For Tasman

FINANCIAL STRATEGY 2018 – 2028

DRAFT FOR CONSULTATION

tasman district council

FINANCIAL STRATEGY

PURPOSE OF THE FINANCIAL STRATEGY

This Strategy sets out how Council plans to finance its overall operations in order to meet its Community Outcomes for the next 10 years and the impacts on rates, debt, levels of service and investments. It will guide Council's future funding decisions, and along with the Infrastructure Strategy, informs the capital and operational spending for the Long Term Plan 2018-2028.

EXECUTIVE SUMMARY

The Financial Strategy sets out Council's plans to finance its activities over the next 10 years. It continues the same strategic approach adopted in the LTP 2015-2025 as we focus on keeping rates under 3%, plus an allowance for growth, and managing our finances within a self-imposed net debt cap of $200 million.

The Financial Strategy aims to:

- Provide good stewardship of community resources
- Enhance rates affordability and value for current and future rate payers
- Manage debt to achieve intergenerational equity.

We intend to use five broad strategies to achieve these goals.

1. act in a financially prudent manner
2. use other sources of revenue to moderate rates levels
3. maintain rates increases at modest and stable levels
4. where possible, over an assets' lifetimes, charge those who benefit from their use.
5. share the costs of providing services across the District.

FINANCIAL CAPS

Three key financial caps are established in the Financial Strategy that set our overall financial boundaries for Council's activities. These include:

- Rates Income Increases - capped at a maximum of 3% per annum, plus an allowance for annual growth in rateable properties.
- Rates Income – general rates income capped at $65 million per annum and targeted rates to $60 million per annum
- Debt - net external debt capped at a maximum of $200 million

This Strategy has been developed in close association with Council's Infrastructure Strategy, Growth Strategy, activity management plans, and other financial policies. It provides the financial boundaries under which these strategies and plans have been developed.

In establishing these financial caps Council has considered the asset renewals profile, the desire to consistently achieve (and in some cases improve) levels of service and the requirements of population growth in the District. Staying within the financial caps has required considerable prioritisation and careful sequencing of projects in our Infrastructure Strategy.

Maintaining and renewing existing assets as they wear out is an important focus in our Infrastructure Strategy. Council has generally planned the rate of renewal investment for water, wastewater, stormwater, and rivers and flood protection assets based mainly on the age of the assets and their expected useful life. Exceptions have been made where assets have notably performed poorly and these have specifically been programmed for early replacement. For roads, Council uses age, condition and demand data to predict an optimised programme of renewal. Following some premature failures of assets Council plans to be more risk adverse when planning renewals where there is an emerging trend in asset failure.

Over the next 30 years, funding of depreciation generally exceeds Council's immediate asset renewal needs. This means that there is an excess of depreciation funding that can be used to manage Council's cash position as a whole, helping to reduce debt. Council's infrastructure renewal profile is projected to significantly increase beyond the period of this Strategy. This will likely present a funding challenge to Council in approximately 50 years' time. In the long term, Council expects that asset renewal needs will exceed the funding that Council collects for depreciation. When this occurs, it is likely that Council will need to fund asset renewals through a mix of depreciation funds and borrowing. Council plans to undertake more mature renewal planning over the next six years to better understand this issue and consider the associated potential effects on Council's future borrowing requirements.

The District is growing at a significant rate. Tasman will need to supply 2,955 new dwellings within the next ten years and a further 3040 between 2028 and 2048. Council will need to provide most of these new dwellings with water, wastewater and stormwater, and all will create an increasing load on Tasman's transportation network. In addition, our population is ageing which will increase concerns about rates affordability particularly amongst those with lower, fixed incomes. An older population is likely to increase demand for high quality pedestrian facilities and alternative modes of transport.

We have planned for ongoing renewal of our assets and to respond to our District's demographic trends in our Infrastructure Strategy, whilst at the same time remaining within the rates and debt caps established in this Financial Strategy.

FINANCIAL STRATEGY OVERVIEW

Council Vision – thriving communities enjoying the Tasman lifestyle

Achieving a reasonable balance between services to deliver the vision, and rates and debt

Financial Strategy

Principles:

- Act prudently with community resources
- Users and exacerbators meet the costs of service when the benefits of those services are available to be enjoyed
- Council's activities are affordable for the community

Overall Goals:

1. Provide good stewardship of community resources
2. Enhance rates affordability and value for current and future rate payers
3. Manage debt to achieve intergenerational equity

Strategy 1

Act in a financially prudent manner

Strategy 2

Use other sources of revenue to moderate rates levels

Strategy 3

Maintain rates increases at modest and stable levels

Strategy 4

Where possible, over assets' lifetimes, charge those who benefit from their use

Strategy 5

Share the costs of providing services across the District

Caps on rates, rates increases, and debt

Policy on providing securities for borrowing

Objectives for holding financial investments and equities

1 INTRODUCTION

This Financial Strategy focuses on limiting Council's long-term debt and moderating increases to rates income.

The Strategy outlines the context in which Council's financial planning takes place. It details the approach to managing Council's finances in a sustainable and affordable way while providing the services and assets that enable our communities to thrive and enjoy the Tasman lifestyle. It also sets out financial caps that have been used to guide decisions in the Long Term Plan (LTP) 2018-2028.

The context in which our financial planning takes place includes:

- Council's current financial position and performance
- Population growth and demographic change
- Infrastructure and service demands of a small, dispersed population
- Natural hazards
- Ageing Infrastructure
- Public and environmental health risks
- Changing property values
- Our relationship with Nelson City Council
- The world around us.

Achieving the Strategy's goals of being a good steward for community resources, enhancing rates affordability and value, and managing debt whilst achieving intergenerational equity is a major challenge.

The Strategy explains the broad strategies and the methods we intend to use to help achieve these goals. It also sets caps on rates levels, rates increases and debt for the next ten years - 2018-2028.

Impacts on levels of service to residents and ratepayers arising from changes to the Financial Strategy are considered in Section eight of this document. The last sections outline Council's policy on giving security for borrowing, and financial investments and equity securities.

The Strategy is integrally linked to Council's Infrastructure Strategy and provides the financial boundaries under which that document was developed. The Infrastructure Strategy outlines the capital and operational budgets and the specific projects which have been planned over the next 30 plus years. The Infrastructure Strategy focuses on our key assets including transportation and roads, water supply, stormwater, wastewater, and rivers and flood protection. Both the Financial Strategy and Infrastructure Strategy inform the content of our Long Term Plan 2018-2028.

These documents are available to view or download from Council's website (www.tasman.govt.nz/LTP). Alternatively, you can view them at any Council office or library.

COUNCIL'S FINANCIAL MANAGEMENT RESPONSIBILITIES IN THE LOCAL GOVERNMENT ACT 2002

PRUDENCE AND SUSTAINABILITY
- Council will manage its finances prudently and in a way that promotes the current and future interests of the community

FINANCIAL STRATEGY
- Council's Financial Strategy informs and guides the assessment of funding and expenditure proposals

INFRASTRUCTURE STRATEGY

FUNDING AND FINANCIAL POLICIES
- Council adopts a set of Funding and Financial Policies to provide predicatability and certainty over the sources and level of funding

BALANCED BUDGET REQUIREMENT
- Unless it is prudent not to, operating revenues will be set at a level that meets operating expenditure

ASSUMPTIONS

The Strategy has been developed based on a number of assumptions. If any of these assumptions change, there may need to be changes made to the Strategy. The assumptions underpinning this document are contained in the LTP 2018-2028.

LINKS WITH OTHER DOCUMENTS

INFRASTRUCTURE STRATEGY

"Providing the right balance between levels of service and cost."

In addition to the Financial Strategy, Council also prepares an Infrastructure Strategy which identifies the significant infrastructure issues, and identifies the principal options for managing those issues and the implications of those options. Infrastructure accounts for the majority of Council's spending at 51% of operational expenditure and 83% of capital expenditure over the next 10 years. The two strategies therefore need to be closely linked to ensure the right balance is struck between providing agreed levels of service for infrastructure assets, and the cost of doing so. Often the financial caps will impact how Council manages and develops existing and new assets and this is especially so for the next 10 years.

During the next 10 years, both forecast rate increases and debt levels are trending near Council's caps. This has put pressure on what infrastructure can be afforded and delivered over this time and Council has had to work hard to prioritise and plan a work programme which addresses the key issues outlined in the Infrastructure Strategy within the caps in the Financial Strategy.

LINKAGES

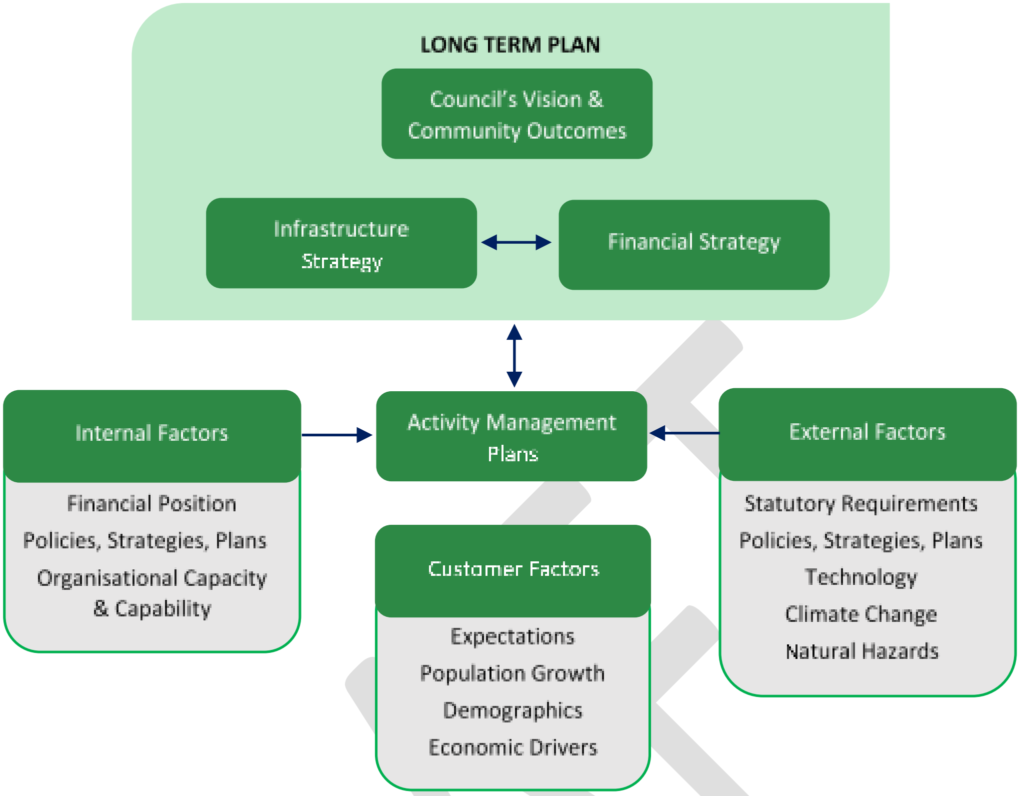

Figure 1: Strategic Linkages

2 CONTEXT AND STRATEGIC ISSUES

FINANCIAL POSITION AND PERFORMANCE

Council's financial position and asset base going in to the LTP 2018-2028 are significant factors that have been considered in the development of this Strategy. Rates affordability is particularly an issue because we have a growing proportion of our population in older age groups and on lower fixed incomes.

