 100(2) of the LGA, it is financially prudent to set projected operating revenues at levels:

- Lower than required to meet projected operating costs, where such costs are being met from reserves and debt, the full funding of depreciation may be phased in without compromising the level of renewals that will be completed.
- Higher than required to meet projected operating costs where operating revenues are also required to set aside incomes tagged for special purposes, to meet the costs of capital expenditure, to build up reserves for future loan repayments, and to contribute to asset replacement funds.

The specific circumstances in which projected operating costs have not been funded by operating revenues have been in the first three years; using the Balanced Budget benchmark under the Local Government (Financial Reporting and Prudence) Regulations 2014:

1. where it is planned to fund particular operating costs from existing debt or reserves rather from rates or other revenue; and
2. where it has been decided to phase in the funding of increased levels of depreciation on infrastructural assets.

In all cases the reason for not balancing the operating budget has been to keep projected rate increases within a reasonable range i.e. from 4% to 6.5% to ensure increases are affordable for the Community.

The implication of Council's decision is that it will fund some renewals of assets using debt instead of rates. Therefore, debt and subsequently interest costs on that debt will increase, refer to Figure 2.

Population Growth

The resident population in the Horowhenua District was recorded as 30,096 people in the 2013 Census.

The Projections Report by Sense Partners provides the latest detailed population count for the District. The 50th percentile projections state the population will grow at an average rate of 1.2% per annum between 2018 and 2028 resulting in:

- 3,728 more people over the 10 year period; and
- As at 30 June 2028, the population forecast is 36,886.

The 50th percentile projections state the population will grow at an average rate of 1.1% per annum between 2028 and 2038 resulting in:

- 3,847 more people over the 10 year period; and
- As at 30 June 2038, the population forecast is 41,128.

The total number of dwellings in the Horowhenua District recorded in the 2013 Census was 15,099 (12,633 Occupied and 2,415 Unoccupied and 51 Under Construction).

New dwellings and Relocated Dwellings constructed in Horowhenua since the Census 2013.

2013/14 = 108

2014/15 = 108

2015/16 = 193

2016/17 = 236

2017/18 = 240 (forecast)

The forecasted total number of dwellings in the district at 30 June 2018 is 15,984.

Council assumes there will be an increase of 244 dwellings per year for the next 20 years (this is higher than population growth because it is anticipated that some of these houses will not be occupied i.e., they could be used as holiday homes). Therefore, Council forecasts there will be a total of 20,866 dwellings in the District as at 30 June 2038 (17,753 occupied dwellings and 3,133 unoccupied dwellings). Table 3 sets out where the growth in dwellings will occur in the District on an annual basis.

Table 3: Annual Increase in the number of Dwellings

Location	Residential	Greenbelt	Rural
Levin	61	13	n/a
Foxton Beach	26	2	n/a
Foxton	6	0	n/a
Waitārere	8	8	n/a
Ōhau	7	8	n/a
Waikawa	1	2	n/a
Manakau	1	4	n/a
Shannon	1	0	n/a
Tokomaru	2	2	n/a
Hōkio Beach	1	0	n/a
Rural	n/a	n/a	90
Total	115	39	90

Table 2: Population Growth in Horowhenua over 20 years

Last Year	This Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
16/17	**17/18**	**18/19**	**19/20**	**20/21**	**21/22**	**22/23**	**23/24**	**24/25**	**25/26**	**26/27**	**27/28**	**28/29**	**29/30**	**30/31**	**31/32**	**32/33**	**33/34**	**34/35**	**35/36**	**36/37**	**37/38**
32,348	32,758	33,158	33,596	34,017	34,388	34,787	35,215	35,586	35,944	36,421	36,886	37,281	37,738	38,171	38,650	39,106	39,500	39,862	40,259	40,684	41,128

Land Use

There are a number of factors that may influence land use in Horowhenua including current and proposed plan changes to the District Plan, the construction of the Ōtaki to north of Levin Expressway, and the provision of infrastructure.

District Plan Review

Council has completed the review of its first District Plan with the second generation District Plan becoming operative in July 2015.

