



WAIMAKARIRI
DISTRICT COUNCIL

Financial Strategy 2021-2031

Leaving a positive print on the future of our district.

FINANCIAL STRATEGY

Introduction

This Financial Strategy outlines the key financial parameters and limits within which the Council will operate over the next ten years. It also provides a guide against which proposals for expenditure and funding may be considered, and gives a context for public disclosure of the overall effect of long term expenditure proposals on levels of service, rates, debt and investments.

Factors that will have a significant impact on the work programme and rating levels from 2021 to 2031 are set out in this Financial Strategy. An overview of key issues relating to each group of activities is described in this draft Long Term Plan (LTP) under each activity. The Council Infrastructure Strategy for the next 30 years to 2051 is also provided in this LTP.

As identified in the 2018-2028 Financial Strategy, the rating requirements over the next ten years are again influenced by both the consequences of recovering from the Canterbury earthquakes of 2010 and 2011, continuous population growth and demand for improved levels of service.

The regeneration programme has evolved from the earthquake recovery programme. The need to provide for growth is once again a significant factor over the next ten years as the District is expected to continue to be attractive for residential settlement and business investment. The following twenty years from 2032 to 2052 is also based on the assumption that there will be on-going growth and demand placed on Council's infrastructure and this is reflected in the 30 Year Infrastructure Strategy. The Infrastructure Strategy shows that the vast majority of the Council infrastructure is not due for renewal until nearer the end of the 21st century.

The Asset Management Plans and the 30 Year Infrastructure Strategy underpin the Financial Strategy. These documents have identified the on-going Levels of Service expectations that have been agreed with the community, any upgrades required by national standards (such as drinking water standards), any improvements to current levels of services and the extent of community infrastructure needed to accommodate growth.

Strategic objectives

This financial strategy is aimed at responding to the needs of the community in an affordable way, while funding long term projects so that future generations, who benefit from community infrastructure, pay their share. As the District's population grows, the demands for increased levels of service grow, as do the requirements of national standards. These cost drivers have a constant pressure on rates to fund these requirements. It is expected that net debt will continue to grow relative to growth, as the Council will be required to fund asset renewals to maintain levels of service, cater for growth, respond to community expectations, and meet the requirements of national standards. The key components of Council's strategic direction are;

- Restrict operating expenditure movements to the rate of Local Government Cost Inflation (LGCI), excluding catering for population growth and improved levels of service;
- To continue to progressively fund the cost of reinstating of the Council's community assets relating to the 2010 and 2011 earthquakes at levels that keep rates increases to a minimum and affordable;
- Maintain debt within policy limits, while maintaining headroom to recover from a significant natural disaster;

- Maintain the current prudent financial management while still providing high quality levels of service to both current and future generations.

Significant factors that have been considered within the Financial Strategy

Canterbury earthquakes

The financial effect of the Canterbury earthquakes and the associated rebuild programme are provided for in the LTP. Even though the majority of the earthquake reinstatement works have been completed, the repayment of the loans have been smoothed over 25 years in recognition that future generations will benefit from the reinstatement works and the red zone regeneration programme. To minimise the impact on rates increases, the rate was progressively increased by about 1% per annum in order to fund this expenditure. Since Covid-19, to keep rates lower, the amount progressively funded has been reduced slightly and funded over a slightly longer term and take into account the regeneration programme from earthquakes and Covid-19.

In 2012 the Council decided to reinstate a number of community facilities that had been damaged by the earthquakes including refurbishing the Rangiora and Oxford town halls, the Kaiapoi aquatic centre, and a complete rebuild of the Kaiapoi library and service centre. Although some of the costs of these reinstatement works were met from insurance, other components of these costs were met from borrowing, and the ongoing servicing of these loans are also forecast to be met from rates throughout 2021-2031 LTP.

Growth

The estimated population of the District is expected to increase from 66,900 in 2021 to 77,700 people in 2031. The number of rateable properties in 2021 of 26,300 is forecast to increase to 30,600 properties by 2031. The District is well placed to cope with growth over this period with the Eastern Districts Sewerage scheme in place, upgrades to community water supplies complete in Rangiora, Tuahiwi, Summerhill and Oxford, and sufficient zoned land for residential subdivision. Most of the population growth over the next ten years is expected to be in the eastern area of the District. Sufficient zoned land is included in the District Plan to accommodate the expected growth. This is further detailed in the 30 Year Infrastructure Strategy.

The model indicates that if growth varied by 1% to the growth forecast in the Long Term Plan for any unforeseen event, the effect in dollar terms in 2021/22 is about \$31 to the average rateable property.

Significant current and future programmes

Multi-use sports facility

The multi-purpose stadium will be completed in July 2021 and costing \$28m is being loan funded over 25 years. The cost to each rateable property is about \$71. The funding strategy is to fund the loan costs progressively over 3 years to meet the full funding costs.

Storm Water Overflow Mitigation

Rainfall events in June 2014 caused overflows in many of the District’s storm water and drainage systems. Over the next 10 years \$50m provided for in the LTP for improvement to the levels of service works programme to improve overland drainage and mitigate flooding. The Council were successful gaining \$9m Government funding for, what was referred to as, “Shovel Ready” projects. This is a stimulus package to help recovery the economy from the effects of Covid-19 (Coronavirus) and to put towards current programmes that were ready

shovel ready. A number of projects were bought forward that met the criteria of funding. The rating effect is being managed by spreading the Council’s funding costs out over a number of years and to match more closely the costs/benefits.

3 Waters (Drainage, Water and Wastewater activity)

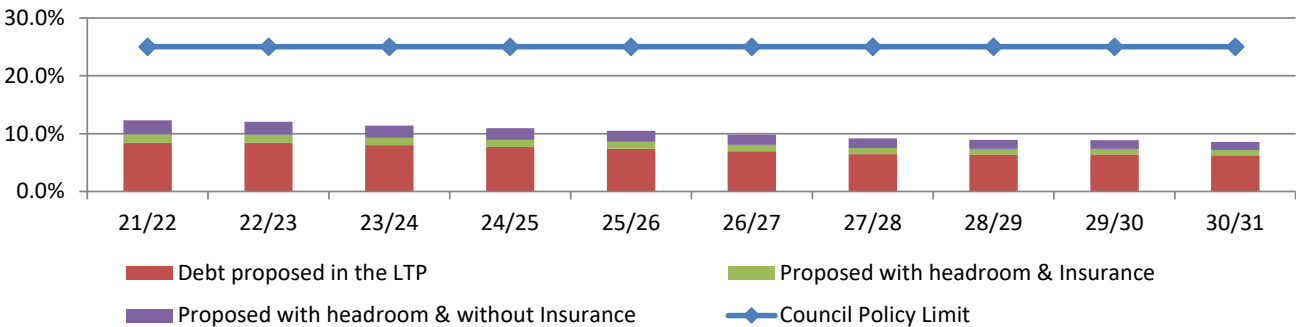
The Government proposes to transfer Council’s management of 3 Waters to another entity. At this stage the form and function of the new entity is not known. In the meantime the Council has incorporated 3 Waters within its Financial Strategy based on the activity being a going concern with the Council remaining as the steward over these activities. The Council is working with the Government and signed up for what is referred to as a 3 Waters “Stimulus” package. This provides two tranches of about \$4m each to the Council to place towards 3 Water programmes. The Stimulus funding has provided additional capacity and opportunity to address a number of future programmes and bring these forward to 2021 - 2022. Much like the Shovel ready programme, the Stimulus programme and funding has been incorporated into the budgets and the effects spread over a number of years of the LTP.

