



Financial strategy

Supporting information for the proposed
Long Term Plan 2024-2034
Consultation Document



Financial strategy

Executive summary

Our Financial Strategy describes how we intend to pay for the services and infrastructure we provide to our communities in an affordable and sustainable way, now and into the future.

Over the next 10 years we will respond to our community's needs and aspirations for the future by:

- leading the development of spatial plans and District Plan changes;
- renewing assets as they wear out;
- adapting to climate change by implementing our Shoreline Management Pathways;
- focusing on network resilience;
- investing in new projects;
- continuing to
 - enhance the quality of freshwater;
 - improve our drinking water, wastewater and stormwater infrastructure for as long as they remain our responsibility, and;
 - maintaining services.


To help Thames-Coromandel recover from the effects of the series of severe weather events, our particular focus will be to invest in our roading network and partner with New Zealand Transport Agency/Waka Kotahi and other agencies to improve our roading assets. Waka Kotahi and Council are seeking direct Crown funding to rebuild and increase the resilience of the transport network because the need for investment will outstrip the financial capacity of both entities.

Alongside the infrastructure investment to respond to recovery from Cyclone Gabrielle, a new activity called Community Development has been established under Council's Community and Economic Development Group of Activities, to help develop and support more enduring relationships with stakeholders including iwi, Māori, community groups, government agencies, schools, funders and local social providers. The impetus is to ensure collaborative and positive working relationships are developed to support community social well-being and build resilience now and into the future. This activity reflects the direction of Council to imbed actions from our Recovery Plan into becoming business as usual.

Over the 10 years of the plan Council needs to be adaptive and ready to respond to legislative changes as a result of reform. This will mean working closely with neighbouring Councils, sector agencies such as Local Government New Zealand and Tāituarua, and other Government agencies to achieve the best outcome for our District and the sector.

In our 2021-2031 LTP our proposed rates revenue increases were between 2.8% and 8.8% (an average of 5.1% over the 10 years). Our proposed net debt levels were \$154 million by 2031. We know this approach is unsustainable and investment in our future is needed. We also know that to deliver the services and improvements that our communities want is unaffordable for our 28,000 ratepayers, so we will continue to seek co-funding from external partners where we can.

To fund the Thames-Coromandel 2024-2034 Long Term Plan, our average rates increase will be 4.7% with higher increases in the first three years. Our net external debt over the past three years has risen modestly from \$61 million to \$67 million. We anticipate our net external debt levels to rise to \$233 million by 2034.



By 2034, we anticipate the benefits from the investment Council makes now will start to be realised. The District will have improved drinking water, wastewater and stormwater systems. The availability of land serviced with infrastructure will allow for increased growth and meet the demand for housing. Renewals will be fully funded by depreciation to ensure that current users of infrastructure pay their fair share of the costs of wear and tear on assets. Council's debt will be well controlled, serviceable through income streams and interest payments will be manageable. Debt headroom will be available to respond to emergencies when needed.

The landscape

Large district with diverse population

Thames-Coromandel District Council serves many small, diverse communities across 2,208 km². We have a small rating base to fund the significant amount of infrastructure required to service this area, including 704 km's of roads. Our largest settlements are Cooks Beach, Coromandel Town, Matarangi, Pāuanui, Tairua, Thames, Whangamatā, and Whitianga. There are many more small settlements with many people living in rural areas. Each of these main settlements has different population and growth characteristics. Understanding where, how and when the population of the District is likely to change in the future is critical for the effective planning and management of our infrastructure and our finances.

Different demographic groups have different needs and preferences. Around 51% of our ratepayers do not live in the District full-time and our population varies considerably at different times of the year. The dispersed nature of the District's settlements means that we supply infrastructure to serve the same purpose in a number of different locations with varying technology and methods based on size and topography of the areas. As a result, the cost per household is higher than for larger, more concentrated areas like Auckland or Hamilton.

Exacerbating this is the fact that our district remains the most unaffordable place to buy a house in New Zealand according to the Housing Affordability Index – while in the Rental Affordability Index (comparing household incomes to annualised rents) our district scores worse than Auckland, Queenstown and Hamilton.



As expectations around standards and service levels change, we will need to consider how we ensure that our infrastructure, facilities and services remain fit-for-purpose while ensuring ongoing affordability and financial sustainability.

Rates increases over recent years

Over the past few years we have seen varying rates revenue increases. Our average rates increases for 2023/2024 was 11.6%, almost 4% higher than proposed in the 2021-2031 Long Term Plan. This was the result of inflationary pressures, interest rate increases, supply chain demands, Covid recovery, escalating contract costs, constrained labour market and storm damage. Costs associated with increased depreciation and higher inflation were managed by not funding the extraordinary increases in depreciation, using some of our financial reserves and making some tough calls on our capex and opex programmes. We cannot continue to “kick this can down the road” so the 2024-2034 Long Term Plan must address these issues.

We planned to keep borrowing well inside the Local Government Financial Reporting and Prudence Regulations 2014 Act limits. Actual debt over the past three years has been less than forecast.

