Financial Strategy

Financial strategy 2024 – 2034

Policy Owner:	GM Strategic Financial Management and Commercial Services
Approved by & Date of issue:	Chief Executive Officer July 2024

Purpose

The Financial Strategy outlines our overall approach to managing the Council's finances. It sets out how we plan to fund the required levels of service for our activities and fund core infrastructure over the next ten years. We have worked within that context to balance the conflicts of affordable rates' increases, debt levels and the requirement to produce a balanced budget. It includes a statement of our financial position, the financial limits we will work within, and the impact of what we are doing on our ratepayers and community. In planning for our future, we have sought to put the long-term needs of our community first, taking a proactive approach to addressing the opportunities and challenges facing our district.

This has been one of the most challenging financial strategies this Council has prepared. Like all other local authorities in New Zealand, we face multiple financial challenges because of high inflation experienced over the past three years, including significantly increased electricity, insurance and debt servicing costs. Local Government costs reflect the type of work we undertake and are significantly affected by the price of items such as energy, bitumen and civil contracting services. These are quite different from CPI and as a result the cost to maintain some levels of service have risen by more than 20%. In addition, there are stricter Three Waters compliance criteria, challenging asset renewal requirements and the costs of climate change adaptation and mitigation.

One of the main challenges facing the Mackenzie is that we have a small population base (the third smallest in NZ) dispersed across a wide geographic location (the tenth largest). The Council has also a small rating base exacerbated by the significant amount of non-rateable crown land in the district.

Our district continues to grow, particularly tourism, and this growth coupled with fast-approaching regulatory deadlines for some of our network infrastructure, will see an increased capital expenditure programme for our district over the next ten years.

For decades, Mackenzie District Council has taken a conservative approach to capital renewals and under-invested in the region's infrastructure. We are now in the position where major assets such as our bridges, considered options for the Takapō/Lake Tekapo wastewater treatment plant and water, stormwater and sewer reticulation need urgent attention. This coupled with the costs to meet increased compliance standards has placed the Council's finances under pressure and the Councillors with some difficult decisions.

To address these and to ensure an appropriate level of stewardship of our core infrastructure assets the Council is proposing to further increase rates and the level of debt. It is proposed that rates will increase in 2024/2025 by 14.7% to $18.287 million and that debt levels will peak at $25.649m in 2026/2027.

Our financial future

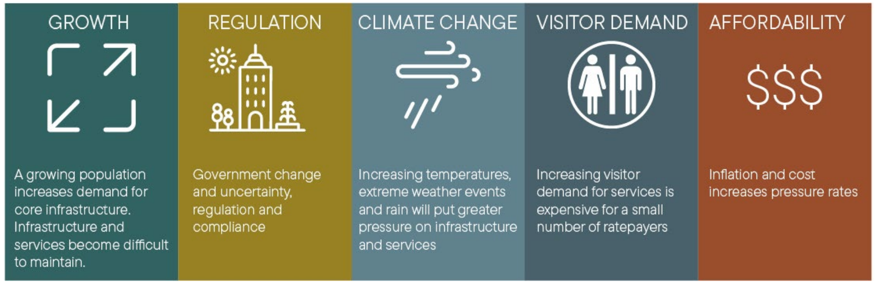
Our projections for the next ten years show the following picture for 2034:

- Total assets are forecast to be $595 million (2023/24: $394 million).
- Total equity is forecast to be $572 million (2023/24: $367 million).
- Liabilities are forecast to be $22.8 million (2023/24: $ 27.2 million) & 3.8% of total assets (2023/24: 6.9%).
- Rates revenue is budgeted to contribute $70.0% of total income (2023/24: 53.2%).
- At no time over the period 2024/25 – 2033/34 do we expect to breach our debt ratio limits.
- Council will retain its strong financial position.

External Factors

Many external factors can impact how the Council delivers services and infrastructure and how we fund these. Although these factors are generally beyond our control, it is important that we continue to monitor these external influences, their impacts and how we respond to ensure that our plans mitigate risk, take advantage of new opportunities and remain fit for purpose.

Summary of the Mackenzie Context and Strategic Issues – abbreviated from the Environmental Scan



Growth

Population Growth and our Built Environment

Mackenzie District has a small resident population, with three main settlements of Fairlie, Takapō/LakeTekapo and Twizel. As of July 2022 (the date of the latest available population estimates) 60% of the population resided in these settlements, with the rest of the population residing either rurally or in the smaller settlements of Burkes Pass, Albury and Kimbell. Pre Covid--19 the district experienced strong growth, with the population increasing by 40% between 2006 and 2020. Growth was focused on Twizel and Takapō/LakeTekapo, while the population in Fairlie remained steady.

