PART C: Council's Financial Strategy

1 Strategy focus

Council is involved in a wide range of activities that each have their own unique funding requirements and challenges. You can read more about the groups of activities we are involved in Part E: What Council Does – Groups of Activities.

This financial strategy sets the overall direction for the Council's finances over the next ten years. It also outlines the key issues that Council has considered when setting the financial parameters of funding sources and how the funds raised are used.

Any decisions by Council have an impact on the future, so a key part of this Strategy is to highlight possible future implications of decisions made by Council.

2 Context and strategic issues

The following commentary provides context to the financial planning undertaken by Council and outlines the specific strategic issues affecting the Grey District.

Please also refer to the Significant Forecasting Assumptions.

2.1 Future proofing our finances

In previous years Council's financial goals have included a focus on keeping rates low to help lessen direct costs to our community. In the last financial year due to the uncertainty around the economic impacts of Covid-19, Council reduced its forecast rates rise from 3.66% to 2.7% to temporarily cushion impacts on ratepayers. This was effectively a one-off reduction in direct recognition of the unprecedented global situation.

However, over time the costs of Council business have continued to rise, including the costs of complying with increasing standards and laws governing various aspects of Council's operations. As well as that, reducing direct costs to ratepayers and keeping rates low meant that while we made decisions on proceeding with necessary upgrades of water and wastewater plants, decisions were also made to delay some replacements of our older infrastructure, particularly in our stormwater and bridge networks. In other cases we have used reserves to pay for activities and while this cushioned short term rates impacts on our community, it has meant that our reserve funds are reduced.

Council is now proposing to refocus its budgets on managing prudently for the future. This includes 'catching up' on underfunded programmes from last year's temporary reduction and operational activities previously funded from reserves, accurate budgeting for increasing compliance costs (such as the new waste levies, rises in the minimum wage and ensuring Council's management of documents and valuable records meet legal standards). It also means funding increased renewals of our older stormwater pipe and bridge networks to reduce the risk of failure and avoid significant costs in future.

We also plan to reduce borrowing, and set funds aside to build up reserves to prepare for emergencies, future projects and necessary maintenance and renewal works, such as the Westland Recreation Centre.

Council believes that by doing this now it is taking a prudent and responsible approach and will avoid issues compounding over time.

2.2 Three Waters management and reform

Central Government is currently working with all Councils through a major review of how Three Waters services (drinking water, wastewater and stormwater) are delivered to our communities. A number of changes are likely to occur in how these services are delivered, over the term of the LTP. Changes in how they are regulated are also being worked through.

From 2022 onwards, there is likely to be a new regional entity responsible for delivering water supply and wastewater services in the Grey District and wider region. Stormwater will likely follow at a later date. At the time of preparing this strategy however, there is no specific proposal or format for any new entity around which community consultation can take place.

Until this is further developed, Council has assumed that it will deliver these services over the life of the LTP, while acknowledging that this assumption has a high degree of uncertainty. We note that our community will need these services, whether they are delivered by the Council or not. Council has therefore continued to plan for these activities, and this is reflected in our strategies and plans.

In recent years Council has spent a considerable amount of money on some of its assets (both new capital projects and replacement of existing assets, such as wastewater treatment and water supply upgrades). Part of the Government's current reform of three waters services includes an economic stimulus package in water infrastructure. Council has accepted a grant from the Government which will be spent on additional upgrades and improvements of these assets and services. The projects are planned for completion in Year 1 of the LTP.

Following completion of those projects, an upgrade of the UV treatment for wastewater is planned, but no further large amounts of money over the next 10 years are to be spent on our water supply and wastewater assets, barring emergencies or changes in standards, ie Drinking Water Standards. Our key priority is to address deferred renewals in our stormwater assets, to reduce the risk of failures in the network.

More information on our plans with regards to infrastructure can be found in PART D: Infrastructure Strategy.

2.3 Covid-19

The Covid-19 pandemic has caused major disruption to life and economic activity around the world. The pandemic has drastically altered the economic outlook here and abroad, and Governments continue to respond with a range of health-related and economic support measures. At present there is ongoing uncertainty around the management of Covid-19 and its long term effects, but there are also some factors that will help our district to be resilient as we look to recover.

Council will continue to explore opportunities and access available funding from government economic stimulus packages for water infrastructure and other growth funds. Council will use available stimulus funding on improving services to our community and businesses. This includes upgrades to roading and bridges, three waters assets and services and upgrades to the Port of Greymouth.

We will also continue to focus on community spaces and places, with a proposal for a new district library and ongoing maintenance of our public parks, reserves and cycle trails. These enhance community wellbeing and are important assets in community cohesion and recovery.

2.4 Council debt

We have borrowed a moderate amount of money over the past few years for new infrastructure. Council's debt has increased from $5.6 million in 2015 to $33.9 million by June 2021 (estimated).

This plan includes borrowing for a number of projects including capital expenditure on the development of a new cell at McLeans Pit landfill, a new heavy vehicle access to the Port, Stormwater additions and short term borrowing for the new district library building to replace the current facility. We also plan to repay debt within the term of the LTP, from Year 9 onwards. This includes debt related to the Port and the Westland Recreation Centre.

There is capacity to borrow within the existing limits if required for unforeseen events or emergencies. Some examples where we would consider increasing our debt includes:

- Unforeseen infrastructure works, ie critical failures.
- Sudden changes in standards we must comply with, ie increases in Drinking Water Standards.
- Emergencies, ie natural disasters etc.
- Smoothing the financial impact of large renewal expenditure, e.g. urgent or costly bridge replacements.

Renewals and operating expenditure are not funded by new borrowings, apart from the following exceptions:

1. Roading bridge renewals. Individual bridge replacements can be costly for the larger bridges, and in some cases, the cost of one bridge replacement can exceed our total renewal budget for all of land transport. In these cases Council will loan fund the cost, repaying the loan over a relatively short period (i.e. less than 10 years). This is to spread the cost over a few years, smoothing out the rate revenue required from year to year.
2. Port operating deficits. This Plan changes the existing strategy of funding the port deficit through short term borrowing. For many years Port deficits were funded via proceeds from land sales and no direct rate revenue input. With the proceeds from sale of land being a diminishing resource, Council was required to address the issue by introducing a rate revenue input into the Port, as well as increasing the revenue input of Port users. Over the life of this Plan, in the short term, the deficit is funded from short term borrowing, until year six where rate funding is increased and by year 10 the port debt will be fully repaid with the expectation that moving forward the port will be fully funded via rates and user charges.

Overall debt levels will increase in the next eight years from an estimated $33.9m in 2021 to $42.6m in year 8 and reducing to $29m by the end of year 10.

2.5 Static growth

Statistics NZ forecasts are for our population to more or less remain static over the period to 2028. However by 2043, Grey District is projected to see a population decrease by around 8%, to 12,600 people. Our population will also age significantly over the next thirty years with a projected decline in all other age groups, including birth rates.

Overall growth in our District is low. There are no significant changes in land use expected over the period of the LTP. There may be minor changes in rural and rural-residential areas where limited growth is occurring, although these are areas where Council does not supply significant infrastructure services.

Council is presently engaged in a collaborative process with the West Coast Regional Council and Buller and Westland District Councils to develop a combined District Plan for the region. Following extensive public consultation the Plan will identify new zones for growth and development, as well as identifying areas where growth should not occur (such as areas subject to natural hazards). This planning is likely to take a number of years, with changes not likely to take effect until late in the LTP period. Council will remain actively involved as the process develops, given its significance for our community and for future strategic and infrastructure planning.

More information on growth and development in the District can be found in PART F: Significant Forecasting Assumptions.