Plan Change 2 (Residential Development) was notified in November 2017, and a decision on this plan change is anticipated during 2018. Plan Change 2 seeks to create a wider range of residential development opportunities within the existing Residential zone. If it proceeds it is likely to result in an increase in the level of infill subdivision development in Levin, Foxton, Foxton Beach and Shannon and increased Medium Density development in Levin. Alongside this, the Horowhenua Development Plan (2008) has been reviewed. A new Growth Strategy considering the future growth pressures facing Horowhenua out to 2040 is being created. The Growth Strategy will identify land that may need to be rezoned to accommodate future growth. The process of rezoning the land would require a formal plan change to the District Plan. The location of the Ōtaki to north Levin expressway does have potential to impact on proposed growth areas and could impact on the timing to proceed to a plan change.

Ōtaki to North Levin Expressway

While there remains uncertainty over the scope, location and timing of construction for the expressway from Ōtaki to north of Levin, the Council considers that the highway improvements to the south will encourage and/or bring about a higher level of growth to the District through reduced travelling time between Levin and Wellington. The key locations for future development are anticipated to be Levin, Foxton Beach and Waitārere Beach. Within Levin, the initial development is expected to occur in the Gladstone Green area and the Tararua Industrial Business Park.

There is some concern that until the scope, corridor and timing of the Ōtaki to north of Levin expressway is confirmed that development in the Gladstone Green, Manakau, and Tararua Industrial Business Park could be delayed particularly until the location of interchanges is confirmed.

Provision of Infrastructure

Council has identified capital projects to provide reticulated infrastructure to the towns or villages where full reticulated services (water and wastewater) is not currently provided. The provision of infrastructure to these locations is anticipated to provide opportunities for levels of residential development at a higher density. Further changes to the zoning in the District Plan would be necessary to enable some of these locations to be developed in this way.

Policy on Securities

In order to borrow money, Council has to offer our lenders some security.

A mortgagee's security under a mortgage is the ability to sell the property if the borrower defaults on payments. In general, Councils secure debt by giving the lender the ability to raise a rate (i.e. rate you more) to repay the loan. Horowhenua District Council has joined the LGFA and uses rates as security for all borrowings from the LGFA. This security is seen by lenders to Councils as good security and has helped keep our interest rates down.

Investments

Council holds investments in companies, commercial property and cash.

Investment in Companies

Council is an equity holder in three companies (listed in Table 4). Council does not hold these equity interests to receive a financial return. The reason for holding the share is strategic to foster efficiencies and positive outcomes in reducing costs. Council holds an investment in Civic Financial Services Limited. Before 1 March 2017 it was known as the New Zealand Local Government Insurance Corporation Ltd and traded under the name of Civic Assurance. However, the company no longer offers Insurance products. Therefore, Council's initial reason for investing, to foster a competitive insurance market, no longer applies. Recently, Council voted in favour of the Company selling its Wellington building in order to repay shares. However, this sale down and repayment of shares has yet to occur

Investment in Property

Council owns a mix of properties both core, relating to Council's primary services (e.g. Drainage and Sewage) and noncore, pertaining to non-traditional services (e.g. commercial buildings and motor camps). Council is investigating the possible sale of some of these properties and is focused on finalising a strategy for all Council owned properties. Council has budgeted for possible sales totalling $7m over the first year of the LTP. Beyond Year 1, Council assumes that further non-core property will be programmed for disposal following a complete evaluation of the property portfolio in line with Council's Property Strategy. This disposal programme is phased across the subsequent 9 years of the Long Term Plan with a view to Council owning and maintaining only core property by 2028.

There is a risk that the sale of assets will not occur in the assumed timeframe due to unforseen property markets. Appendix 1 Scenario 3 outlines the financial implications if no property sales occur over the next 20 years.

Table 4: Council Shareholdings

Company	Shareholding	Principal reason for investment	Budgeted return
Manawatu/Whanganui Local Authority Shared Services Ltd	$16,000 (14.29%)	Efficient cost effective back office functions	nil
New Zealand Local Government Funding Agency	$100,000 (0.4%)	Cost effective borrowing	$6,000 pa
Civic Financial Services Ltd	$104,000 (1.0%)	Historically for risk management, and ensuring a competitive insurance market	nil

Cash investments

Council has surplus cash from operations from time to time. Surplus cash is invested for short periods of time (30 to 90 days) to maximise returns from these funds.

Council's practice is to use surplus cash to minimise external debt. The LTP includes an assumption that Council will hold approximately $10m to $13m in cash. It is prudent to hold some cash to ensure short-term liquidity. Cash is supplemented by the use of a committed banking facility of $10m that enables Council to raise short-term borrowings in the event of a natural disaster when Council would need access to funds quickly to provide relief.