Post pandemic, growth is recovering with the return of the international tourism market. It is forecast that the resident population will increase by a further 68% from 2024 to 2054, from 5,690 residents to 9,565 residents.

Following historical trends, high levels of growth are forecast for Twizel and Takapō/Lake Tekapo, with modest growth forecast in the remainder of the district.

The Mackenzie District is unique in that the district has a significantly high proportion of non-resident ratepayers. This is most noticeable in the townships of Takapō/Lake Tekapo and Twizel. A consequence of this is a marked change in population of townships during peak times. Fluctuations in population levels throughout the year can pose challenges for activities such as traffic and water management.

Land use changes and trends

The district is changing and there are several workstreams in process to better understand and plan for this. Demand for permanent and holiday housing remains strong, and the forthcoming District Plan has created a platform for changes to the development and subdivision within our landscapes. Key land change matters are detailed below:

- **Continued Urban growth, Twizel and Takapō/Lake Tekapo –** The Council anticipates an increase in the urban area as the result of rezoning of land and the upgrade of infrastructure. It should be noted that there may be infrastructure constraints to development at least in the short term as councils' capital priorities are based on compliance and renewals in the short term.
- **Large scale accommodation (hotel/resort)** - The hospitality sector is a significant part of the Mackenzie economy. With the return of tourists following the COVID-19 pandemic there is already evidence in Twizel of developments starting to be consented and built.

Central Government legislative requirements

The Local Government sector is potentially going through a once-in-a-generation change. With the change in government there is still a lot of uncertainty for both local government and Three waters.

The changes include:

- **Local Water Done Well –** the National-led Government has repealed the current Water Services legislation, returning asset ownership and infrastructure investment to local government. It is not yet clear how this will be structured and what impact it will have on how councils fund the activities. It is expected that by mid-2025, the Council will have more certainty about new framework and our Water Service Delivery Plan. Funding however has always been the main issue in the delivery of threewaters, not structure.

- **Resource management change** – the National-led government has repealed legislation which significantly changed how councils undertake resource management functions. Further changes are expected over the next 3 years.
- **Future for Local Government review –** an independent review panel looked at what councils do and how they do it with a view to seeing more services delivered via local government, central government and community partnership, changes to how councils are funded, how Councils partner with mana whenua/ Māori and how local government is structured. Local Government New Zealand has led work on what localism means but there have been no concrete outcomes of this to date

Technology

Investing in our information technology will improve the quality, value and transparency of the services we provide and will mean our residents can engage with us in different ways. That investment will also allow us to improve the timeliness and accessibility of information that supports decision making by the Council, communities, Mackenzie businesses, and individuals. Council has formalised an Information, Communication and Technology strategy but this investment comes with increased costs as a result of cloud dependence. The SAAS, (software as a service model), which has replaced traditional capital, costs more as a result of expensive monthly operating lease costs.

Climate Change

Climate change is a critical consideration in the Council's long-term planning and the Council is developing a Climate Change adaptation and Mitigation Strategy. The Council uses guidance from the New Zealand Government, based upon the best available climate science, to support the planning. As we have already seen, climate change is changing the frequency of extreme weather events and is expected to introduce some long-term shifts in climate patterns both locally and across the country. This will impact our infrastructure, our economy, our environment and levels of service. This will see more council resources required to respond to natural hazards (fires, floods etc).

Climate change will increasingly impact on the Council's finances in a variety of ways, including:

- Increased maintenance and operating costs as infrastructure is compromised by the effects of climate change such as the impact of extreme weather events.
- Costs associated with upsizing or relocation of Council assets to respond to the effects of climate change.
- Investment in fire protection of our communities based on advice from FENZ.
- Increased insurance costs and/or insurance retreat.
- Emissions reduction and adaptation may affect Council's cost of borrowing. The Local Government Funding Agency offers a 0.02% interest rate reduction if loans are linked to meaningful and measurable sustainability outcomes. Inaction could make it more difficult /expensive to borrow money as lenders become increasingly sensitive to climate risks.
- Central government funding is likely to be increasingly linked to climate action. Budget 2023 included funding for local government resilience initiatives and renewable community energy.