2.6 Addressing our issues

It is always a challenge for our community to be able to pay for services with a smaller and statistically slightly older rating base than some other Districts in New Zealand. We're committed to making sure we deliver value for money in our services as well as addressing our key issues in a responsible and prudent manner and planning appropriately for the future. We know that affordability can be an issue for our community; we have to balance the needs and wants of the community with the ability and willingness to pay for the services and activities it provides. However it is also important to that we don't put our heads in the sand when it comes to making decisions affecting our District in the sole interest of keeping rates low. Addressing issues now may cost in the short term but will save larger financial headaches later.

2.7 Vulnerability to natural hazards and climate change

The Grey District, being close to the sea and the Alpine Fault and in a high rainfall zone, is susceptible to natural hazards such as flooding, earthquakes, tornados and more. The impacts of natural disasters can be significant and impose substantial unbudgeted costs on the Council. Council is also aware of the potential effects of climate change on the District's physical and built environment, Council's activities and service delivery, and on the wellbeing of our communities. More information on this can be found in PART F:2: Key assumptions applied in the preparation of this Plan.

2.8 Deferred renewals

As signalled in our Infrastructure Strategy, we are putting more focus on addressing deferred renewals in our Stormwater and Land Transport activities at a more rapid pace than previous. Failure to address these could have serious implications, both financial and impacting on the service provided.

It should also be noted that whilst we are addressing the backlog of renewals, it will still take many years to fully remedy the problem and in the meantime Council and the community will carry some risk in the form of failures, increased maintenance costs, potential impact on levels of service provided etc. Please refer to PART D: Infrastructure Strategy for more details.

2.9 The world around us

Like most of New Zealand, the Grey District is influenced by external factors – national and international, environmental, economic and political. The significant effects of the current global pandemic and resulting economic uncertainty have been felt locally as well as nationally. Future changes in interest rates, international markets and legislation, natural hazards and climate change all have the ability to impact on the Council's finances.

2.10 Running at a deficit

Previously Council has reported some reasonable surpluses over the last several years. However, when you take away the large subsidies and grants for capital projects, Council has actually been running at a deficit some years. This is not a major concern in the short term but Council has addressed this issue in the Plan with only budgeting for a deficit in year two.

3 Financial goals

The Council's goals for managing its finances are outlined in the following table. These financial goals have been set to reflect where the Council wants to be in 2031 and they focus on the following:

1	**Rates revenue set to meet Council and community needs.** ***Setting rates at a level that enables Council to practice prudent financial management by addressing significant issues, e.g. deferred renewals, funding future projects and reducing annual rates deficits.***
2	**Decrease debt over the life of the Plan.** ***Borrow for significant projects to take advantage of current low interest rates with the overall goal of decreasing debt over the life of the plan. Savings on finance costs will then be used towards operational costs or increasing reserves over the life of this Plan.***
3	**Retain capacity to borrow for unforeseen events.** ***For example, natural disasters. Debt levels to be kept within our policy limits.***

Why do we have these goals?

The specific goals we are proposing for the next ten years sit within our overall approach to long term financial management. We aim to:

- Manage and fund Council's community and infrastructure assets to maintain current levels of service, or where there is increased demand for services, to meet community expectations;
- Borrow short term for new capital expenditure in Community and Recreation, and reduce overall debt over at the end of the plans life. The intention is to reduce the burden of interest rate expense on the rate payer therefore enabling Council to begin to increase reserves to prepare for future capital expense;
- Ensure rates are set at a level that enables Council to function in a way that meets its communities needs and deliver appropriate services, without the need to borrow significant long term funds in the future.
- Maintain the current prudent financial management while providing good quality levels of service to both current and future generations.

This financial strategy is aimed at responding to the needs of the community in responsible way, while ensuring long term stability of rates by forward planning for major capital expenditure including renewal and replacement of existing assets.

Our strategy for meeting these financial goals is outlined in the next section.

4 Our Strategy

This section outlines Council's strategy for meeting its financial goals and addressing its strategic issues.

4.1 Rates

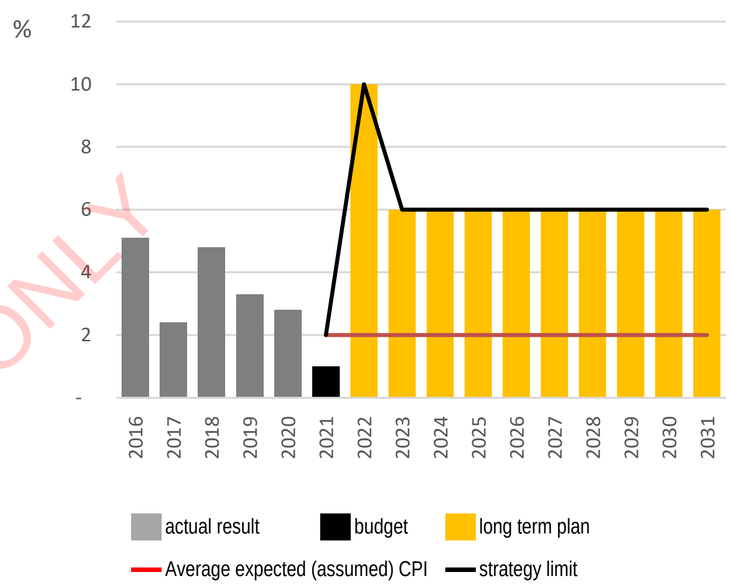
The challenge for this Council and community is to raise enough revenue to meet the current cost of providing services to the District and keep the Council in a sound financial position to face any challenges in the future.

This is particularly challenging in Year 1 of the LTP, where the proposed rates increase is 9.99%. This one-off increase is needed to make up for the reduction in rates income from last year, where Council sought to soften the immediate impacts of Covid-19.

From Year 2 onwards, Council proposes to keep rates rises at a level that allows it to address significant issues in deferred renewals, build up reserves for future projects, important community assets and emergency funds and ensure it meets increased legislative requirements and standards. While Council has budgeted prudently in the Plan, our proactive approach means that the headline rate increase for the next ten years will be higher than rate increases have been in previous years. We are confident, however, that this will put the district in a stronger position to meet the needs of our current and future communities.

All of the proposed average rate increases are within Council's policy limit of 9.99% in Year 1 and a maximum of 6% for Years 2-10, as demonstrated in the following graph:

Figure C-1: Rate increases



The increase in rates is required to:

Year 1 Fully funding Roading expenditure, a loan was used the 2020/21 year to lower the rates rise due to the impact of COVID-19. Expenditure on Economic development was reduced by 50% to help reduce the expected rate rise for 2020/21. Economic development expenditure has increased for 2021/2022 to begin to return it to pre COVID-19 levels.

Staff cost increase relating both to earlier underfunding and the impact of the minimum wage increase.

Year 2 Increase Stormwater renewals to address increasing deferred renewals. Increase costs of expanding the recycling collection to the wider district.

Year 3	Repayment of Loan funding for Roading used in 2020/21 to lower rate increase due to COVID-19.
Year 4	Lump sum increase in renewals for stormwater to reduce deferred renewals.
Year 5	Purchase of Land and initial design for new library facility. 1% of rates annual from year 5 to go into the disaster recovery reserve.
Year 6	Design and initial stages of Construction of the new Library facility.
Year 7	Construction of the new Library facility.
Year 8	Increase in Stormwater renewals of $50k per year to address deferred renewals. Construction of the new Library facility.
Year 9	Repayment towards short-term debt used for building of the new Library facility, fully funding Port Operations via rates and user Charges.
Year 10	Repayment of debt, including all remaining Port associated debt, the creation of a general reserve to help ease the costs of any future unplanned/emergency expense.

