

FINANCIAL STRATEGY

The key points of this strategy are:

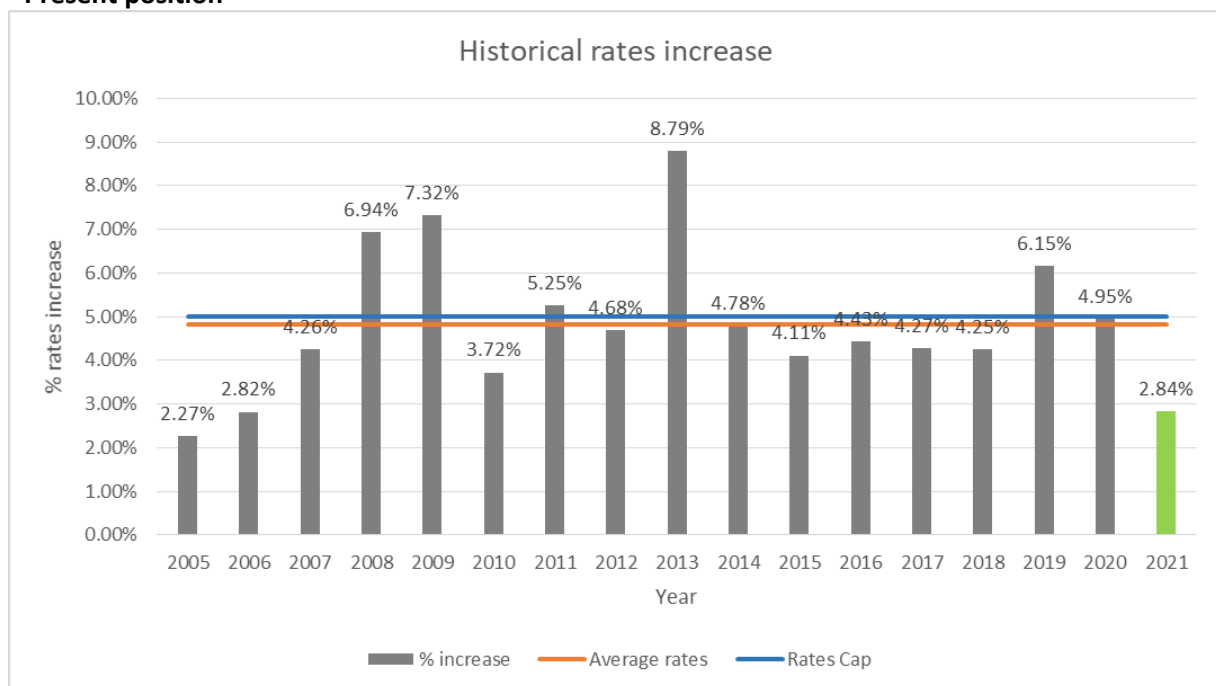
- The Council will continue to apply a cautious and conservative approach to operating expenditure.
- Current levels of service will be maintained, with increased levels of service planned for Gore's water and wastewater system.
- Rates are the primary source of funding for Council activities.
- Debt levels will increase to accommodate large capital projects, but an active repayment plan is in place throughout the next decade.
- All rate increases are less than the self-imposed 5% limit except for the first year of the plan 2021/22.
- The Council's budgets balance in every year of the plan.

Overall, the Council's objective in applying a prudent financial strategy is to balance all of these factors when considering new capital works or other projects.

Introduction

This strategy informs ratepayers, residents and regular readers of the Council's Long Term and Annual Plan documents about the approach the Council will take and key self-imposed limits it intends to use to navigate its way through the next 10 years.

Present position



The Council delivered a lower than forecasted rates increase this year, in acknowledgement of the challenges that the community had faced first with the flooding in February 2020, and then the global COVID-19 pandemic. The Council places great emphasis on the Long Term Planning process and believes the two years between revisions of the Long Term Plan, when it prepares an Annual Plan, should closely follow the 10-year plan forecasts. This approach gives some certainty to ratepayers about the level of rates they will be asked to pay in the future, and the implications of relevant issues facing the community.

