DRAFT
FINANCIAL STRATEGY
2021–2031

Ka tupu te purapura ka ora to Aorere

Planting the seeds for Tasman's future

tasman district council | Te Kaunihera o te tai o Aorere

DRAFT FINANCIAL STRATEGY

EXECUTIVE SUMMARY – INCREASING FINANCIAL CAPS TO PLANT THE SEEDS FOR TASMAN'S FUTURE

Over the next 10 years we will be responding to our growing population, renewing assets as they wear out, adapting to climate change, enhancing the quality of freshwater, improving our drinking water, wastewater and stormwater infrastructure and completing the construction of the Waimea Community Dam. To help Tasman recover from the effects of the Covid-19 pandemic, the Council will continue to maintain services and invest in new projects.

We have maintained low rates revenue increases (below 3% per annum including 0% rise in 2020/2021) since 2015 and managed our net debt levels below $200 million. That approach is unsustainable in the medium to long term. Now it is time to invest for the future. In order to fund the Long Term Plan (LTP) 2021 – 2031, our annual rates revenue rises cap will increase to between 4.5% and 7.0%. Similarly, the Council's net debt cap will increase to $260 million.

By 2031, we anticipate the benefits from the investment Council makes now will start to be realised. The District will have improved drinking water systems. There will be fewer wastewater overflows in wet weather. The water in the District's rivers and streams will be cleaner and healthier. The availability of land serviced with infrastructure, both greenfield areas and for more intensive living in existing urban areas, will have kept pace with our increasing population. By 2031, the Council plans to have been fully funding renewals through depreciation[1] since 2024/2025, to ensure that current users of infrastructure pay their fair share of the costs of wear and tear on assets. The Council's debt will still be well controlled, serviceable through our income streams and will keep interest payments manageable. Debt headroom will be available to respond to emergencies such as those caused by natural hazard events.

THE LAY OF THE LAND

LARGE DISTRICT WITH DISPERSED POPULATION CENTRES

Tasman District Council serves a dispersed population in a large District. There are 15 main settlements with many more people living in rural areas, across 9,635 km^2. We have a small rating base to fund the significant amount of infrastructure required to service this area, including 1,751 km of roads[2]. Multiple, separated centres of population means we supply infrastructure to serve the same purpose in a number of different locations and often use varying technology and methods based on the size and topography of the areas concerned. As a result, the cost per household is higher than for larger, more concentrated areas like Nelson City.

MODEST RATES INCREASES OVER RECENT YEARS

[1] Fully funding depreciation needs to be understood with regard to the following; we do not rate for renewals on the 51% of roading asset network funded by Waka Kotahi/New Zealand Transport Agency; some assets will not be replaced by the Council because they are no longer required; renewals for some activities are funded directly from rates or fees and charges.

[2] Transportation Activity Management Plan 2021

Over the past six years, rates revenue increases have been maintained below 3% per annum and in 2020/2021, the Council opted for a 0% rate revenue increase in recognition of the financial hardship many households were likely to experience as a result of the economic impacts of the Covid-19 pandemic.

The Council set itself a net debt cap of $200 million in 2015 in consultation with the community. This cap was retained in 2018 and the Council's debt has remained below this level until and including 2020/2021. Taking into account the effect of inflation, the debt limit has been a sinking lid in real terms as was intended at the time. We are forecasting our net debt to be $189.7 million at 30 June 2021. We have planned to keep borrowing well inside prudential limits[3] and debt has been less than anticipated in recent years.

Interest rates are currently very low in part in response to the economic impact of Covid-19. The Council has a strong credit rating (Standard and Poors AA- with a negative outlook) enabling access to borrowing at lower interest rates. However, paying interest and repaying loans is part of what puts pressure on the level of rates. While current borrowing rates are low, they are likely to increase in the future. This will affect future rates as the Council borrows long term to fund its activities.

PLANTING THE SEEDS FOR TASMAN'S FUTURE

The Financial Strategy aims to support our work to make our vision a reality, i.e. *working together for thriving and resilient Tasman communities*.

In particular our Financial Strategy supports the LTP 2021-2031 in its intent to progress the Council's strategic priorities:

- A healthy and sustainable natural environment
- Strong, resilient and inclusive communities
- Enabling positive and sustainable development
- Contributing to a diverse society and celebrating our culture and heritage
- A high standard of service

This Financial Strategy enables the Council to invest in areas that will deliver benefits in the future and be well positioned to assist the District to respond to any remaining economic impacts from Covid-19.

PROVIDING FOR GROWTH

The District's population has increased significantly in recent years and we expect this growth to continue. We anticipate the overall population of Tasman will increase by 7,700 residents between 2021 and 2031, to reach 64,300. Based on these figures, we are planning for a further 4,300 dwellings[4] and 160 new commercial or industrial buildings. The ongoing housing growth creates demand for additional capacity in our infrastructure, particularly in those areas with higher growth (Richmond,

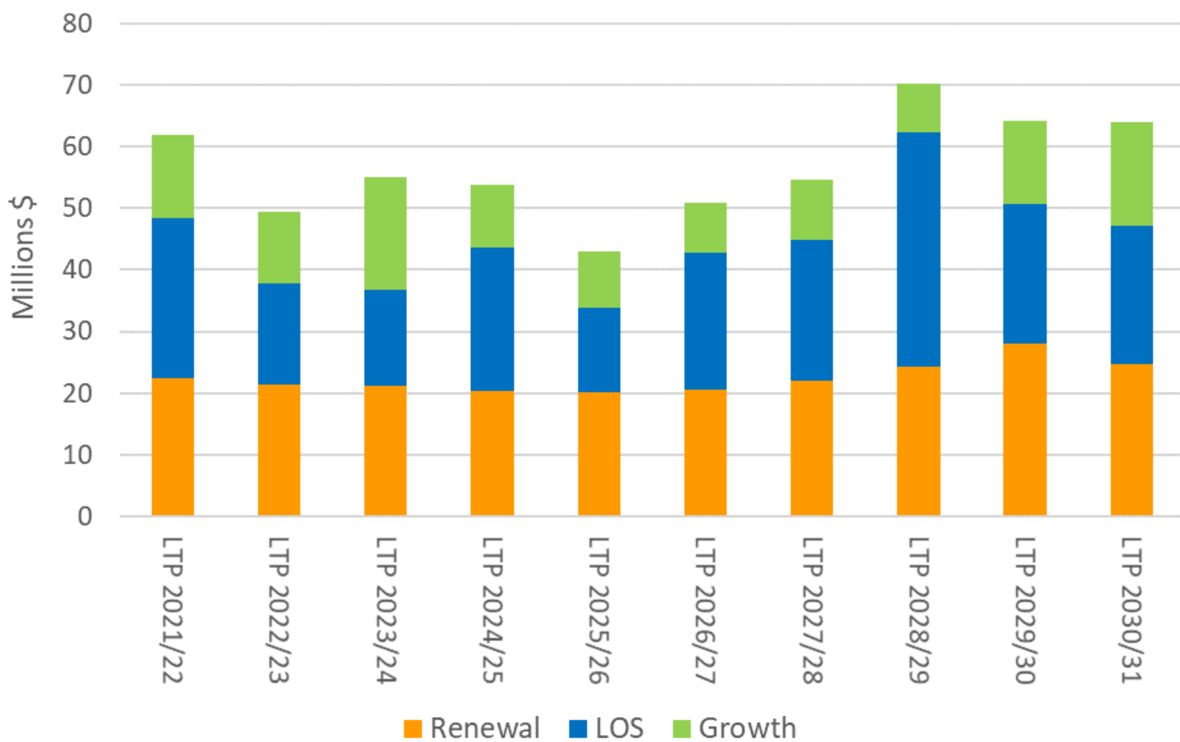
[3] The amount the Council could borrow without exceeding one of its financial regulation benchmarks as specified in the Local Government (Financial Reporting and Prudence) Regulations 2014.
[4] This figure for new dwellings has considered the impact of the ageing of the population on increasing housing demand by reducing average household size.