For rate increases to be lower, Council would need to:

- Continue to defer those issues identified above; and/or
- Cut expenditure with associated decreases in levels of service.

Note: The impact of any proposed rate rises will vary from property to property depending on the value of the property, what the property is used for and what targeted rates are applicable.

Figure C-2: Total Rate Revenue

Taking into account the strategy limit of rate increases to be no higher than 6% per annum from year two, the following graph illustrates total forecast rate revenue compared against the upper limit.

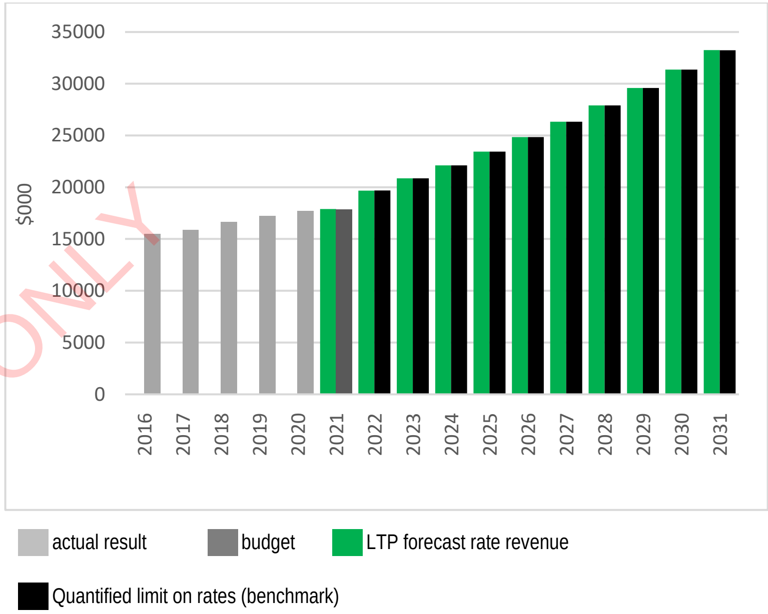
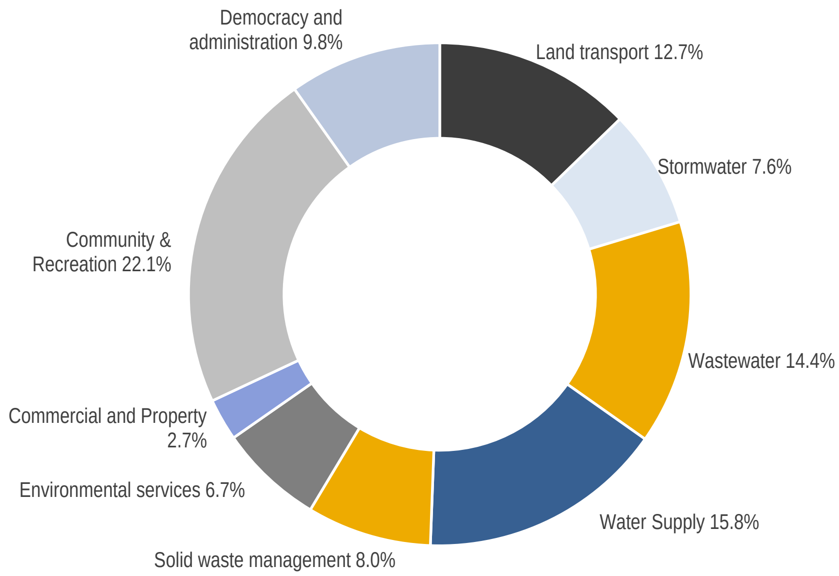


Figure C-3: How your rates are spent – total rates revenue 2022 - 2031



4.2 Reducing Annual Rates Deficits

Previously despite some recent actual financial results being an operating surplus for Council, when we exclude one-off capital grants the result would have been a deficit, Over the life of the Plan only year two is forecast as the result being a deficit over the remaining year of the Plan council has forecast a surplus.

These deficits are a result of Council not raising enough revenue to cover all expenditure, namely depreciation (refer to previous explanation of depreciation).

The following graph summarises the deficit surpluses for the life of the Plan.

Figure C-8: Council surplus/deficits – excluding one off grants for Capital Expenditure

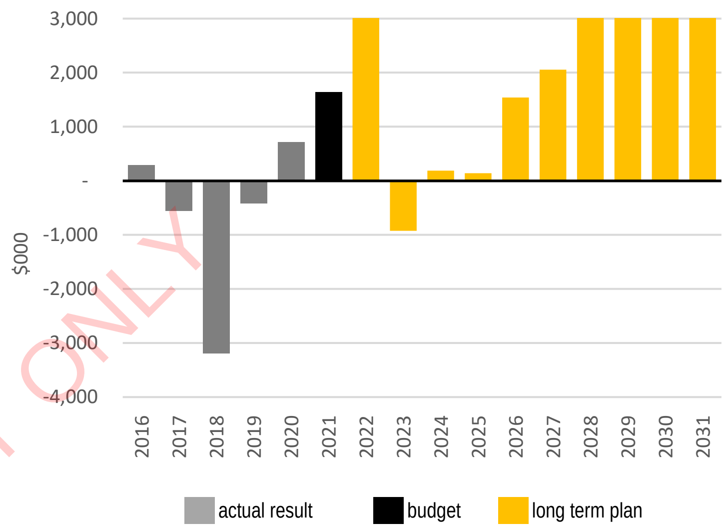
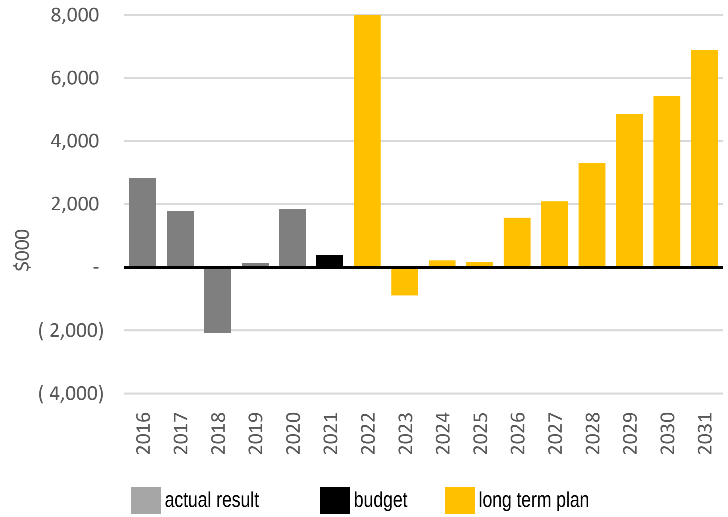


Figure C-9: Council actual surplus/deficits



In order to achieve a more consistent surplus over the life of the plan we have prioritised activities where additional funding is assessed as being more critical, namely

- Stormwater
- Land Transport
- Port

Other activities will continue to run in deficit, notably

- Westland Recreation Centre
- Water Supply
- Wastewater

We discuss each of these further below.