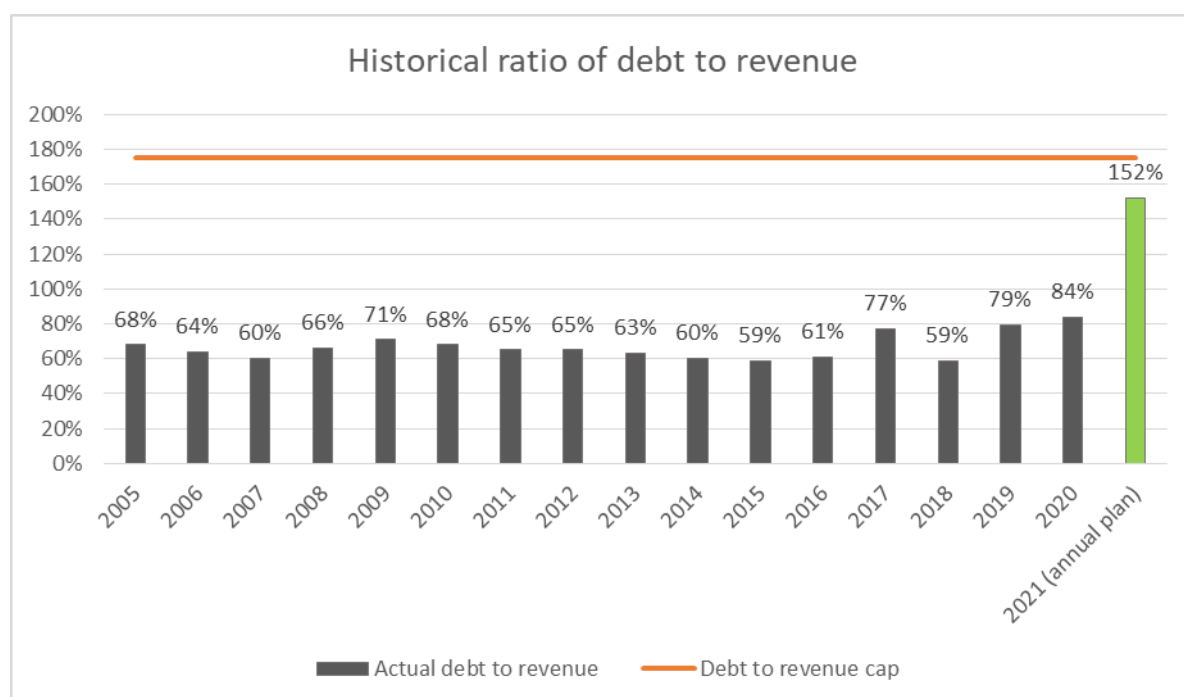
A review of rates increases since the first incarnation of long term plans 17 years ago, shows the average rate increase in the Gore District, up until and including the 2020/21 financial year, has been 4.81%.

The Council has undertaken large capital works in the form of upgrading wastewater treatment processes in Gore and Mataura, as well as the establishment of the refuse transfer station in Gore, the Council's share of the establishment of the regional landfill in Southland, and the upgrade of the Ajax wastewater pump station in south Gore. The Council has completed the Civic Administration Building upgrade and the Eastern Southland Gallery seismic strengthening projects.

With large capital investments, the ratio of debt to revenue has been relatively static over this time, only climbing in 2016/17 and 2017/18 due to borrowing for the planned Ajax wastewater pump station upgrade and the oxidation ponds desludging project. The increase in 2020 and 2021 is largely due to borrowing for the Gore Water Treatment Plant upgrade to comply with NZ Drinking Water Standards, and the Civic Administration Building upgrade.

Presently (based on 2020 actuals) for every dollar of income, the Council owes 84 cents of debt. To use an analogy, this is like a homeowner having an annual income of \$50,000 and a mortgage of \$42,000. This has enabled the Council to be able to take on new debt to fund once in a generation projects that are on its planning horizon.