Motueka, Brightwater, Māpua and Wakefield). Tasman is the second least affordable region to buy a house in the country (behind Auckland) taking into account the cost of borrowing, as well as house prices and wage levels[5]. If land serviced by infrastructure does not keep up with demand, housing affordability will decline further.

We plan to invest in the infrastructure required to provide for growth. We will borrow to fund the work, and repay the debt primarily through levying development contributions[6] over several years. The chart below indicates the planned capital expenditure to respond to growth over the 10-year period. It should be noted that many infrastructure projects have both a growth and a service improvement component.

The proportion of Tasman's population aged 65 years and over is projected to increase from 21% in 2018 to 29% by 2031. The ageing population is likely to mean more residents on limited incomes and with disabilities and health issues. This in turn will increase demand for more accessible footpaths, seating and toilets, and a need to adapt the way information and services are provided.

Chart 1: Infrastructure Capital by year by Type



[5] Massey Home Affordability Index as quoted in National Policy Statement on Urban Development Capacity, Nelson-Tasman Monitoring Report July 2019-June 2020.
[6] Development contributions are a fee charged for new development to contribute to the costs of building the infrastructure that supports them.

Note: The total funded capital amount is lower than the sum of the renewal, levels of service and growth capital because for the Water, Wastewater, Stormwater and Rivers activities we have made an overall downward adjustment to the capital programme of 10% per year. This adjustment accounts for uncertainties in scope risk and programme delivery.

Other than the conversion of land to residential and business use to accommodate growth, the Council is not aware of any other substantial changes in the use of land in the District that will materially affect our capital or operating costs.

RENEWING AGEING INFRASTRUCTURE

The Council is responsible for $1.31 billion worth of infrastructure assets (as at June 2020). These assets have a finite period in which they will operate effectively. Once the useful life of an asset is reached, the asset will usually require renewal or replacement. A lot of Tasman's infrastructure was built between circa 1950s and the 1980s. To date, this has meant that the Council has largely had to renew assets with relatively short useful lives and that most of the longer life assets are yet to be renewed.

For the period of the LTP 2021-2031, we expect to continue to invest in the renewal of assets based on the age of the assets and their expected useful life, effectively creating a stable baseline for renewal investment. We have been continuing to invest in better understanding the condition of our assets to optimise our renewal programme.

Beyond the life of the Council's Infrastructure Strategy, considerable renewal of bridges and pipes will be required with a substantial financial impact on the Council and community. We need to plan well ahead of time in order to manage and fund this step up in renewal activity.

RESPONDING TO CLIMATE CHANGE

The Council adopted a Tasman Climate Action Plan[7] in 2019 with the following goals:

- Council contributes to New Zealand's efforts to reduce greenhouse gas emissions (including net carbon emissions)
- Tasman District becomes more resilient to the impacts of climate change
- The Tasman community is informed of climate change actions and options for response, and
- Council shows clear leadership on climate change issues.

In the LTP 2021-2031, Council assumes it is not possible to reduce the mid-century warming, due to the amount of carbon dioxide already accumulated in the atmosphere – i.e. that the projections for mid-century are already 'locked in'.

Because of climate change, natural disasters will occur with increasing frequency and intensity. For low lying coastal land there will be increasing inundation and erosion from sea level rise and storm surge. Adaptation can help reduce the District's vulnerability and increase its resilience to natural hazards.

[7] https://www.tasman.govt.nz/my-region/climate-change/what-is-council-doing/#e2520

The Council recognises that it has a role in working to reduce its own greenhouse gas emissions where cost effective and to encourage other individuals and organisations in the District to do likewise.

In the LTP 2021-2031 we have included funding for projects that will contribute to meeting the goals in the Tasman Climate Action Plan. In most cases, funding is embedded in the Activity Management Plans for the activity concerned.

Of particular note, the LTP 2021 – 2031 includes:

- higher budgets for implementing the Waste Management and Minimisation Plan
- budgets to implement the Active Transport Strategy
- more investment in public transport
- increased funding for energy efficiency initiatives
- funding for tree planting that will help store carbon
- provision to undertake an assessment to identify the vulnerability of critical infrastructure to natural hazards and climate change
- resources to continue work on the coastal management responding to climate change project looking at long-term adaptive planning for sea level rise and coastal hazards
- plans to investigate options for a more agile response to biosecurity and pest management issues, and
- funding for annual monitoring of Council's greenhouse gas emissions.

IMPROVING THE QUALITY OF OUR FRESHWATER

The quality of freshwater has been a high profile issue in recent years. The quality of the water in Tasman's rivers and lakes is high compared with most parts of New Zealand. However, water quality is under threat from adjacent land uses.

Nationally, central government has introduced a number of regulatory instruments aimed at improving freshwater which require the Council to take additional action. In the LTP 2021-2031, we plan to invest in further resources to work alongside the community to meet the enhanced regulations and further improve the quality of the water in the District's rivers and streams.

REFORM OF THE RESOURCE MANAGEMENT ACT

Central Government has signalled its intention to reform environmental/planning legislation. Whilst some very high level directions for this legislative change have been signalled, the details and implications for Council are not yet known. The final form of the legislation could have substantial impacts on Council's organisation and resourcing. However, until the legislative changes are further developed it is difficult to predict the extent and nature of those impacts.

In our Financial Strategy we have budgeted for Council's obligations and responsibilities for environmental management continuing to the existing extent and in the current form. We have provided for the review of the Tasman Resource Management Plan and its replacement with a new Tasman Environment Plan.

When the implications of the reforms of the legislation and its implications for Council are better understood, it may be necessary to make changes to our planning through an Annual Plan or future edition of the LTP.

CONTINUING TO IMPROVE THE THREE WATERS (WATER SUPPLY, WASTEWATER AND STORMWATER)

Central government has identified concerns about drinking water, stormwater and wastewater (the three waters) across the country in recent years. In August 2020, the Council entered a memorandum of understanding to engage in the first stage of the Government's three waters reform programme and is benefitting from Government funding of $9.78 million towards a number of water supply and wastewater projects. Subsequent stages of the reform programme will consider the possible transfer of assets and liabilities or the establishment of new water entities.

The Government has introduced higher regulatory standards through the New Zealand Drinking Water Standards. The Council has increased its investment in improving the quality of drinking water in recent years and plans to further invest to meet the higher standards in the LTP 2021 – 2031. To ensure that all residents on water supply systems receive safe and reliable drinking water we will continue to invest substantially in infrastructure, regardless of uncertainties about the outcomes of the three waters reform programme.

Our investment in wastewater aims to provide for growth and improve environmental outcomes. To meet higher environmental regulatory standards and help ensure wastewater does not contaminate freshwater, we will provide increased emergency storage and work to reduce stormwater inflows (which overrun the capacity of the systems in wet weather).

The Council will invest in stormwater modelling and catchment management planning to identify integrated solutions to a variety of issues, such as flooding, contamination from stormwater and degrading stream health. We will provide new stormwater infrastructure to stay ahead of development in our main growth areas in Richmond, Motueka and Māpua.