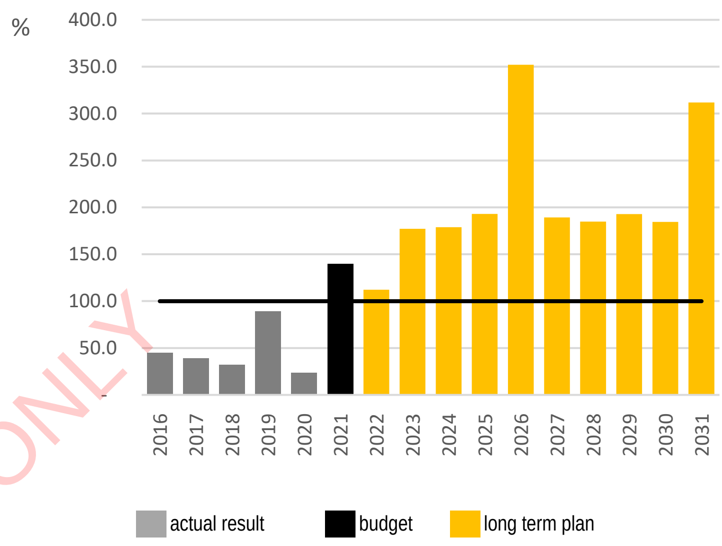
Stormwater

The 2018-2028 LTP addressed the annual deficit for this this activity by previously increasing rates input every year for the purposes of addressing the renewals backlog. This plan instead at year 2 increases the level of stormwater renewals to a level that fully funds the renewals moving forward. Year 5 has a one off boost for renewals, then from year 6 Council is planning on increasing rates input to this activity to address deferred renewals by the amount of $50,000 per annum, year on year, ie cumulative increases. It is noted there are pockets of significant deferred renewals in parts of the District and some areas are serviced by a reduced capacity reticulation, thus increasing the risk of flooding and damage to properties and businesses.

The below graph demonstrates the current funding deficit of the activity and how this will move to a position of funding surplus by year 4. Council will, from there on, raise annual revenue (ie rates) at a greater amount than total annual expenditure to allow it to address the renewals backlog that has been created whilst the activity has been under funded.

Refer to the Stormwater section in PART D: Infrastructure Strategy and PART E: What Council Does – Groups of Activities for more information.

Figure C-10: Depreciation funded for Stormwater activity



Land Transport

The financial assistance Council receives from the New Zealand Transport Agency (NZTA) has increased from 58% to the current rate of 63%.

There are 209 road bridges and large culverts[3] and a further 13 pedestrian bridges in the Grey District maintained by Council. Some key points to note are:

- There are 16 bridges that are posted at less than Class 1 (less than 44 tonnes allowable total load). A further 9 bridges have been identified as needing to be assessed based on their condition. This represents 12% to the total 209 road bridges and large culverts.
- There are 4 bridges with speed restrictions to lessen the impact of loads on the bridge.
- Together with other key criteria, increased emphasis is being placed on condition and capacity assessments to determined bridge replacements and strengthening works.
- There are 48 bridges (23%) that do not have the capacity to allow high productivity motor vehicles (HPMV's) to cross.
- Nine structures have been identified for priority seismic strengthening work.

In 2020 the Government set up a number of economic stimulus funds available for infrastructure projects including transport. Council received stimulus funding for replacement of the following bridges over the next two years:

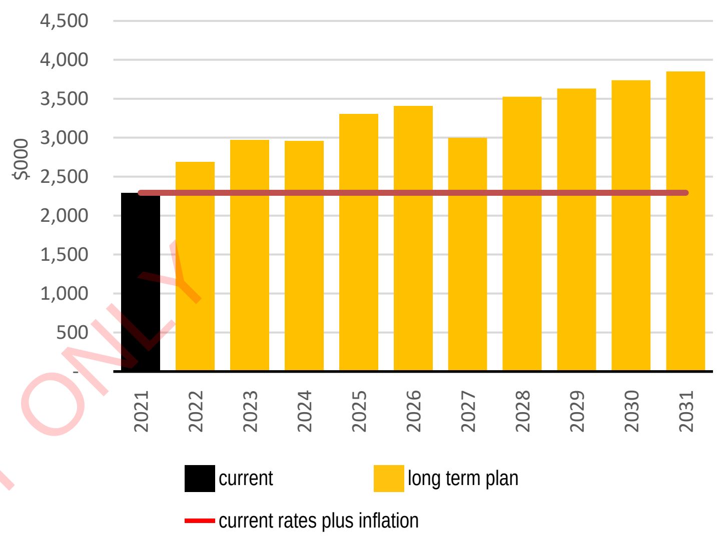
- Rough River Bridge – Atarau Road
- Moonlight Bridge – Atarau Road
- William Stewart Bridge – Taramakau River/Kumara Inchbonnie Road

Council is planning on increasing funding to this activity. The increased funding will be prioritised towards condition and service level renewals in bridges and pavement surfaces.

We have a number of bridges currently in our renewals programme. Works will be carried out over the next ten years as the funds become available, based on critical need and a prioritisation basis.

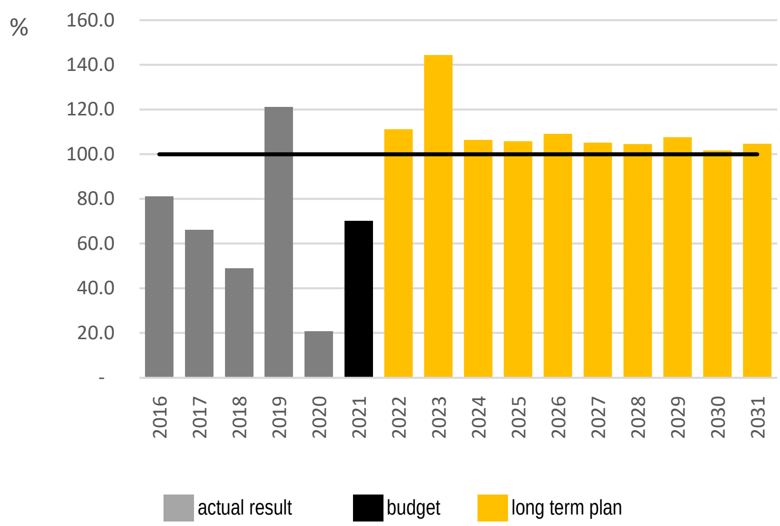
Several bridge replacements are signalled in our renewals programme. The proposed rate funding, relative to assumed inflation, is shown in Figure C-12.

Figure C-22: Proposed rate funding for Land Transport activity



Refer to the Land Transport section in PART D: Infrastructure Strategy and PART E: What Council Does – Groups of Activities to see detail of timeframes for addressing the renewal backlog.

Figure C-13: Depreciation funded for Land Transport activity

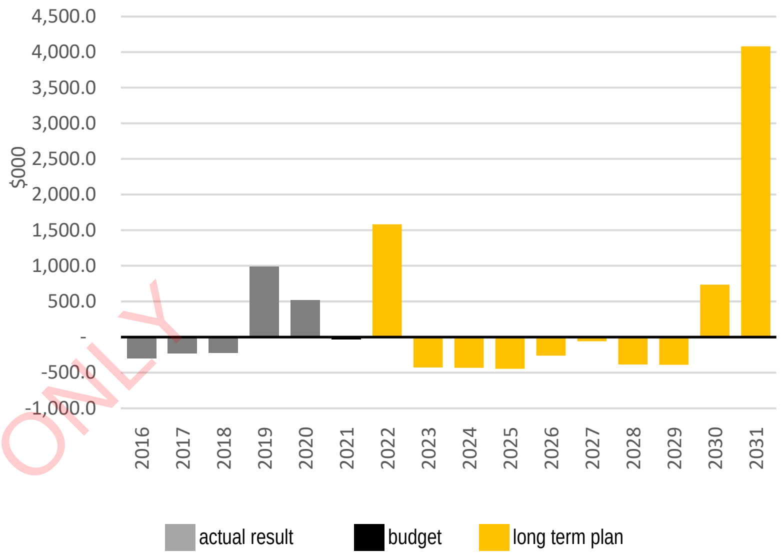


Port

For the last three Long Term Plans the Port has been signalled as a difficult challenge for Council and it continues to be so. The Port has run at a deficit for many years. Council has reduced its expenditure to what it believes is the minimum to still be able to operate, and has reintroduced rate funding to this activity to start addressing the Port deficits.