Building resilience to the changes and challenges presented by climate change requires long-term planning. We are proposing several programmes in this Long-Term Plan which will have the effect of improving or increasing our resilience in relation to climate change impacts. These include:

- Rolling out water meters to encourage sustainable water use and reduce consumption to minimise pumping operating costs. This will be critical in a hotter climate and when drought is experienced. The extension of connections to the new water treatment plant in Fairlie to include the Allandale water scheme which will increase compliance, resilience and security of water supply by improving treatment and increasing storage capacity.
- Implementation of a new District Plan which includes the impacts of climate change across the district such as floor levels and flood zones.

Servicing the High Visitor Demand and Recovery

Tourist numbers to the Mackenzie are increasing. While visitors bring economic benefits, there is also a cost to the council of rubbish removal and use of parks and facilities, including our public toilets.

We have 25 separate public toilets/toilet blocks throughout the district with our main toilets in Fairlie, Takapō/Lake Tekapo and Twizel. Traditionally we have cleaned our main toilets once a day and our more isolated toilets less frequently. High use of the toilets in summer means we have had to increase our cleaning to two cleans a day. Our level of service for toilet cleaning is based on the number of complaints we receive about the condition of our toilets (1.6 a day over 123 days). Cleaning our toilets is funded from general rates which has added to total costs overall, although there has been a user charge system for one of the Tekapo toilet blocks which generates approximately $20,000 in income a year. Council is not pursuing a user pays policy for toilets. We soLong-Termback on this during consultation on this plan.This Long-Term Plan does not include budget for the building or extending of any new toilets in the district over the next 10 years.

Inflation and cost increases

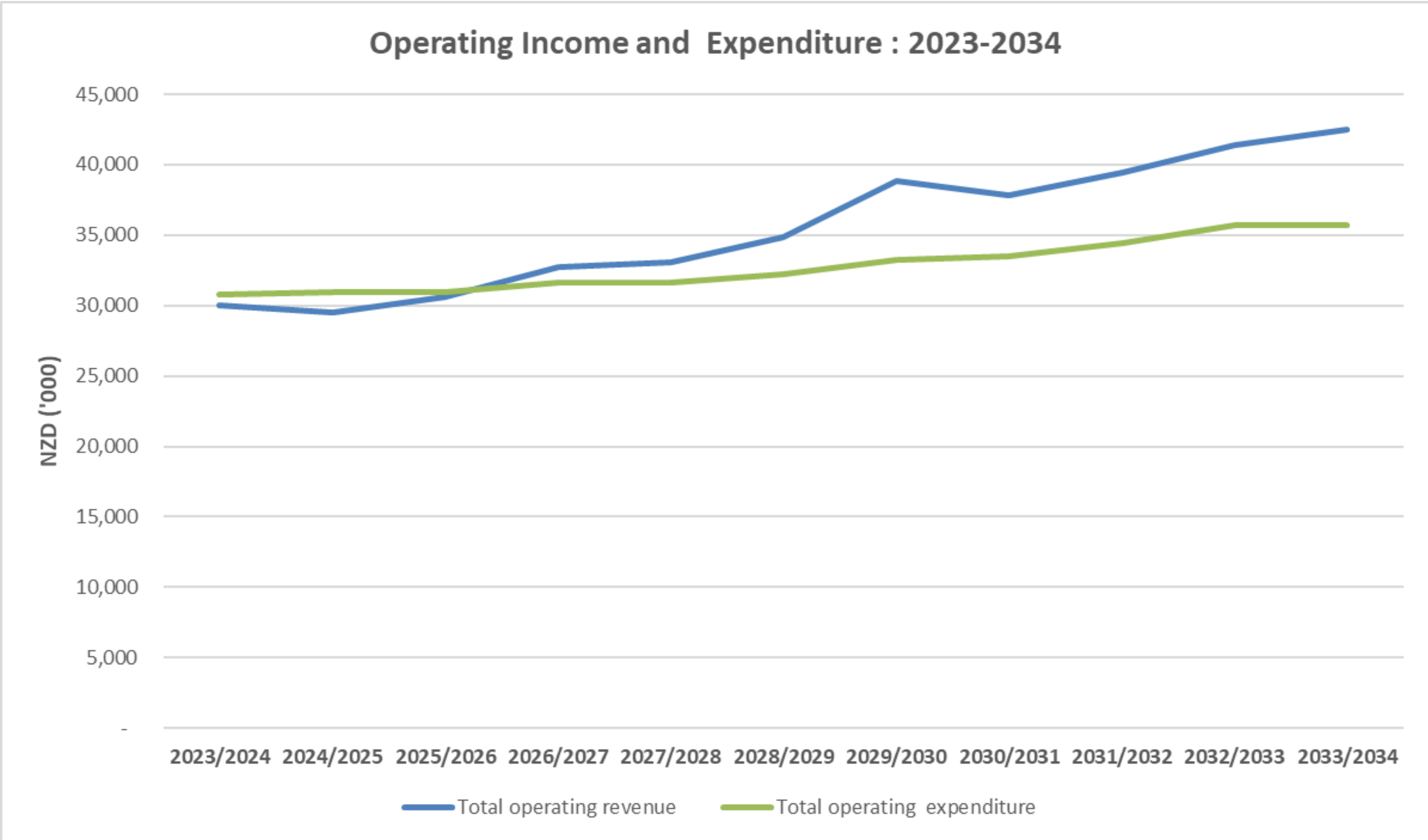
Our Long-Term Plan 2024-2034 prepares for the delivery of key services and infrastructure. We intend to:

- Adequately fund the required levels of service in township maintenance
- Cost of servicing increasing visitor demand (eg toilet cleaning, litter, car parking, responsible camping)
- Provide for an interim solution to extend the life of the Takapō/Lake Tekapo Waste Water Treatment plant (additional capacity driven by tourism demand)
- Tackle the backlog of bridge deferral , including the replacement of one of our largest, the Cass River Bridge.
- Complete the review of the District Plan
- Mitigation of fire risk to our townships
- Continue to improve roading infrastructure. This is driven by the need to undertake this work to prevent fatalities, especially on high traffic tourist routes.
- Address additional central government requirements especially the new requirements compliance set by the new Water regulator in terms of compliance and monitoring for water and wastewater
- Increased associated costs (depreciation and interest payments) for increased capital expenditure.

Operating income drops below operating expenditure in the first two years of the plan due to budgeted deficits. Thereafter income increases in line with the operating expenditure. The peak in 2029/2030 is due to higher NZTA subsidies associated with the Cass River bridge.

Operating Income and Expenditure 2023 – 2034

Operating costs for Council range from $30.9 million in 2024/2025 to $35.7 m in 2033/2034. Inflation (using the BERL) will add a cumulative effect of 24.05% over the ten years.



Providing reliable and resilient infrastructure

There are a number of key issues influencing our capital investment and funding decisions with respect to infrastructure. In coming to a decision, we have looked to maximise the impact of our capital programme in terms of delivering reliable, cost-effective infrastructure within a realistic funding level and also to keep debt at prudent levels, particularly in the first three years of the Strategy.

Renewing ageing infrastructure

Assets have a finite life after which they need to be replaced to avoid breakdowns and costly repair and maintenance. Significant proportions of our infrastructure networks are either at or coming towards the end of their economic life and need replacing.

We are conscious of the desire to minimise rate increases; however, our asset condition data tells us that increased investment in asset renewals is required to have our infrastructure networks operate reliably and cost-effectively.

Our residents have made it very clear how important it is to maintain levels of service for roads and ensure investment in footpaths, bridge renewals, fire and flood protection, and drinking water supply and wastewater services and improving community facilities. In preparing the capital programme we have assessed these assets specifically to ensure that they remain fit for purpose. Renewal programmes have been prioritised around criticality and resilience. Several critical assets particularly relating to roading and stormwater were identified over the last two calendar years when we experienced multiple high intensity rainfall events.

The Council’s approach to the renewal (renew the condition and life of the asset) and replacement of its infrastructure assets over the timeframe of this Strategy will be to prolong the life of its assets by prioritising which assets to renew based on their age, condition, criticality, and risk of failure. To continue to meet the required level of service, Council funds the replacement of assets when their condition dictates.

The Council has an ongoing programme to survey the condition of its assets and review the level of service to be delivered through the asset. This information, together with the history of the asset, including feedback from contractors and customers, and the level of service standards will be used for modelling the networks and to develop the work programmes. Work to minimise the risk of failure from natural hazard events will also be considered when priorities are considered for the renewal programmes.

The Council is of the view that the overall condition of its assets is variable, roading network is good however, road drainage and bridges are not in good condition while three waters pipes are in good condition. Condition is of course a function of both age and use and to an extent the replacement/renewals profile for assets will have peaks and troughs based on historic periods of high growth/investment. The Council’s approach is to smooth out expenditure (where possible)to avoid the worst extremes. This means that based upon condition the life of some assets may be pushed out and again based upon condition the replacement of others brought forward. This balancing occurs across all infrastructural assets simultaneously.