A major aim of the Financial Strategy for the LTP 2015-2025 was to reduce projected debt levels. Nearly, three years on, and we have not only achieved the lower debt forecast set in the LTP 2015-2025, we have been able to reduce it further. This was made possible by lower interest rates and borrowing costs, increased revenue from forestry activities, low inflation, higher dividends from associates, lower than expected expenditure on responding to emergency events, and delays in the delivery of the capital works programme.

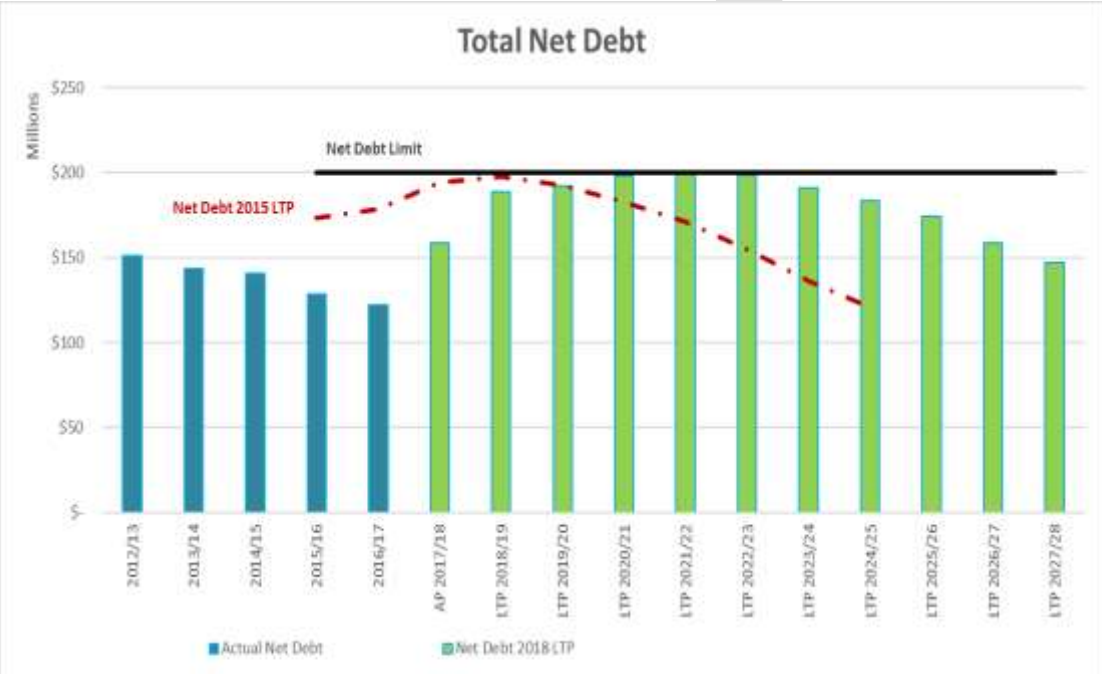

Figure 2: Projected Net Debt

Although our debt is comparatively high, and this negatively impacts rates affordability and our flexibility in the future, there is a mix of metrics considered in presenting the overall position.

The Treasury Risk Management Policy sets out our borrowing limits, which includes:

- Net internal or external debt to total operating income
- Net internal or external debt to annual rates income

Our rate levels are relatively high and rates affordability is an issue for those living within the District. In the LTP 2015-2025 we forecast modest increases in rates revenue. Our actual performance has delivered lower rates revenue increases than we forecast.

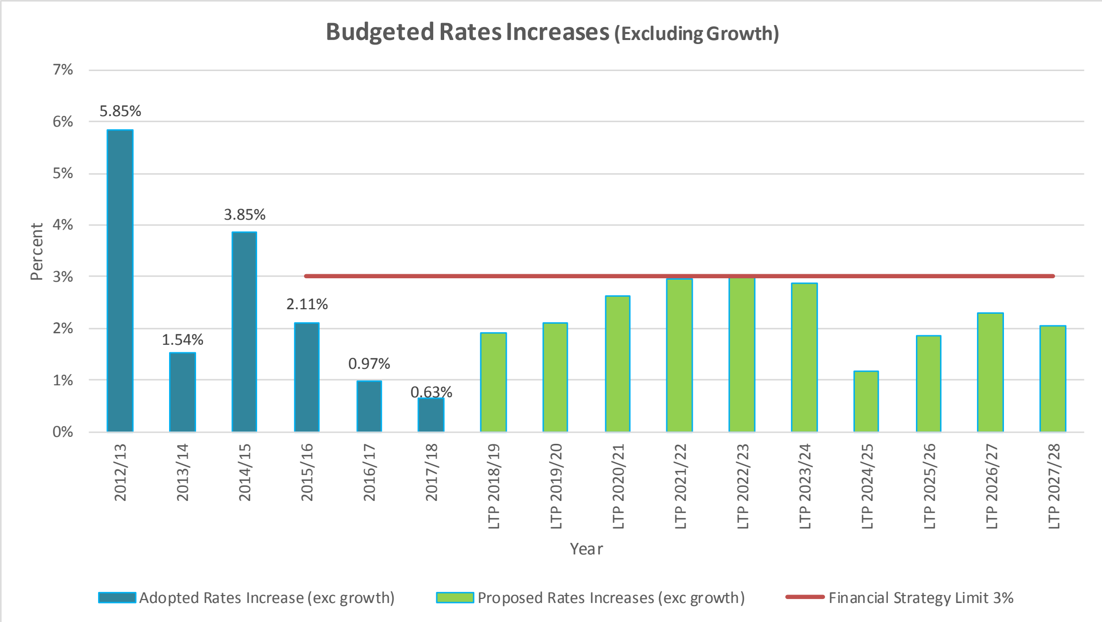

Figure 3: Budgeted Total Rates Income Increases

In each of the 2015/2016 and 2016/2017 financial years we have recorded underlying operating surpluses of approximately $13 million which we have largely used to reduce our debt and future rate rises. Whilst these surpluses have played a useful role in reducing our overall debt level, we are maintaining our focus on better budgeting and forecasting.

Operational surpluses have also resulted because we have not been able to deliver all our of programmed capital works programme. A number of projects have been delayed due to hold ups with land acquisitions, planning and resource consent. In 2015/2016 our capital budget was $34 million but actual expenditure was $27 million. In 2016/2017 the corresponding figures were $34 million and $32.5 million. A considerable portion of this underspend has been carried forward each year to enable the projects to be completed. Our capital programme being underspent has meant we have not had to borrow as much as planned. However, we acknowledge that there needs to be a closer match between the programme we set ourselves and our delivery.

POPULATION GROWTH AND DEMOGRAPHICS

Tasman is one of New Zealand's sunniest regions and is generally noted for its climate and economic opportunities. This is a key drawcard for the Region, making it a desirable place to live, and in recent years we have experienced significant population and housing growth. Figure 4 below shows the rate of actual population growth as well as a range of future projections.

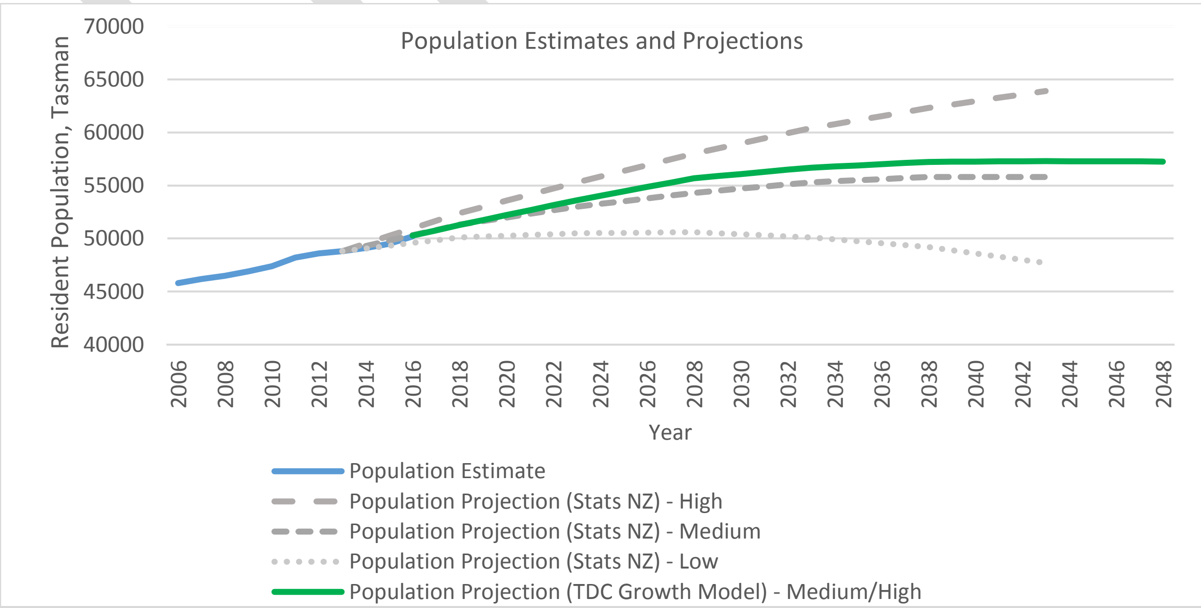

Figure 4: Tasman's Population Projections

After consideration of recent actual growth and future projections, we are planning for high population growth for the first ten years, followed by medium growth thereafter for Richmond, Brightwater, Wakefield, Motueka, and Mapua/Ruby Bay. For our other settlements and rural areas, we are planning for medium population growth. This results in overall population growth for Tasman (the green line in the Figure above) which is between Statistics New Zealand's medium and high population projections series.