There has been significant investment in the port over the last 3 years with Council receiving government funding for a new dredge, Slipway renovations and renewal and replacement of some of the wharves with Floating Pontoons. The capital funding associated with the building of the dredge created a surplus over the 2018/19 and 2019/2020 financial years.

Figure C-34: Port surplus/deficit



The funding for the slipway project will create a surplus in year 1 of the Plan, continue to run at a deficit from year 2 until year 8 of this Plan. From Year 9 rate funding is increased to repay the debt associated with the operating of the port funded from short term borrowing. At this point council will then fully fund the port operation through rate and user fee input. With the decreased burden of no longer covering the costs of financing the debt on the operation, the rates input should begin to decrease beyond year 10 of this Plan.

Council intends to continue rate funding to this activity. There is also an expectation of additional revenue from port users due to the introduction of the new slipway, of approximately $10,000 per annum moving to $15,000 per annum (plus inflation). This increase is a conservative figure given that the renovations to the slipway and the effect that this will have directly on port revenue is relatively unknown at present. This is because final plans for the area have not yet been completed.

The rates revenue input into the Port starts at the current amount of $264,000 for years 1 to 4, with one off increases in year 6 to 10 varying from $436,000 to $4,800,000 to enable the operating debt to be repaid over the life of the plan. User fee revenue increases from current amount of $217,000 to $319,000.

While this doesn't balance the books until later in the Plan, Council considers this to be a prudent approach. This is because in the long term there will be a reduction in the operating costs of the port through a reduction of finance costs, which peak at $172,000 in year 9. This will allow that money in the future to be put back in to the port operation, thereby reducing its reliance on rate input.

Refer to the Other Transport section in PART E: What Council Does – Groups of Activities for activity information.

Westland Recreation Centre

These facilities have, in recent history, been funded from a mix of external contributions (grants and fundraising) and ratepayer input. The ratepayer input is by way of a loan funded over 30 years on the facilities.

Because a large part of the funding of these assets is generated from external sources, Council is not fully funding the depreciation on the basis that to replace these assets will require either one or more of the following in the future:

- An increase in revenue from rates.
- External fundraising from grants/donations per the original funding.

Given the current community is meeting the ratepayer input and was responsible for the external fundraising (which does not show as on-going annual revenue), Council is signalling that the depreciation will not be fully funded and therefore the activity budget is not balanced.

We are signalling to meet all the anticipated maintenance and renewal costs, as well as existing loan repayment commitments associated with plant items at the facilities.

Our financial strategy is that any future replacement will be almost entirely funded externally (like the existing facility), ie through fundraising, grants, and donations.

Water Supply

Over recent years Council has upgraded a number of water supplies to meet current drinking water standards. Unless there are unforeseen changes to regulatory standards (resource consent conditions at water takes or drinking water standards) or the schemes do not continue to meet current consent conditions, no major upgrades are expected in the next ten year period. The one exception is for the Greymouth scheme, where Council is replacing the old reservoir with four new reservoirs throughout the Greymouth area. This work began in 2020/2021 and Year 1 of the Plan shows the remaining expenditure on completing the new reservoirs, funded via subsidies from the Provincial Growth Fund and a Three Waters review grant from central government. Council is fully funding the construction of one reservoir via borrowing.

Significant condition assessments have been undertaken for our water supply infrastructure. They show that parts of the existing water supply pipe network are nearing the end of useful life and the age profile assessments also indicate that there is a backlog of deferred renewals which will need to be addressed in order to maintain existing levels of service. In addition to pipes, in the next 30 years other components of the water supplies will also need to be replaced, such as pumps and electrical control systems.

Council intends to address this by increasing rate funding to this activity from Year 3 onwards so that we can carry out the required renewals on a prioritisation basis. Council has also allocated $440,000 from the Government's Three Waters Reform stimulus funding to provide a one-off initial boost to the renewal programme in Year 1. Even with this investment, due to future renewals falling due on top of renewal backlogs, our Infrastructure Strategy identifies that is likely to take until about Year 24 to address the backlog in deferred renewals.

From 2022 onwards, there is likely to be a new regional entity responsible for delivering water supply and wastewater services in the Grey District and wider region. Stormwater will likely follow at a later date. At the time of preparing this strategy however, there is no specific proposal or format for any new entity around which community consultation can take place. Until this is further developed, Council has assumed that it will deliver water supply services over the life of the LTP, while acknowledging that this assumption has a high degree of uncertainty.

Refer to the Water Supply section in PART D: Infrastructure Strategy and PART E: What Council Does – Groups of Activities for further information.

Wastewater

Council has invested heavily in wastewater infrastructure with the installation of a new separated sewer reticulation and treatment facility for the Greymouth scheme ($38 million). Council has also completed the Taylorville, Dobson and Kaiata Scheme ($7 million), which will utilise treatment capacity at the new Greymouth treatment plant. All treatment plants were designed and constructed to meet environmental requirements as set out within resource consents and respective standards.

Council has received subsidies towards the schemes, with the balance of the costs funded from a targeted rate on the benefiting properties (via loan repayments). Because of the subsidies, the local communities are not paying the actual total cost of the schemes (if they had to it would be unaffordable). As a result these activities generate an annual deficit as the depreciation expense reflects the full cost of the new assets.

The targeted rate levied to repay the loan raised to meet the project cost will be repaid over a 30 year period, which will be before the assets need renewing. At this stage the intention is that a large part of the targeted rate will continue so as to start setting aside funds for the future replacement. That is, the funding raised for loan repayments required over the next 30 years will, once the loans are fully repaid, continue to be raised and transferred to asset replacement reserves. In summary, it is forecast for the activity to return to a balanced budget in the medium term.

From 2022 onwards, there is likely to be a new regional entity responsible for delivering wastewater services in the Grey District and wider region. At the time of preparing this strategy however, there is no specific proposal or format for any new entity around which community consultation can take place.

Until this is further developed, Council has assumed that it will deliver these services over the life of the LTP, while acknowledging that this assumption has a high degree of uncertainty.

Deferred renewals

As part of the 2015-2025 Long Term Plan, Council commissioned condition assessments to be carried out on our wastewater network. While there are some deferred renewals in the Wastewater activity, deferred renewals in the water supply and stormwater activities are considered bigger priorities than wastewater at present. There is no planned increase in rate funding to this activity until year 7, where renewals work will receive additional funding.

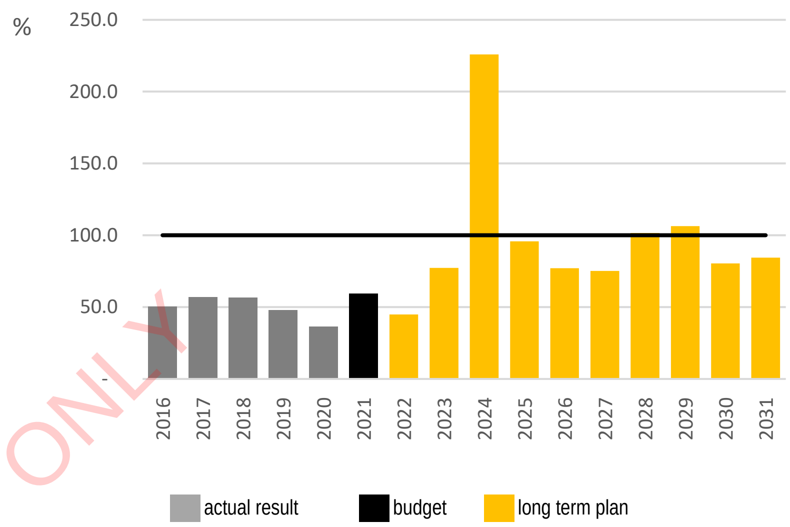
The profile of deferred renewals for Stormwater, Water Supply and Wastewater is detailed in the Infrastructure Strategy. This funding strategy will be reviewed periodically, at a minimum as part of each future LTP.