Budget provision to recover from another major natural disaster

Council has developed a Risk Assessment and Financing Strategy that considers the likelihood and severity of major natural disasters, and to assess how they would impact on Council’s operations, and financial capacity to cope during the recovery phase. Council maintains borrowing “head-room” of up to \$84m (without insurance being available and \$32m with insurance being available) in the LTP, allowing for its share of funding of the estimated damage and repair cost of \$218m in the event of a “worst credible disaster scenario” following a major earthquake. This is not proposed expenditure for 2021 to 2051, but provision for borrowing capacity in the event of a worst case natural disaster in this time period. Although debt comes close to the self-imposed limits during the first four years of the LTP, the repayment programme in place brings debts well within the limits in later years. Should a disaster occur the Council has the ability to cancel and postpone programmes and still be within policy limits.

Debt comparison to policy limits

Table 1: Interest cost on debt as a percentage of rates revenue



Price level adjustment for inflation

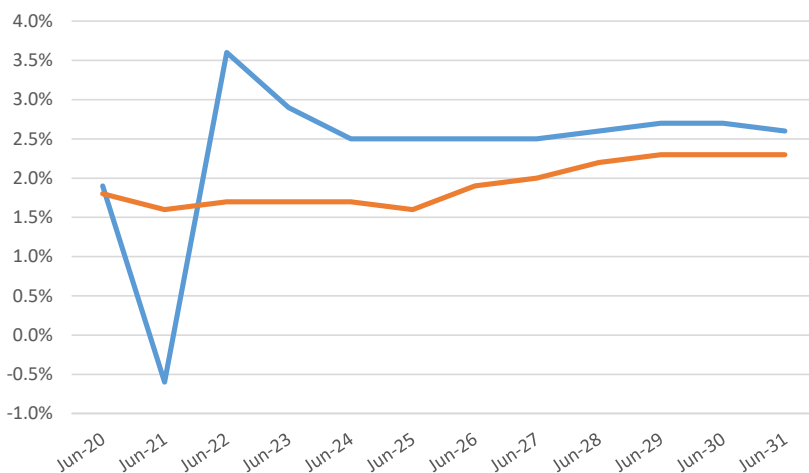
This Long Term Plan is adjusted for expected price movements over the next ten years. The price level adjusters have been derived from those recommended to local government from Business and Economic Research Limited (BERL). Given the Long Term Plan is forecast over 10 years, applying price level adjuster provides for inflationary movements, from which the rates and other revenue movements are derived.

It should be noted that the Consumer Price Index (CPI) is not a particularly helpful indicator for local government inflationary costs because construction and infrastructure costs are not incorporated into household expenditure when calculating the CPI.

Inflation forecasts for Council's capital expenditure are expected to increase at a faster rate than salaries and wages and the CPI on average, and this will place greater pressure on Council's costs and rates in future years. In the later years of the LTP rates are forecast to be close to the LGCI.

The BERL 10 year Local Government Cost Index (LGCI) average price movement to June 2031 2.5% as compared with the overall Consumer Price Index (CPI) of 2.1%. The cumulative effect over the 10 years is that the LGCI will rise 29.7% compared to the CPI of 21.3%.

Table 2: Annual movement LGCI compared to the CPI

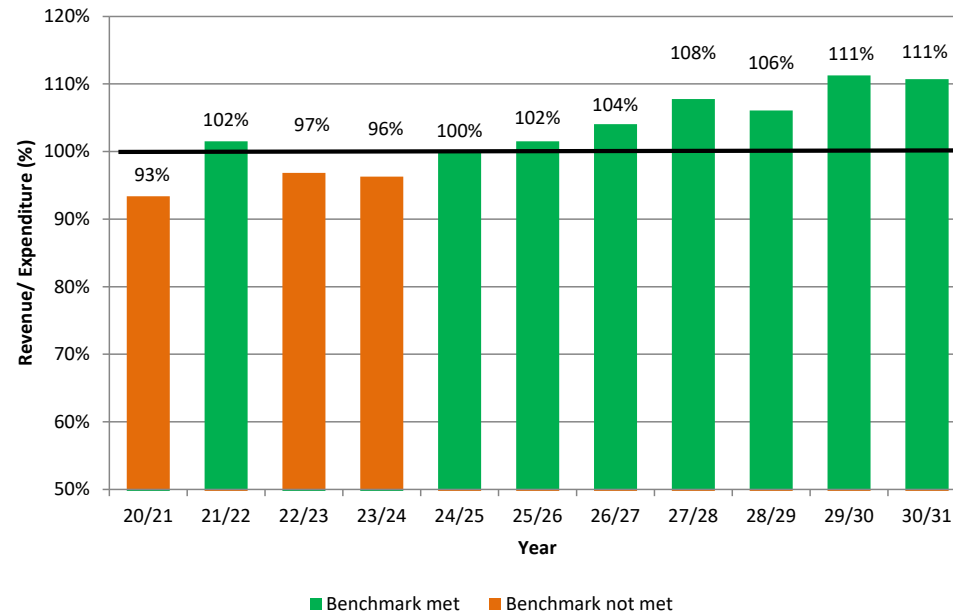


Balancing the Budget

It is expected that operating expenditure will increase from \$110m in the 2021/22 financial year to \$147m in the 2030/31 financial year. This increase is due to a larger population, the demands for increases in levels of service, and the price level adjustment (which accounts for \$37m of the projected increase). The LGCI price level adjustment for inflation is the largest increase at 57% of the total increase in rates over the ten years.

The following graph displays the Council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment). The Council meets this benchmark if its revenue equals or is greater than its operating expenses. In the first five years the reason the revenue is less is due primarily to term debt being used to fund operating costs relating to the Earthquake and Regeneration programmes and the District Plan review.

Table 3 Revenue as a percentage of Total Operating Expenditure



Although the forecast revenue comes close to meeting the forecast expenditure, it doesn't within the first five years, primarily due to the combination of two factors or funding strategies. Firstly earthquake debt is being funded progressively and The other is in relation to the depreciation funding policy, where the amount of depreciation that is funded is equal to the replacement cost of the asset, and the amount received from depreciation and investing this depreciation funding over the life of the asset.