In December 2015 the Council refinanced its debt with the Local Government Funding Agency (LGFA). As its name suggests, the LGFA lends only to the local government sector and offers long term funding at rates that are more competitive than trading banks. These savings are passed on to ratepayers through lower interest costs.



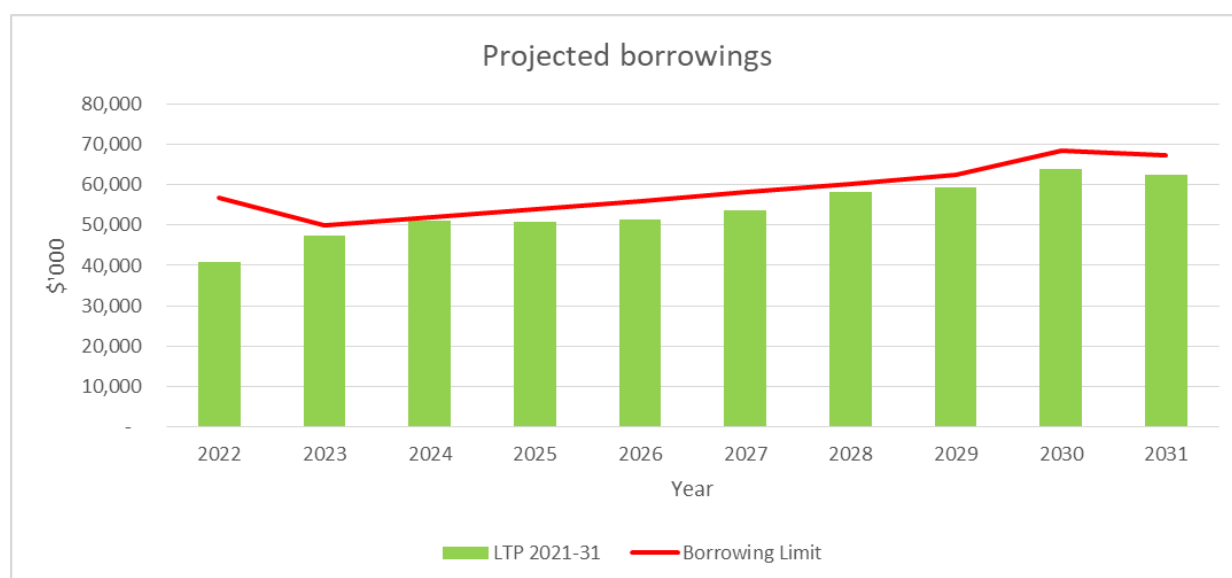
The next 10 years and beyond

The Council is still committed to completing the projects outlined three years ago in the 2018-2028 Long Term Plan. Some of these projects were scheduled to commence during 2018-2021 of the Long Term Plan. However, some projects like the first stage of the Gore water treatment plant upgrade was delayed. This project will now be completed in the 2021-2031 Long Term Plan.