Council recently increased cash reserves to reduce the liquidity risk (i.e. to reduce the risk of not covering our short-term debt).

Other Investments

As part of borrowing from the Local Government Funding Agency (LGFA), the Council is required to invest in financial bonds at 1.6% of the borrowing from the LGFA. Council will receive interest and full repayment of these "borrower's notes" upon repayment of the loan to which they relate. Interest is calculated to cover the cost of funds.

Insurance

Council currently insures all water, wastewater and stormwater assets as well as Council's operational assets (plant and equipment) and buildings. Land Transport (Road and Footpaths) assets are uninsured.

A key assumption is that central government will contribute towards the replacement of roading assets following a qualifying natural disaster event. This assistance would be provided at the Council's current Funding Assistance Rate (FAR), which will be 54% in 2018/19. However, for the portion of cumulative claims of the total costs of emergency works that exceed 10% of the Council's approved maintenance programme for the year, the Central Government would provide funding at the normal FAR plus an additional 20%. Council will loan fund the difference. This is why Council needs to ensure there is always spare capacity to raise loans.

Another key assumption with any disaster recovery is that Central Government will contribute 60% of the funding to reinstate infrastructural assets following a significant natural disaster. Council's 40% share is insured for disaster recovery through the Local Authority Protection Programme (LAPP). LAPP is a mutual self-insurance arrangement with other local government entities to insure underground infrastructure against disaster damage similar in nature to Christchurch's earthquake. Council is reviewing its membership of LAPP due to the continued withdrawal of member Councils in recent years. This increases Council risk of LAPP not being able to cover insurance claims in the long-term. If Council decided to leave LAPP, it will replace this form of mutual insurance with normal insurance subject to affordable premiums and excess. Normal insurance for operational assets and buildings is sourced through the Manawatū/Whanganui Local Authority Shared Services Company (MW LASS) procurement in conjunction with our regional partners.

Central Government is reviewing their commitment to cover 60% of any disaster reinstatement whereby they will withdraw from this arrangement in all but catastrophic events. However the Government has not made any definitive decisions as yet. Council has, therefore, assumed the status quo in the interim. Council believes it will have sufficient capacity to borrow to cover the costs of any emergency within the new 195% of income debt limit and well within the LGFA limit of 250%, refer to page 9.

Appendix 1: Financial Risks and Implications

The foundation of Council's LTP revolves around the impact of population growth throughout the District.

It is assumed that Horowhenua's population will increase by more than 1% per year over the 20 years of the LTP. This assumption is supported by projections in the Projects Report by Sense Partners, which are outlined in the Significant Forecasting Assumptions document. Below scenarios 1 and 2 depict the financial impacts if growth occurs at faster or slower rate than the Significant Forecasting Assumptions have defined.

Council has also assumed it will sell $7m worth of property over the next two years of the LTP. Since property sales are subject to the market and buyers, scenario 3 assesses the financial implication of retaining all property over the next 20 years.

Each scenario is modelled independently and is compared to the baseline figures from the Financial Strategy.

Scenario 1: Slower population growth

On the basis growth occurs at half the rate as predicted, the following growth work programmes do not proceed:

Years 4-9	Ōhau Water Supply	$ 5.9m
Years 4.-13	Ōhau Wastewater	$20.3m
Years 7-13	Manakau Water Supply & Wastewater	$16.2m
Years 10-16	Waikawa Beach Water Supply and Wastewater	$18.0m
Years 11-15	Waitārere Beach Water Supply	$20.0m
Years 14-18	Hōkio Beach Water Supply and Wastewater	$27.5m

The financial implications of removing the above projects over the next 20 years are as follows:

- **Rate income**
  - Since the above projects are not necessary due to lack of growth, the income affordability is still within operating measures.
  - With removing the above projects, Council will require lower rate increases, resulting in less rates income than anticipated.
- **Rate increases**
  - In alignment with rate income, the proposed rates will be on average 0.5% lower than predicted.
- **Debt limits**
  - With less capital projects, Council will begin to lower its debt by 2021/22.