Table 4: Operating Expenditure

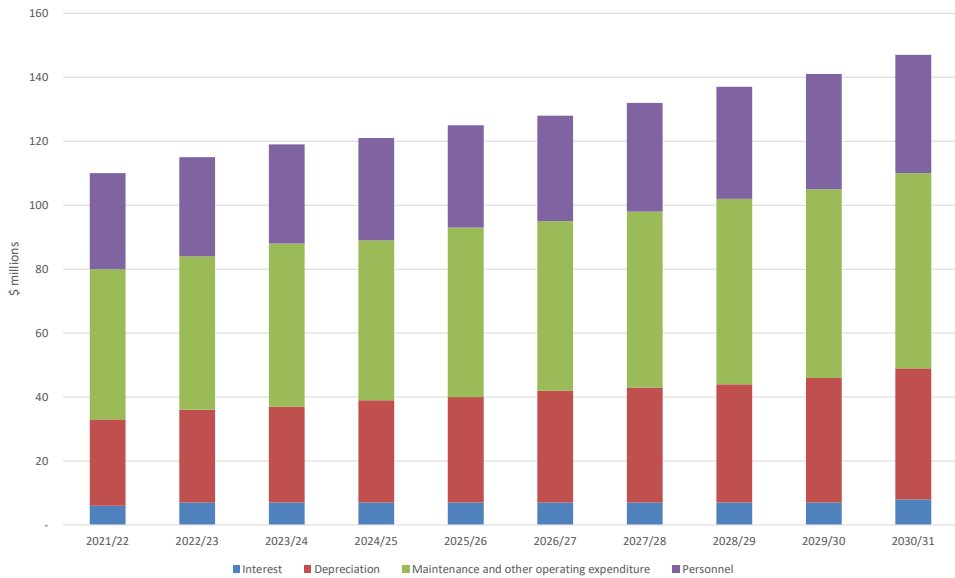
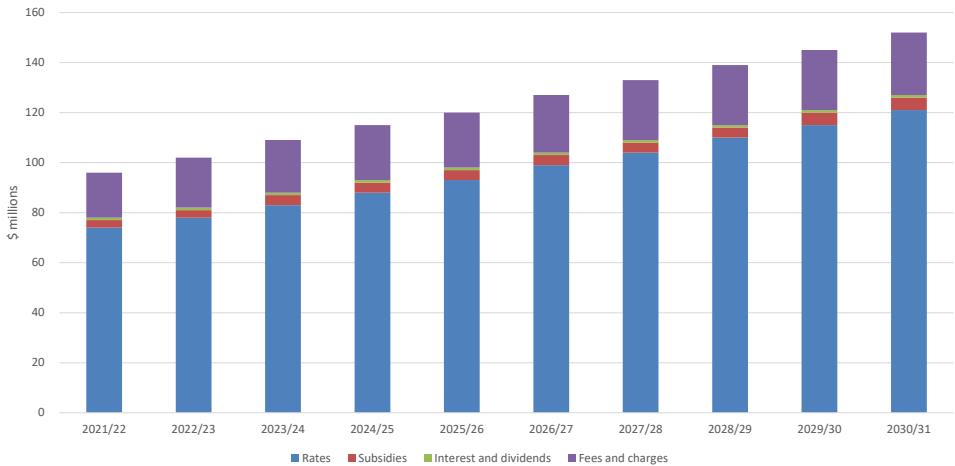


Table 5: Operating Revenue



Capital Expenditure Programme

In the previous 10 years forecast the Council has invested \$440m into renewing, extending and improving core infrastructure. Within the next ten years of the LTP the Council is forecasting \$529m investment into core infrastructure.

Renewal of Existing Infrastructure

\$163m on replacement capital projects, 28% of which will be in the wastewater, stormwater and water supply areas, 45% on roading and 18% on Recreation, including Libraries and Aquatic facilities.

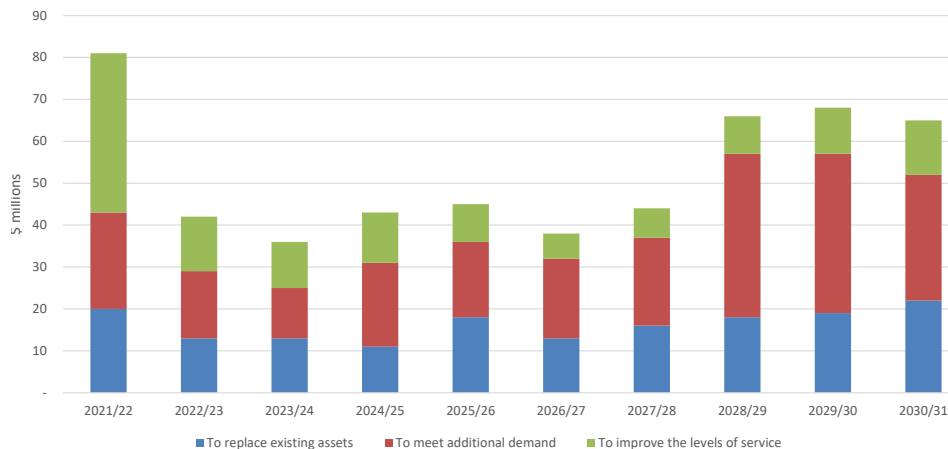
Improving Levels of Service

\$129m on new Levels of service capital projects on meeting water quality standards, improving drainage, and other levels of service. 55% of which will be in the wastewater, stormwater and water supply areas, 23% on roading and 10% on Recreation, including Libraries and Aquatic facilities.

Additional Growth and Demand on Infrastructure

\$236m on projects relating to growth, 24% of which will be in the wastewater, stormwater and water supply areas, 38% on roading and 26% on Recreation, including Libraries and Aquatic facilities.

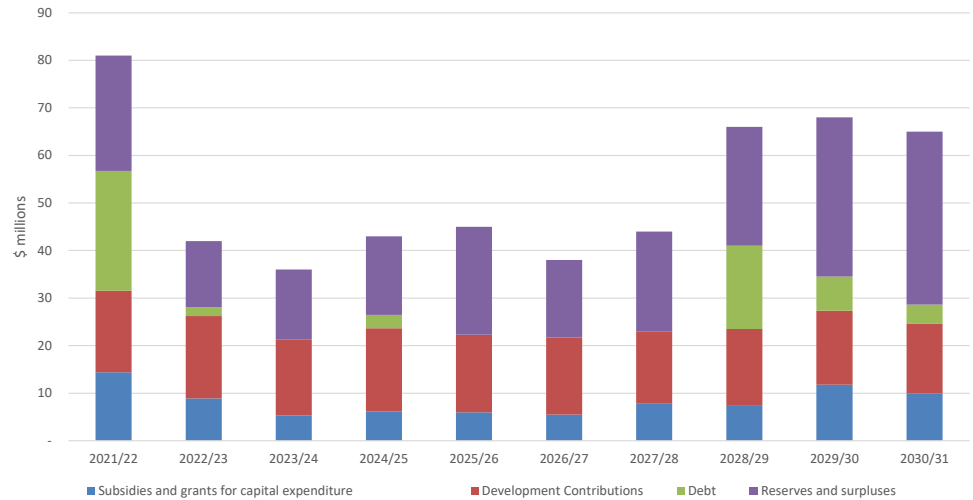
Table 6: Capital Expenditure over the 10 Years of the LTP



Capital Funding

The capital expenditure is to be funded from the following revenue source, Subsidies and grants \$123m, Development Contributions \$151m, Asset sales \$1m, Depreciation funding and reserves \$41m, Debt funding \$206m. Debt is used to fund any shortfall in funding.