Supporting growth

Mackenzie District is poised on a trajectory of population and visitor growth which impact directly on infrastructure provision and renewal. Analysis of the future urban and rural residential subdivision over the next 4 years shows an average of 10 sections per year, along with associated infrastructure, to be vested in Takapō/ Tekapo and an average of 46 per year in Twizel. The council believes that there are sufficient consented sites available to support current demand trends.

Over the last decade, the Mackenzie District has seen a change from pastoral farming to more intensive practices in particular logging, dairy conversions, cropping and stock rearing/ finishing. This significant change in land use impacts the road network in terms of increased heavy vehicle volumes. Each dairy conversion adds at least four heavy truck and trailer movements on the adjacent roading network a day minimum. Some of those roads are narrow gravel roads with limited structural strength, and are impacted in particular, by the logging industry with significant heavy loadings on trucks. Future demand for the transportation network will continue to be driven by tourism and land use changes and intensification within the district. Future demand is driven by residents, domestic and international independent travellers and freighters. The forecasted demand for electric charging network presents real challenges for Council.

The region's population is forecast to continue to grow, creating demand for new housing, business premises and community facilities and the infrastructure needed to support these.

The Council needs to provide the right infrastructure at the right time to support sustainable growth and ensure ongoing resilience to the impacts of climate change and natural hazards. We look to fund infrastructure to service growth as much as possible from financial contributions and assets provided by developers when undertaking new developments. This means we keep the rates contribution to fund growth infrastructure to a minimum.

Our Financial Strategy

Our Financial strategy provides the direction and context within which the Council has operated to develop this draft LTP including how we would deliver on our required levels of service and increase our investment in infrastructure. We have worked with in that context to balance the conflicts of affordable rates' increases, debt levels and the requirement to produce a balanced budget.

The aim of our Financial Strategy is to ensure Council remains financially stable, while financing key priorities

Our Financial Strategy illustrates how we will live within our means – to do everything we need to do, while balancing the cost to our communities now and into the future.

The financial strategy sets out our goal to:

1. Manage our finances in a prudent and strategic manner which will ensure that adequate funds are available to deliver on the levels of service we have agreed with our community, cater for growth and support the maintenance, renewal and upgrade of our assets to meet community expectations and legislative requirements.
2. Remain operationally and financially sustainable while achieving our strategic goals and priorities.
3. Manage borrowing levels to ensure that investment in and funding of core infrastructure is within our capacity and to ensure that appropriate intergenerational equity is achieved.
4. Maintain a sustainable management of investments including how distributions and investment income will be utilised.

This Strategy closely aligns with our 30-year Infrastructure Strategy. The work programmes identified in the Infrastructure Strategy enable the Council to achieve levels of service agreed with our community and meet required technical standards within a prudent financial framework.

The Infrastructure Strategy takes a long look ahead, planning for our region's infrastructure needs over the next 30 years. This is a bigger picture compared to the LTP and Financial Strategy, which focus on the next 10 years. For the coming decade, our Financial Strategy provides for rates to rise materially in the first 2 years. This is to pay for important strategic projects, such as Takapō/Lake Tekapo wastewater treatment plant, our bridges, roads and footpaths, and water and sewer reticulation. However, the plan is to reduce these rate increases and keep them steady in later years of the LTP period.

Cost savings

We have taken the following steps to reduce costs and hold the rate increase to as low as possible;

- Where possible reduced our reliance on contractors and brought the work in-house
- Conducted a line-by-line review of every item of expenditure and eliminated or reduced cost where possible
- Focused on critical projects
- Encouraged community led developments to help drive community projects forward and sourced external funds for key township projects
- Funded the District Plan review through borrowing repaid over a period of time that aligns with the life of the Plan
- Used reserves where possible to reduce borrowing
- Extended our borrowing term from 20 to 25 years where applicable
- Initiated discussions with neighbouring councils looking for opportunities to reduce costs by aligning project deliveries

It is our intention, once the LTP has been adopted to consult with the community on how we might change the way in which we rate so as to recover more from those who benefit from the tourism industry.

Our Funding Approach

Funding of Council activities will be in accordance with Council's Revenue and Financing Policy. All councils are required to set limits on rates and rate increases over the 10 year period of the Long Term Plan.