Scenario 2: Faster population growth

If growth occurs twice as fast than assumed, the following growth programmes will be completed and the highlighted brought forward:

Years 1-4	Levin Growth Areas Wastewater	$ 6.9m
Years 1-12	Levin Growth Areas Water Supply	$6.8m
Years 4-9	Ōhau Water Supply	$5.9m
Years 4-13	Ōhau Wastewater	$20.3m
Years 5-11	Manakau Water Supply & Wastewater	$16.2m
Years 6-12	Waikawa Beach Water Supply and Wastewater	$18.0m
Years 9-13	Waitārere Beach Water Supply	$20.0m
Years 14-18	Hōkio Beach Water Supply and Wastewater	$27.5m

The financial implications of moving forward the above projects over the next 20 years are as follows:

- **Rate income**
  - Council will receive $11m more rates income with additional growth over 20 years.
  - Risk: Rates income will exceed Council's proposed rates income limits for;
    - 2024/25 $79k
    - 2025/26 $290k
    - 2027/28 $1,126k
    - 2028/29 $389k
    - 2029/30 $1,666k
    - 2030/31 $717k
    - 2031/32 $1,255k
- **Rates increase**
  - Risk: Rates increases will exceed Council's proposed rate increase limits for 2027/28 by 0.88%.
- **Debt limits**
  - With multiple large programmes of work taking place over year 4–13, the expected debt is higher over these year (breaching 2028/29 by $119k).
  - The highest debt level will be in 2028/29 at 195%.

Scenario 3: No property sales

On a basis Council is not able to sell the defined $7m of property, there is risk Council may experience the following financial impacts:

- **Rate income**
  - Council will receive $9m more on rates income over the next 20 years.
  - Risk: Rates income will exceed Council's proposed rates income limits for;
    - 2024/25 $186k
    - 2025/26 $257k
    - 2027/28 $406k
    - 2029/30 $110k
    - 2030/31 $201k
- **Rate increases**
  - Proposed rate increase percentages will alter by 0.28% on average over the first 3 years of the LTP.
  - Proposed rate increase percentages will alter by 0.05% on average over the next 20 years.
- **Debt limits**
  - On average debt limits will remain 23% higher than proposed over the next 20 years. This increase is still within Council's proposed debt limit. However it is on average higher than the current baseline.

In summary, the scenarios have outlined the financial impacts Council may face if the current assumptions made are incorrect. All three scenarios have no effect on Council's primary financial goal of balancing the budget by year 4 of the LTP.

The graphs compare 20 years of all scenarios to the baselines for rates income, rates increases, and debt limits.