Runanga/Dunollie sewerage scheme

The Runanga wastewater network failed earlier than expected due to a combination of poor material and adverse ground conditions (ie high water levels). Major parts of the network require replacement.

These works continue to be addressed in this LTP, with the worst affected areas prioritised first.

Figure C-45: Depreciation funded for Wastewater activity



Refer to the Wastewater section PART D: Infrastructure Strategy and PART E: What Council Does – Groups of Activities to see detail of timeframes for addressing any renewal backlog.

4.3 Debt

Council proposes to borrow to fund a number of significant projects over the term of the LTP. These include three waters infrastructure renewals and replacements, creating a new access for heavy vehicles to the Port of Greymouth, construction of a new cell at McLeans Landfill and the replacement of our library with a fit-for-purpose new building. More information on Council's proposals for these activities can be found in PART E: What Council Does – Groups of Activities.

Council's debt is expected to be $33.9 million on 1 July 2021. This is a modest level of debt for a council of our size and is set to rise over the first eight years of the 10-Year Plan to peak at $42.6 million, with outstanding debt at year 10 to be at $29 million. A significant contributor to the increase in debt is the need to ensure our assets are renewed or replaced, to manage risk and to maintain levels of service. The cost of servicing the forecast debt and the assets we build is built into our forecast rates increases.

Council's approach is to reduce debt over the life of the plan, to allow Council to put funds previously allocated to servicing of debt into operational activities or reserves to help fund projects in the future with cash reserves rather than debt.

Long term, the Council's approach is to reliance on debt funding with a view to increase reserves to allow major projects to go ahead without the need for debt funding in the future. Therefore over the life of this plan some debt funding has been used as a short term measures i.e. less than 36 months.

This approach allows council to achieve renewal or replacement of assets with shorter term loans and due to the current lower costs of funds allowing greater principal reduction to pay off debt earlier. Council has determined that our net external debt limit is prudently set at 175% of total revenue.

Over the term of this LTP we will borrow over two loan terms:

Short term (36 months or less) for:

- Construction of the New Library Facility.

Longer term (10 Years) for:

- Increases in Stormwater capacity
- Heavy Vehicle Access Route for the Port
- New Animal Pound
- Water Reservoir
- McLeans Pit New Cell Construction and Hardfill site
- Bridge Renewals

We are comfortable with the level of debt Council plans to hold and there is still capacity to borrow if required for unforeseen events or emergencies. Some examples where we may need to increase our debt includes:

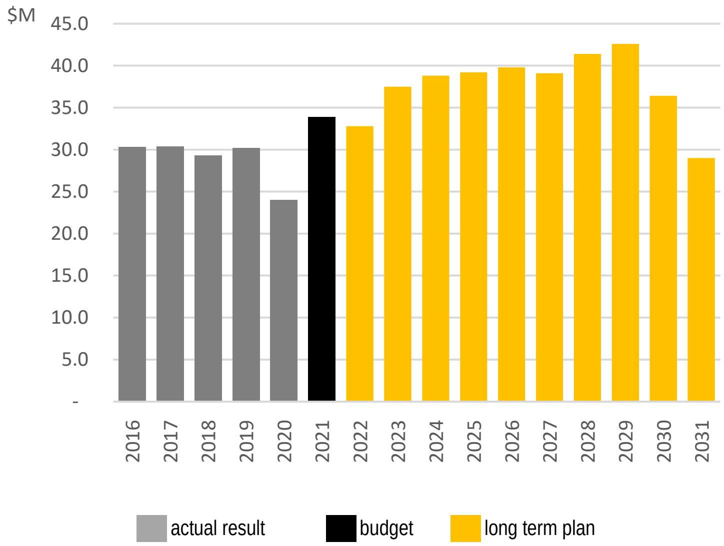
- Unforeseen infrastructure works, ie critical failures.
- Sudden changes in standards we must comply with, ie increases in Drinking Water Standards following the Havelock North Water Inquiry.
- Emergencies, ie natural disasters etc.
- Smoothing the financial impact of large renewal expenditure, e.g. bridge replacements.

Renewals and operating expenditure are not funded by new borrowings, apart from the following exceptions:

1. Roading bridge renewals. Individual bridge replacements can be costly for the larger bridges, and in some cases the cost of one bridge replacement can exceed our total renewal budget for all of land transport. In these cases Council will loan fund the cost, repaying the loan over a relatively short period (i.e. 10 years). This is to spread the cost over a few years, smoothing out the rate revenue required from year to year.
2. Port operating deficits. This Plan changes the existing strategy of funding the port deficit through short term borrowing. For many years Port deficits were funded via proceeds from land sales and no direct rate revenue input. With the proceeds from sale of land being a diminishing resource, Council was required to address the issue by introducing a rate revenue input into the Port, as well as increasing the revenue input of Port users. Over the life of this Plan, in the short term, the deficit is funded from short term borrowing, until year six where rate funding is increased and by year 10 the port debt will be fully repaid with the expectation that moving forward the port will be fully funded via rates and user charges.

Given our capital programme, debt levels will increase in the next eight years from $33.9m in 2021 to $42.6m in 2029. By completion of the plan debt will be reduce to $29m in 2031.

Figure C-4: Total overall debt



Borrowing limits

Council sets borrowing limits in its Liability Management Policy, which set out the levels of debt that Council is willing to extend to on behalf of the community. These policy limits are set on the basis that it remains well within the parameters that Council feels is sustainable, especially those that relate to the on-going annual commitment to meet loan repayments into the future. Council remains within the borrowing limits of its policy during the term of the Plan.

The following two graphs illustrate the impact of the forecast borrowing in this Plan against the liability policy limits.