Strategic context

Our approach to investing in and managing our infrastructure assets is guided by Council’s vision, values and outcomes.

Council’s Vision | Moemoeā-a-Kaunihera

The Coromandel – live, work and play | Te Tara o Te Ika-a-Māui – He wāhi nonoho, he wāhi mahi, he wāhi ngangahau


Council’s revised Community Outcomes and Values can be read in our 2024-2034 Long Term Plan.

Key Strategic Considerations

In preparing this strategy, many factors that may influence our financial position have been considered. These include:

- A projected moderate population and dwelling growth¹ to 2034 followed by a gradual decline between 2034 and 2054, coupled with a demand for housing which currently outweighs availability, which then affects affordability.
- The proportion of people in our District aged 65 or over, many of whom are on fixed incomes. In 2023, 34% of our usually resident population was aged 65 and over. This is more than twice the national average (16%). This increasing trend is projected to continue, with the proportion of people aged 65 and over expected to increase to 41% in 2033, and to 43% in 2053.
- Council's ability to encourage growth and development by addressing existing barriers, such as timely delivery of infrastructure and appropriate land use provisions.
- Council's vision for the District and its ability to contribute to the achievement of that vision.
- Community aspirations and how Council contributes to the well-being of its residents.
- Council's need to balance its residents' and ratepayers' needs for infrastructure and services with those of visitors who are here during peak population periods.
- Legislative changes, such as the revised Drinking Water Standards, the yet unknown direction of the new Government's proposal to the reforms to the Resource Management Act 1991 and the Affordable Waters Reform programme.
- The effects of the global Covid-19 pandemic will continue to be felt in the short-term (1-3 years) and the pandemic is likely to have unknown longer-term consequences.
- The range of responses, including coastal protection works and managed retreat as a result of the implementation of the Shoreline Management Pathways.
- The effects of Greenhouse Gas Emissions and Council's role in reducing its own emissions.
- Returning to fully fund depreciation of its assets by 2026/2027.
- A combination of the ageing population and short-term slow economic growth means rates affordability is unlikely to improve in the medium-long term.
- Council recognises there is a funding gap with what Council needs to deliver services and the ability of the district's ratepayers to pay. Our position is to not fully fund expenditure from rates when there is an assumption that external funding will contribute.
- More direct Crown funding will be required to address the transport network infrastructure deficit and respond to the need for investment to protect shoreline public assets.
- Capability to deliver capital projects. Under-delivery of capital projects affects infrastructure services, borrowings, rates, debt and interest rate forecasts. It could also

¹ For further information on population and dwelling projections refer <https://ecoprofile.infometrics.co.nz/Thames-Coromandel+District>



affect some government funding as funding depends on delivery within prescribed timeframes.

- Inflationary pressures.

What this means for us

Principles

To invest in the District's future, Council has applied the following principles;

1. Everyday costs for services to the district are met from everyday revenues.
2. Sufficient funds are available to renew assets at the end of their economic life.
3. Where future ratepayers use services created today, they will pay their share through prudent use of debt.
4. Financial resilience is retained by having funds, debt capacity and insurance sufficient to fund any unplanned event.
5. Service levels are clearly defined and delivered in an efficient and effective, customer focussed manner, providing value for money.
6. Increasing costs are managed to keep rates affordable, fair and equitable with increases set to provide certainty to ratepayers.
7. Costs may be recovered when there is an identified private benefit and it is efficient to collect.
8. Revenue sources other than rates will be sought to contribute towards significant projects and expenditure.
9. A prudent approach is taken to risk and return on investments.
10. Quality consistent facilities and services for all communities across the district regardless of that community's ability to pay.

Growth and development are ongoing in the district and will continue over the period of the Long Term Plan, but our growth projections indicate a moderate growth for the district to 2034, with a gradual decline to 2054. Council is keen to encourage additional growth and development by addressing barriers like inappropriate zoning and a lack of infrastructure that currently restrict growth in some areas.

While developers are responsible for providing infrastructure directly related to the development (local roads, footpaths etc), or paying a contribution towards the provision of that local infrastructure, Council is responsible for making sure there is sufficient, appropriately zoned land for new housing and employment areas and that our local roads, parks, pipes, and community facilities can provide for the additional population. Council also needs to expand its day to day services to keep pace with that growth.

Added to that, Council needs to respond to the ongoing and increasing impacts of climate change. The Coromandel's 400 kilometre coastline is subject to coastal processes including erosion and inundation and these are likely to be intensified by the effects of climate change and rising sea levels. Our roading network is vulnerable to storm events. These realities will require us to invest in protecting our key assets as well as responding to events such as flooding, major land slips and roading network challenges.

The spatial planning we do will enable us to work with our communities and other key partners and stakeholders to identify appropriate areas for future growth and development and to integrate our land use planning with the timely provision of infrastructure and services. We have already developed a spatial plan for our main settlement, Thames. Spatial plans for other areas in the district will provide us with a clear direction for their future development and the supporting infrastructure and services that will be needed.