Table 7: Capital Funding sources

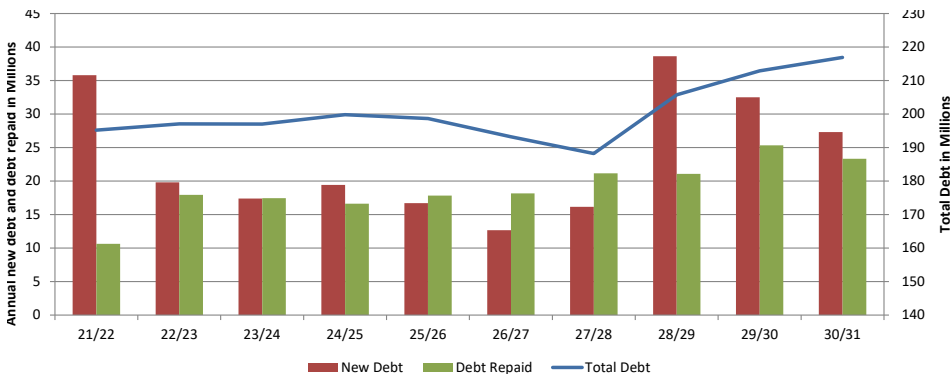


Debt Management

The Financial Trends section of this strategy provides the extent of capital works and the funding sources.

The Council Treasury Policy provides for risk management of its liabilities and investments. The Council generally raises and makes budgetary provision within the LTP for the repayment of debt depending on the average weighted life of the assets up to 50 years. Although the Council will be raising new debt to fund the proposed capital programmes, over the next 10 years the Council is making provision within the LTP to repay \$155m of debt raised. The maximum amount of debt that is maturing in any year can generally be no more than 33% of total debt. The following table shows the summary profile of total debt, new debt and the provision made for annual repayment of debt.

Table 8: Total Borrowing and Repayments



Debt outstanding over the ten years to 2030/31 will increase by \$34m from \$183m in June 2021 to \$217m by June 2031. Debt is still within the self-imposed policy limits by Council, which includes sufficient headroom to fund a significant events such as an Alpine rapture. The worst case scenario of an additional \$84m requirement is maintained lower than self-imposed limit over the ten years.

Security on Borrowing

The Council generally does not offer its assets as collateral on borrowing. Rather it secures its borrowing from the Local Government Funding Agency or its creditors with a charge over the Council's rates and rates revenue which means rates can be set to repay outstanding loans.

Depreciation Funding Policy

The Council's Depreciation Policy is to fund depreciation that provides for the replacement of the asset over the life of the assets.

The Waimakariri District has been experiencing consistent growth over the last 35 years and therefore has had significant community infrastructure vested into Council ownership over this time from developers. It is expected that another \$150m of assets will be vested into Council ownership in the next 10 years of the LTP. Modelling of the infrastructure asset replacement cycle shows significant capital replacement expenditure beyond the mandatory 30 year infrastructure strategy period. The Council's depreciation policy was modified from 1 July 2015 to ensure funding provisions were being put aside to enable the long term renewals of assets. This policy takes into consideration the inflationary effect on the assets replacement cost and investment rate that is applied to any depreciation provisions that are invested. Replacement provisions are held in an interest earning special replacement purpose accounts to fund asset renewals in the future. Modelling has shown by adopting this approach, sufficient funds will be available to fund the renewal of assets.

Table 9: 150 Year Renewals Model (no adjustment for inflation)

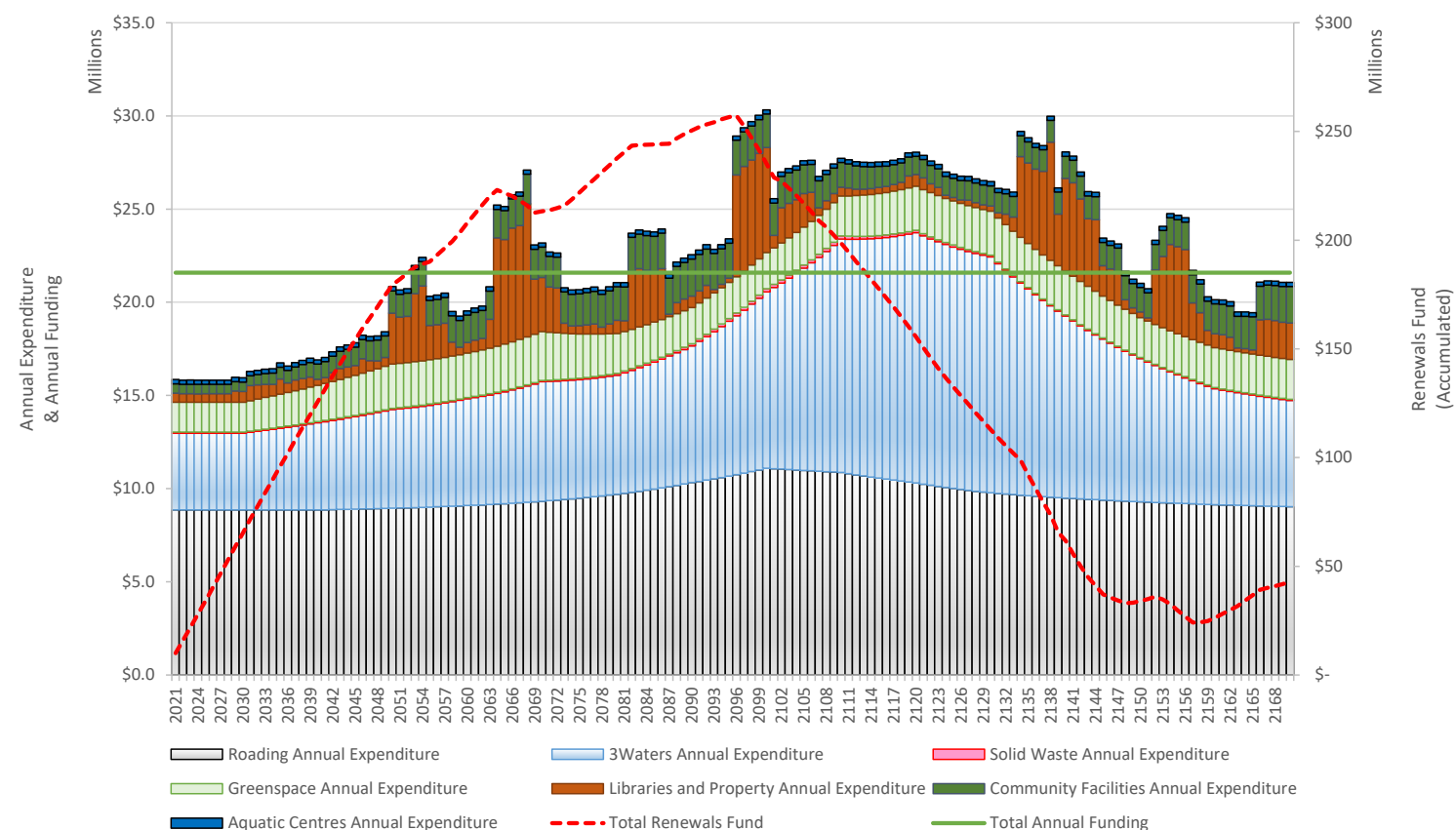


Table 9 identifies the significant renewal programme that starts impacting on work programmes in later years and depleting built up depreciation funding reserves. The renewal programme significantly accelerates from 2050. The graph demonstrates how the renewal programme is able to be financed from depreciation reserves, built up from early years. In non-inflated figures the reserve fund in the outer years from 2050 will be required to fund \$25-\$30m per annum of the replacement programme. At its lowest point the accumulated reserve fund at its lowest point will be about \$25m. This graph displays the importance of establishing depreciation replacement funds now so that renewal programmes and current levels of service are still able to be provided and affordable for future generations.