COMPLETING THE WAIMEA COMMUNITY DAM

The Council is investing in the Waimea Community Dam (the Dam) to provide a secure water supply for the next 100 years, providing drinking water to our residents on the Waimea plains including Richmond, Māpua, Brightwater and Wakefield. It will also ensure critical water supply to our horticultural crops. The Dam has an estimated economic benefit to the Tasman region of $600-900 million in the first 25 years. Ground was broken on site in August 2018. Substantial progress has been made with the diversion culvert, an important milestone, completed in August 2020. Waimea Water Ltd. reported that the Dam was 40% complete in September 2020.

In early 2020 it was identified that some of the rock that was to be used in the Dam's embankment was fractured and breaking up more readily than anticipated. There was more argillite (silt/mudstone) and less greywacke (sandstone) than the tests carried out before the project commenced had indicated. The need to bring in harder rock from off-site has increased the projected costs of the Dam. Since the project commenced, the projected cost to complete has increased by $25.4 million to $129.4 million. We anticipate having a better understanding of any further projected costs increases including those as a result of the Covid-19 related disruptions, in late February or early March 2021. We have provided a further $8 million in the LTP 2021 – 2031 as a provision for any further cost increases. The Council is consulting on changes to its Revenue and Funding Policy to ensure there is equitable funding for these additional costs.

DIGITAL INNOVATION

Investing in our information technology will improve the quality, value and transparency of the services we provide and will mean our residents can engage with us in different ways. That investment will also allow us to improve the timeliness and accessibility of information that supports decision making by the Council, communities, Tasman businesses, and individuals.

Over the next five years we are proposing to invest $13.3 million to improve our information services capability, and refresh our core applications. We want to provide a consistent, quality experience for residents where our website integrates with our other online services so we can provide more self-service, automated transactions with 24-7 accessibility. We plan to invest in our data to enable us to share our information more effectively with residents and to increase the range of services we offer. Community wifi connectivity will be available in public spaces across our region and will serve as a gateway to engage with the Council, and as an enabler for future services.

HELPING THE TASMAN ECONOMY RESPOND TO THE COVID-19 IMPACTS

The Covid-19 pandemic and the associated restrictions have affected the economy in New Zealand generally and in Tasman in particular. Economic activity in the District was severely affected during the Level 3 and 4 restrictions earlier in 2020. Since then it has bounced back strongly. The Nelson Tasman economy is tracking better than most of the country, and the September 2020 quarter GDP was at a higher level than in 2019. The year to date level is, however, down 1.2%[8].

[8] Infometrics Quarterly Economic Monitor September 2020

It remains a mixed recovery and some in our community are still being negatively impacted – especially those reliant on international tourism. There remains substantial uncertainty about the extent and timing of any further Covid-19 related impacts on the Tasman economy.

For these reasons, it is important the Council continues to invest in the District and provide services. This investment helps to fuel the economy and act as a buffer against increasing unemployment. In order to boost jobs and assist economic recovery, central government is helping to fund local projects to a level that has not been seen in recent years. To benefit from the opportunities provided by Government funding, we have committed to contributing part of the costs of these projects ourselves. We have established a project management office (PMO) to provide a framework to oversee and advise on the delivery of the central government funded projects. Funding for the PMO is primarily from the project budgets in the LTP 2021-2031.

NATURAL HAZARDS AND OTHER EMERGENCY RISK

The Tasman District is exposed to a number of natural hazard and other emergency risks such as flooding, earthquake, slope instability and river and coastal erosion. Nelson Tasman Civil Defence and Emergency's Group Plan identifies earthquakes, tsunami, human pandemic, infrastructure failures, high winds and large scale slope failure as higher priority risks taking into account the mitigation in place. The District has also been subject to cyclone damage and the Pigeon Valley fire in recent years.

The Council has the financial resources to be able to respond to emergency situations and to be able to restore important infrastructure and facilities.

To help keep rates at an affordable level for the first four years of the LTP 2021 – 2031, the Council is planning to not make further contributions to its emergency funds. Rather, it will rely on the reserves already built up in the emergency funds and has sufficient debt headroom to be able to borrow money for the recovery from localised natural hazard events.

WHAT ARE OUR GOALS?

The Council has three inter-related goals for its Financial Strategy:

PROVIDE GOOD STEWARDSHIP OF COMMUNITY RESOURCES.

The Council is the steward of the community resources that have developed over many years. We are entrusted with managing those resources in a careful and responsible way for both our current and future communities. Our goal is to take care of and protect those resources so that they can continue to benefit the District in years to come.

DELIVER VALUE FOR CURRENT AND FUTURE RESIDENTS

Our goal is to provide the best value to our residents for the money the Council invests on their behalf. We aim to work with our communities to help them flourish and maintain their resilience, whilst maintaining the affordability of rates. Rates affordability is important to many of our ratepayers, particularly those on lower fixed incomes.

We aim to invest sufficiently to maintain the important assets and services that are important to our communities. We also aim to selectively invest in the things that will make the most positive difference to the well-being of the District, whilst keeping rates affordability firmly in focus. With community well-being in mind, Council is investing not only in utility and roading infrastructure, but also in community infrastructure such as a proposed new pool in Motueka, a proposed new community facility for Brightwater/Wakefield and upgrading the grandstand at the Golden Bay Recreation Park.

We want to maintain or improve the affordability of rates over time. It is important that affordability not only for current ratepayers and but also future ratepayers is considered. Decisions now could potentially affect rates affordability in the years ahead, meaning there is potential to pass rates burdens on to future generations if we do not invest in infrastructure and services now.

Alongside this Strategy, the Council also prepares an Infrastructure Strategy which identifies the key issues relevant to the provision of infrastructure, and the options and plans for addressing those issues for the next 30 years. Infrastructure expenditure forms a large proportion of the Council's spending being 38% of operational expenditure and 79% of capital expenditure over the next 10 years. The two strategies are closely linked to ensure the right balance is struck between providing the agreed levels of service for infrastructure assets within the agreed financial caps. The financial caps influence how the Council manages and develops existing and new assets.

Over the next 10 years, forecast rates income increases and net debt levels are projected to be near Council's proposed new caps. The Council has had to work hard to plan a programme of investment that addresses the key infrastructure issues and makes meaningful impact on the well-being of residents, whilst remaining within the proposed financial caps.

For instance, we have identified the need to invest significantly in walking and cycling improvements to improve safety and accessibility, and to help reduce greenhouse gas emissions. It would be preferable to make substantial inroads in improving active transport infrastructure as soon as possible. However, this investment has been staged, starting modestly in the initial years of the LTP 2021 – 2031 and increasing later through the period to help us stay within the financial caps.

USE DEBT AS A TOOL FOR INTERGENERATIONAL EQUITY AND RETAIN BORROWING HEADROOM

The Council uses debt to spread the costs of assets so that those who benefit from them pay a fair share of the costs of those assets over the assets' lifetime. Including some debt that we can readily service from secure, reliable revenue sources without compromising other aspects of service delivery, is an acceptable and positive way of operating. However, when debt is too high it can become damaging because then a large proportion of the revenue the Council receives is required to pay the interest on the debt, rather than funding services. If credit-rating agencies and loan providers become concerned about the level of debt compared with revenue sources or the availability of borrowing, the costs of borrowing can increase.

The use of debt exposes the Council and ratepayers to the impacts of interest rate movements and refinancing risks. With high debt levels these movements can have a significant impact on debt servicing costs. The Council is currently experiencing historically low interest costs. In considering the appropriate use of debt the Council is mindful of the impact that increases in future interest rates would have on rates.

The Council is proposing to set its self-imposed debt cap at a level below the amount it could borrow given its forecast revenue (through rates in particular). The Council will maintain a significant proportion of this debt headroom so that it can borrow if necessary to recover from any emergency events that take place during the LTP 2021 – 2031 period.