Our population is expected to grow by 4,420 residents between 2018 and 2028, to reach a total of 55,690. While the Region will continue to experience population growth over the next 30 years, the rate of growth is projected to slow over time. By 2048 our population is expected to reach 57,260 residents. Most of the overall population growth will be driven by net migration gains (more people moving to Tasman than leaving).

Like most of New Zealand, our population is ageing, which means there is an increasing number of residents in older age groups. The proportion of the population aged 65 years and over is projected to increase from 22% in 2018 to 37% by 2043. Our ageing population is driving a change in the average household size, projected to decrease from 2.4 residents per household in 2018, to 2.3 in 2028. The number of one-person households and couple-without-children households are projected to increase. As well as impacting rates affordability, the ageing of the population is changing the demand for some services, such as increased needs for good quality footpath surfaces.

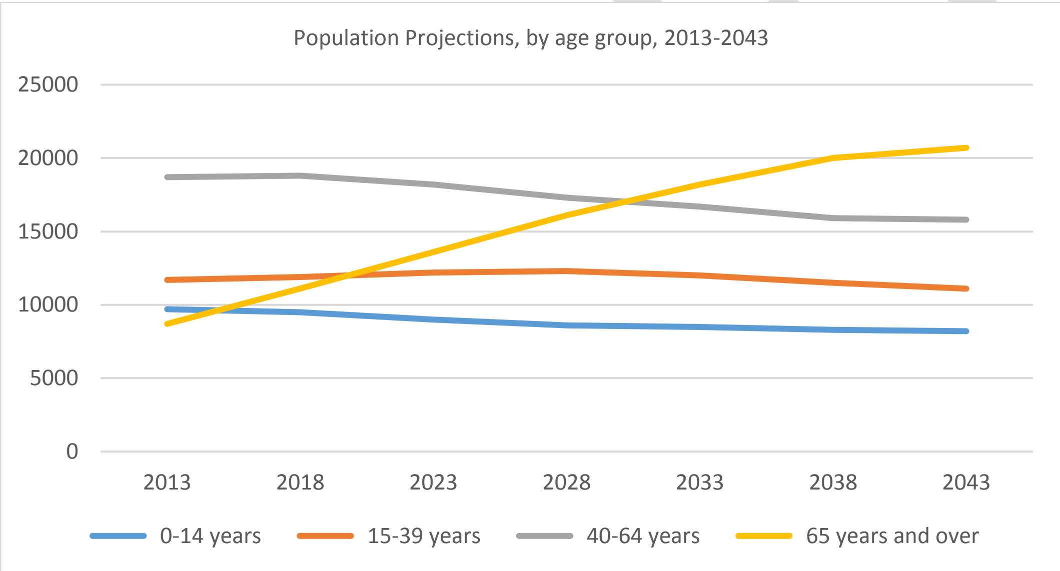

Figure 5: Tasman's Population Projections by Age group

Over the next ten years, we are estimating that another 2,955 new dwellings will be needed with a further 3,040 dwellings between 2028 and 2048. This growth is based on population and household size projections, and also allow demand for non-residents dwellings, such as holiday houses and temporary worker accommodation.

We are required to ensure that there is sufficient zoned land and services available to accommodate this growth. Our recent growth has been higher than we had anticipated in our LTP 2015-2025 and has taken up considerable amounts of available infrastructure capacity. The combination of this and the ongoing projected population and housing growth, creates demand for additional capacity in our infrastructure, particularly in those areas with higher growth (Richmond, Motueka, Brightwater, Mapua and Wakefield). The National Policy Statement on Urban Development Capacity (NPS-UDC) also requires us to provide an additional margin of feasible development capacity in Richmond that is 20% above the projected demand for the next ten years, and 15% above the demand projected for 2028-2048.

Figure 6: Projected Capital Expenditure Attributed to Growth

INFRASTRUCTURE AND SERVICE DEMANDS OF A SMALL, DISPERSED POPULATION

Our relatively small, but widely dispersed population lives in 17 main urban towns and settlements, and rural areas, across 9771 km². We only have a small rating base to fund the significant amount of infrastructure required to service this population, including roads, wastewater, stormwater and water supply services. The dispersed nature of the population means we need to 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.

For many of our infrastructure assets ratepayers (who receive the relevant services) across the whole District contribute funds irrespective of the individual asset's location and the population it serves. This ensures everyone is provided with the essential infrastructure and (at least) minimum levels of service required. Through this 'Club' approach, all residents pay the average costs of providing infrastructure and services in the District, rather than paying higher or lower costs dependent on their location.

NATURAL HAZARDS

Due to the topography of our Region, residents enjoy ready access to our coastlines, rivers and alpine parks which make it famous for its lifestyle and outdoor adventure and tourism activities. Our close proximity to these natural landscapes however comes with potential risks to our communities. These risks can be categorised into three broad areas:

1. Coastal erosion and inundation
2. Flooding and land instability
3. Earthquakes and tsunami

The effects of climate change will potentially mean that we will face an increasing number of natural disasters. Climate change is likely to lead to more frequent and more severe weather events, with sea level rise over time increasing the risk of coastal inundation. With these changes we are seeing increasing financial pressure on Council to protect private property and invest in protection works. Council also needs to be financially prepared to respond to the immediate effects of natural hazard events and to recover from their medium term effects.

AGEING INFRASTRUCTURE

Council is responsible for $1.1b worth of infrastructure assets. These assets have a finite period in which they will operate suitably. 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 the mid-1900s and the 1980s. To date, this has meant that 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 strategy, Council expects the renewal of short life assets to continue much the same as recent times, effectively creating a stable baseline for renewal investment. Beyond the life of this Strategy significant renewal of bridges and pipes will be required with a significant financial impact on Council. Council needs to plan well ahead of time in order to manage and fund this big step up in renewal activity.

PUBLIC AND ENVIRONMENTAL HEALTH RISKS

Nationally, we are experiencing an increasing awareness of public and environmental health risks, this in turn is driving the delivery of higher service standards by Council. These standards are being embodied in Central Government legislation and regulations. One example is the gradual increase in drinking water standards (Drinking Water Standards New Zealand). With the recent campylobacter contamination in Havelock North, greater scrutiny is being applied to drinking water networks and quality, and we anticipate that even higher water treatment standards will shortly be required.

Similarly greater understanding of the effects on waterways and the wider environment has driven increased compliance requirements and expenditure for wastewater treatment and disposal. These increasing standards have financial implications for Council as a provider of wastewater infrastructure and services for our communities.

There are some activities where we are not able to achieve the current levels of service (including some mandatory measures). For some, significant investment is required in order for those levels of service to be met. For example, to comply with the current drinking water standards we need to significantly invest in some of our water schemes.

CHANGING PROPERTY VALUES

Property valuations are carried out by Quotable Value (QV) for rating purposes every three years. The relative changes in property values between different areas and different types of property cause fluctuations in the incidence of rates between different ratepayers. The latest valuations were published in December 2017 which will have consequential impacts on the rates allocation across the District and the incidence of rates.

RELATIONSHIP WITH NELSON CITY COUNCIL

We have a close working relationship with Nelson City Council, and currently have a number of shared service arrangements in place. We also have a range of shared investments including Nelson Airport Ltd, Port Nelson Ltd, and Tasman Bay Heritage Trust, and services such as Nelson Regional Sewerage Business Unit and Nelson Tasman Regional Landfill Business Unit.

Both Councils benefit from the current shared water supply agreement, where Tasman supplies industrial and residential properties in South Nelson.

Saxton Filed has a joint governance committee made up of members from the two Councils recognising its importance as a recreation facility to both Tasma and Nelson.

THE WORLD AROUND US

Tasman District is influenced by many external factors – national and international, environmental, economic and political. Future changes in interest rates, international markets and legislation, as well as natural hazards and climate change, are likely to impact on our finances.

We now have a new Labour Government and it is as yet unclear how its policy direction will affect our Council.

Our resilience and ability to respond to factors outside of our control will be maintained by continuing to have adequate borrowing facilities available. This is provided for in this Financial Strategy. If we spend and borrow to moderate levels, it will provide us with more flexibility to respond to new and changing situations.

3 PRINCIPLES

The following three principles provide the foundation of our Financial Strategy and are useful touchstones against which to test the other components of the strategy.

1. Act prudently with community resources
2. Users meet the costs of service when the benefits of those services are available to be enjoyed
3. Council's activities are affordable for the community

4 GOALS

PROVIDE GOOD STEWARDSHIP OF COMMUNITY RESOURCES

IMPROVE RATES AFFORDABILITY AND VALUE FOR CURRENT AND FUTURE RATEPAYERS

MANAGE DEBT TO ACHIEVE INTERGENERATIONAL EQUITY

PROVIDE GOOD STEWARDSHIP OF COMMUNITY RESOURCES.