Council is operating in a fast-changing legislative environment, especially with regard to water services, resource management and the form and function of local government. These changes will likely affect significant Council activities, including our delivery of water services and our district and spatial plans. They will also likely impact the approach to funding the desired outcomes identified in these plans, so we will need to stay informed and be ready to respond.

Inflationary pressures are forecast to continue at least into the short-term. Council relies on the Reserve Bank's use of monetary control to keep inflation within the range of 1% to 3%. However, global and domestic factors have seen inflation peak at 9.4% in 2022 and the expectation is that it will remain above pre-pandemic levels beyond 2024. Although some price pressures are easing there are some that still pose risk.

This all comes with additional cost to our ratepayers at a time when we are conscious of the impact of high inflation and increasing interest rates on our community – both individuals and businesses.

Balancing these increasing costs with affordability for the community is a key focus for this strategy.

Our current situation

Current financial position

Total debt is forecast to be \$187 million at the end of the 2023/24 financial year, with \$89 million borrowed externally from the New Zealand Local Government Funding Agency (LGFA) and banks, and \$98 million borrowed internally from financial reserves. Planned debt sits comfortably within the Local Government Act 2002 Financial Reporting and Prudence Regulations 2014 debt affordability benchmarks.

Debt affordability benchmarks	AP 2023/2024
Net external debt will be less than 150% of total revenue	60%
Net interest expense on external debt as a percentage of annual rates revenue will not exceed 15%	4%
Net interest expense on external debt as a percentage of annual operating revenue will not exceed 15%	6%

Table 1: 2023/2024 Annual Plan forecast debt affordability benchmarks

Total revenue forecast for the 2023/2024 financial year in our prospective statement of comprehensive revenue and expense is \$148 million with total operating expenditure forecast of \$134 million.

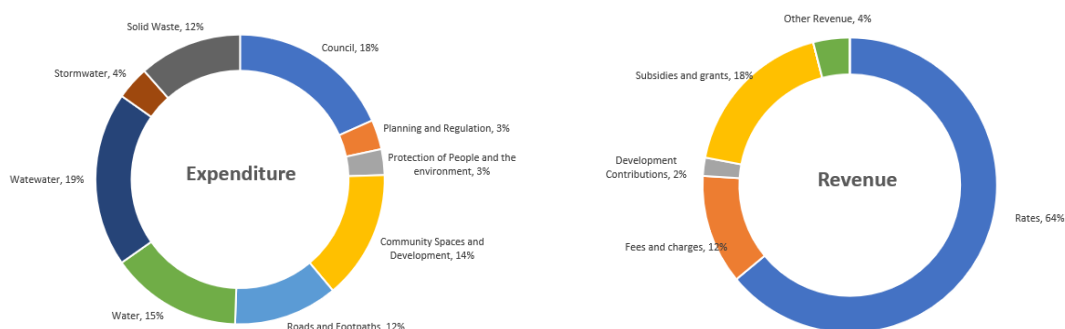


Figure 1: Revenue by category and expenditure by group of activities

Financial reserves

The Council has over 100 financial reserves that have been created for specific purposes. The current value of these reserves is forecast to be \$111 million by the end of the 2023/2024 financial year:

Financial reserves	Annual Plan 2023/2024 (\$'000)
Special reserves (includes Power New Zealand and other reserves for a specific purpose)	\$35,003
Depreciation reserves	\$69,723
Retained earnings reserves	\$755
Development contributions reserves	\$5,590
Total reserves	\$111,071


Table 2: 2023/2024 Annual Plan forecast financial reserves

One of the most significant of these reserves is the Power New Zealand shares reserve.

Council is forecast to have \$25.8 million in its Power New Zealand reserve at the end of the 2023/24 financial year. The fund was created using proceeds from the sale of the Power NZ shares that were originally vested in Council in 1994 following the national electricity reforms.

The Power New Zealand reserve is another Council asset that must be managed for the benefit of ratepayers now and in the future. It needs to maintain its value and that means applying some of the interest it earns back to the capital fund (inflation-proofing). This reduces the amount available for the rates subsidy (see below).

Our financial resilience principle is making sure we have sufficient funds for unplanned events. One of the strategies to achieving this is to gradually build up financial reserves over



the life of the plan. This will require Council to minimise spending from Council-created financial reserves such as the retained earnings reserves and to set minimum financial reserve levels.

Internal borrowing and rates subsidy

Council borrows from the funds in its financial reserves first before borrowing externally. This saves on the fixed costs associated with borrowing and safeguards against interest rate fluctuations. The activity that borrows from the reserves pays interest at the going rate. For example, some of the wastewater debt to build the three eastern seaboard treatment plants utilised reserve funding and interest on that portion of debt is paid in the same way the activity pays interest on its external debt.

Since at least 1996 the interest earned by most of the Council's financial reserves has been applied to reduce the rates requirement of the UAGC (the uniform annual general charge, which is payable by all ratepayers), in effect providing a rates subsidy. In recent years the rates subsidy has been approximately \$3-5 million annually.