In this Strategy, the Council is focused on ensuring debt provides a useful tool, but is kept at a manageable level to avoid the negative consequences (such as higher interest rates) of over borrowing.

WHAT'S THE PLAN?

PRINCIPLES

To invest in the District's future, the Council is proposing to increase its financial caps. It is not possible to maintain services at their existing levels and take the steps that are needed now to provide benefits for the future, whilst retaining the rates increase and debt caps originally adopted in 2015. In deciding how to go forward the Council has applied the following principles in its Financial Strategy 2021-2031:

- to continue to meet its fiscal prudence, sustainability and environmental sustainability obligations
- to keep the medium to long term in focus i.e. rather than being overly diverted by the shorter-term recovery from the Covid-19 pandemic
- to understand the trade-offs or benefits across all of the well-being domains (social, environmental, economic and cultural)
- to capitalise on the economic environment (i.e. enhanced borrowing terms, and increased labour and skills availability)

- to make the most of the enhanced opportunities of Government funding, subsidies and other incentives to advance the community outcomes, and
- to right size Council staffing and operational expenditure.

With the economic impact of Covid-19 likely to continue to affect the Tasman District for the next few years, we were faced with an option of making substantial reductions in levels of service to help moderate rates increases. However, in considering overall well-being now and in the future, the Council decided that maintaining services to the community and continuing to invest in assets and infrastructure was the better option. Not only does this help make progress in the District but also recognises the Council's important role as a significant consumer of goods and services that support the local economy. By investing in the economy, the Council can have a much larger impact on jobs than by reducing rates by an equivalent amount[9].

To help achieve the right level of investment into our existing assets and selectively making improvements for the future the Council has decided to raise its financial caps in the LTP 2021 – 2031.

RATES INCREASE CAP

Council is proposing that the rates revenue increase cap will rise to the following levels (excluding an allowance for growth):

- 4.5% in Years 1-3 (2021/2022-2023/2024)
- 7.0% in Years 4-5 (2024/2025-2025/2026)
- 4.5% in Years 6-10 (2026/2027-2030/2031)

[9] Life with Covid-19: We will be judged by our actions. 16 April 2020. Shamubeel Eaqub, Sense Partners.

Chart 2: Projected Rates and Rates Cap

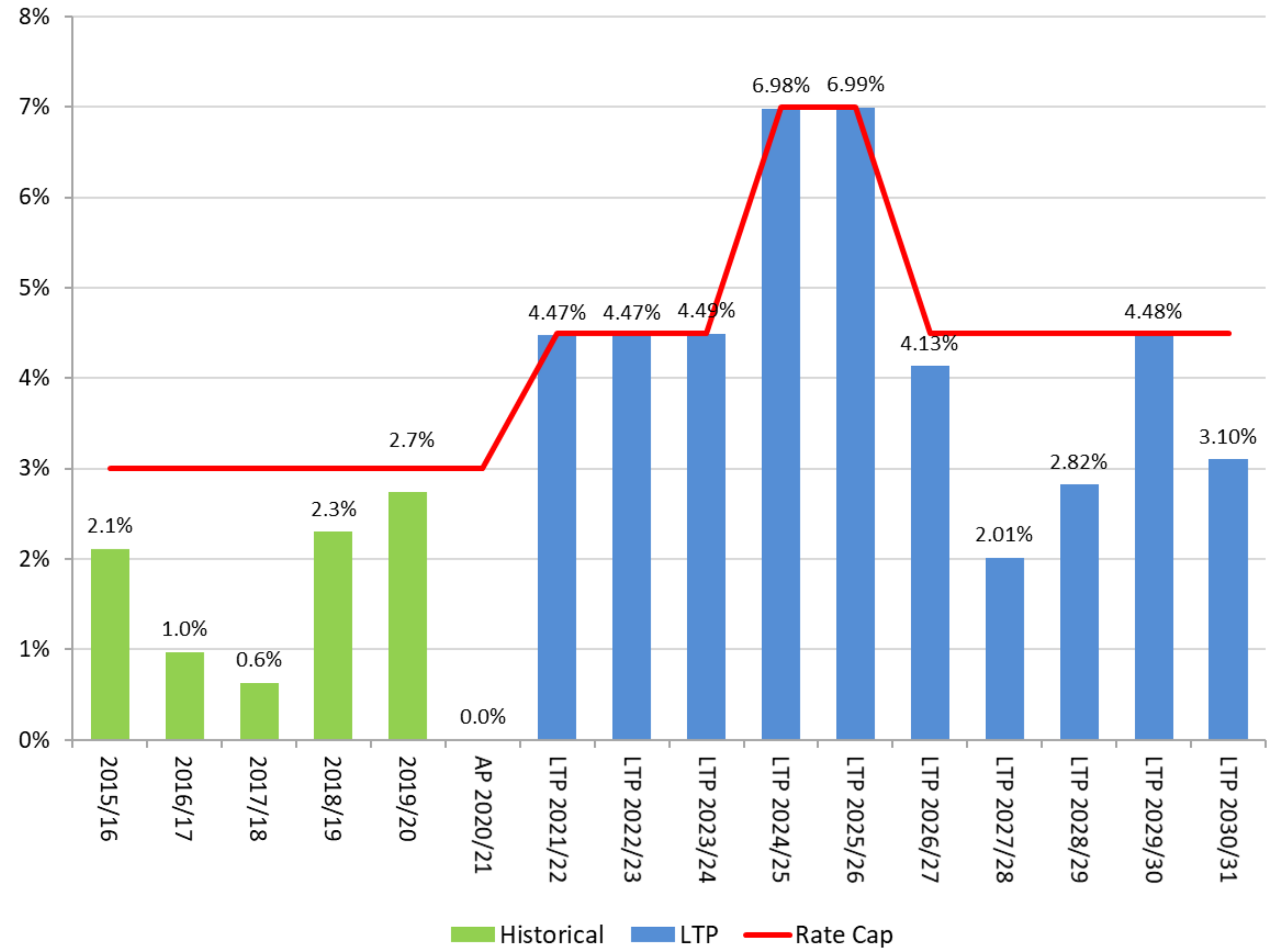
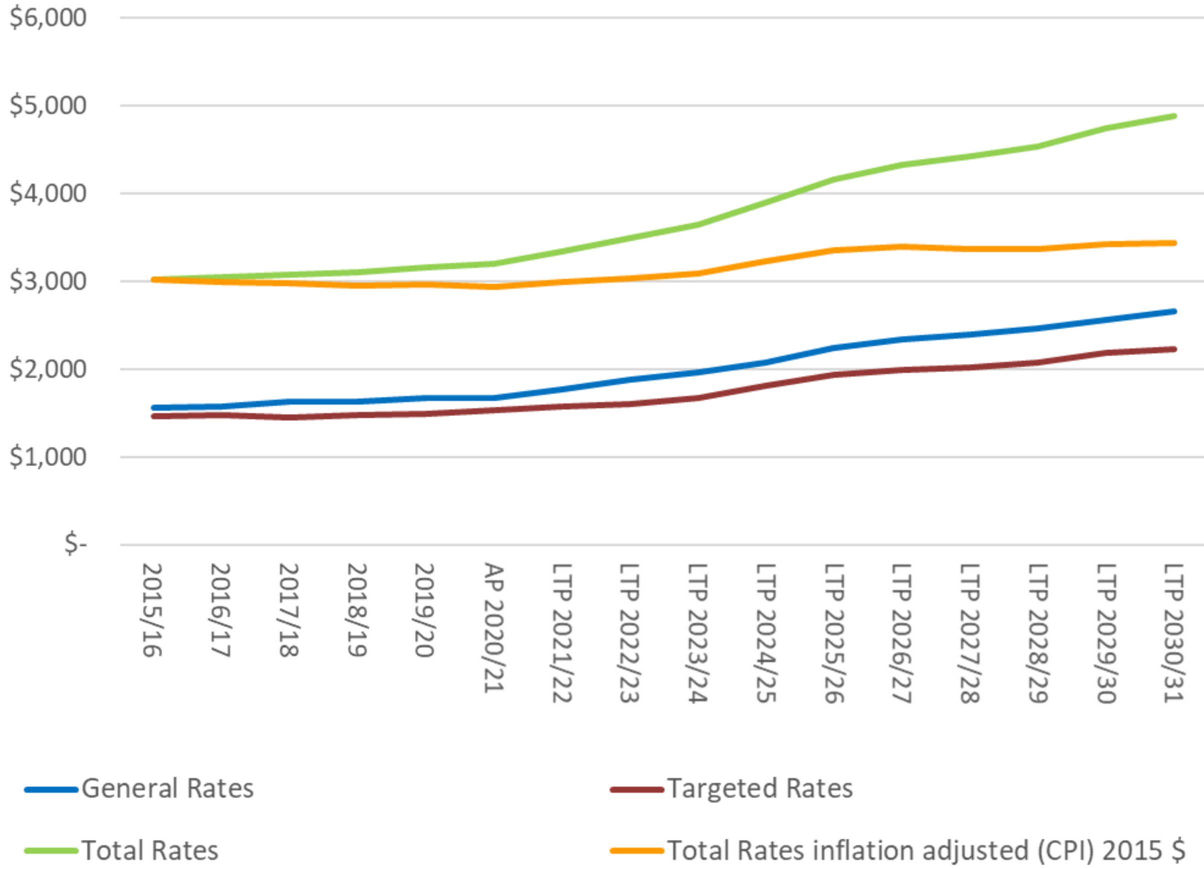