We are the stewards of the community resources that we have developed over many years. Our vision is – Thriving Communities Enjoying the Tasman Lifestyle. The services we provide support this vision. The quantity of funding we require from the community and how that funding is distributed amongst different parts of the community impacts the degree to which we deliver on that vision.

Our purpose is to consider not only current communities, but also our future communities. Our goal is to take care of and protect those resources so that they can continue to benefit our District and communities in years to come.

ENHANCE RATES AFFORDABILITY AND VALUE FOR CURRENT AND FUTURE RATE PAYERS.

Our goal is to maintain or improve the affordability of rates over time. It is important that affordability not only for current ratepayers but also future ratepayers is considered. Decisions now could potentially affect rates affordability in the years ahead, meaning there is potential to pass rates burden onto future generations.

Maintaining and also improving rates affordability is important for our ratepayers. Our District has a growing population of older people, many of whom are on lower fixed incomes. We are also a median wage economy with comparatively lower incomes than some other parts of the New Zealand.

MANAGE DEBT TO ACHIEVE INTERGENERATIONAL EQUITY.

For a local authority debt can be helpful in ensuring that those who benefit from the investment pay a fair share of the costs of those assets over their lifetime. Including some debt which can be readily serviced 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 a large proportion of the revenue received 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. In addition, a large burden can be passed on to tomorrow's rate payers to pay off the debt in the future.

In this Strategy we are focused on ensuring debt is used as a useful tool, but is kept at a moderate level to avoid the negative consequences of over borrowing.

In the LTP 2015-2025 we recognised our relatively high debt levels and the concerns expressed by our community. We significantly changed the way we funded our assets and managed our capital programmes to moderate debt increases as a means of addressing this concern. For the LTP 2018-2028 we have retained our focus on debt levels and rates affordability. In this Strategy we establish caps for debt, rates levels, and rates increases.

5 STRATEGIES AND METHODS

To achieve the goals in a way that is consistent with the principles in our Financial Strategy we have adopted five key strategies (or broad directions). For each of these strategies we will use a number of methods to achieve our goals. These strategies and methods are detailed below.

STRATEGY 1 – ACT IN A FINANCIALLY PRUDENT MANNER

We will act with care and thought for the future in the way we manage our financial resources. This means we will act responsibly in our decision making and actions to ensure that the community's funds held by Council are used efficiently and effectively to deliver services and infrastructure to meet current and future needs. When considering the finances to address immediate issues, the longer term impacts on future rate payers and the future community in general will be considered.

METHODS

Run balanced operating budgets

We will run a balanced operating budget in all ten years of the LTP 2018-2028. This means that operating income will meet or exceed operating expenditure each year once non-cash accounting entities have been excluded. The last few years have resulted in significant surpluses where operating income has been significantly higher than operating expenditure. This has been the result of our capital programme operating below the level anticipated which has resulted in lower interest payments and the costs of operating new assets not coming on stream as early as anticipated. Operating efficiencies have also contributed to these surpluses. Over the course of this LTP we will closely monitor the balance between operating income and expenditure and adjust our budgeting (through the Annual Plan) to ensure that we run a balanced budget and we do not generate excessive operating surpluses. Where an operating surplus is generated at the end of any financial year our practice is to carry funds forward to complete projects underway and our preference is where possible to use any remaining surplus to retire debt.

Comply with legislative limits and benchmarks

We will operate within the benchmarks in the Local Government (Financial Reporting and Prudence) Regulations 2014. These Regulations establish the reporting format and Council reports against these in both the Annual Plans and Annual Reports as an assessment of whether Council is prudently managing its financial dealings.

Maintain debt at judicious levels

In recent years we have made good progress in reducing Council's projected debt. Maintaining debt at prudent levels means that a smaller proportion of the revenue received each year is used to pay the interest on loans. The interest we have to pay on debt each year directly impacts rates affordability. The Local Government Funding Agency (LGFA) sets limits on debt (which are reflected in our Treasury Risk Policy). Remaining within these is considered sector good practice and exceeding them is likely to negatively impact our ability to borrow and the cost of borrowing. Maintaining our debt levels below the limits set by the LGFA means Council has some 'head-room' to borrow further to respond to short term needs. For instance Council may need to borrow significantly in the future to recovery from a disaster event or to meet a period in which there are exceptionally high levels of asset renewals required. For this reason Council has selected a debt cap which is significantly below the LGFA regulations

Make financial provision for emergencies

We live in an area that is prone to natural hazards. Climate change is likely to increase the incidence of extreme weather events, meaning we need to be financially prepared to respond these events. In the LTP 2015-2025 we continued the process of building a General Disaster Fund. At the end of the 2016/2017 year this fund had reached $3.4 million plus inflation. The aim is to build this fund to reach $7.8 million including an annual adjustment for inflation. In addition to the General Disaster Fund there is also the Specified Rivers Protection fund, which has a balance of $1.1 million at 30 June 2017.

We also hold reserves to respond to emergencies for those assets most likely to be affected by disasters e.g. transportation, stormwater and parks. These emergency reserves are built up from rates collected for these specific activities and can only be used on those activities. In addition, we are allowing sufficient debt capacity to be able to borrow funds to respond to emergency events should they arise.

Maintain appropriate insurance

As part of our risk management responsibilities we insure our assets against accidental damage, and potential losses. The cost of the Canterbury earthquakes has highlighted the importance of good risk management and the part insurance and/or risk financing plays when it comes to rebuilding public assets. In many instances, councils can provide services in the future only through the continuing use of their assets. Public entities have had to think carefully about how they are managing their risks and how they are using the insurance and risk finance options available to them.

Due to the nature of our activities we have both above and below ground infrastructure assets. Assets below the ground, such as pipes and underground reticulations (excluding roading assets) are insured for catastrophic natural disaster damage through our insurance provider Aon. Repairs to these assets following a significant event are covered 40% through Aon with a large deductible (excess), with the remaining 60% currently being funded by Central Government. Council presently has insurance cover for a $250 million catastrophic disaster event. Subsidised roading assets would receive a minimum of 51% subsidy from the NZTA with the remaining portion of the loss, and non-subsidised assets, to be funded through our Emergency Fund and Council borrowing.

Our above ground assets are insured either through a material damages policy (as this includes fire and other damage), other policies (such as motor vehicles), or are covered by the self-insurance fund if the assets are uneconomic to insure. We also have public liability and professional indemnity cover.

We work closely with our neighbouring councils to obtain the best value for money on our insurance cover in a number of areas through collective insurance cover with other councils.

Retain a good credit rating

We currently have an AA- credit rating with a positive outlook (Standard and Poors). This rating is a measure of our organisational strength including management and governance and means Council is consistently responsible when it comes to managing its borrowing and the wider economic, social and environmental context we operate in. The benefit of having a good credit rating is that it enables access to borrowing at comparatively low interest rates.

Only borrow for capital as cashflows require

Keeping unnecessary borrowing down helps to reduce the amount of interest we must pay. We will carefully monitor the planning and progress of our infrastructure projects and only borrow what is required to fund them when that funding is actually required. In order to minimise the amount of external borrowing necessary, we will often lend internally between different funds or reserves i.e. we will advance funds collected for one activity which are not currently needed for that activity, to fund work in a different activity. This reduces Council's overall borrowing costs and is referred to as funding the balance sheet as a whole.

Deliver results that are close to budget

Over the last few years we have not been able to deliver all of our planned infrastructure programme. The reasons have included delays in negotiations with landowners or developers, detailed planning and consenting taking longer than anticipated, inadequate project lead time and insufficient suitable staff resources. As a result we have spent less on capital expenditure than planned. Each year a proportion of the unspent capital is carried forward to the subsequent year to enable projects that have been commenced to be completed. These underspends have helped to reduce our debt levels below forecasts.

We have been doing work to increase our capability to deliver our capital programmes on schedule. We are putting more rigour into the development of forward work programmes, have increased the number of project managers employed and are considering the secondment of external project management staff. The Infrastructure Strategy and supporting Asset Management Plans include capital programmes that we believe can be delivered.

Operational expenditure has also been less than budgeted in recent years. Favourable external market conditions, operating efficiencies, and timing delays in our capital works programme, have combined to produce three years of significant operating surpluses. In the main, these funds have been used to repay debt ahead of budgets. This also provides operating savings for future years. In using surpluses to repay debt we are also aware of the requirement to ensure each generation pays for its share of costs. We aim to develop work plans and budgets operating within the capacity and capability of the organisation. In the LTP 2018-2028 we have established operational budgets that we believe are required to deliver the levels of service. We plan to operate close to but within these budgets on an annual basis.

STRATEGY 2 –USE OTHER SOURCES OF REVENUE TO MODERATE RATES LEVELS

Rates are an important form of revenue for Council making up 61% of operational income. However, there are a number of other sources of revenue that can also be utilised. The greater the contribution from these other sources of funding, the less Council needs to collect in rates in order to fund its activities and finance its infrastructure investments. We look to utilise the non-rates sources of revenue as much as reasonably possible to help offset the need for rates. We have forecast future revenue from these non-rates sources but are not anticipating significant increases in this over the next 10 years. However, we will focus on making maximum use of them before we look to rates to fund our activities.