Inflation

In order to keep up with rising costs we budget for an inflation adjustment in each year of our plan. Our costs reflect the type of work we undertake for the community and are significantly affected by the price of items such as energy, bitumen and civil contracting services. This is quite different from the average household, and so using the Consumer Price Index (CPI) for inflation is not appropriate. Instead, Business and Economic Research Limited (BERL) have prepared specific inflation values for councils - referred to as the Local Government Cost Index (LGCI).

All budgets across the ten years have been adjusted using these values. They are also used as part of our setting of limits on rates and borrowing.

We'll keep rates as low as is prudent

Rates are a form of property tax and must be paid by all property owners in the district. As much as we would all like to keep rates low, we need to increase rates. We know this will be felt by our community however we need to invest now to avoid even higher increases in the future.

Our plan for the next ten years has been prepared based on the following limits on total rates and annual total rates increases. There are no rules around how we are to determine what limits are appropriate.

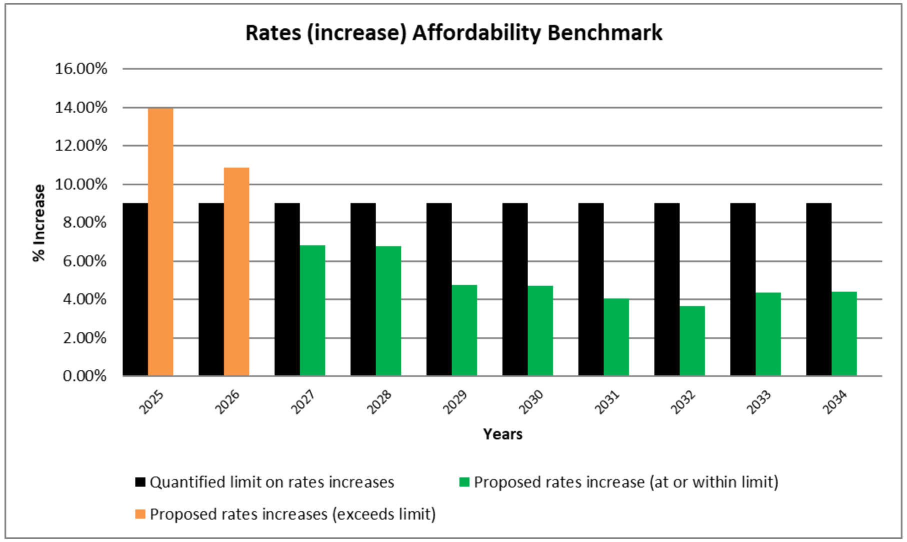
Rates Limit: Annual rates increases will not be more than 9% (including LGCI).

The LGCI is the Local Government Cost Index which is used to calculate annual inflation of expenses. This inflation factor is determined by BERL. Over the life of this plan the LGCI is expected to be 2.42%. This means that the annual rates will not increase more than 9% (including LGCI over the life of the plan).

What does the graph below show?

Our first two years of proposed rates rises will exceed our limits but will drop within our target from year three onwards. We believe we need to increase rates for the first few years at a higher rate to address costs that have risen sharply due to cumulative inflation.

Over the 10 years of this LTP the average rates increases are 6.50 % which is lower than the benchmark of 9% including the LGCI.



Operating Expenditure

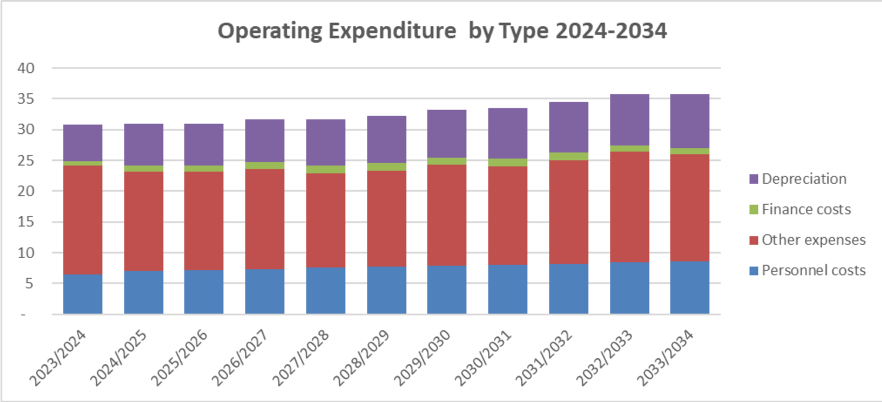
Our services and day-to-day maintenance of our assets are paid for using operating expenditure. We aim to raise enough revenue each year to cover our budgeted operating expenditure (including depreciation) unless it is prudent not to do so.