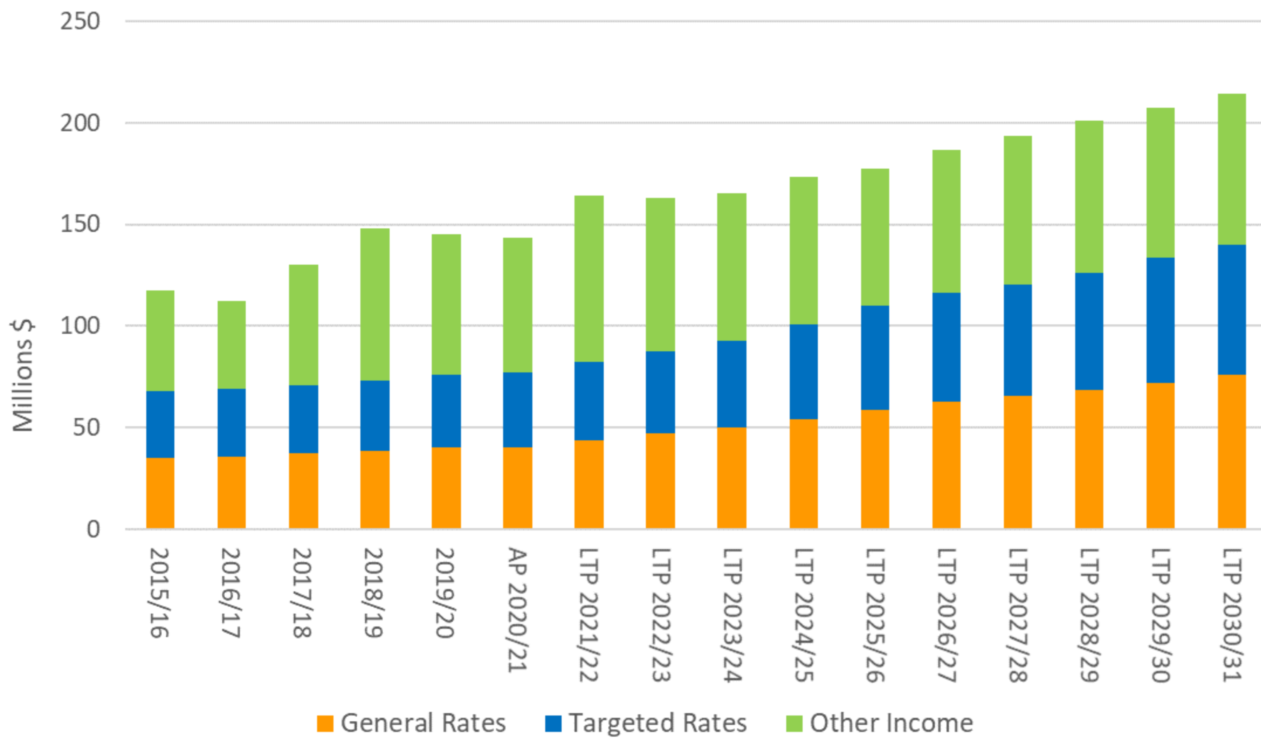
Chart 3: Projected rates per rateable property



Rates are the principle source of funding for the Council's activities. However, we attempt to maximise the use of available Government funding sources and operate some activities (most notably forestry) to generate surpluses to fund some projects and help reduce the reliance on rates. Similarly, where the user of a service can be readily identified and charged, we generally set fees and charges that cover the costs of providing that service.

The Council is planning for balanced budgets for most years in the LTP 2021-2031. That means we are planning to collect sufficient revenue to cover our operating costs each year. However in 2022/2023 and 2023/2024 we are budgeting for a deficit position because we are funding some operating costs from loans. The operating costs have a benefit of greater than one year hence loan funding these. One relates to our digital innovation programme and the other to the Tasman Environment Plan including review of the Tasman Resource Management Plan. This is an important way for Council to manage its funds prudently and also take into account intergenerational equity considerations.