Figure 7: Rates Income Affordability

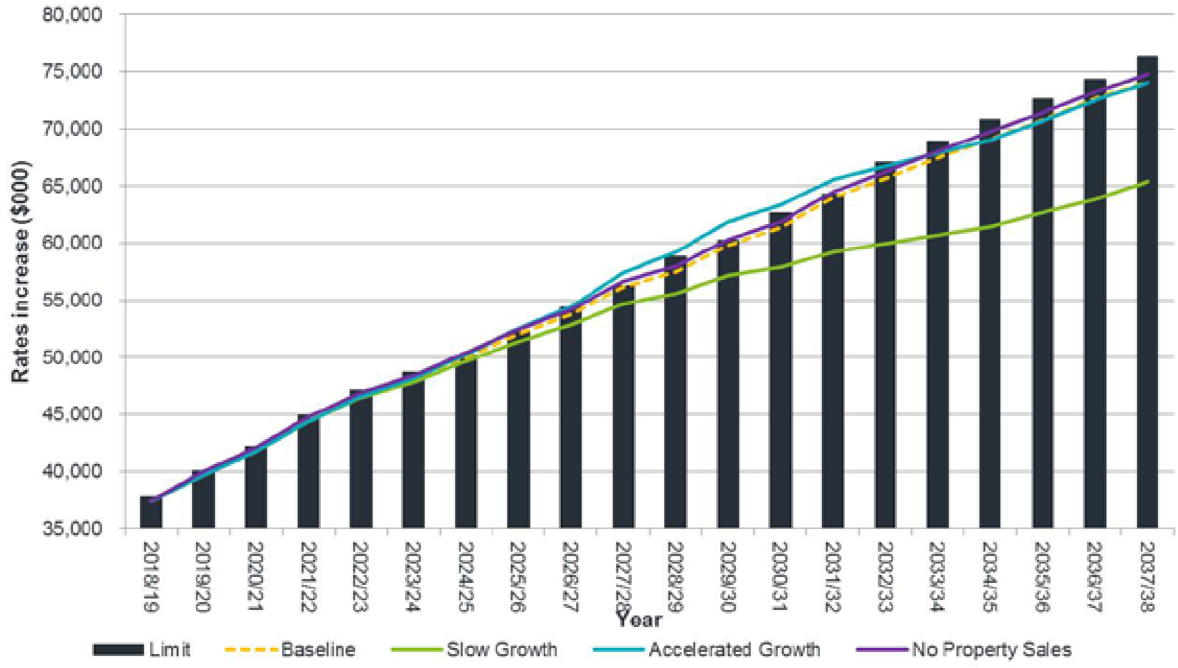


Figure 8: Rates Increase Affordability

Note: Baseline and No Property Sales figures are identical

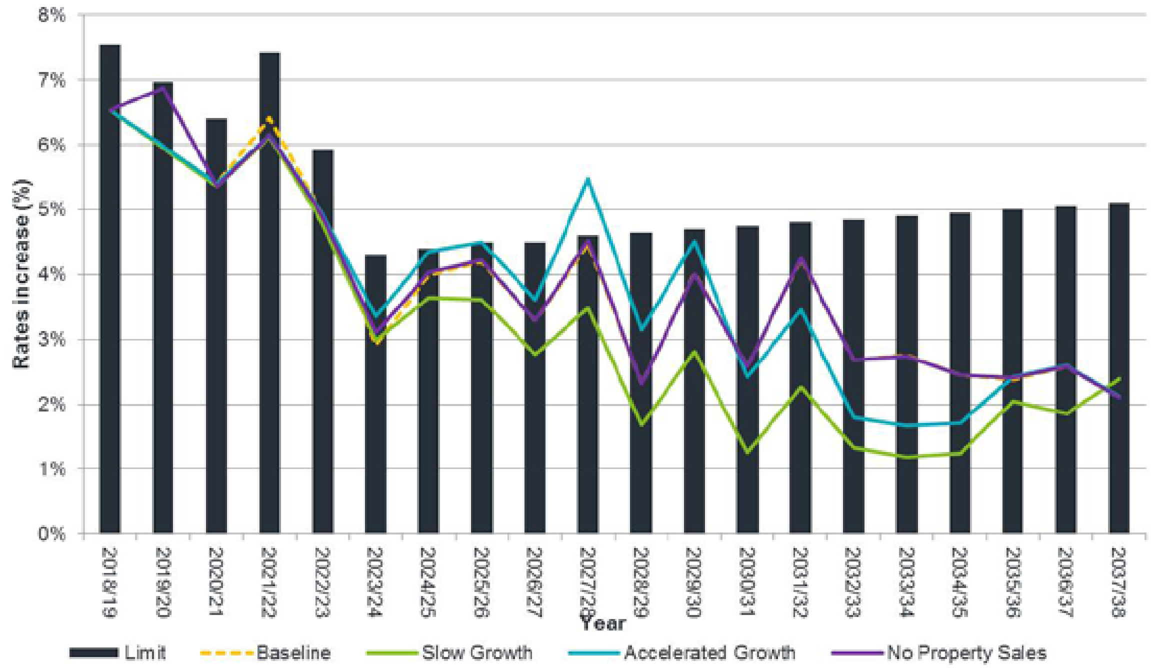