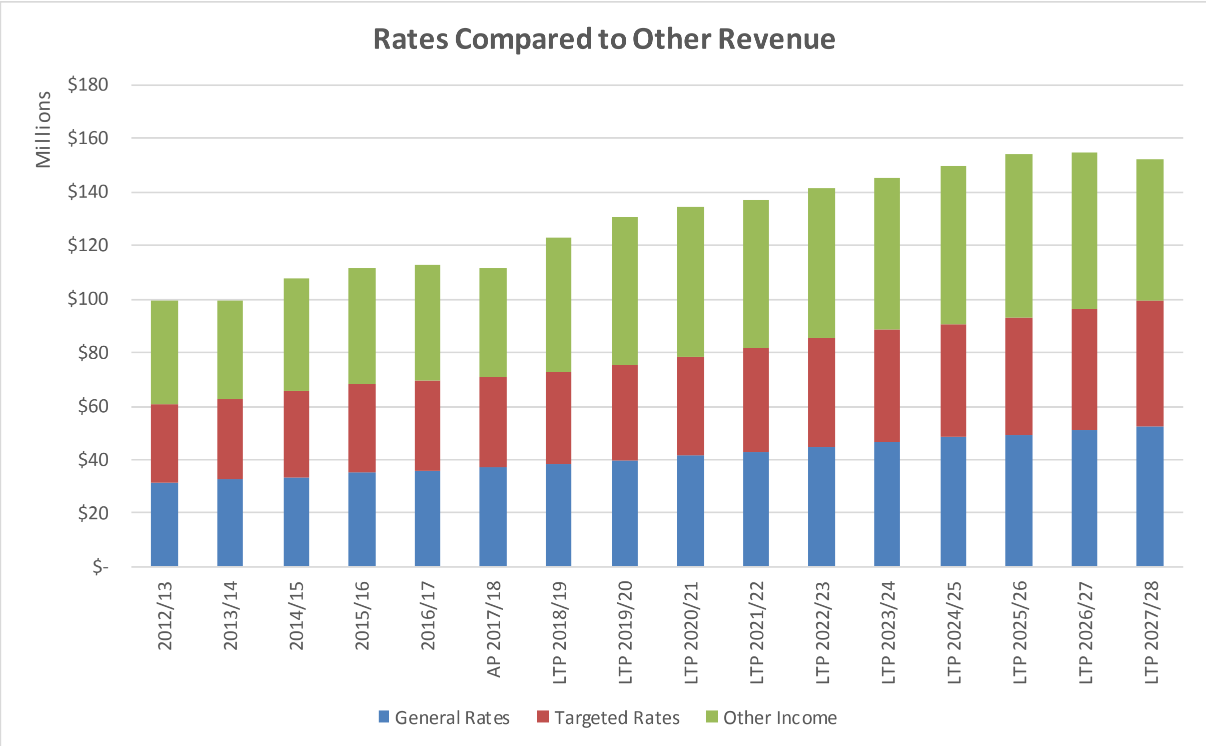

Figure 7: Budgeted Rates Revenue Compared with other Revenue Sources

METHODS

Maximise sustainable returns from commercial and semi-commercial investments

Council holds a number of assets principally for their ability to generate surpluses. In some cases we also hold these assets due to the important role they play in supporting the social and economic fabric of the District. These assets are within the Commercial Enterprises activity and consist of shareholdings in companies such as Port Nelson Ltd and Nelson Airport Ltd. They also include plantation forestry, campgrounds and commercial property assets. We will aim to maximise the returns, including reinvestment in them to maintain or enhance returns, from these assets and shareholdings in a sustainable way with the long-term in mind. This longer term perspective is consistent with our prudence principle. Some of these assets are legacy assets which are being managed using commercial disciplines including maintaining or enhancing returns to Council.

Maximise use of available government funding sources

Central Government has a number of funding pools that are available for us to access to contribute to the provision of infrastructure at a local level. Examples include the New Zealand Transport Agency funding for local roads and the Tourism Infrastructure Fund that assists with the provision of facilities to meet needs generated by tourists. We intend to actively identify and make use of these sources of government funding to help offset costs to our ratepayers.

Review fees and charges annually

We generally set fees and user charges where the user of a service can be readily identified and charged according to their use. In many cases the primary objective for making a charge is to recover the costs (in part or wholly) from beneficiaries. To ensure that this objective continues to be achieved, the level of fees and charges will be reviewed annually with consultation on proposed charges taking place prior to them being decided by Council. Council may review fees and charges more regularly, where budget or commercial pressures require a more agile approach.

Provide major community facilities in partnership

In the LTP 2015-2025 we set a minimum amount that communities had to contribute (i.e. through fund raising) for new, large community, recreational, sporting or community facilities, or for their renewal. Their minimum contribution was set at one-third of the cost. We have continued with this level of community contribution in the LTP 2018-2028. A contribution of this magnitude demonstrates the commitment of the community that will principally benefit from the facility, as well as help reduce the burden on Council's debt and ultimately District-wide ratepayers.

STRATEGY 3: MAINTAIN RATES INCREASES AT MODEST AND STABLE LEVELS

Over the last few years we have been able to constrain the increases in total rates income to a low level which is below the 3% increase cap we sent in the LTP 2015-2025. We aim to continue to focus on maintaining the increase in total rates revenue at modest levels to avoid major fluctuations year on year.

The rates paid on individual properties can vary significantly around the total increase in rates income percentage. The variation of rates levels for a specific property is governed by the value of the property, the services it receives and by the movement of the individual rates that make up the overall balance - including both general rates and targeted rates. Each rate is set on a particular basis with some common methods being based on capital value, land value, fixed charges and volumetric charges.

We use a cross-section of example properties to monitor the rating impacts on different types of properties in various locations in the District. It is not possible to ensure that all properties will receive a rates movement that is at or below our total rates income increase cap of 3% per annum (with an allowance for growth[1]).

One means to assess whether our rates levels are high or low is to compare them with similar councils. Determining whether rates are too high or too low in absolute terms involves judgement with different individuals likely to hold differing views.

As a unitary authority we are responsible for both district and regional council functions. We also have a large geographical area with a relatively small population base distributed among seventeen towns/settlements. These factors all affect both the services we provide and their cost. In comparing our rates levels with other councils it is necessary to choose those which have similarities, rather than those that have very different characteristics.

We can most readily compare ourselves with the other unitary authorities including Gisborne District Council, Marlborough District Council and Nelson City Council. Our rates at $3,017 per ratepayer are higher than for these other council: Gisborne $2,411, Marlborough $2,294, and Nelson $3,002[2]. . The impact of our low rates rises in the last couple of years on our comparative rates per ratepayer is not yet known, however we will continue to utilise these comparisons to chart our progress.

[1] Our allowance for growth ranges from 1.08% and 1.48% per annum over the 10 years of the LTP. These figures represent anticipated growth in the number of rateable rating units in the district as a proxy for the increased rates to be collected as a result of the growth. These figures are derived from the Council's growth model, using a lower of supply & demand methodology. Due to rates factors being set from the 1 July after a change, there is a one year lag between the year of the growth model, and the year this translates into rates growth. For example, growth in rating units occurring during 2017-2018 which is year 0 of the growth model will result in growth in year one of the LTP.

[2] For year ended 30 June 2016.

METHODS

Cap increases in overall rates revenue

In the LTP 2015-2025 we set ourselves an upper cap of a 3% increase in rates revenue per annum, excluding growth. The budgets in the LTP were established on this basis. Over the first three years of the LTP we have managed to keep rates revenue increases to 2.1% in 2015/2016, 0.97% in 2016/2017 and 0.63% in 2017/2018.

In the LTP 2018/2028 we propose to retain the cap on the increase in total rates income excluding growth at 3%. There are a number of factors in Council's activities that are placing upward pressures on our future rates levels. As a consequence, the budgeted total rates income increases are higher than we have achieved over the last few years but still within the 3% cap. During our Annual Plan processes we will review these increases in rates revenue budgets and assess whether there is room to reduce them further.

Whilst an upper cap on total rates income increase of 3% is being maintained, the level of increase in rates for individual properties will vary and in some cases will exceed three percent in any year. The variation of rates levels for a specific property is influenced by the movement of the individual rates that make up the overall balance- including both general rates and targeted rates. Each rate is set on a particular basis with some common methods being based on capital value, land value, and fixed charges. In a revaluation year, the movement of the capital or land values of the property in relation to the others in the district will also have an impact on individual properties.

Avoid major rates fluctuations year on year

Large changes in rates levels year on year can have a disruptive effect on our ratepayers and households. For this reason we intend to manage our finances in a way that avoids major increases (or decreases) in rates from one year to the next. There are a number of mechanisms we can use to smooth out fluctuations between years.

We have a wide range of different rates that apply to different ratepayers. Our rates revenue is made up of a combination of general rates and targeted rates, including volumetric charging. Consequently, the impact and changes to rates for individual properties and property categories varies significantly depending on the services and activities provided to particular groups of rateable properties and in which activities the expenditure driving rates is taking place. As a result the year on year fluctuations in rates changes will vary between different ratepayers and it will not always be possible to smooth out the changes at an individual ratepayer level.

Carefully consider affordability when making decisions that will impact rates

During our LTP and Annual Plan processes we consider the range of services we provide and whether the levels of service i.e. the quality and quantity of services, are set at the right levels to help achieve our vision and community outcomes. At times we face pressure from our community to increase levels of service e.g. to increase the opening hours of libraries and to increase the level of road maintenance. In addition changes in Government legislation or regulation can mean that we are required to undertake new functions or provide service to a higher level than previously.

There are generally good reasons for considering increasing the range of services or levels of service increases. However, such increases are normally associated with additional costs which have to be paid for through either increases in rates and/or increases in other forms of revenue.

Council will carefully consider the impact on rates affordability for our community when it contemplates any levels of service increases or other decisions that may increase rates levels.

Optimise the timing of asset replacement

We estimate the useful life of assets in order to plan when to invest in their renewal or replacement. Multiple factors such as quality of installation and/or material, wear and tear, and location will affect the actual length of an asset's life. Sometimes assets will last longer than estimated, and sometimes they will wear out sooner. We therefore monitor the actual performance of assets throughout their life in order to determine the optimal time for renewal or replacement.

STRATEGY 4: WHERE POSSIBLE, OVER ASSETS' LIFETIMES, CHARGE THOSE THAT BENEFIT FROM THEIR USE

When we invest in infrastructure assets we can generally anticipate them providing benefits for 20 - 30 years or more. During this period they provide benefits to property owners, users, and the community at large. It would be inequitable to expect current ratepayers to pay for the full costs of those assets with long lives. Rather they should be paid for by those paying rates over the lifetime of those assets. In this way those benefiting from the assets pay for them at the time the benefits are received. Debt and funding depreciation are key tools we use to achieve this intergenerational equity.