Chart 4: Make up of Revenue

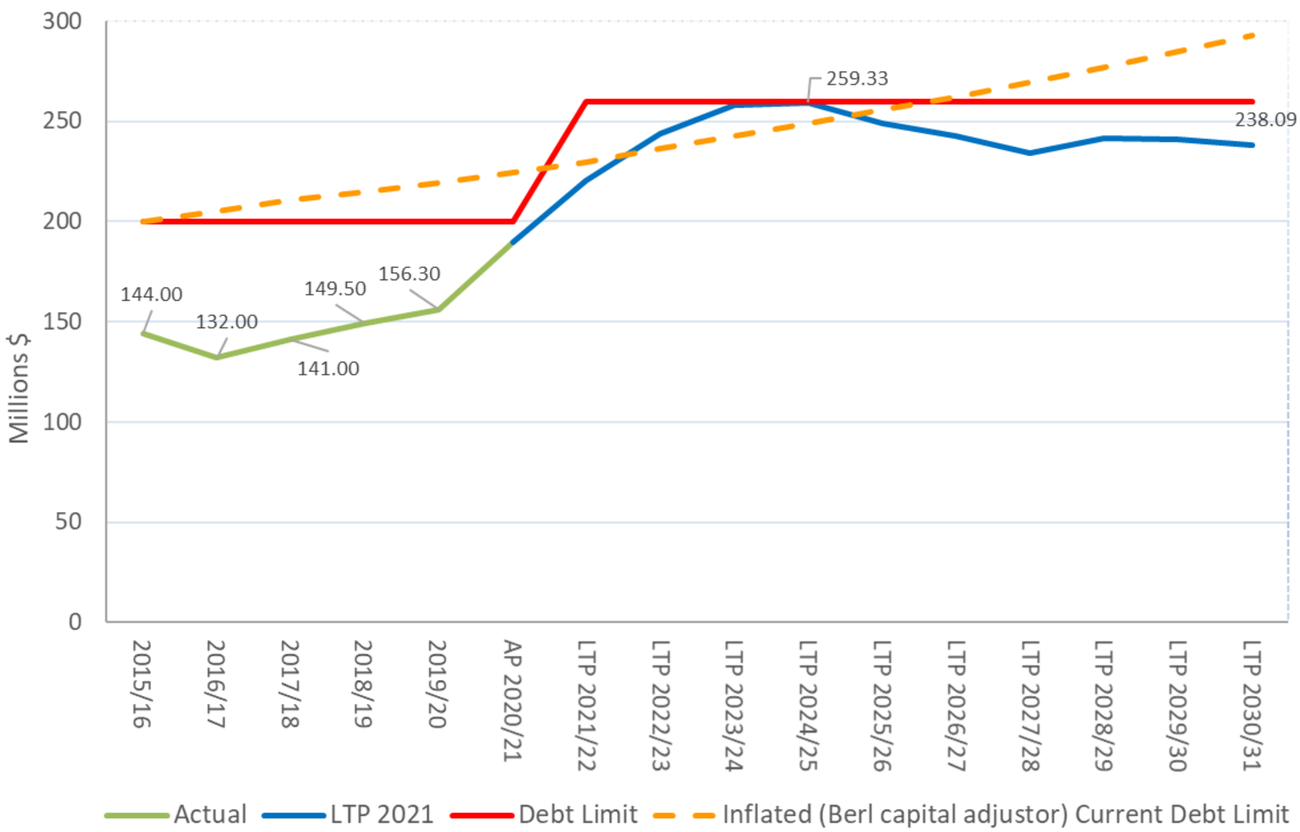


The prospective Statement of Comprehensive Revenue and Expense shows a large surplus in every year of the LTP. This reflects the fact that Council receives a significant amount of revenue that is used to fund capital expenditure. Revenue sources include the NZTA roading subsidy, central government funding, Development Contributions and Reserve Financial Contributions

NET DEBT CAP

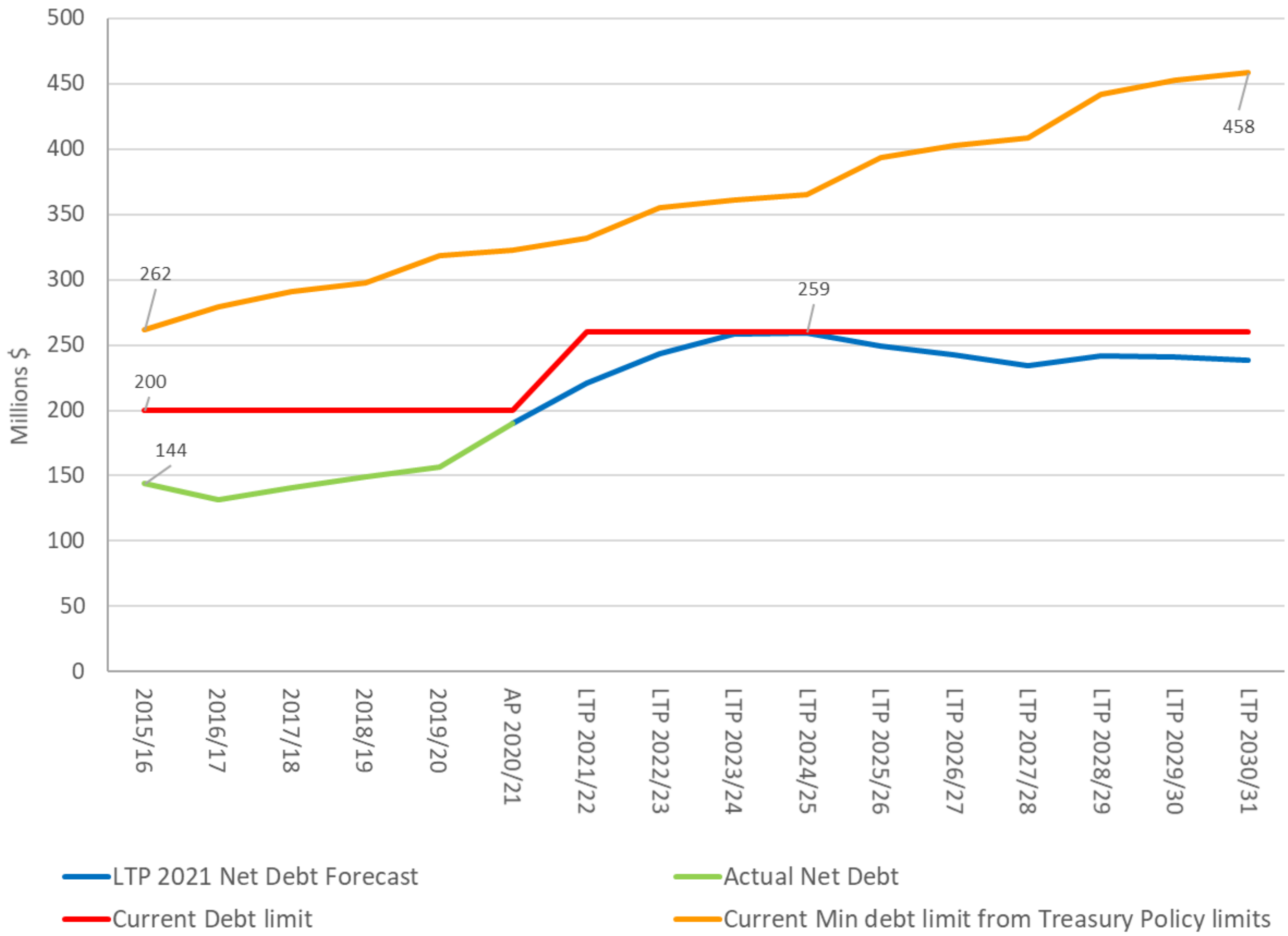
The Council is proposing to increase its net debt cap from $200 to $260 million for the 2021 – 2031 period. This provides more scope to fund the important infrastructure projects required in the District to support growth, invest for the District's future, renew infrastructure at the end of its life and maintain service levels. The forecast increase in interest from higher debt can be managed within the new rates increase cap.

Chart 5: Net Debt



This proposed new cap on debt still leaves sufficient borrowing headroom below the prudential limits (set out in Council's Treasury Risk Management Policy) for the Council to respond to emergencies should that be required.