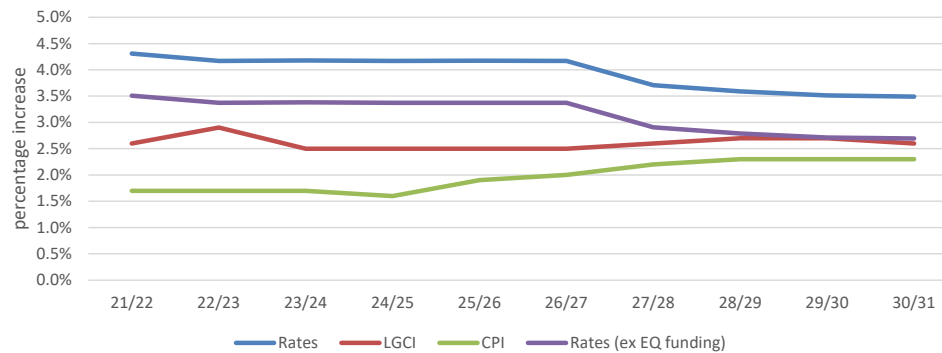
The depreciation and renewals funding policy is an important part of the funding strategy for Council. Modelling of the effects of inflation on the replacement programme increases the non-inflated annual renewal cost from about \$22m to \$100m in year 2070 and in year 2169 reaches to over \$1.1b. Holding and investing the renewal fund in restricted reserves allows for the affordable renewal of essential assets for both current and future generations.

Rate Movements

- Rate movements have been affected by a number of factors. These are primarily due to the following:
- The impact of the Canterbury earthquakes, where the funding of the costs are being spread over 25 years and the repayment provision is progressively funded which adds about 1% to rates per annum over this period;
 - Price level adjustments that are required to be accounted for in the forecast. Local Government New Zealand engaged BERL to provide these price level adjustments that are applied to the forecast budgets;
 - Growth – while Development Contributions fund much of the growth, additional developed land and services need to be maintained and add to the Council’s operational expenditure. The growth forecasts applied have been based on the medium to high forecasts provided by Statistics New Zealand;
 - Level of service increases – for some services, such as a new multi-purpose sports facility or for flood mitigation, a greater total rates take will be required to fund the debt and additional operating costs;
 - Depreciation and interest payments – the significant capital investment post-earthquake means there is a corresponding increase in depreciation and interest;
 - Depreciation Funding Policy takes into account the whole of life of all assets vested and commissioned by the Council. The amount of depreciation funded equates to the long term cost to replace the asset and investment rate that is applied to the depreciation fund invested;
 - An element of rates “smoothing” has been used within the 2021-2031 LTP to progressively fund new levels of service over a number of years rather than whole cost impacting on rates in one year;
 - The funding costs relating to the earthquakes of 2010 and 2011 and regeneration programme are being progressively rated for over the 2021-2031 LTP and have an effect on rates of about 1% (about \$26) per annum.

Table 10 shows the overall rate movement that is expected over the next ten years of the LTP. In 2021/22 the average property rate is expected to increase 4.3%. The following five years from 2022- 2027 average rates increases are signalled to range between 4.1%-4.2%. The remaining years of the ten year plan range between 3.5% – 3.7%, and after allowing for the progressive earthquake recovery and regeneration funding policy of about 1%, the average property rate increases are signalled to return back to LGCI or lower.

Table 10: Rates movements compared to the CPI and LGCI movements over the 10 years of the LTP



The average district wide rate is forecast to increase from \$3,226 in the year 2021/22 to \$4,556 over the next 10 years. Over the next ten years the \$1,330 increase in rates is made up of the following: 72% LGCI inflation 28% other activities and changes in levels of service.

District-Wide and Targeted Rates

Council's rating strategy is provided in the Revenue and Financing Policy. Charges and rates are targeted where there is a close correlation between the level of service received and those that benefit or receive that service. Other services that do not have a close correlation are charged based on the property values and a uniform annual general charge (UAGC).

District-wide rates are those rates that are charged on all properties for District-wide services, including libraries, swimming pools and community facilities. Some differentials or targeted services may apply.

Targeted rates are used when the properties receiving the benefit of the service are charged for that service. For example, the District has 16 different community water supplies and Council has an ongoing program to ensure all community supplies comply with the Drinking Water Standards for New Zealand. Upgrades are made progressively and each upgrade impacts the rates on properties that receive the benefit of the upgrade. Accordingly a water rate for an Oxford property will be different to a Rangiora property as they are on separate schemes, where the costs are accounted for separately to the users.

Financial Position

Council's financial position is very sound, as supported by our Standard and Poor's AA credit rating that was reaffirmed in 2020. Since the 2010 & 2011 earthquakes the Council has had to borrow to fund its recover and regeneration programme, however amidst high levels of pre & post-earthquake growth has been able to sustain its levels of service and work programmes. Debt is being maintained within policy limits as identified Local Government (Financial Reporting Prudence) Regulations 2014. The Long Term Plan provides for a programme that introduces further new levels of services, such as the multi-purpose four courts facility within the limits of the policy. In year 2031 the financial is forecast to be in a stronger position than currently, through applying good policy decisions and prudent financial management.

Equity Investments and Other Interests

The Council has equity investments in three companies and interests in four Trusts. The primary reason for holding equity in these entities are principally to achieve efficiency and community outcomes and not for financial return on investment.

Table 11: Council Shareholdings and Council Controlled Organisations

Company	Shareholding	Principal reason for Holding	Budgeted return
Transwaste Canterbury Limited	3.9%	Develop and operate the regional land facility at Kate Valley	\$600,000 pa
Local Government Funding Agency	0.4%	Borrowing	Nil
Civic Assurance	0.8%	Insurance & risk management	Nil
Trusts	Trustees appointed by Council	Principal reason for Holding	Budgeted return
Te Kōhaka o Tūhaitara	50%	Environment and recreation	Nil
Enterprise North Canterbury	50%	Economic Development	Nil
Waimakariri Art Collection	33%	District Art	Nil
Waimakariri Libraries	100%	District Libraries	Nil

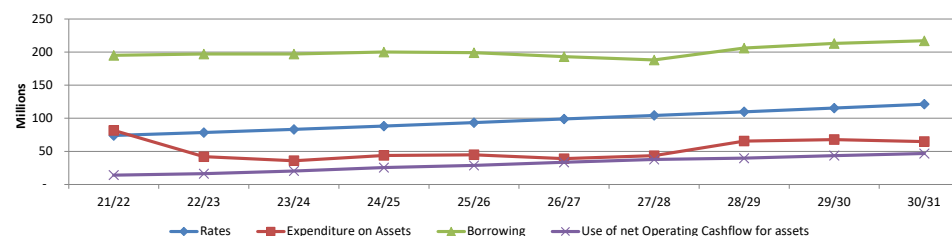
The Council has no plans to change its shareholdings.

APPENDIX TO FINANCIAL STRATEGY

Overall Financial Trends

This table shows the trends over the next 10 years for rates, borrowing and capital expenditure.