METHODS

Use debt to fund growth related infrastructure and development contributions to repay this debt

The drivers for providing any piece of infrastructure can be categorised into meeting levels of service, renewals, and meeting the demands of growth. Many pieces of infrastructure will have drivers that are a combination of these. In general we will utilise debt to pay for the portion of new infrastructure that is provided to meet the demands of growth. Members of the growth community will then be apportioned and charged those costs over a time (a planning period or project life) through development contributions. Where there is an extended period between Council paying for the infrastructure and the income being collected, the interest on the debt will also form part of the development contributions charges. In general the total development contributions received should repay the debt for the growth component of the infrastructure.

Use debt to fund infrastructure that increases level of service.

One of the drivers for providing infrastructure is to meet our set levels of service. In general we will use debt to fund this portion of the costs so that we can charge the ratepayers gaining benefit from the asset created over the life of the asset i.e. each year a portion of the cost of creating the asset plus funding costs will be charged to rate payers that year.

Match loan terms to asset lives and to limit the terms of new loans

As a general rule new loans will not exceed a 20 year term, this being the balance of matching intergenerational equity, managing Councils total debt and moderating loan servicing costs, there are however some exceptions. We will match the term of the loan to those assets that have a life of less than 20 years, with the intention that the full cost is repaid over its life. In some cases the term may be longer than 20 years where significant amounts are spent, and the expected life of the asset is considerably longer than 20 years, such as the proposed Waimea Dam.

Fund renewals from depreciation not loans

Until the last LTP 2015-2025 we had funded renewals from borrowing. Since 2015 we have started to progressively fund depreciation (i.e. the wearing out of assets as it occurs). Depreciation will be included in the operational costs which are paid for by rates, fees and charges etc.. This is called 'funding depreciation'. We are three years into a 10-year programme to transition to fully fund depreciation. In the LTP 2018-2028 we expect to be fully funding depreciation by 2024/2025. However fully funding depreciation needs to be understood with regard to the following;

- The New Zealand Transport Agency funds 51% of the roading asset network and consequently we do not rate for this portion of depreciation on roading assets;
- Some assets will not be replaced by Council because they are no longer required;
- Renewals for some activities e.g. parks and reserves development and river control are funded directly from rates or fees and charges .

Therefore we will never fully fund the depreciation expense that is disclosed in our Statement of Revenue and Expense.

To fund depreciation, Council is receiving cash from rates for the renewal of its assets. Council does not hold cash that matches the depreciation reserves, but rather has a policy of managing its debt and cash flows as a council-wide position. This depreciation funding will reduce debt substantially over the next 30 years. As a large portion of replacement of our pipes and bridges commences after Year 30, Council's debt will then need to increase to accommodate this spend. Council plans to undertake more mature renewal planning over the next three years to better understand this issue.

The advantages of funding depreciation are in reducing debt and as a mechanism for those benefiting from the assets to pay for them at the time the benefits are received. The move to fund depreciation through rates means that there is less capacity within our rates cap and rates increase cap to raise rates to fund other work. This in turn has forced us to carefully prioritise other operational spending. Managing the timing of the stepping in of depreciation funding has been used to smooth the increases in rates income over the ten years of the LTP 2018-2028.

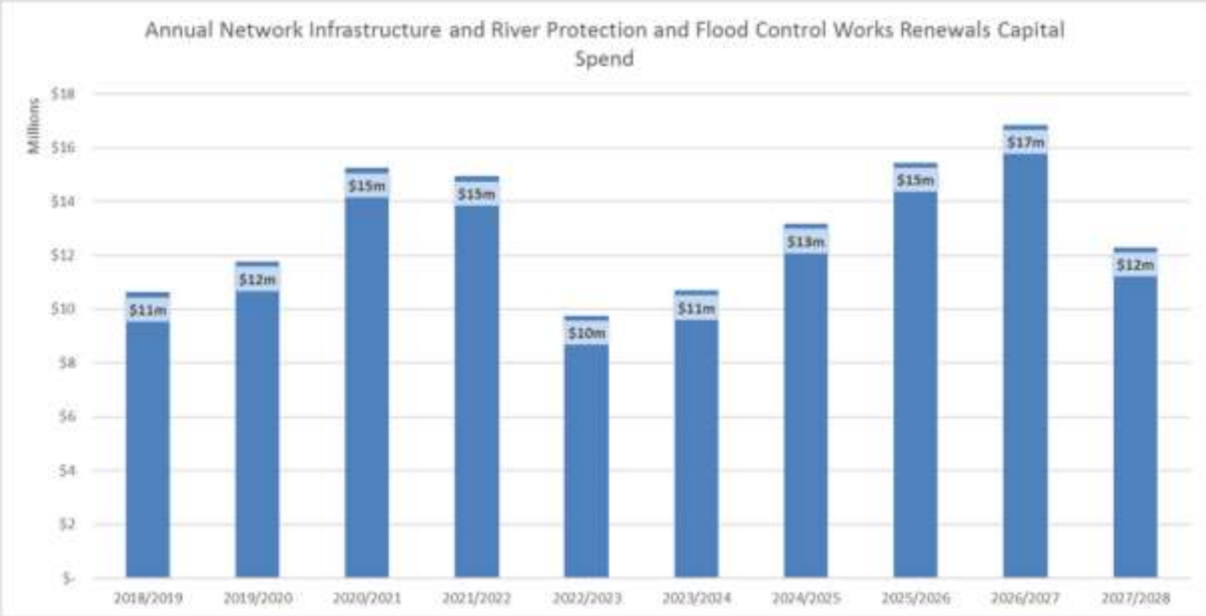

Figure 8: Annual Network Infrastructure and River Protection and Flood Control Works Renewals Capital Spend

Have equitable funding arrangements with Nelson City Council for shared assets/services

Council funds a number of services jointly with Nelson City Council, such as Nelson Regional Sewerage Business Unit, Nelson Tasman Regional Landfill Business Unit, Saxton Field, Nelson Provincial Museum and Suter Art Gallery. In these cases there are clear benefits of having a joint funding arrangement. Council is aiming for fair and reasonable distribution of costs and benefits to Tasman ratepayers.

STRATEGY 5: SHARE THE COSTS OF PROVIDING SERVICES ACROSS THE DISTRICT

With a large geographic area and numerous settlements, the costs for us to provide similar services varies due to the topographical and physical nature of the areas, as well as the previous investment in assets. Often it is less costly per head of population or household where there is a larger concentration of people. Council shares these economies and dis-economies of scale in the provision of basic services such as community facilities, wastewater, stormwater and urban water supply across the District – this is called the 'club approach'.

METHODS

Encourage shared funding approach for services

Council will encourage an approach that sees the whole District contribute funds to a range of key infrastructure assets irrespective of their location and the population they serve, although targeted rate differentials can still be set to reflect differing levels of benefit under this approach. Through a **"club" approach**, all members will share in the costs and benefits of paying for each other's infrastructure and services which helps provide more certainty and affordability to rates and helps ensure consistent levels of service across the district. Once in a "club", areas cannot opt out in the future. Before an area first joins a "club", Council will review its assessment of who pays and why for the associated activity. In making this assessment, Council will consider factors including the future capital works programme and its timing. Council may determine that the area should pay more, temporarily, to ensure an appropriate distribution of costs relative to benefits in the event of significant planned capital works in the area. This '"club" approach is currently used across the District for community facilities, wastewater and stormwater and for most of the urban water schemes.

Utilise broad catchments to pay for growth-related network infrastructure

Council uses development contributions as a mechanism to charge the development community for the costs involved in providing new transport, water supply, wastewater and stormwater infrastructure to service land for development. In the proposed Development Contributions Policy we have defined five broad catchments with different levels of development charges for each. This means that wherever a development takes place within a catchment, the average costs for growth-related infrastructure in that catchment is charged. This approach shares the costs of providing the infrastructure equally within each catchment, irrespective of the actual costs of doing so for a specific piece of land. Working in this way strikes an appropriate balance between reflecting the different costs of providing infrastructure in different locations in the District and simplifying the administration of the development contributions system.

6 CAPS ON RATES, RATES INCREASES AND DEBT

Under the Local Government Act section 101A(3)(b)(i), Council is required to set quantified limits on rates, rate increases, and borrowing. These caps are useful for agreeing with the community the boundaries to Council's financial envelope and in providing some certainty on rate and debt levels.

CAP ON RATES INCOME

To assist in keeping rates affordable, general rates income is capped at a maximum of $65 million per annum and targeted rates income to $60 million per annum over the life of the LTP 2018-2028.

CAP ON RATES INCREASES

Total rates income increases will be capped at a maximum of 3% per annum, plus an allowance for annual growth in rateable properties. This growth component varies from 1.08% to 1.48% per annum during the 10 years of the plan.

Within this overall cap, individual property rates may change to a greater or lesser extent depending on the services available to the property and changes to relative property values.

Under this Strategy rates income increases remain at a modest level throughout the LTP 2018-2028.