Our financial strategy at a glance

After considering all the factors that influence our financial position, over the next ten years Council will take a cautious and conservative approach to investing in new assets. It will work to minimise costs to the ratepayers of the District where possible while recognising that the costs to deliver services and meet legislative requirements have increased and need to be budgeted for. To achieve this, we intend to:

- a) Keep rates increases realistic. This will mean an average increase of 4.7% over the 10 years, but with higher increases in the first 3 years.
- b) Continue to manage debt within our specific borrowing limits.
- c) Retain current levels of service for the majority of Council's infrastructure and facilities. Where options to reduce the level of service are available, they will be considered while taking into account legislative requirements and customer expectations.
- d) Secure borrowing by a floating charge over all Council rates levied under the Local Government Act 2002. The security offered by Council ranks equally with other lenders. Our policies on *securities against borrowing* are described in this strategy under the section of that name.
- e) Recognise that as a responsible public authority any investments we hold should be low risk where the primary objective when investing is the protection of our investment capital. Our objectives for holding and managing financial investments and equity securities and targets for returns are described in the section *Managing financial investments and equity securities*.

How we will achieve it

To achieve the limits on rate increases and debt limits we need to:

Be prudent in our financial management by:

- Responsibly managing our reserves and investments to ensure we are meeting the inter-generational equity principle.
- Prudently using our reserves to ensure we use the right reserve for the right use at the right time.
- Aligning our debt protection tools with the current financial situation.

Focus our investment on the district's core infrastructure by having capacity to fund:

- improvements for potential increases in quality standards of core infrastructure
- repairs and resilience work to our damaged roading network
- expansion of our current networks, subject to affordability.

Address the past under delivery in asset management by:


- Improving our levels of asset maintenance and renewals, especially for some of our community facility assets and network infrastructure.

The next 10 years

Significant factors

The key factors that will impact on the management of the Council's finances over the next 10 years are:

- Investing in new assets to accommodate growth.** This will require right sizing infrastructure assets and ensuring timely investment in new infrastructure when it is reasonably certain that the demand will occur.
- Responding to climate change.** Ensuring there is informed and proactive planning to help minimise the direct and indirect costs.
- The need to keep communities supplied with potable (drinking) water.**
- The Affordable Waters Reform programme.** The Government initiated three year programme to reform the way Councils deliver water services – drinking water, wastewater and, stormwater has changed. The outgoing Government made some changes to the initial 3 Waters Reform programme as a result of consultation and feedback. The incoming Government has indicated further changes are imminent but it is unclear at this stage what form this will take. In the meantime, we are taking a business as usual approach to planning for our three waters services for this Long Term Plan, but the responsibility for the delivery of these services are likely to change. This will be a significant change to the Long Term Plan.
- Resource Management Act 1991 (RMA) reforms.** In August 2023, the Natural and Built Environment Act (NBEA) and the Spatial Planning Act (SPA) were enacted. These are two of the three pieces of legislation that are intended to replace the Resource Management Act 1991. Following the October 2023 election, the future of the reform programme is uncertain, as the parties likely to form the new government



have indicated their intention to repeal the NBEA and SPA. Council will need to keep informed and be ready to respond to meet legislative requirements.

- f) **Asset renewals.** We need to continue to manage our assets based on quality information and to ensure good stewardship of the investments that we have already made.
- g) **Levels of service.** For the majority of Council's infrastructure and facilities, levels of service are expected to remain the same. Where options to reduce the level of service are available, they will be considered while taking into account legislative requirements and customer expectations.

We are proposing one new activity and one service level change to an existing activity.

Community Development Activity

A new sub-activity called Community Development has been established under Council's Community and Economic Development Group of Activities, to help develop and support more enduring relationships with stakeholders including iwi, Māori, community groups, government agencies, schools, funders and local social providers. The impetus is to ensure collaborative and positive working relationships are developed to support community social well-being and build resilience now and into the future. This activity reflects the direction of Council to imbed actions from our Recovery Plan into becoming business as usual. In the past, Council had a small Community Development budget within the Council activity. The move from a budget to a sub-activity is an increased level of service.

Coastal and Hazard Management Activity

Our Infrastructure Strategy shows we are proposing to spend \$420 million over the next 30 years, (\$93 million in the next 10 year) to adapt to the effects of climate change by starting to implement our Shoreline Management Pathways. This is an increased level of service.

Uncertainty

The impact of the series of recent weather events has caused an increase in the level of uncertainty in relation to our economic and demographic projections. In addition to the negative impact on our tourism sector, there have already been unforeseen impacts, like increased contract costs, increased travel times and a general nervousness around accessibility to some areas of the Coromandel Peninsula. The potential for climate change and severe weather events to alter economic and demographic projections is acknowledged, and we will need to be responsive to change, such as to our demographics, the tourism sector of our economy, development pressures and infrastructure requirements.