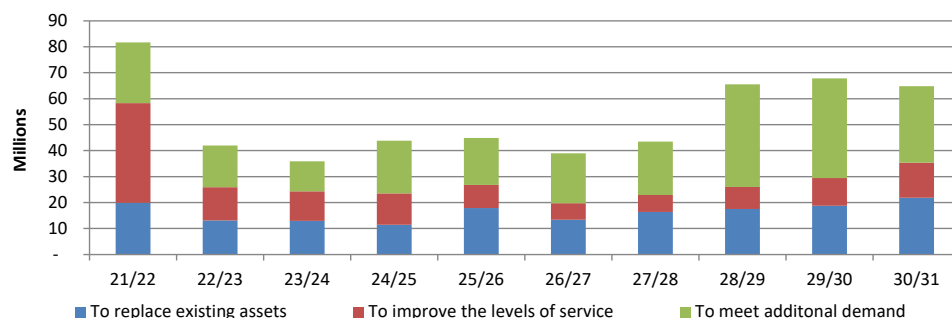
Table 1: Rates, Borrowing and Capital Expenditure



Capital Expenditure

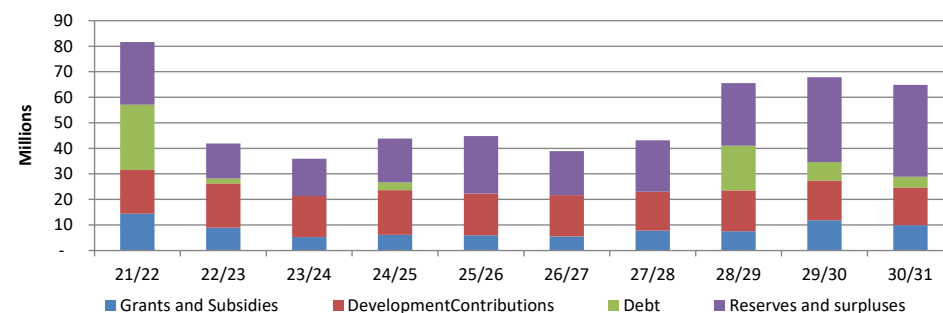
This table shows the amounts being spent on each capital expenditure category over the LTP.

Table 2: Spending on Assets by Category



Capital Funding Sources

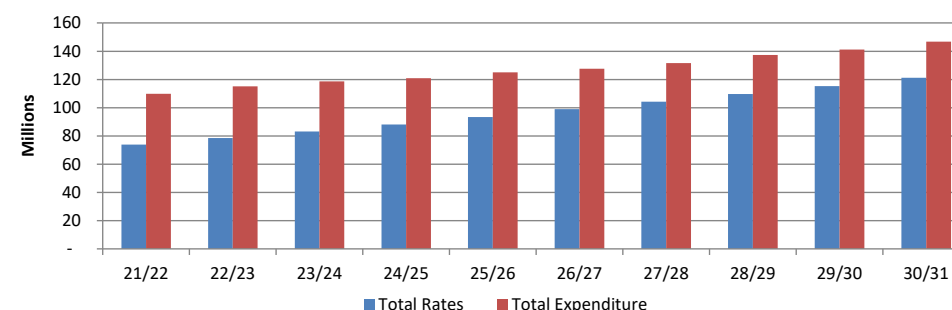
Table 3: Capital Funding sources



Operating Expenditure

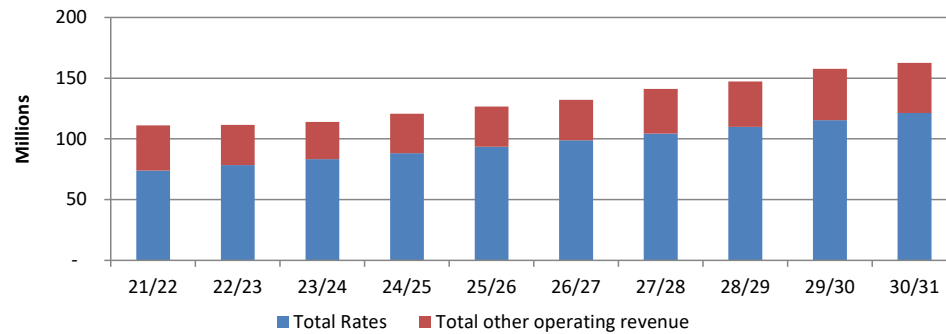
Operating expenditure will rise from \$110m in 2021/22 to \$147m in 2030/31.

Table 4: Total Rates and Operating Expenditure



Operating Revenues

Table 5: Total Rates and Other Operating Revenues



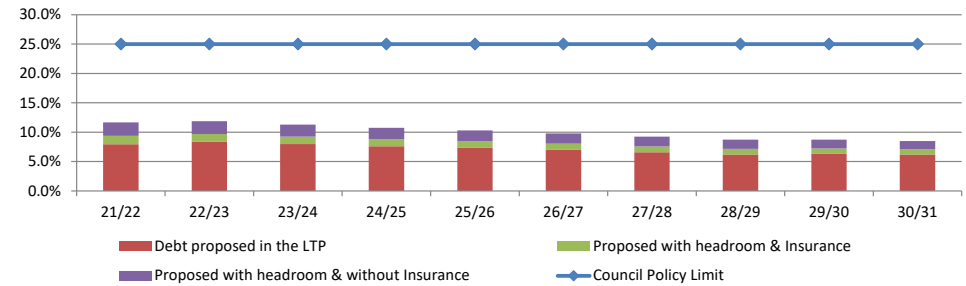
Debt Levels and Interest Costs

The following outlines Council's policy limits and shows that debt levels and interest costs are within the Council's policy limits.

Policy Limits

- Local Government Funding Agency (LGFA) Policy interest as a maximum of 25% of rates revenue
- Net debt as a percentage of operating revenue will not exceed 300% for 2020/21 and 2021/22. The limit will then reduce by 5% increments to a level of 280% in 2025/26.
- Gross interest paid will not exceed 15% of gross operating revenue
- Net cash inflow from operating activities exceeds gross interest expense by two times
- Net debt as a percentage of total assets will not exceed 15%
- Liquidity ratio of greater than 110%.

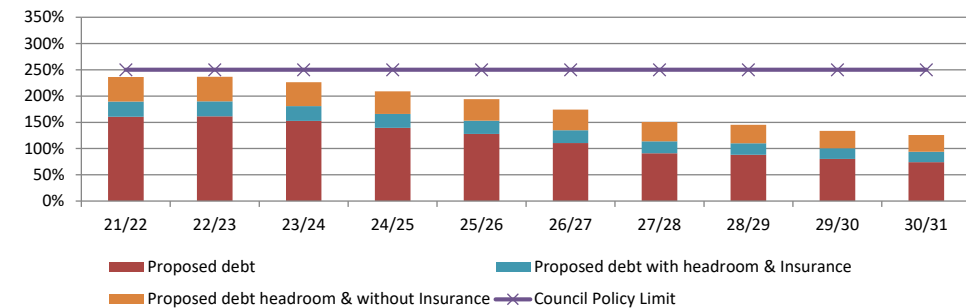
Table 6: Interest Cost on Debt to Rate Revenue



This table demonstrates that Council is operating well within the limits of the policy. As a member of the Local Government Funding Agency (LGFA), Council achieves a lower cost of funding debt than through conventional lending institutions.

Net debt is forecast to reach \$220m in 2021/22 which is well within policy limits. Council adopts a long term approach when borrowing for long life assets of 25 years with an interest rate budgeted at 3.3%. If a better interest rate is able to be obtained, the savings are passed on in lower rating charges. Debt is forecast in 2031 to be \$217m.