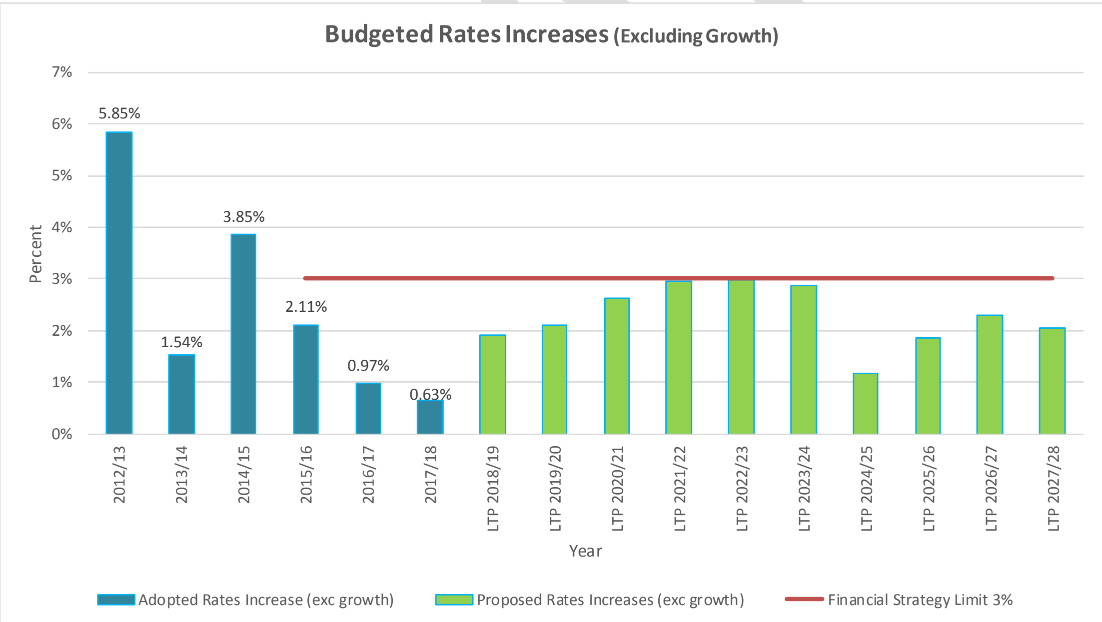

Figure 9: Budgeted Total Rates Increases

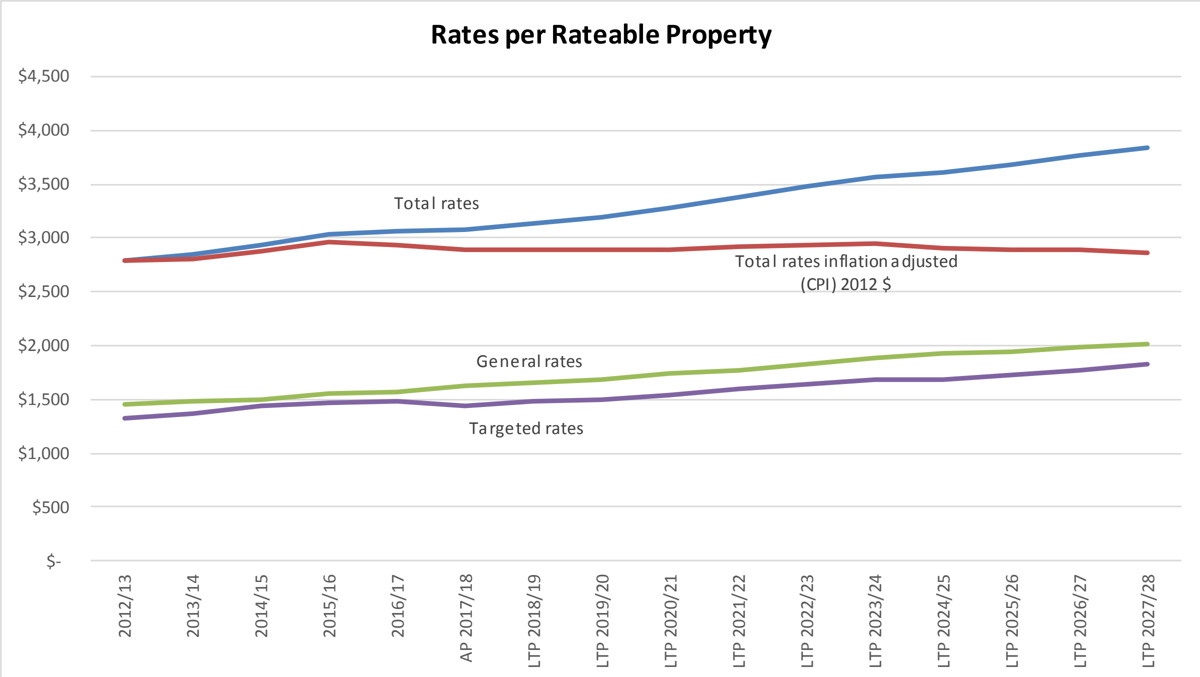

Figure 10: Projected Rates Per Rateable Property

This graph highlights that rates per rateable property, in real terms, are not increasing over time.

CAP ON DEBT

Council will cap net external debt[3] at a maximum of $200 million for the term of the LTP.

The NZ Local Government Funding Agency (LGFA) stipulates a number of financial limits which are contained within the Council's Treasury Risk Policy. Not exceeding these limits is considered best practice in the local government sector. If Council exceeds these limits it is likely that the cost of borrowing will increase significantly and we may have difficulties sourcing borrowing. In this Financial Strategy Council has taken the step of stipulating more stringent caps on net debt than those in its Treasury Risk Policy to help improve rates affordability and reserve the capacity for further borrowing should that become necessary in the future.

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

Council's net debt is projected to be $189 million at 30 June 2018 ($8,113 per rateable property). Financial projections show net debt will peak in 2021/2022 at $199 million, and then reduce to $147 million by 2028.

[3] Net external debt is external debt less cash and cash equivalents.

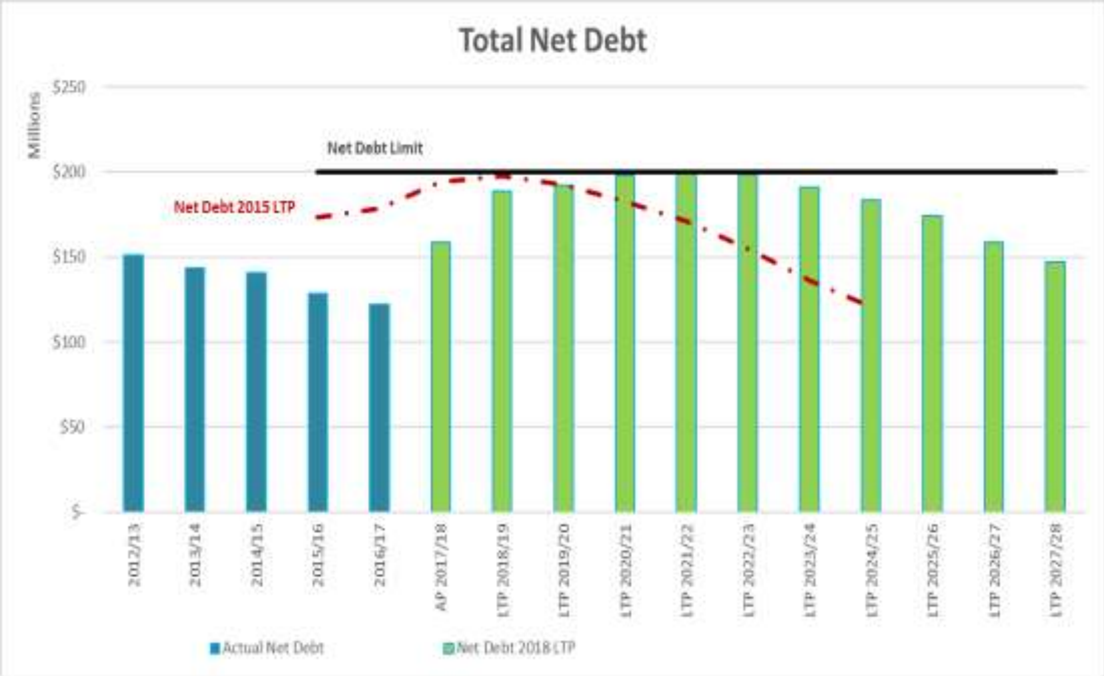

Figure 11: Projected Net Debt

Total net debt is expected to peak later than forecast in the 2015-2025 LTP and fall from the peak later. This is because some projects that had been planned to be undertaken before 2018 have been deferred to future years, growth is taking place more quickly than anticipated in the last three years and there is need to invest to achieve levels of service e.g. to meet drinking water standards.

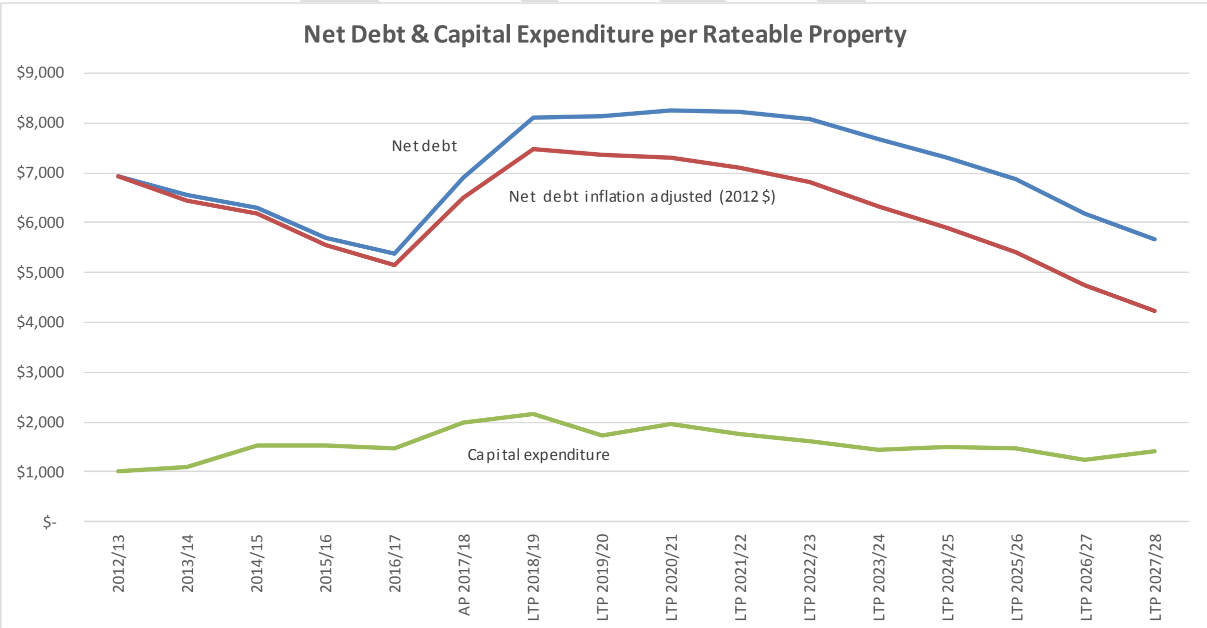

Figure 12: Net Debt and Capital Expenditure per Rateable Property

The capital spend in the above graph includes the capital investment proposed to be made, by Council, to the organisation that will govern the construction of the Waimea Community Dam.