Rates are used to fund the balance of operating expenditure after all other revenue streams are accounted for. We have budgeted for operating expenditure to increase from $30.9 million in 2025 to $35.7 million in 2034.

The increase is the result of:

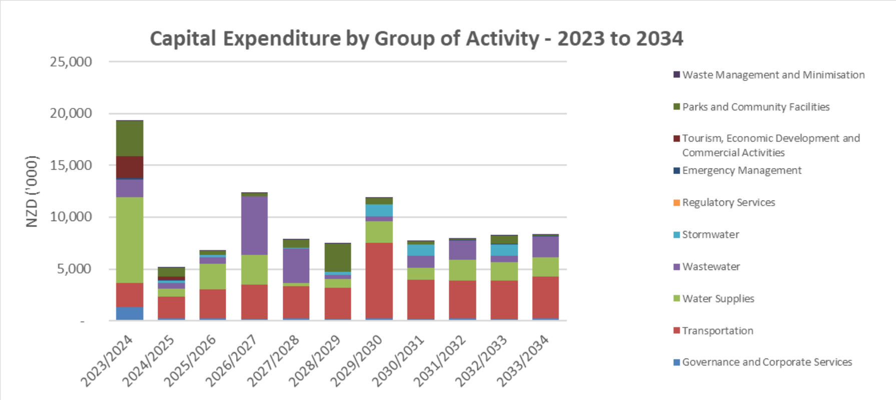
- water compliance costs- software costs for quality monitoring, sampling, and additional plant costs
- Increases in electricity and capital input costs
- borrowing costs
- cumulative inflation across all activities
- insurance due to more frequent intensive weather events
- audit fees
- provision for an interim library
- improvements to the level of service we provide, including increased public toilet cleaning and increased fire protection for our community

The following graph provides a breakdown of our forecasted operational expenditure



Capital Expenditure

Capital expenditure includes both renewal of existing assets and new assets that increase the levels of service or build resilience into the core Council assets. We project capital expenditure of $83.555 million between July 2024 and June 2034.



Depreciation Funding

We're spreading the cost of replacing our assets.

Depreciation is the spread of the cost of an asset over its useful life. By funding depreciation, we are putting aside money to replace the asset at the end of its life. This means that future ratepayers won't be hit with expenditure to replace failing assets. For example, if a water treatment plant was installed at a cost of $30 million, and is expected to last for 30 years, it would have a depreciation charge of $1 million per year.

In an ideal world, the Council would rate to fund depreciation so that when the asset needs replacing, we are holding cash reserves (from years of rating for depreciation) equal to the cost of the replacement. Sometimes it is appropriate not to fully fund depreciation. This might include when we can reasonably assume that we will have access to external funding assistance to assist with the replacement or where we plan to borrow. Sometimes the decision to not fully fund depreciation has been made to help reduce the level of rate increase.

To balance costs, we have decided it is prudent to continue with our current depreciation policy of not fully funding the depreciation on all assets. We consider that, in most instances, where an asset needs to be replaced, we will have the capacity to borrow if required. We have made some key changes to our approach in the funding of depreciation:

- **Transportation:** to fund the proposed roading programme outlined in the Infrastructure Strategy, we will need to increase our funding of depreciation over the life of the plan.
- **Swimming Pools:** we are planning to increase our depreciation funding (currently 50%) to 100% over our plan.
- **District, Rural and Township Maintenance:** we are planning to increase our depreciation funding (currently 0%) to 80% over our plan.
- **We fully fund depreciation on Urban Wastewater and Water Supply but not for the small rural schemes**. For Allandale water supply we have included transitioning from funding 40% for the first three years to fully funding depreciation after the proposed upgrade (subject to user consultation).

Borrowing

Internal borrowing

We'll continue to use internal borrowing.

The Council uses a mix of rates, reserves (accumulated funds), subsidies and grants, financial contributions and central government contributions to fund our expenditure. In the first instance capital expenditure is funded from reserves.

The Council will continue to use internal borrowing to fund its capital projects when it believes it is prudent to do so. This may be when the benefits of a project are intergenerational, or it is fair and equitable to do so e.g. higher interest rates. The Council will also use internal loans to fund certain operational projects where there is a long-term benefit to the community such as the District Plan review.

External Borrowing

We're increasing our level of external debt.

In order, to finance our ten-year capital expenditure programme we do need to increase our external borrowing. The appropriate use of external borrowing ensures appropriate levels of service are maintained for our infrastructure and facilities and in the long-term intergenerational equity is achieved.