Chart 6: Net Debt Cap and Treasury Management Policy Limits



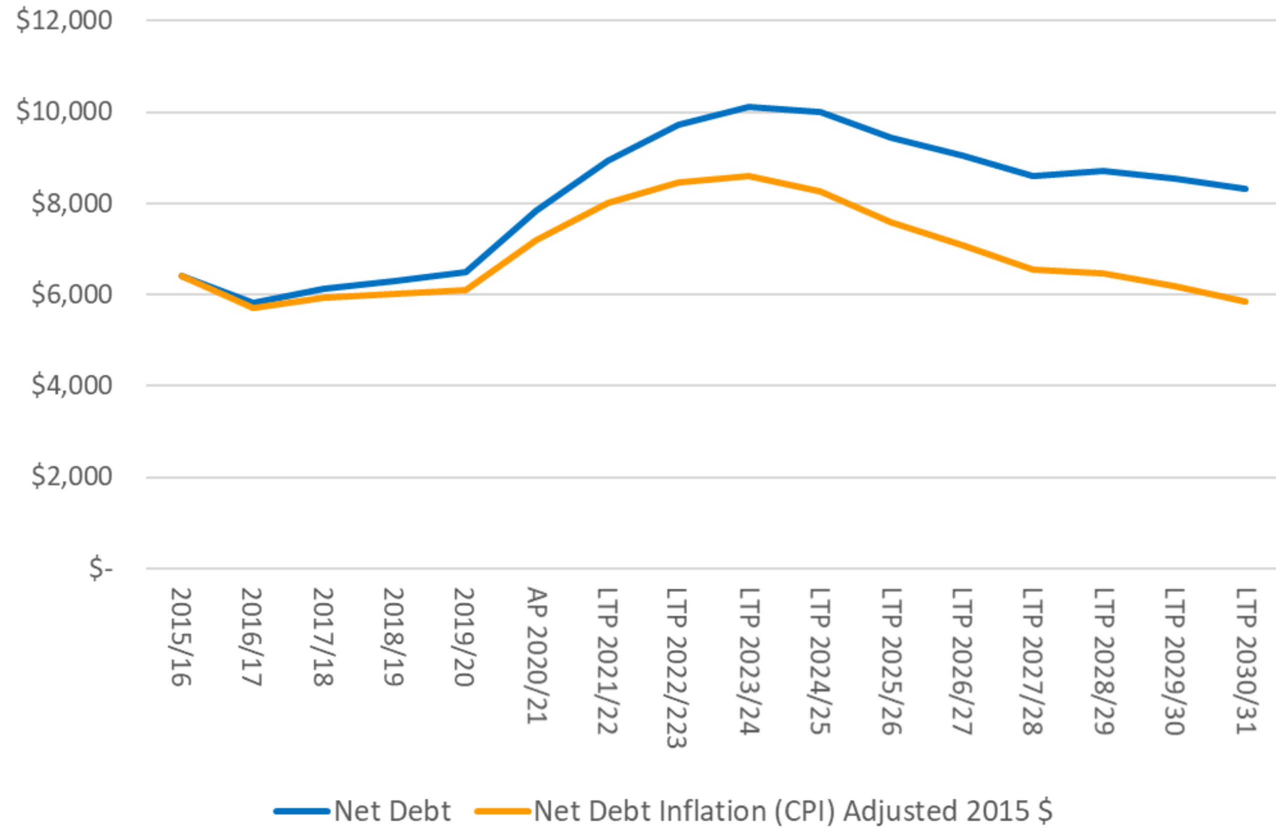
The NZ Local Government Funding Agency (LGFA) stipulates a number of financial limits or covenants, which are repeated within the Council's Treasury Risk Management Policy. Not exceeding these limits is considered best practice in the local government sector. If the Council exceeds these limits, it is likely that the cost of borrowing will increase significantly and we may have difficulties sourcing borrowing.

Whilst the Council is proposing to increase its debt cap in this Financial Strategy, it has selected a level that is lower than the maximum limit provided for in its Treasury Risk Management Policy (and by the LGFA). This is to ensure we have sufficient borrowing headroom if necessary to fund the recovery from a natural hazard or emergency event and to moderate the impact on rates levels.

The Council also has a number of other prudential limits for monitoring debt, set out in its Treasury Risk Management Policy. The Council debt must remain within these limits (see table below). The limits within this policy also assist us in ensuring overall debt remains within prudent levels.

The Council's net debt is projected to be $189.7 million at 30 June 2021. Financial projections show net debt will peak in 2023/2024 at $259 million, and then reduce to $238 million by 2031.

Chart 7: Debt per rateable property



TREASURY RISK MANAGEMENT POLICY LIMITS

The Council has set itself a series of borrowing limits in its 2019 Treasury Risk Management Policy. These have been established to ensure that we only borrow to prudent levels and have sufficient rates and other income to service the loans.

The below table compares the Council's forecast performance against these limits for each year as planned in the LTP 2021 – 2031.

Measure	Treasury Policy Limit	2021/22 Year 1	2022/23 Year 2	2023/24 Year 3	2024/25 Year 4	2025/26 Year 5	2026/27 Year 6	2027/28 Year 7	2028/29 Year 8	2029/30 Year 9	2030/31 Year 10
Net External Debt/Total Operating Income	<225%	145%	161%	168%	158%	148%	136%	127%	125%	120%	116%
Net External Debt/Equity	<20%	13%	14%	14%	14%	13%	12%	11%	11%	11%	10%
Net Interest on External Debt/Total Operating Income	<15%	5%	5%	5%	5%	5%	4%	4%	3%	3%	3%
Net Interest on External Debt/Annual Rates Income	<25%	9%	9%	9%	8%	7%	6%	6%	5%	5%	5%

MANAGING LEVELS OF SERVICE

Levels of service are what we have agreed to deliver to, and on behalf of, the community. They are attributes for each activity that describe the service from the customer's perspective.

Levels of service are set through our LTP, sometimes in response to community desire, and sometimes in response to statutory requirements.

Due to our proposed self-imposed financial limits, there is little scope for us to significantly increase level of service targets over the next 10 years. We have had to focus investment on meeting existing level of service targets, and making improvements due to statutory requirements.

The following table summarises where we have planned works in order to achieve agreed level of service targets or increase levels of service.

ACTIVITY	TYPE OF CHANGE	DESCRIPTION ENVIRONMENTAL HEALTH
Water	Improve compliance with NZ's Drinking Water Standards	Invest in meeting the requirements of the Drinking Water Standard New Zealand.
	Reduce water loss from the network	Invest in proactive leak detection and repairs, and on-going pipe renewal.
	Complete the investment in the Waimea Community Dam	Provide for water security for urban and rural users.
Wastewater	Reduce incidences of wastewater overflows into waterways	Invest in pipe and pump station upgrades.
	Improve network resilience	Invest in additional storage or standby electrical generation
Stormwater	Maintain focus on mitigating flooding of habitable floors	Prioritise investment in network upgrades that mitigate flooding of habitable floors rather than nuisance surface water flooding.
Transportation	Increase the number of people using cycling and walking as a mode of transport	Invest in improved cycling facilities.

ACTIVITY	TYPE OF CHANGE	DESCRIPTION ENVIRONMENTAL HEALTH
	Increase the number of people using public transport	Invest in expanded public transport services.
	Increase the length of sealed road resurfacing	Increase investment in routine road resurfacing.
Waste Management and Minimisation	Improve waste minimisation and recycling infrastructure	Invest in Resource Recovery Centre, materials recovery facility and waste minimisation infrastructure improvements.
Rivers & Flood Control	Restore the agreed level of service of the Motueka River stopbanks	Invest in reconstruction and strengthening of priority areas of stopbank.
Reserves and Community Facilities	Improve community hall provisions	Invest in new Wakefield/Brightwater community facility
	Improve aquatic facility provision.	Invest in Motueka Community Pool
	Enhance regional heritage research	Fund new regional museum research facility
Libraries	Improve library services in Motueka	Invest in final stage of the new Library in Motueka
Environmental Management	Review planning documents	Review and digitisation of Tasman's resource management documents
	Increased climate change policy development work	Increased modelling, information dissemination and policy development for climate change and natural hazards.
	Freshwater improvement	Catchment management focused approach to and increased monitoring of freshwater
	Implementation of Tasman BioStrategy	More coordinated approach to biodiversity and natural systems

REAPING THE BENEFITS – BY 2031

The Council anticipates benefits from its investment will be realised. The District will have drinking water systems that consistently deliver high quality, safe drinking water supplies to urban, and some rural, populations. Our wastewater infrastructure will overflow much less frequently, particularly in wet weather, reducing any negative impact on our environment. The water in the District's rivers and streams will be cleaner and healthier both for recreational use and for the plants and animals.