There is also a very real level of uncertainty around legislative reform as mentioned above. A watching brief will be kept on the changing legislation and direction of the new Government. This has the potential to significantly impact the Long Term Plan.

Expenditure

Council's ability to provide and maintain existing levels of services and to meet additional demands for services will require \$1.7 billion in operating expenditure and \$744 million in capital expenditure over the 10 years of the Long Term Plan.

Council's principle is to seek external/grant funding where a funding gap has been identified. This means that there will be expenditure in the Long Term Plan prospective financial statements linked to unsecured external funding. Council will need to reconsider the options if external funding is unable to be secured. This may mean an increase in rates funding or a decrease in the level of service for some activities.

The Resilience Roding Programme has capital expenditure of \$100 million over the 10 years of the plan with \$38 million proposed in the first three years. We have assumed that this programme will be 100% Crown funded and will be delivered under a different model to that of our usual capital works programme.

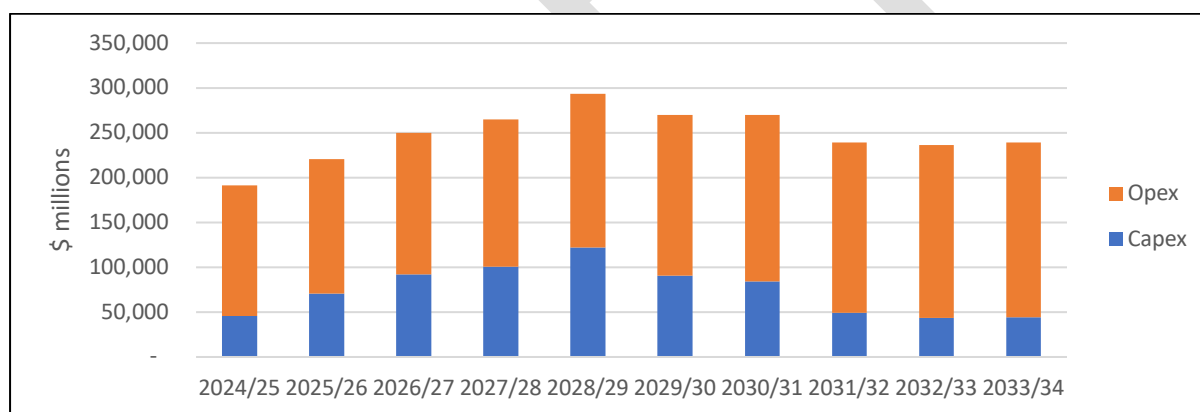


Figure 2 Forecast capital expenditure and operational expenditure for the 10 years of the LTP

Table 3 below shows the total cost of projects over 10 years categorised by type of expenditure. Growth capital expenditure provides new or improved assets which supports more residents to live in our District. These projects are usually funded by development contributions or contributions from external funding sources. Capital expenditure to improve service levels (iLOS) is where we are investing in new assets to service the existing population. These assets are usually funded by loans. Renewals restores our current assets to their original function or capacity and are funded by depreciation reserves.

There are additional costs, such as depreciation and loan repayments associated with adding new assets. These costs are included in the rates increase limit.

Activity Group	Growth (\$000)	ILOS (\$000)	Renewals (\$000)	Total (\$000)
Wastewater	9,196	24,113	68,674	101,983
Stormwater	2,233	26,594	36,527	65,355
Water	9,777	44,375	47,478	101,630

Transportation*	8,159	113,594	122,036	243,790
Other	10,386	136,864	84,139	231,389
All activity groups	39,752	345,540	358,854	744,146

Table 3: Capital expenditure funding by activity

*The roading resilience project has included an assumption of 100% direct Crown funding

Balancing the books

Section 100(1) of the Local Government Act 2002 requires Council to balance its budget. This means that we must raise sufficient revenue to cover our operating expenses for each year of the Long Term Plan. However, the legislation also allows Councils to set revenue at a different rate to operating expenses in instances where it is considered prudent to do so.

We consider it prudent to only fund depreciation on our share of the roading activity expenditure. Waka Kotahi (previously New Zealand Transport Agency) contributes a significant amount to roading and we will not fund depreciation on this component as it is expected that the Waka Kotahi subsidy will continue. We also consider it prudent to loan fund large one-off operational expenditure projects that benefit current and future ratepayers. This distributes the cost of the service more equitably across those ratepayers that will benefit from it.

We are proposing to not fund a portion of the increase in depreciation on our revalued assets in the first two years of the Long Term Plan. Although this will have an impact on balancing the books, (see Figure 3) we believe it is more affordable to smooth this effect over two years to lessen the burden on ratepayers in the first year of the Long Term Plan.

Our target of everyday revenues paying for every day costs is more appropriate measure for balancing the books than the balanced budget benchmark prescribed by the Local Government (Financial Reporting and Prudence) Regulations 2014. This is because it excludes capital revenue such as Waka Kotahi capital roading subsidies. Capital revenue is used for building assets and not to pay everyday costs. The result is a more transparent view of what it would normally cost to run the District.