Figure C-5: Debt servicing (finance) costs as a percentage of total revenue

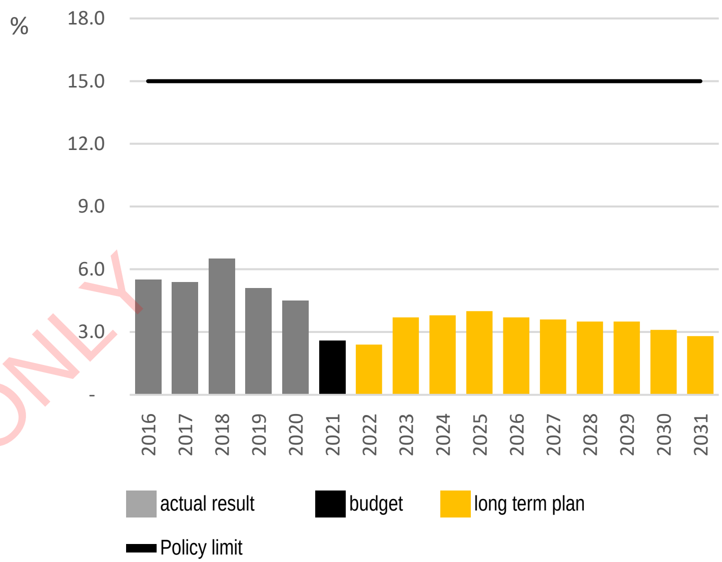


Figure C-6: Total debt per ratepayer

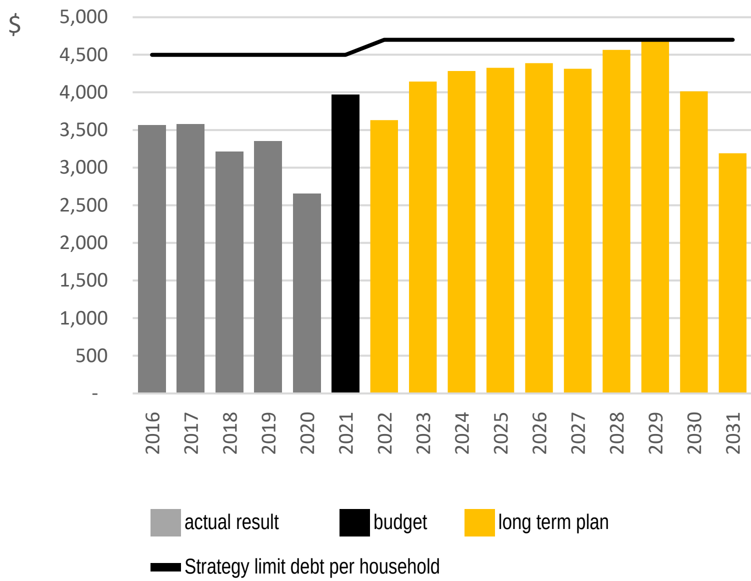
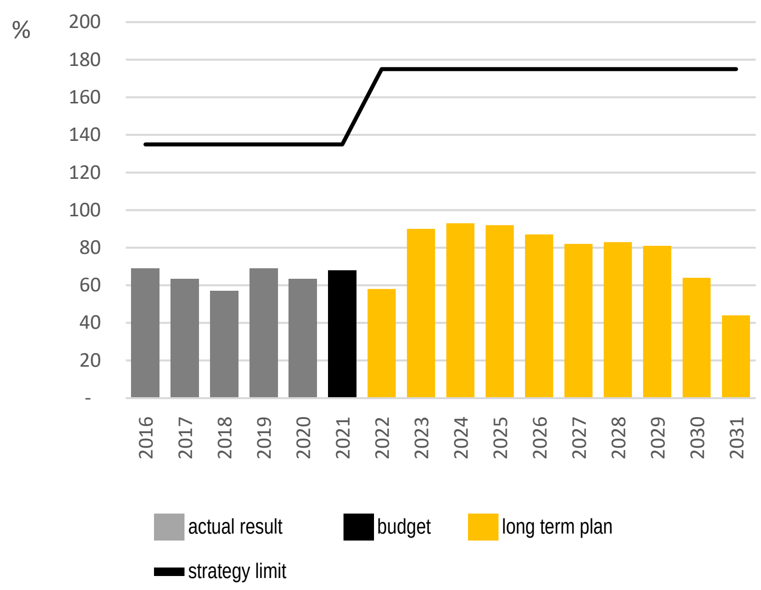


Figure C-7: Net debt as a ratio of total revenue



In the event of a significant unforeseen event (such as a natural disaster), it is possible Council will be required to borrow money that will push it outside its policy limits (particularly the 'total debt per ratepayer limit'). Council's view is that these limits are relatively conservative to purposely allow it to be in a position to exceed them in an unforeseen emergency.

Policy for giving of securities for Council borrowing

Council will use a charge over rates as security for the debt it enters into.

Other key financial data related to debt in this Plan

Total new loans borrowed in the ten years of this plan	$ 23.7 million
Total debt repaid in the ten years of this plan	$ 25 million
Total finance (interest) costs in the ten years of this plan	$ 13 million

Summary

The Strategy Council is proposing in this Plan is what Council believes best strikes a balance between the required levels of investment to continue to provide the current levels of service with the community's ability to pay. If the funding doesn't increase and Council increase the investment into renewals, then levels of service would decrease as well as the likelihood Council would need to increase what it spends on maintenance. With the increased investment of renewals, current levels of maintenance expenditure are expected to continue given the Council is still carrying a significant level of deferred renewals for 20 years plus.

5 Impact on level of service

5.1 Changes to levels of service

Council provides our community with good quality local infrastructure and local public services as well as cost effective regulatory functions, in order to promote the social, economic, environmental, and cultural well-being of our communities, both present and future. This financial strategy is designed to largely maintain the current levels of service, facilities and regulatory functions provided by the Council, with the exception of those services outlined below.

Subject to the outcome of consultation, areas where we may increase levels of service are:

- Extension of the kerbside refuse and recycling collection outside the greater Greymouth area.
- Building a new library facility in Greymouth.
- Specific stormwater and roading upgrade projects.

Also subject to consultation, Council is considering the future of Spring Creek pool and whether to maintain its involvement given the ongoing cost to the ratepayer and the proximity of the Greymouth Aquatic Centre as a district facility. Council is also consulting on the future of the Runanga Service Centre and Community Library. Options include maintaining the service centre as currently funded through the general rate, closure of the service centre, offering the service to another agency to provide, or funding the operation of the service through a targeted rate.

Depending on the outcome of consultation on those matters, there may be changes to levels of service provided by the Council.

5.2 Maintaining levels of service

Council has an extensive level of information about its significant assets. Council is continually looking to improve the quality and accuracy of the information we have. This information is contained in separate Activity Management Plans (AMPs). The AMPs also contains detailed service level information such as network condition and capacity, response to service requests and criteria for maintenance, renewals and upgrades. Council uses this information to plan the required level of operational input required and maintenance of assets required to maintain the current level of service.

A large part of the asset maintenance is delivered through contracts to external parties. A challenge for Council is to continue monitoring of the contracts to ensure that the best value is delivered, and to gain efficiencies wherever practical. This Plan assumes that the contracts will be able to be renewed or re-let at a cost within the predicted levels of inflation.

Given Council's strategy to address the deferred renewals over 20+ years, there is an on-going risk present that assets will fail before they are replaced. This risk reduces over time as Council clears the deferred renewals.

5.3 Capital expenditure to maintain levels of service

As stated, Council has an extensive level of information about its significant assets in Activity Management Plans (AMPs). Council uses this information to plan the required level of renewals required to maintain the current level of service.

Council is signalling in this Plan to spend:

	This LTP	***As signalled in previous LTP***
Replacing and renewing assets	$ 115.7 million	*$ 81.3 million*
Building new assets	$ 17.7 million	*$ 4.4 million*
TOTAL	$133.4 million	*$85.7 million*

The detail of this is contained in PART E: What Council Does – Groups of Activities.

6 Other funding sources

6.1 Investment revenue

Council holds a number of investments, the majority of which are associated with Special Funds that are held for specific purposes. Council takes a conservative/low risk approach in investing these funds. Council's principles determining how we invest funds are:

- Optimise investment returns while balancing risk and return considerations.
- Ensure that investments are liquid and sufficiently flexible.
- Diversify the mix of financial investments.
- Managing potential capital losses as a result of interest rate movements.
- Providing for termination of investments before maturity if deemed necessary.

Council's total investments are detailed in the balance sheet.

As the majority of the investment returns are returned to Special Funds (reserves), the returns are not directly related to the funding of Council's day to day expenditure. How these investments perform, whilst important, does not directly relate to Council's Financial Strategy on funding the costs of providing the levels of service detailed in this Plan.

Council will retain a minimum level of investments at any one time that we believe would be required in a medium to large scale emergency event to meet any immediate cash flows required to supply resources.

6.2 Asset sales

In the last 20 to 25 years Council has sold many of its assets that were not held for any direct strategic purposes, ie not used as part of delivering Council services. The majority of these sales relate to freeholding of leasehold sections that Council owned. This also aligns with Council's policy of encouraging private freehold ownership of these properties. Where the sale involved 'harbour endowment' land, the proceeds were used to fund Port deficits.