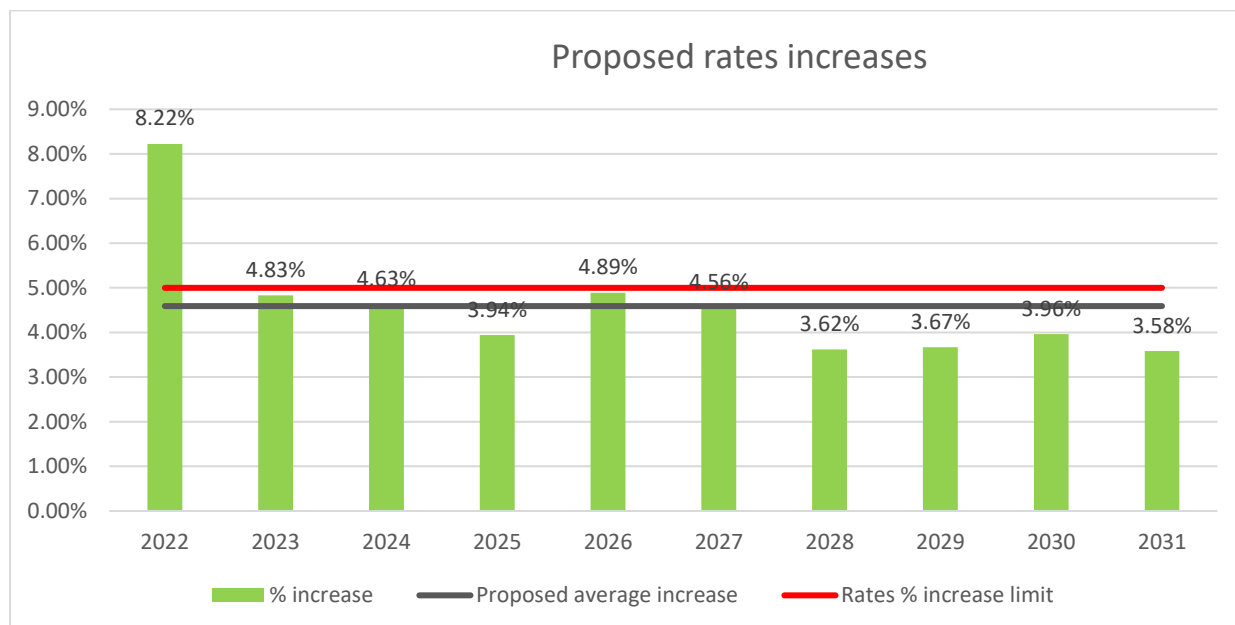
As was the case in 2018, the most affordable way to fund these projects is by loans. Choosing to fund these projects with loans means one generation of ratepayers is not unfairly burdened with the cost, as future generations will also experience the benefits from these assets.

Extensive modelling of our 3 Waters network has shown much of our reticulation infrastructure needs to be renewed over the next 30 years. Some of these projects will be significant. In particular, the Council is planning to spend \$22.5 million over the next 30 years to separate Gore's stormwater and wastewater network. This project and others will likely be funded by debt. Therefore, it is imperative that the Council manage debt carefully, as new borrowing as fast as older debt is retired.

The 2015-2025 Long Term Plan introduced the strategy of changing the way the Council funds the interest on the loans for 3 Waters assets. Historically the rates collected for depreciation has funded capital work, loan repayments and interest. In the past, this has helped keep rates low. However, this practice also means the Council ran budget deficits or unbalanced budgets. Under an intensified capital work programme funded by borrowing, there is not sufficient funding from the rates collected for depreciation to cover capital work, loan repayments and interest. The graph below illustrates the Council's requirement for borrowing over the life of the long term plan.



The Council is committed to the strategy set out in 2015. This will be the third long term plan that adopts this strategy, and as such, in year one of the 2021-2031 Long Term Plan, we will fund interest separately from depreciation. This means an 8.22% rates increase in the first year which is a breach of the self-imposed rate increase limit. However, given the large capital programme, coupled with rates suppression initiatives undertaken in 2020 to respond to the Covid 19 pandemic, a larger increase is inevitable. This will however place the Council on a more sustainable financial footing for the next ten year period.