As can be seen from Figure 3 below, even with the funding decisions regarding depreciation and funding of operational expenditure projects with a future benefit, we are still pretty close to our goal of every day revenue paying for every day expenditure.

For the 10 years of the LTP, we are planning to meet the Local Government (Financial Reporting and Prudence) Regulations 2014 balanced budget benchmark.

2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
91%	94%	97%	97%	97%	97%	97%	98%	98%	98%

Figure 3: demonstrates we are close to meeting our principle of every day revenue paying for every day expenses

Impact on rates

Rates are Council's primary income source. The challenges we are facing to keep providing services for the community means that inevitably rates need to increase. However, our principle to seek other revenue sources to contribute towards projects and expenditure means

we will be investigating opportunities for growing non-rate revenue such as external funding to reduce the reliance on rates.

After making budget decisions, capping debt and agreeing that paying for everyday costs with everyday revenues was a priority, we have determined the following quantified limits on rates;

- Total rates income will be no more than 80% of total operating revenue.
- Total rates income will increase by no more than Local Government Cost Index (LGCI)² plus a percent.

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
LGCI ³	3.0%	2.3%	2.6%	2.5%	2.5%	2.4%	2.4%	2.5%	2.4%	2.4%
+	6.5%	6.5%	6.5%	3.0%	3.0%	2.5%	2.5%	2.0%	2.0%	2.0%
Total increase limit	9.5%	8.8%	9.1%	5.5%	5.5%	4.9%	4.9%	4.5%	4.4%	4.4%

Table 4 shows the percentage rates increase limit for each year

The reality is that we are looking at a double-digit rates increases for the first year of this long term plan. We are also aware that it is not affordable for our communities for rates to continue to increase at this pace. Therefore, Council needs to set a limit on rates increases that is realistic but also considers the increases that are needed to deliver on the plan. Taking this into account, Council has adopted a graduated rates increase limit to get back to LGCI plus 2% by 2031/32, noting that the limit will not be achieved in the first year.

² LGCI is the inflation index for local government. LGCI is derived from cost structures of New Zealand's local governments such as general goods and services, transport and the three waters capital expenditure as reported by Business and Economic Research Limited (BERL).

³ The LGCI percentages adopted for this long term plan are derived from the 2023 cost adjusters report commissioned by Taituarā from BERL for its members. These cost adjusters will change as they are reforecast each year.

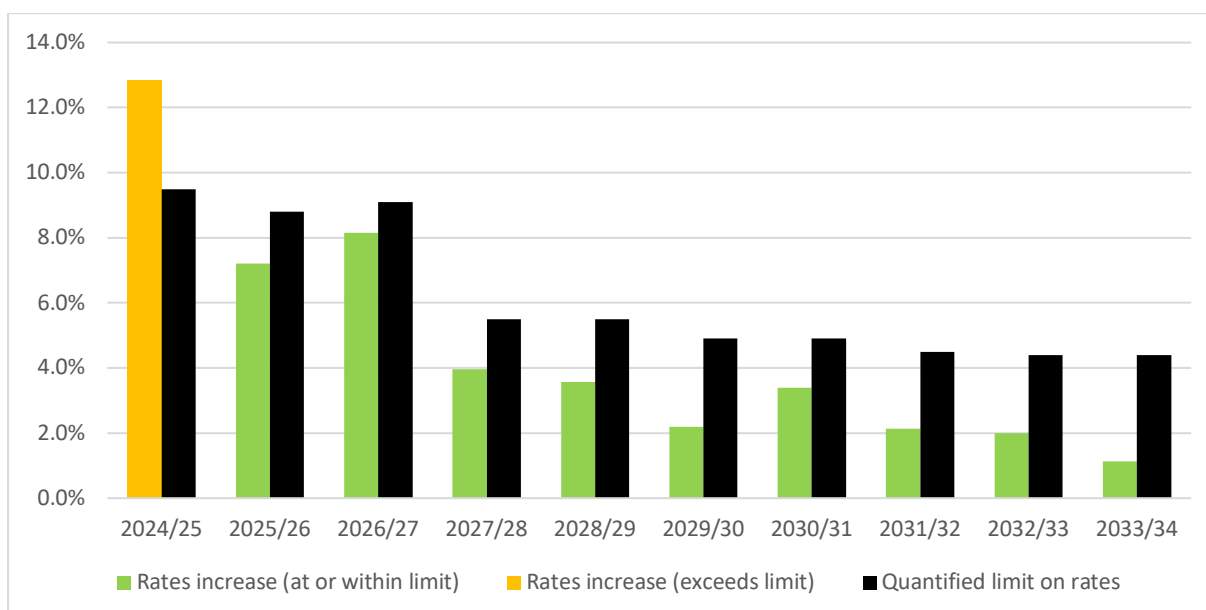


Figure 4: Chart showing forecast rates increase

Impact on debt

We use borrowing to fund Council assets that will service ratepayers, both today and into the future. Much of our investment in roads, footpaths, pipes, treatment plants and transfer stations are funded by loans. These are long-life assets, borrowing helps to ensure that all current and future ratepayers contribute to the costs of the assets they will use, commonly referred to as intergenerational equity. However, this needs to be balanced by ensuring that future ratepayers are not overburdened by decisions made today. To find an appropriate balance and provide safeguards for future generations, limits need to be set on borrowing.