Table 7: Total Debt to Total Revenue Ratio



Benchmark Information

LTP Disclosure Statement for the Period Commencing 1 July 2021

The purpose of this statement is to disclose the Council’s financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

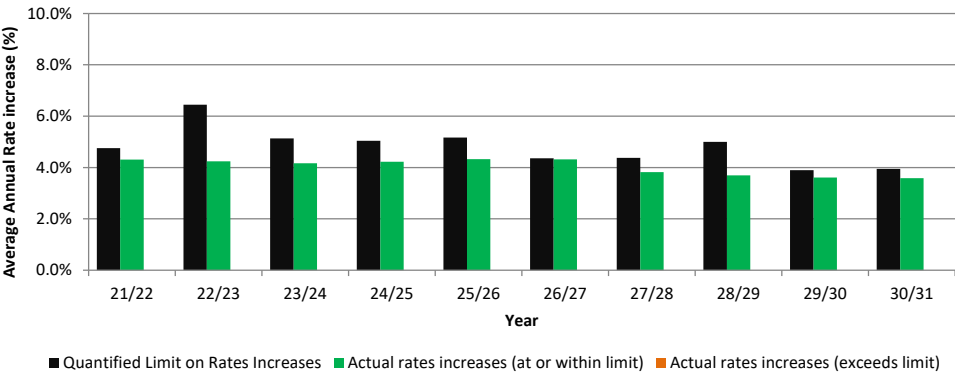
The Council is required to include this statement in its LTP in accordance with the Local Government (Financial Reporting Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

Rates (increases) Affordability

The following graph compares the Council’s planned rates increases with a quantified limit on rates increases included in the FS included in this LTP. The quantified limit is the Local Government Cost Index (LGCI) plus the rate effects from the earthquakes plus increases for higher levels of service. The Council is working within these limits.

The following graph excludes the rating impact from optional waste bins.

Table 8: Rates (increases) affordability



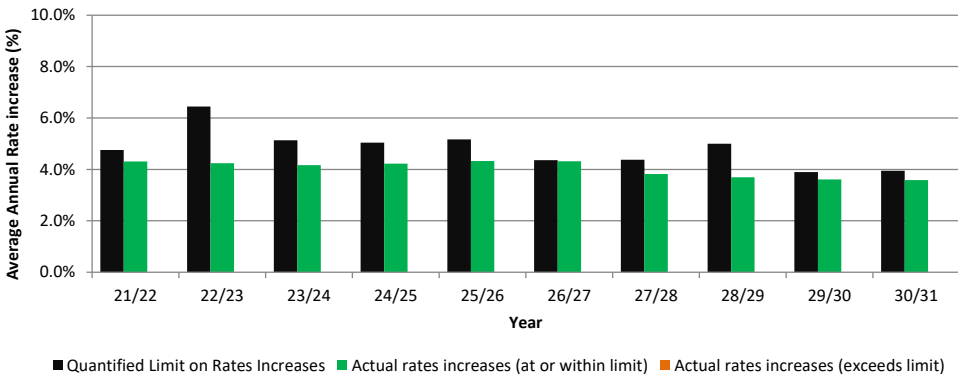
Rates (income) affordability

The following graph compares the Council’s planned rates income with a quantified limit on rates income included in the FS included in this LTP. The quantified limit is the Local Government Cost Index (LGCI) plus the rate effects from the earthquakes plus increases for higher levels of service. The Council is working within these limits.

The following graph excludes the rating impact from optional waste bins.

The rates income below excludes GST.

Table 9: Rates (income) affordability

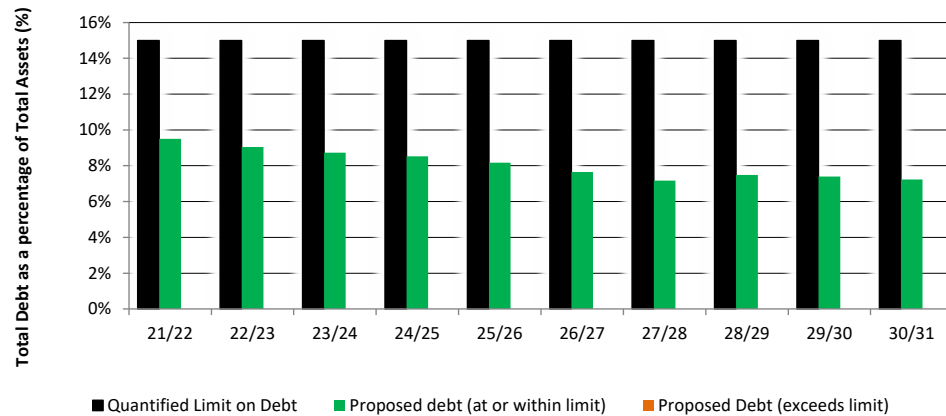


Debt affordability

The quantified limit for the graph (Table 10) is total debt as a percentage of total assets will not exceed 15%.

The Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing. This graph compares the Council's proposed borrowing with a quantified limit on borrowing stated in the FS included in this LTP.

Table 10: Debt as a Percentage of Assets



Balanced budget benchmark

The following graph displays the Council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment). The Council meets this benchmark if its revenue equals or is greater than its operating expenses.

Table 11: Operating Revenue to Expenditure

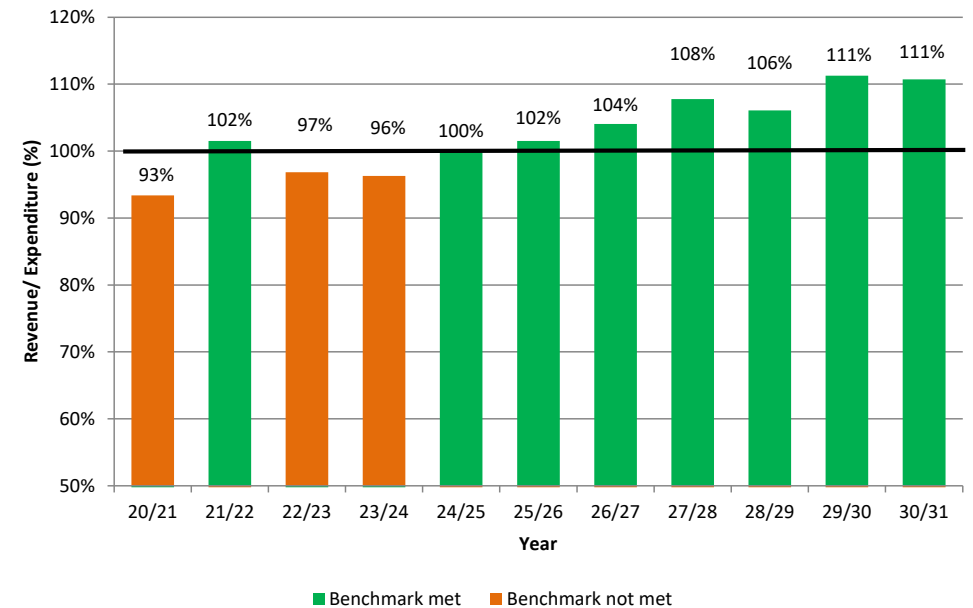


Table 11 shows that the Council is not meeting the benchmark of operating revenue being greater or equal to operating expenses. The primary reasons are due to the funding costs relating to the earthquakes being spread over the outer years of the LTP and progressively funded. Changes to the depreciation funding policy, where the full amount of depreciation is shown as an operating cost but is not fully funded due to the depreciation fund being able to be invested at higher rates than inflation over the life of the asset, also impact meeting the benchmark.