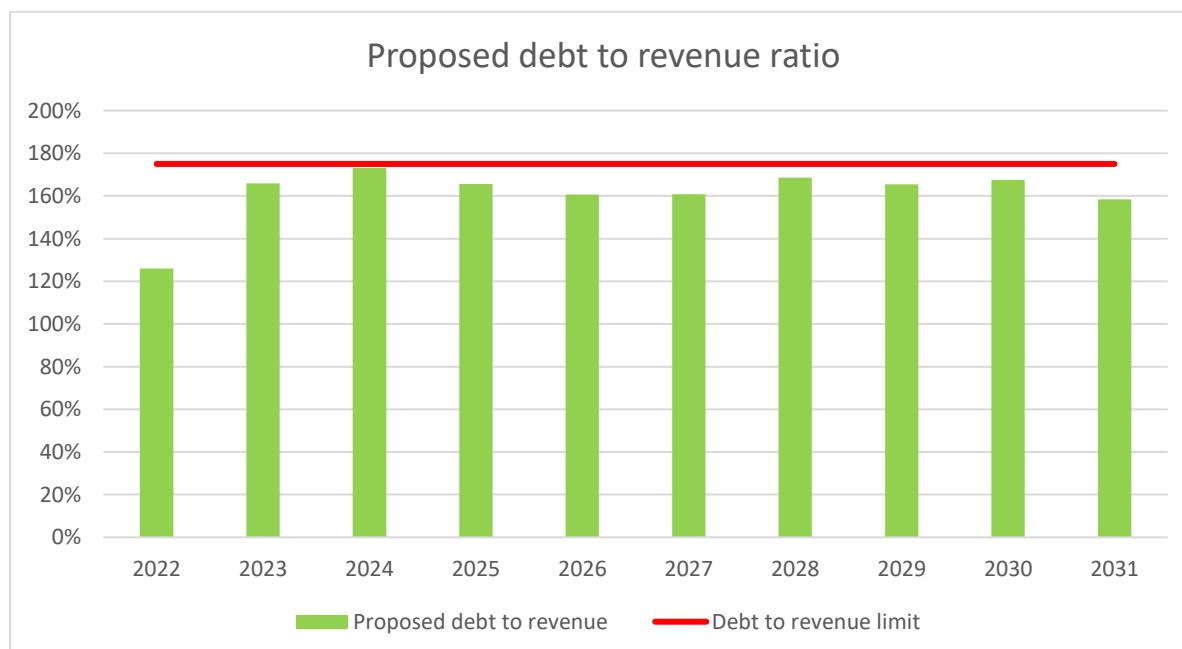


Breaching the rates increase limit once in 2021/22 means the Council:

- can prudently manage the required increased level of borrowing,
- keep the books in surplus for the next 10 years,
- is better placed to undertake large renewal projects scheduled after 2031,
- has more headroom in its self-imposed debt limit to respond to unforeseen infrastructure issues.

The previous long term plan programmed extra debt repayment from the year 2020 onwards, which would have been after the major capital projects were completed. Delays to some of the large projects due to flooding, COVID-19 and subsequent supply issues mean this extra debt repayment cannot start in 2020 as originally scheduled. The Council will continue with this strategy though, with further debt repayment ramping up in year 2024/25. However, this is going to be offset by additional borrowing required to fund the substantial infrastructure capital programme, particularly in the 3Waters area.

The extra borrowing means our ratio of debt to revenue will increase. However, the initiatives in this strategy will mean that by 2031 our ratio of debt to revenue will be at 158%. This means that for every \$1 of income the Council would owe \$1.58.



Financial limits

The Council proposes to set the following limits during the next 10 years:

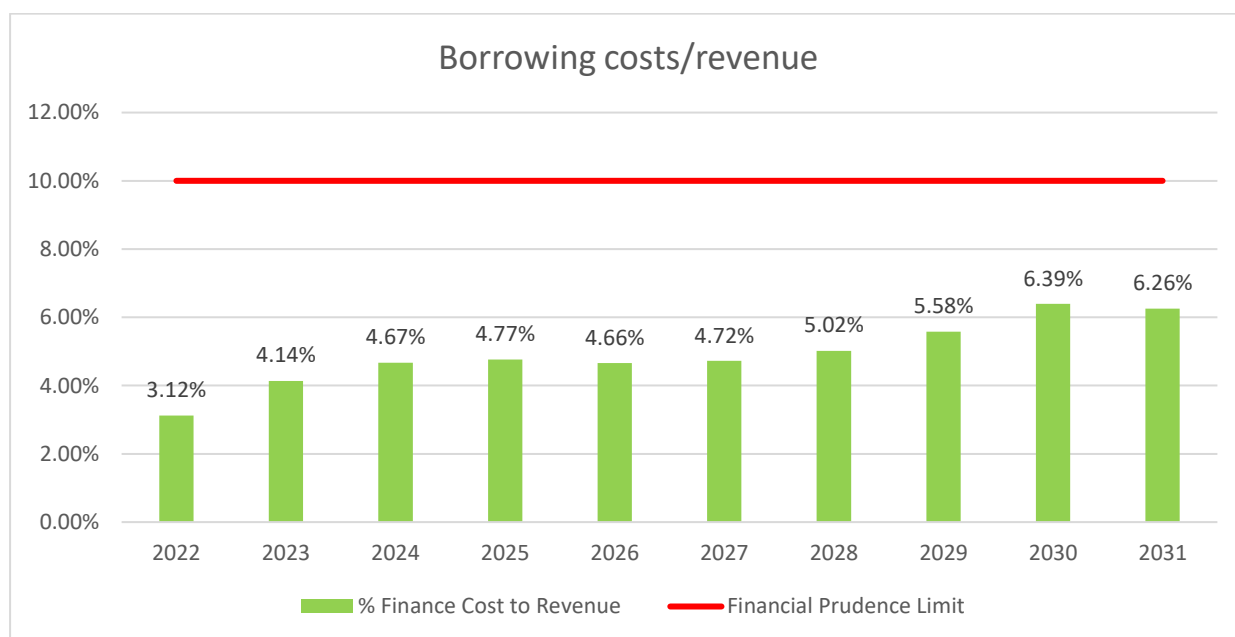
- annual rates increases – not to exceed 5%
- total rates collected not to exceed \$30 million per annum
- debt – not to exceed 175% of revenue.

Comment

The 2021-2031 Long Term Plan provides for increases less than 5% for nine of the next 10 years. The only exception is in the 2021/22 financial year in which total rates are expected to rise by 8.22%.

The current debt level (as at 30 June 2020) of the Council stands at \$22.5 million which represents a ratio of 84 cents of debt for every dollar of income. The ratio of debt to revenue will peak at \$1.73 of debt for every \$1 of income in year 3 of the long term plan. To use our previous analogy, this is like having an annual income of \$50,000 and a mortgage of \$86,500.

One of the benchmarks set by central government assesses the ratio of borrowing costs to revenue. A local authority the size of the Gore District is deemed to have achieved the benchmark if its borrowing costs, as a portion of revenue, are 10% or less. The 2021-2031 Long Term Plan meets this prudence test as shown below:

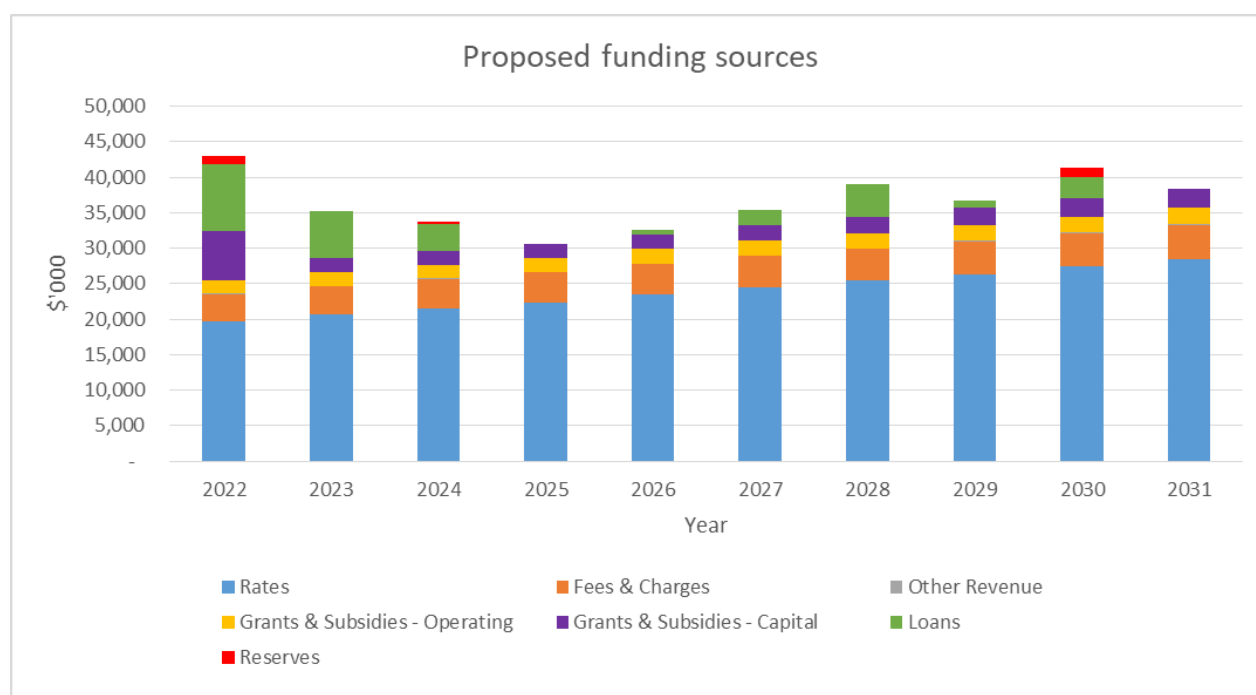


Even though the 2021-2031 Long Term Plan forecasts debt will be higher than in the 2018-2028 plan, the ratio of borrowing costs to revenue remains very similar. This is mainly due to refinancing the Council's debt with the LGFA, which lends at lower interest rates to councils.

Funding sources

The Council does not have any investments in trading operations such as a Council controlled organisation. The Council has modest reserves which are set aside for specific purposes and are not available as a general funding mechanism for the Council's operations.

The Council charges fees for certain services and activities. The Council's Revenue and Financing Policy sets out how much each of the Council's activities are funded by fees and charges. Fees and charges are reviewed each year. In general, an annual inflation adjustment is made to most fees and charges. However, some fees, like pool admission charges, are very small. In these cases, care is taken to keep the fee at a sensible rounded amount and increases may only be made every two or three years.



The graph above illustrates how reliant the Council is on rates for its primary source of funding. With such a strong reliance on rates, the Council is acutely aware of a need to adopt a conservative position in respect of expenditure expectations, yet not lose sight of the need to front up to infrastructure obligations and the pursuit of Council outcomes, which are considered to be very important to the community.

Levels of service

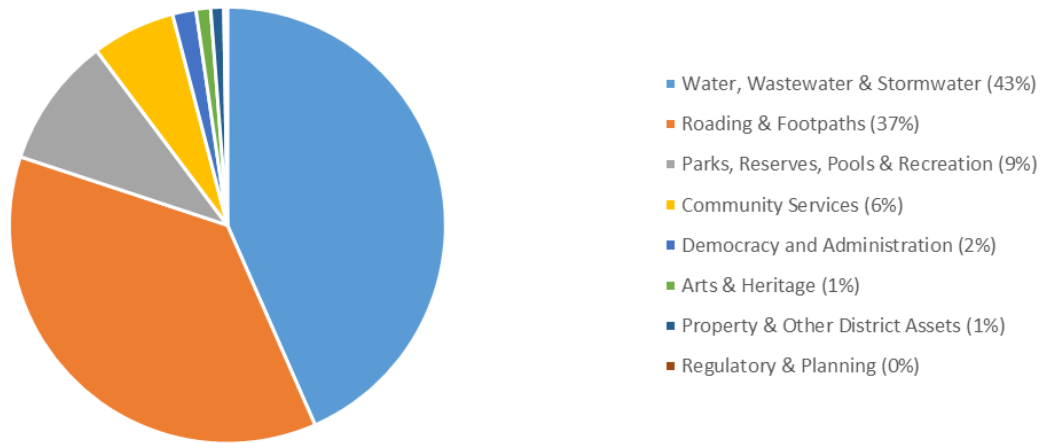
The Council is confident, based on its experience over the past 10 years as illustrated in the historical rates increases graph shown earlier, that it can maintain existing levels of service and the planned increases in levels of service for its water and wastewater activities, within the rates limits set out above.