Council is investing \$744 million in its capital works programme across the 10 years.

Taking this into consideration, Council has set the following quantified limit on borrowing (external and internal debt)

Debt affordability benchmark	Quantified limit
Total net internal and external debt as a percentage of total revenue.	<200%

Table 6: Council adopted debt affordability limit

In addition to this limit Council has other specific borrowing limits as set in our Treasury Management Policy. The Local Government Funding Agency Limited (LGFA) sets lending policy limits for Councils that borrow from them. Council has taken a conservative approach and has in most instances set these limits lower than those from LGFA. This is to ensure that we only borrow to prudent levels and have sufficient rates and other income to service the loans.

LGFA measures (external debt only)

Measure	Council Limit	LGFA Lending Policy Limit

Net external interest expense as a percentage of annual rates income	<15%	<25%
Net interest expense as a percentage of total revenue	<15%	<20%
Net external debt as a percentage of total revenue	<150%	<175%
External debt plus available committed loan facilities plus liquid investments/cash equivalents over external debt.	are maintained at or above 110%	are maintained at or above 110%

Table 7: LGFA and Council lending policy limits

Figure 5 shows our forecast debt (both internal and external) and how it is tracking over the 10 years compared to our LGFA external debt limit and our self-imposed total debt limit. This shows that internal debt remains fairly constant while external debt increases to meet the costs of the capital works programme.

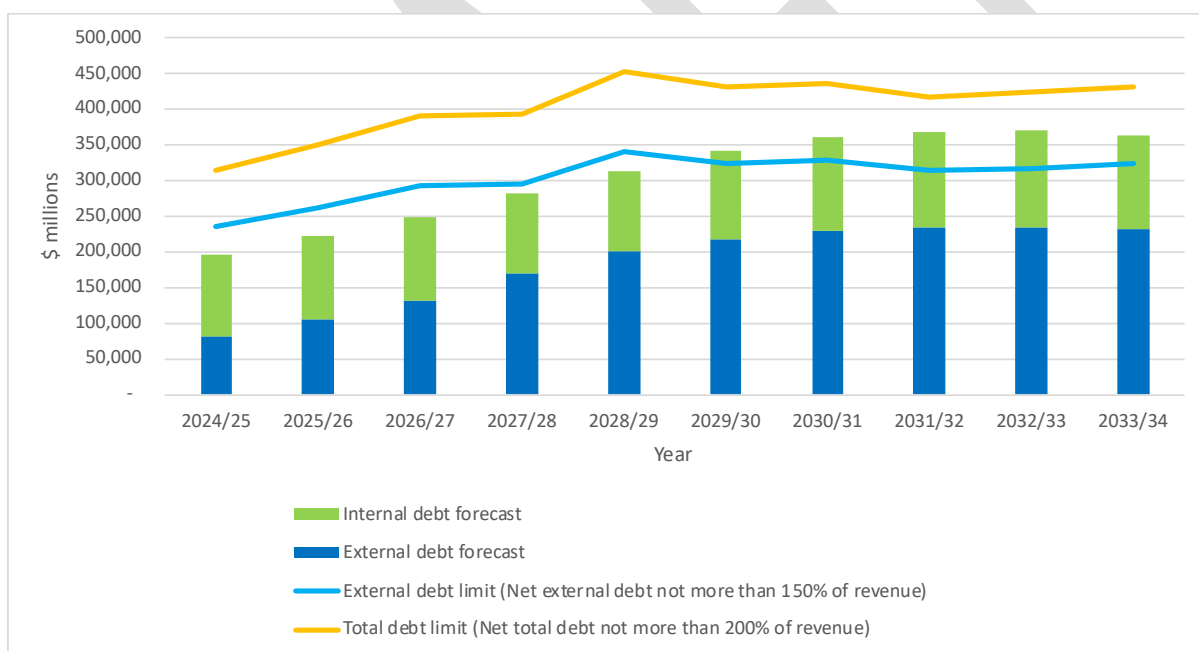


Figure 5: Forecast debt (both internal and external) and debt limits for the 10 years of the LTP

Figure 6 shows the amount of forecast debt per rating unit. It shows that over the 10 years, debt per rating unit is set to increase by 76%. Of course this is dependent on a number of factors such as the capital works programme being complete, the water infrastructure staying on our books and growth in our district.