The availability of such assets for sales has now significantly reduced, along with a decreased likelihood of the remaining assets being sold. Council is not considering the divestment (sale) of any other asset classes.

For the purposes of this Plan, Council has signalled negligible return from the sale of assets and therefore there is no impact to Council's Financial Strategy on funding the costs of providing the levels of service detailed in this Plan.

6.3 Council's insurance cover and resilience

Just as many individuals and business owners have experienced recently, Council has had a challenges in recent years to:

- Place insurance cover on our assets
- Fund the required cover

Pre the 2010 and 2011 Canterbury earthquakes, Council was spending a total of approximately $240,000 per annum to place cover on the majority of insurable risks (buildings and contents, underground pipes, plant, and liabilities). In 2020/2021 similar cover is budgeted to cost approximately $873,000. This includes Council reducing the amount of cover on any assets that may not be replaced after a total loss.

Some of our insurance policies also have increased excesses (deductibles) in the event of an earthquake. This means in the event of a claim post-earthquake, we will have to meet a greater share of the cost before we can claim on our policies.

In 2011 Council increased the funding in its 'Disaster Recovery Reserve' to part address this possibility. Council has used this reserve from time to time to fund responses to and recovery from emergency events. From year 5 of the plan 1% of rates will be put into the reserve to ensure council is well prepared for any event in the future.

For the purposes of this Plan, we have assumed that our insurance cover will continue to cost a similar amount, with modest savings to be achieved from partaking in a wider buying group of NZ local authorities for insurance brokerage and insurance placement.

These costs are met from a mix of rates and user fees depending on the activities involved (refer to the Revenue and Financing Policy later in this document).

The likelihood of a natural disaster during the life of this Plan would be assessed as more than likely. The District has dealt with a number of smaller scale events in recent years (Greymouth tornado 2005, Cyclone Ita 2014 and a number of floods etc). Council has planned to deal with such events as a part of normal day to day business. Funding of responding to a larger scale event would need to be dealt with by a combination of:

- Special funds set aside (particularly the *Disaster recovery reserve*)
- External assistance (such as NZTA financial assistance)
- Borrowing
- Increasing rates and other revenue over and above what is signalled in this Plan

7 Statement concerning balancing the budget

Council has proposed a budget under this Plan that does not balance in all years (a balanced budget is considered one where each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses). Specifically the summary is as follows, with those years in deficit considered an unbalanced budget. It is also fair to say that without subsidies received for capital projects in year one that these years would also run at or close to a deficit.

As outlined previously, Council is not fully funding the depreciation expense for all activities. Council, for this Plan, has set its revenue to cover all the actual money needed to be spent to provide the levels of service as detailed throughout the plan. This includes the replacement and renewal of assets where required.

The below table summarises the deficit the Council is budgeting for in each year of this ten year plan. Also identified are the major items of expenditure that Council has chosen to not fully fund.

	2021	2022 LTP Year 1 $000	2023 LTP Year 2 $000	2024 LTP Year 3 $000	2025 LTP Year 4 $000	2026 LTP Year 5 $000	2027 LTP Year 6 $000	2028 LTP Year 7 $000	2029 LTP Year 8 $000	2030 LTP Year 9 $000	2031 LTP Year 10 $000
Total revenue	34,082	42,402	32,233	34,041	34,493	36,099	37,700	39,491	41,619	43,530	45,679
Total operating expenditure	33,691	33,235	33,127	33,824	34,320	34,526	35,611	36,190	36,752	38,090	38,786
Net surplus / (deficit)	391	9,167	(894)	217	173	1,573	2,089	3,301	4,867	5,440	6,893
FINANCIAL PRUDENCE OF FORECAST UNBALANCED BUDGET											
Items being addressed over the longer term as a part of the financial and infrastructure strategies											
Land transport depreciation (part of)	(1,352)	-	-	-	-	-	-	-	-	-	-
New Wastewater schemes depreciation (part of)	(428)	(830)	(239)	1,370	(46)	(251)	(289)	17	74	(249)	(198)
Port deficits	(31)	-	(429)	(434)	(446)	(262)	(60)	(387)	(390)	-	-
Items specifically not funded											
Greymouth floodwall depreciation	(6)	-	-	-	-	-	-	-	-	-	-
Stadium depreciation	(42)	(515)	(991)	(1,019)	(996)	(997)	(1,056)	(1,011)	(1,030)	(1,081)	(688)
Net surplus / (deficit) - excluding the above expenditure items not funded	2,249	10,512	765	301	1,661	3,083	3,494	4,682	6,213	6,770	7,778

7.1 Why is Council not fully funding this expenditure in this plan?

Land transport depreciation (part of)

As outlined in Council's Infrastructure Strategy, Council's current renewal investment (expenditure) is less than the annual depreciation expense. Council raises revenue (rates and NZTA financial assistance) to fund the renewals and given depreciation is higher than renewals, this activity subsequently runs at a loss (deficit).

Council is increasing the revenue (rates) applied to the Land Transport activity over the life of this Plan and the strategy is that this increase will continue beyond this Plan until the activity is fully funded and the backlog of renewals is dealt with.

This is a longer term strategy that Council aims to balance the needs of continuing to provide the current levels of service balanced with the community's ability to pay (affordability).

New Wastewater schemes depreciation (part of)

This is a significant sum of expenditure that Council has chosen not to fully fund during the life of this Plan.

Council has invested heavily in upgrading and building new schemes in the last few years, namely:

- Blackball
- Greymouth
- Taylorville/Dobson/Kaiata

Council has received subsidies towards the schemes, with the balance of the costs funded from a targeted rate on the benefiting properties (via loan repayments). Because of the subsidies, the local communities are not paying the actual total cost of the schemes (if they had to it would be unaffordable). As a result these activities generate an annual deficit as the depreciation expense reflects the full cost of the new assets.

If Council were to raise sufficient revenue (via rates) to fully fund the depreciation expense then effectively the current community would not receive any benefit from the subsidies received.

Council believes this approach to be prudent as it:

1. Continues to address all the required wastewater renewals over the next ten years; and
2. Once the funding for stormwater and water supply renewals has been fully addressed, Council intends to start diverting this funding towards wastewater renewals, which will bring the activity into surplus over the long term.

Port

The Port has run at a deficit for many years and continues until year 9 of the Plan. Council is proposing to increase ratepayer input into the Port and get an increased contribution from the fishing industry. Cash shortfalls in years one to eight will be met from Council borrowing, with the increases in revenue and rates used to repay debt from year six onwards. Council considers this the most prudent approach.

Sports Stadiums depreciation (part of)

The Westland Recreation Centre/Grey District Aquatic Centre and upgraded Spring Creek Pool (Runanga) were funded largely from external fundraising and donations.

If Council were to raise sufficient revenue (via rates) to fully fund the depreciation expense then effectively the current community would not receive the benefit from the successful fundraising to build/upgrade the new facilities.

Summary

Council has decided, for the purposes of this Plan, that to accumulate these deficits is the most prudent approach, in that it strikes a balance between what the community can afford as well as meeting the needs of both the present and future communities. As outlined previously, the options to reduce these deficits are largely limited to increasing revenue from rates. Accumulated deficits will need to be addressed by Council operating in surplus beyond the life of this Plan.

This Plan sets out that, over the longer term, Council will fully address the backlog of renewals. As set out in this document, when this happens will differ between Council asset classes of Land Transport, Stormwater, Water Supply, and Wastewater. This is based on Council prioritising which renewals should occur ahead of others and when, for example, the backlog of stormwater renewals has been fully addressed, more funding will be focussed/diverted towards water supply and wastewater renewals.