The availability of land serviced with infrastructure, both for more intensive living in existing urban areas and greenfield areas, will have kept pace with the increasing population living in the Tasman District. This is important to ensure that the availability of development opportunities is not a constraint on housing supply, which could affect housing affordability.

Our information technology will have enhanced the transparency of Council services and have enabled our residents to engage with using a range of methods. More timely and accessible information will be supporting decision making and wifi connectivity will be available in public spaces. Our information systems will provide high quality experiences for residents with self-service, automated transactions and 24-7 accessibility.

At the same time, the Council's debt will still be well controlled and serviceable through our income streams and won't put too much pressure on rates levels through servicing interest payments. Borrowing headroom will be available to respond to emergencies.

Rates affordability will remain a big challenge. We are aiming to make sure that rates increases enhance community well-being and will continue to carefully consider their impact on rates affordability.

POLICY ON GIVING SECURITY FOR BORROWING

The Council normally secures its borrowings against rates income. The Council has a Debenture Trust Deed that provides the mechanism for lenders to have a charge over its rates income.

The Council may provide security over specific assets and this is limited to where:

- there is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. project finance)
- the Council considers a charge over physical assets to be appropriate, and
- any pledging of physical assets complies with the terms and conditions contained within the security arrangement.

The Council may provide credit support for Council-Controlled Organisations but not for Council-Controlled Trading Organisations.

For further information on the Council's approach to borrowing, refer to the Liability Management Policy (part of the Treasury Risk Management Policy).

FINANCIAL INVESTMENTS AND EQUITY SECURITIES

OBJECTIVES AND TARGETS

The Council has prioritised improving investment performance. To achieve this, a commercial committee with three independent members from the business community provides advice and recommendations to the Council on the management and investment in commercial and semi-commercial activities.

The committee is focused on improving the Council's returns from its commercial and semi-commercial investments, including:

a) Commercial property – Māpua, Richmond
b) Port Tarakohe
c) Forestry holdings

d) Holiday parks – Motueka, Murchison, Pōhara, Collingwood
e) Aerodromes - Motueka and Takaka
f) Motueka Harbour and Coastal Works reserve fund

Our commercial activities operate under their own financial plan. This plan will ensure the 'group' is operated in a way that means it can support its own capital works programme, with the necessary income retained within the group to support its ongoing growth and reinvestment requirements.

The Council's primary objective when making a financial investment is to protect its investment capital, and a prudent approach to risk and returns always applies. We will:

- maximise returns from the investments while minimising the likelihood of capital losses
- ensure the investments benefit Council's ratepayers, and
- maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements

We may hold financial, property, forestry, and equity investments if there are strategic, commercial, economic, or other valid reasons to do so (e.g. where it is the most appropriate way to administer a Council function). We will maintain an ongoing review of our approach to all major investments and the credit rating of approved financial institutions.

FINANCIAL INVESTMENTS

We hold financial investments as part of our day-to-day working capital management and as required by the Local Government Funding Agency (Borrower Notes). The Council manages all of these investments together. This minimises the level of financial investments, particularly as reserve funds are no longer held in cash.

The Council may invest in approved financial instruments as set out in the Treasury Risk Management Policy and will only invest in approved creditworthy counterparties. These investments earn market rates of return and are aligned with the Council's objective of investing in high credit quality and highly liquid assets. The targets for returns on financial investments are:

- LGFA Borrower notes with an interest rate equal to the corresponding loan less 0.2%
- other liquid and short-term investments with a 2%-5% return, depending on the term (overnight to 100 days).

For further information on the Council's investment Policy, refer to the full Investment Policy (part of the Treasury Risk Management Policy).

EQUITY SECURITIES

We maintain equity investments and other minor shareholdings, which fulfil various strategic, economic development and financial objectives. We seek to achieve an acceptable rate of return on all of our equity investments consistent with the nature of the investment and their stated philosophy on investments. The Council may also acquire shares that are gifted or are a result of restructuring.

Our main equity investments are Port Nelson Limited and Nelson Airport Limited. We also have equity investments in the New Zealand Local Government Funding Agency Limited, Civic Financial Services Limited and Waimea Water Limited. We also hold asset investments, primarily forestry.

Nelson City and Tasman District councils are currently consulting on a proposal to form an operational holding company for Port Nelson Limited and Nelson Airport Limited. Under this proposal the ownership of the port and the airport will transfer to a new holding company. The holding company will be 50% owned by each Council. This means ultimate ownership of the port and airport would remain with the Councils.

The Council's objectives and targets for equity investments are outlined below.

EQUITY INVESTMENT	OBJECTIVES	TARGET RETURNS
Port Nelson Ltd Council is a 50% shareholder with Nelson City Council. The Government holds one 'Kiwishare'. Council holds 12,707,702 shares. 2019/2020 book value of the investment: $126.70 million. 2019/2020 net assets of the company $250.46 million	Council aims to maintain its 50% investment in Port Nelson Ltd to retain effective local body control of this strategic asset. Receive a commercial return to reduce Council's reliance on rates income.	Annual dividend of not less than 50% of net profit after tax (approximately $5.5 million per annum, shared between the two Councils).
Nelson Airport Ltd Council is a 50% owner with Nelson City Council. Council holds 1,200,000 shares. 2019/2020 book value of the investment is $33.29 million. The 2019/2020 net assets of the company were $67.5million. .	Council aims to maintain its 50% investment in Nelson Airport Ltd to retain effective local body control of this strategic investment. Receive a commercial return to Council to reduce Council's reliance on rates income.	Deliver dividend growth in excess of CPI movement, and higher than that declared in previous financial year. (2019/2020: $435,000 dividend received).
New Zealand Local Government Funding Agency Ltd (LGFA) The LGFA was established to	• Obtain a return on the investment. • Ensure that the Local Government Funding Agency has sufficient	The company's policy is to pay a dividend that provides an annual return to shareholders equal to

EQUITY INVESTMENT	OBJECTIVES	TARGET RETURNS
provide funding facilities for local government. We hold 3,731,958 shares (including uncalled capital). The LGFA is owned by the Crown and 67 local authorities. We are a minority shareholder.	capital to remain viable, meaning that it continues as a source of debt funding for Council. • Access loan funding at lower rates. Due to the overall benefit of these multiple objectives, we may invest in shares when the return on that investment is potentially lower than the return with alternative investments.	the LGFA cost of funds plus 2 percent. This equated to approximately $104,000 for 2019/2020.
Civic Financial Services Ltd Civic Financial Services was initially established as an insurance vehicle for local authorities. The company now provides financial services , the Super Easy and Super Easy KIwi Saver superannuation schemes. Council holds 65,584 shares. Council is a minority shareholder. 2018/2019 book value of the shares is $65,584. 2018/2019 net assets value is $2.61 million.	Council initially invested in Civic Financial Services Ltd through Riskpool and Local Authority Protection Programme schemes to provide disaster recovery, and public and professional indemnity insurance. Council now sources these insurances through commercial brokers. These shares are not tradable and Council is unlikely to purchase further shares.	Civic Financial Services Ltd has now withdrawn from the insurance market.

EQUITY INVESTMENT	OBJECTIVES	TARGET RETURNS
Waimea Community Dam CCO – Waimea Water Ltd. The Company will own and operate the proposed Waimea Community Dam, on a cost recovery basis. We will hold a minimum of 51% of the voting shares at all times, and appoint four of the seven directors on the Board.	Our objective in investing in the dam joint venture is to provide the most cost-effective solution to the need to augment the Waimea water supply.	There is no targeted return on this investment. The Company will be operated on a break-even basis only. There will be no dividends paid to shareholders.