The graph highlights that capital expenditure per rateable property is relatively static over the term of the plan, representing the level of services provided to individual properties.

TREASURY RISK MANAGEMENT POLICY LIMITS

In the table below:

Total Operating Income is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).

Net External Debt is defined as total external debt less liquid financial assets and investments.

Liquidity is defined as external term debt plus committed bank facilities plus liquid investments divided by current external debt.

Net Interest on External Debt is defined as the amount equal to all external interest and financing costs less external interest income for the relevant period.

Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 (including volumetric water charges levied) together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

Financial Covenants are measured on Council only (i.e. excluding Council Controlled Organisations) not the consolidated group.

COUNCIL'S TREASURY RISK MANAGEMENT POLICY BORROWING LIMITS

Measure	Limit	Year 1 2018/19	Year 2 2019/20	Year 3 2020/21	Year 4 2021/22	Year 5 2022/23	Year 6 2023/24	Year 7 2024/25	Year 8 2025/26	Year 9 2026/27	Year 10 2027/28
Net External Debt / Total Operating Income	<225%	162%	155%	155%	150%	143%	135%	126%	116%	106%	99%
Net External Debt / Equity	<20%	13%	13%	13%	13%	12%	11%	11%	9%	8%	8%
Net Interest on External Debt / Total Operating Income	<15%	8%	7%	7%	7%	6%	6%	6%	6%	5%	5%
Net Interest on External Debt / Annual Rates Income	<25%	13%	12%	11%	11%	10%	10%	10%	9%	8%	7%

One of the mechanisms for managing Councils debt portfolio is through the adoption of the Treasury Risk Management Policy. Within this policy, there are a number of borrowing limit matrices. These matrices, as detailed above, are best practice within the sector, and mirror the requirements set out by the Local Government Funding Agency, (LGFA) for Council's borrowing.

7 IMPACT ON LEVELS OF SERVICE

Council is tasked with providing good quality local infrastructure and local public services, and regulatory functions in a cost effective way. This Financial Strategy is designed to maintain the level of services, facilities and regulatory functions provided by Council.

We have planned for a careful balance between the need for new and replacement infrastructure, levels of service and achieving Council's financial goals of reducing debt and limiting rates income increases. Some difficult decisions about delaying or foregoing future projects have been taken in the Infrastructure Strategy in order to stay within the caps on debt, rates and rates increases in this Financial Strategy.

In the Infrastructure Strategy we have maintained the range of services that we deliver. Cuts to non-essential projects or delays to others are not expected to reduce the levels of service enjoyed by our communities. In some cases significant investment is planned to enable us to achieve levels of service. As this investment is made, our ability to more consistently deliver the levels of service should improve. In the longer term, better management will allow us to get more life out of the assets we own before they have to be renewed.

The levels of service enjoyed by new residents should be broadly consistent with those enjoyed by existing residents in the same area of the District, as we have planned to provide infrastructure and services for areas of new development.

8 POLICY ON GIVING SECURITY FOR BORROWING

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

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)

Council considers a charge over physical assets to be appropriate

Any pledging of physical assets complies with the terms and conditions contained within the security arrangement

Council may provide credit support for Council controlled organisations but not for Council controlled trading organisations

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

9 FINANCIAL INVESTMENTS AND EQUITY SECURITIES

OBJECTIVES AND TARGETS

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 Council on the management and investment in commercial and semi commercial activities.

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

a) Commercial property – Mapua, Richmond
b) Port Tarakohe
c) Forestry holdings
d) Holiday parks – Motueka, Murchison, Pohara, 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 programme, with the necessary income retained within the group to support its ongoing growth and reinvestment requirements.

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

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). Council manages all of these investments together. This minimises the level of financial investments, particularly as reserve funds are no longer held in cash.

Council may invest in approved financial instruments as set out in the Treasury Risk Management Policy. We have a policy of only investing in approved creditworthy counterparties. These investments earn market rates of return and are aligned with 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 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. Equity investments may be held where Council considers this to be of strategic value to the community. 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. Any purchase or disposal of equity investments requires Council's approval. 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 and Civic Financial Services Ltd. We also hold asset investments, primarily forestry. In addition, we hold investments in commercial and semi-commercial legacy property, including community housing and camping grounds.

Note - if the proposed Waimea Community Dam proceeds, then a Council Controlled Organisation (CCO) will be established and Council will hold a minimum of 51% of the voting shares in this CCO at all times.

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. Council holds 12,707,702 shares. 2016/17 book value: $87.559 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 representing not less than 50% of net profit after tax and not more than 75% of net profit after tax. (2017/18: proposed dividend of $5.5 million, shared between the two councils).
Nelson Airport Ltd Council is a 50% owner with Nelson City Council. Council holds 1,200,000 shares. 2016/17 book value: $26.164 million.	Maintain 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.	Annual dividend both higher than the previous financial year dividend and inflation (Consumer Price Index) for the last published annual period. [2016/17 dividend of $720,000 per annum, shared between two council shareholders).
New Zealand Local Government Funding Agency Limited (LGFA) Council holds 3,731,958 shares (including uncalled capital). The LGFA is owned by the Crown and 30 local authorities. Council is a minority shareholder and its book value at 2016/17 was $4.47million. 2016/17 LGFA net assets: $53.91 million.	a) Obtain a return on the investment. b) Ensure that the Local Government Funding Agency has sufficient capital to remain viable, meaning that it continues as a source of debt funding for Council. c) Access loan funding at lower rates. Because of these multiple objectives, where it is to the overall benefit of Council, it may invest in shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. If required in connection with the investment, Council may also subscribe for uncalled capital in the LGFA.	The company's policy is to pay a dividend that provides an annual return to shareholders equal to the Local Government Funding Agency cost of funds plus 2%. This equated to $103,748 for 2017/18.

EQUITY INVESTMENT	OBJECTIVES	TARGET RETURNS
Civic Financial Services Ltd Civic Financial Services was initially established as an insurance vehicle for local authorities. The company now provides financial services for the New Zealand Local Authority Protection Programme Disaster Fund (LAPP), and the Super Easy and Super Easy Kiwi Saver superannuation schemes. Council holds 65,584 shares. Council is a minority shareholder. 2016/17 book value: $100,298. 2016/17 net assets: $17.204 million.	Council initially invested in Civic Financial Services Ltd through Riskpool and LAPP 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.
Forestry Current Council forestry policy to operate and maintain up to 3,000 planted hectares. 2016/17 book value: $35.4 million. Note: this is an asset investment, rather than an equity investment.	Forestry is a flexible investment that can be managed to suit cash flow requirements and market conditions by making choices about harvesting times. Economies of scale with 3,000 hectares provides a marketing advantage and cost savings in operations.	10% of net forestry revenues derived from Moturoa/Rabbit Island must be used for maintenance of Moturoa/Rabbit Island each year. Internal dividends contribute to reducing Council's general rate requirement, assist with the repayment of Council debt, or provide support for the capital programme in relation to commercial or semi-commercial activities.
Proposed Waimea Community Dam CCO – Waimea Water Ltd**.** The proposed equity investment is $33.78m. Council will hold a minimum of 51% of the voting shares at all times. Council will appoint the majority of directors.	The Company purpose is to own and operate the proposed Waimea Community Dam, on a cost recovery basis. Council's 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 breakeven basis only. There will be no dividends paid to shareholders.

10 GLOSSARY

TERM	DEFINITION
Asset investment	Investments held in physical capital assets rather than shares (equity investment). Council's primary asset investment is forestry. In addition, Council holds investments in commercial and semi-commercial property, including community housing and camping grounds.
Capital cost	The cost of creating or acquiring new physical assets or to increase the capacity of existing assets beyond their most recently assessed design capacity or service potential.
Depreciation	Depreciation is an estimate of the wearing out, consumption or loss of value of an asset over time.
Equity investment	An equity investment generally refers to the buying and holding of shares in anticipation of income from dividends and capital gains, as the value of the stock rises. Council can also hold equity investments for strategic purposes.
General Rates	The general rate funds activities which are deemed to provide a general benefit across the entire district or which are not economic to fund separately. It is charged to every rateable property in the District.
Levels of Service	This term describes what Council will deliver. Performance measures are specific indicators used to demonstrate how Council is doing regarding delivery of services. The measures are described in each Activity Management Plans. Council reports on the levels of service it delivered and on the performance measures each year through the Annual Report.
Liquidity	The ability or ease with which assets can be converted into cash.
Net External Debt (net debt)	Net external debt means total external debt less liquid financial assets and investments.
Net Interest	Net interest is interest paid less interest income received.
Operational expenditure	These expenses, which are included in the Statement of Comprehensive Income are the regular costs of providing ongoing services and include salaries, maintaining assets, depreciation and interest. The benefit of the cost is received entirely in the year of expenditure.
Rates Income	Income derived from setting and assessing general or targeted rates.
Renewals	The replacement of an asset or its component that has reached the end of its life, so as to provide a similar, or agreed alternative, level of service.
Targeted Rates	A targeted rate is designed to fund a specific function or activity. It can be levied on specific categories of property (e.g. determined by a particular use or location) and it can be calculated in a variety of ways (e.g. based on capital value, as a fixed amount per rateable property etc.).
Total Operating	Total operating income is defined as earnings from rates, government Grants and

TERM	DEFINITION
Income	subsidies, user charges, levies, interest, dividends, financial and other revenue, but excludes non-government capital contributions, (e.g. developer contributions and vested assets).
Uncalled capital	Capital that a company has raised by issuing shares or bonds but that the company has not collected because it has not requested payment.