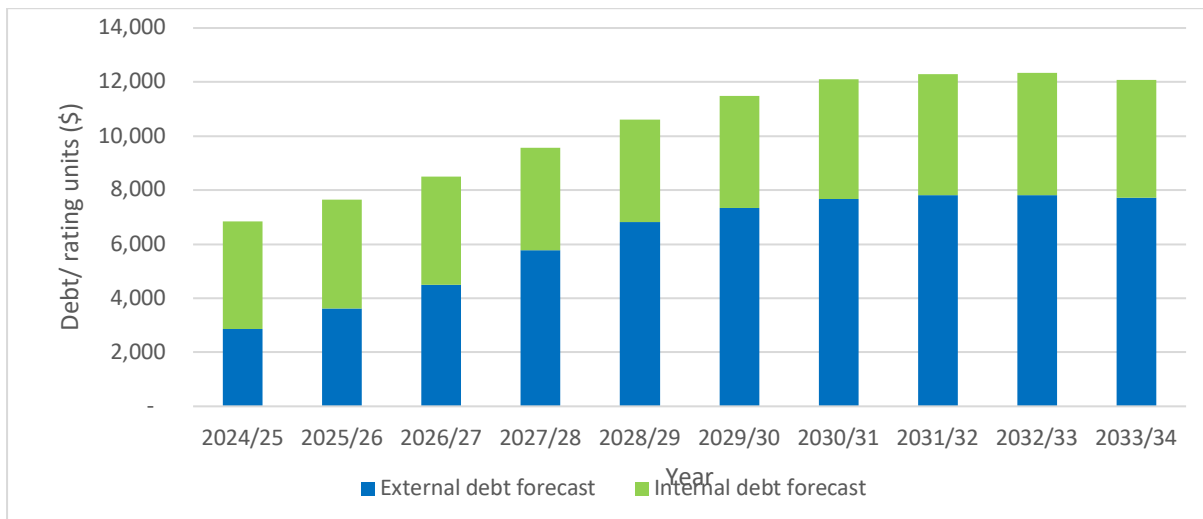


Figure 6: Total debt (internal and external) per rating unit

Unplanned events

Our Long Term Plan provides for the everyday maintenance of assets and the renewal of assets at the end of their economic life. Unplanned events require earlier than planned investment (eg Civil Defence emergencies, natural events, fire, theft and safety concerns). These events, if they occur, could result in significant unplanned operating and capital cost.


Council has mitigations that can be executed in the case of such events. We can call on our bank facility (\$10 million) or utilise our debt headroom (\$107 million). We also have the ability to reprioritise and reduce capital spending as we did in our 2023/2024 Annual Plan.

We also have a collective insurance programme with other Waikato councils through our Council Controlled Organisation Waikato Local Authority Shared Services Limited trading as Co-Lab. This programme will fund some operational costs (eg business interruption) and some capital costs where a claimable event occurs.

Managing financial investments and equity securities

Our philosophy towards the management of investments is to optimise returns in the long term while balancing risk and return considerations. We recognise that as a responsible public authority any investments that we hold should be low risk where the primary objective when investing is the protection of our investment capital. Accordingly, only approved creditworthy counterparties are acceptable, and we recognise that lower risk generally means lower returns in our investment activity. We will act effectively and appropriately to:

- protect the Council's investments
- ensure the investments benefit the Council's ratepayers; and
- maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements.



Council may hold equity for non-investment purposes provided that the holding advances its community well-being objectives as outlined in the Long Term Plan and may include investments held in CCO/CCTO and other shareholdings.

Council holds equity investments in the New Zealand Local Government Funding Agency Limited, Waikato Local Authority Shared Services Limited trading as Co-Lab and Civic Financial Services Limited.

There are no plans to change our shareholdings. However, in accordance with good practice, this is reviewed regularly. There is a provision in our Treasury Management Policy for any future significant equity investments. Any investments of a significant nature will be externally managed by an appointed investment manager, in accordance with the Statement of Investment Policy and Objectives (SIPO).

Objectives

Our objectives in respect of the management of investments are to:

- manage investments in a manner consistent with current governing legislation and Council's strategic and commercial objectives
- optimise returns while minimising credit and liquidity risks
- manage the overall cash position of the Council's operations
- hold investments necessary to carry out Council operations (consistent with Annual Plans), implement strategic initiatives, or support inter-generational allocations
- hold assets for commercial returns
- provide ready cash in the event of a natural disaster. The use of this cash is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- invest amounts allocated to accumulated surplus, Council created restricted reserves and general reserves.
- invest proceeds from the sale of assets.

Further information can be found in our Treasury Management Policy accessed at www.tcdc.govt.nz.

Policy on securities against borrowing

To borrow cash, we must offer our lenders security, just like homeowners do with their mortgages. We secure these borrowings against rates and rates revenue by way of a Debenture Trust Deed. Borrowing is secured by a floating charge over all Council rates levied under the Local Government Act 2002. This security helps keep our interest rates low. However, giving rates as security means that our lenders can make us charge ratepayers more to repay debt. That is why it is important to keep debt at a sustainable level.

In unusual circumstances, security may be offered by providing a charge over one or more of our specific assets. Securities are not provided on our own internal borrowing. Further information on borrowing can be found in our Treasury Management Policy accessed at www.tcdc.govt.nz.