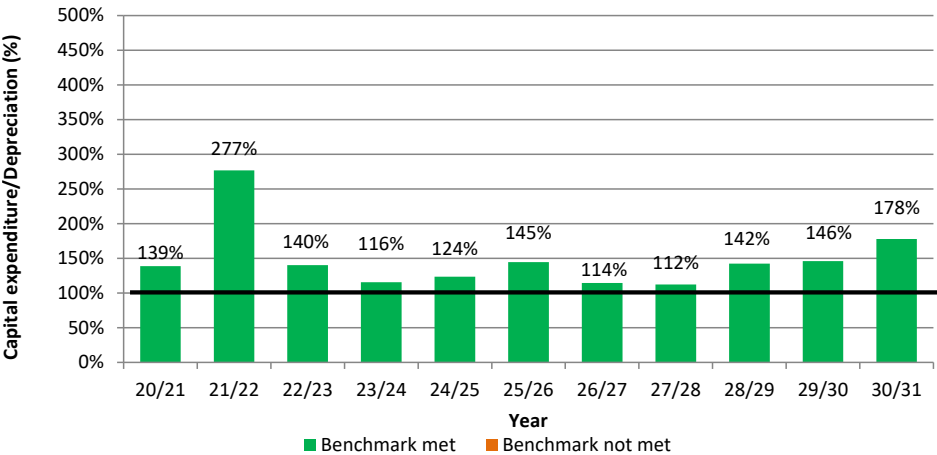
Essential services benchmark

The following graph displays the Council's planned capital expenditure on network services as a proportion of depreciation on network services.

The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.

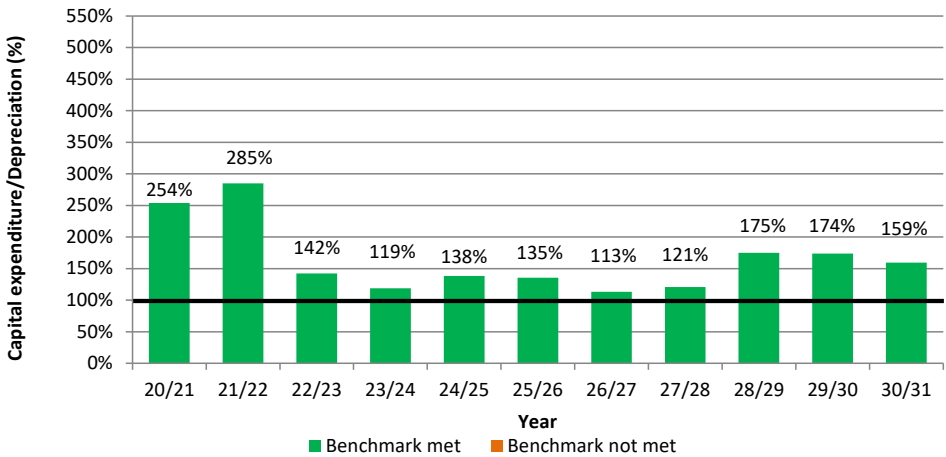
Network services are classified as water supply, sewerage and the treatment and disposal of sewage, stormwater drainage, flood protection and control works and the provision of roads and footpaths.

Table 12: Essential Capital Expenditure as a Percentage to Depreciation



The following graph is Council expenditure on all services excluding earthquake repairs/replacements but including new/growth works.

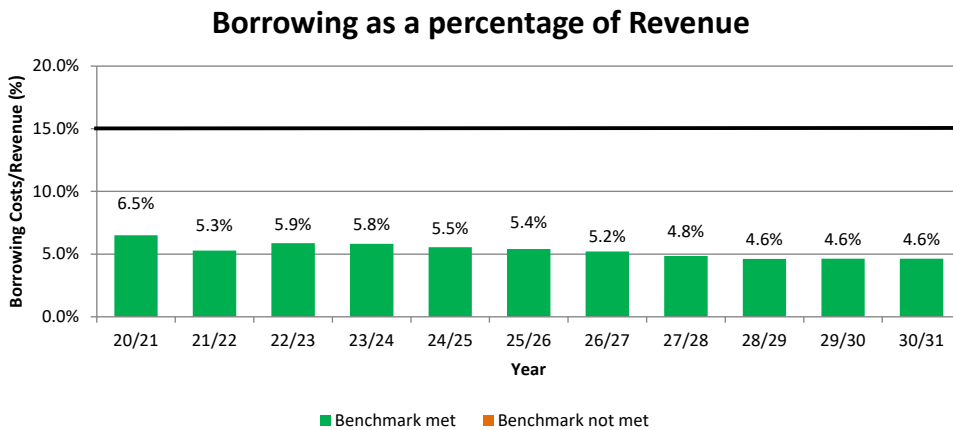
Table 13: Total Capital Expenditure as a Percentage to Depreciation



Debt servicing benchmark A (as a % of total revenue)

The following graph displays the Council's planned borrowing costs as a proportion of revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment). Because Statistics New Zealand projects the Council's population will grow as fast as, or faster than, the national population growth rate, it meets the debt servicing benchmark if its borrowing costs equal or are less than 15% of its revenue.

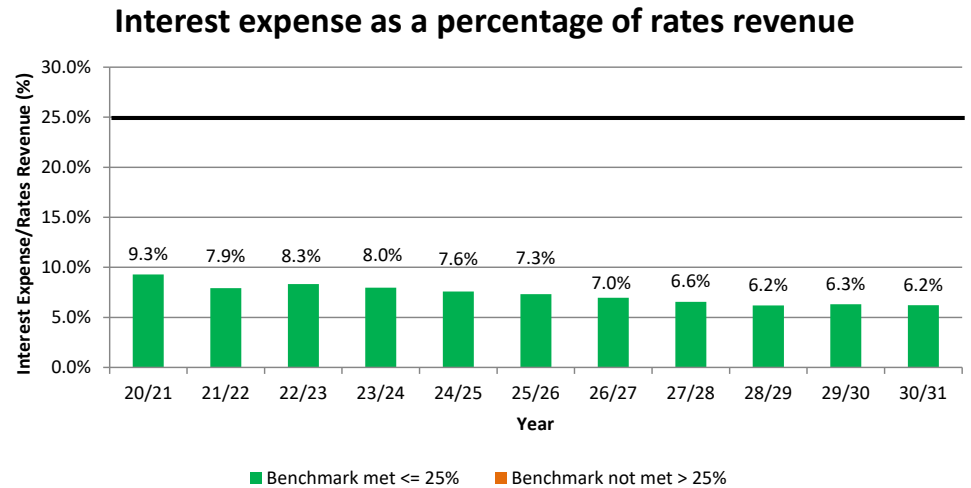
Table 14: Interest on Borrowing as a Percentage of Total Revenue



Debt servicing benchmark B (as a % of rates revenue)

The following graph compares Council's planned interest expense with the planned rates revenue in this LTP. The Council meets this benchmark if interest expense as a proportion of rates revenue does not exceed 25%.

Table 15: Interest on Borrowing as a Percentage of Rates Revenue







**Leaving a positive
print on the future
of our district.**