Figure 9: Net Debt to Operating Revenue

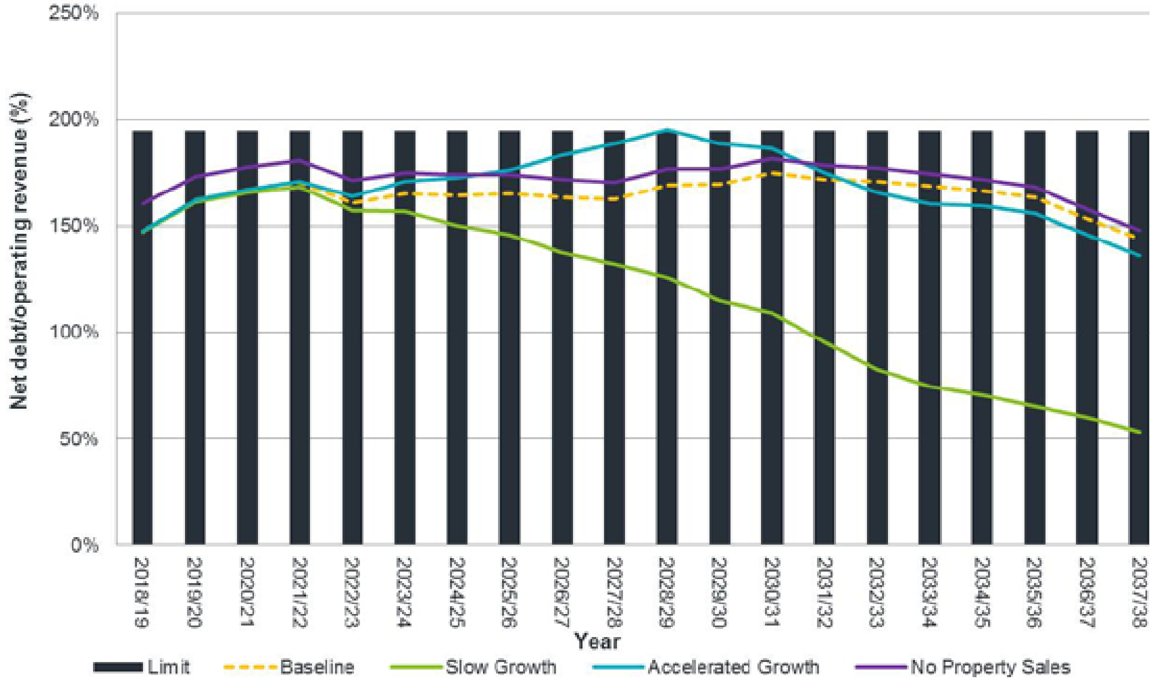
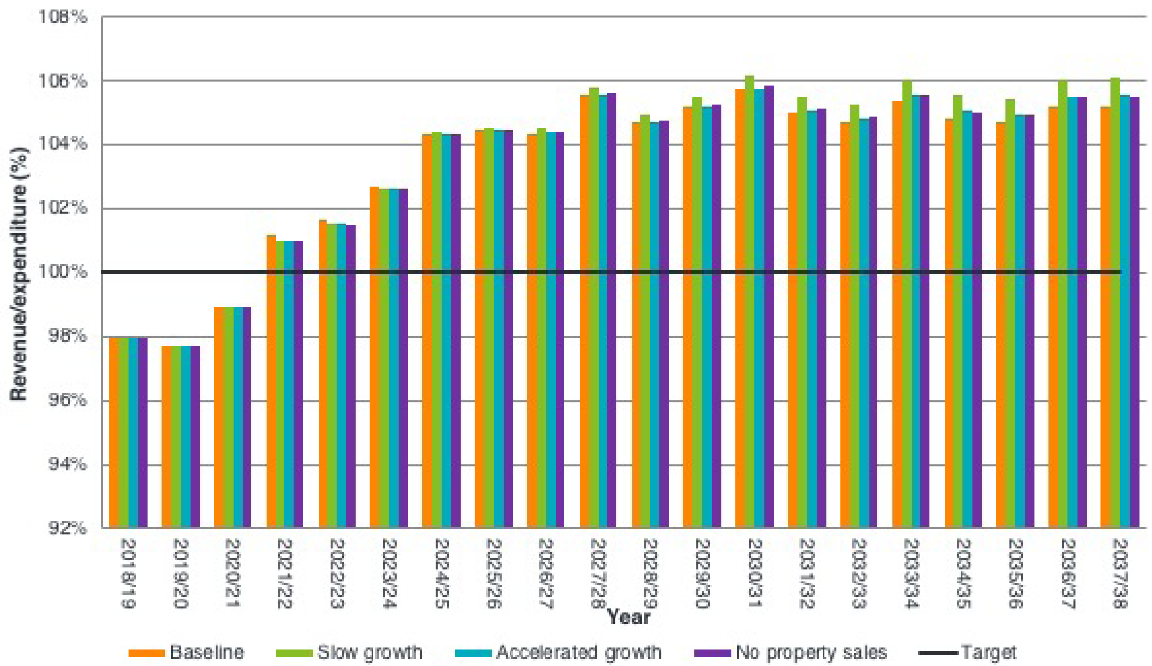


Figure 10: Balanced Budget



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