Capital expenditure on network infrastructure

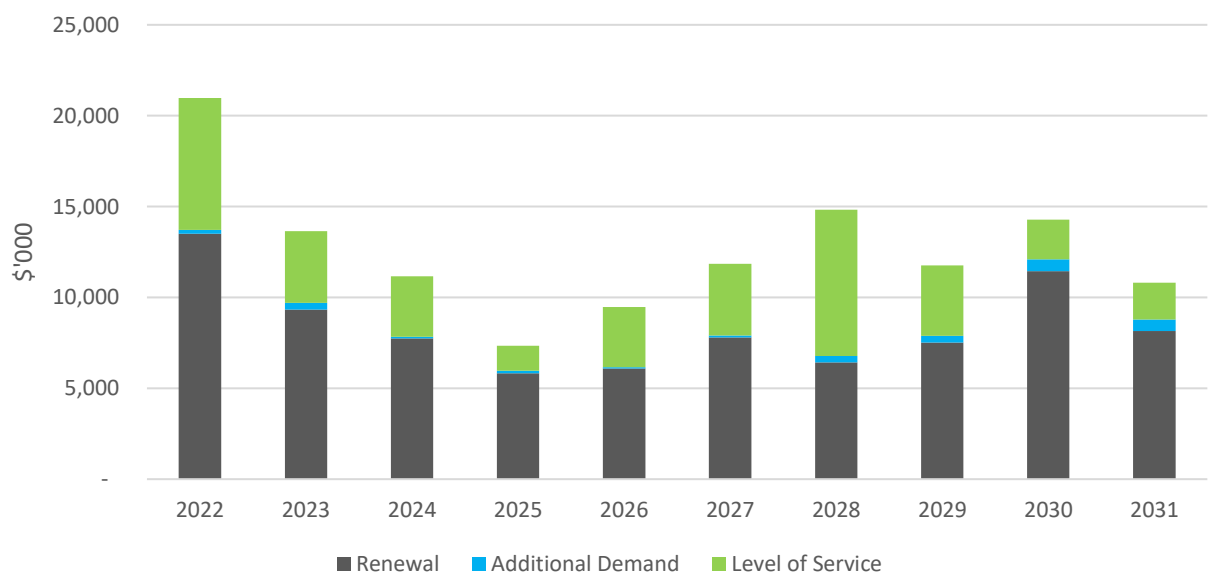
With its large capital projects mentioned previously, the Council is forecasting a relatively stable level of capital expenditure for the renewal of its roading assets but an increased focus on 3 Waters assets.

Further details of the projects are contained in the relevant areas of the plan.

Capital expenditure by theme



Capital expenditure by type



Population growth and land use assumptions

The Council is expecting a small growth in population over the life of this plan. This is based on the latest forecasts from Statistics New Zealand, Infometrics and incorporates observed growth and property demand trends based on the recent Maitava Valley Milk development.

At the time of the 2018 Census, the Gore district experienced a very slight increase in population (363 people). While our culture is becoming more diverse as the Gore District's strong agricultural sector draws migrant workers, our demographic profiles show there is still an increasing percentage of elderly in the district.

There are no expected changes in the use of land in the District.

Policy on borrowing security

The Council policy on security is to ensure it is able to provide suitable security to the lender whilst retaining the maximum flexibility and control over assets. The security for Council debt is the ability to set rates.

Objectives for holding and managing financial investments and equity securities

The principle objectives for holding financial investments and equity securities are as follows:

- To ensure the Council has appropriate working capital funds available to carry out its strategic plans as outlined in the Long Term Plan and annual plans.
- To ensure the Council has sufficient funds available to meet its liabilities as they fall due.

The Council has determined that funds should be invested so as to limit the Council's exposure to loss. With this objective in mind, security of investment shall take precedence over financial return. The Council's investment policy, which is included in this 2021-2031 Long Term Plan, requires that investments are held with appropriately rated financial institutions, e.g. Standard and Poors.