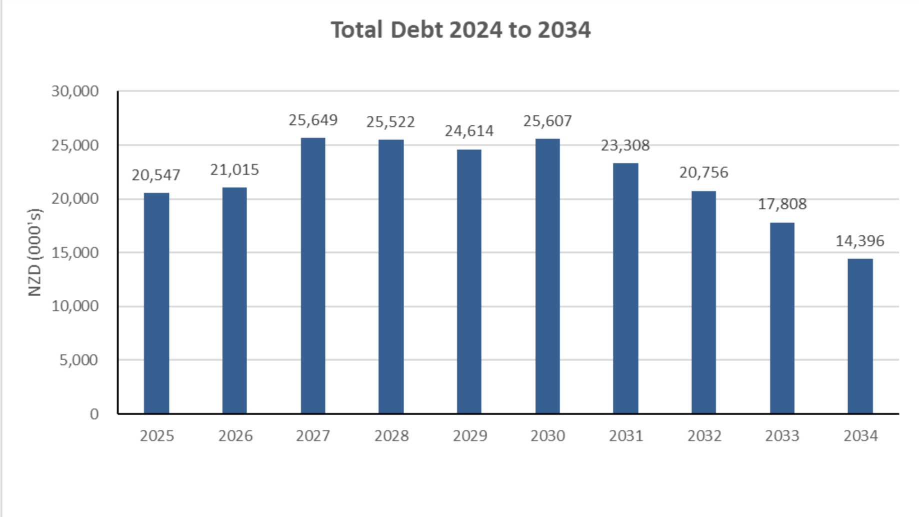
All councils are required to set quantified limits borrowing over the 10-year period of the Long Term Plan.

The Long-Term Plan 2024-2034 will see more external borrowings utilised, increasing from $20.838 million at the end of June 2024 to a peak of $25.649 million in 2026/2027. Thereafter debt levels are projected to reduce to $14.396 million at the end of 2034.

The following graph provides a breakdown of our forecasted total external borrowing

In the first few years of the plan, the Council has taken on large amount of debt to fund major capital projects. As Council accumulates investment funds and reserves, these are utilised to pay down the debt. This means proposed debt decreases from 25.649 million to $14.396 million in 2033/2034.

This provides Council with capacity to increase debt should this become necessary to cope with events like natural disasters.

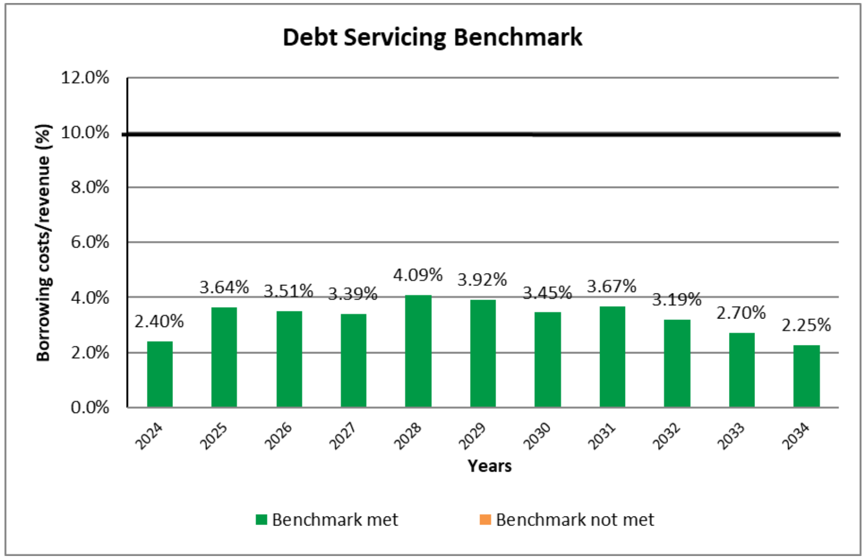


Debt Limit One: Debt will not exceed 175% of our total revenue

Council must not take on too much debt so has set a limit that the maximum debt on the balance sheet will not be greater than 175% of total revenue. Across the 10 years of this LTP debt is not expected to exceed 80% of total revenue.

Debt Limit Two: Debt servicing will not exceed 10% of total revenue.

To ensure that Council can pay for the debt the cost of servicing this debt must not exceed 10% of total revenue. This ensures that we can continue to manage our debt repayments and interest now and into the future.



What does this graph show?

This graph shows that although we will be taking on more debt, we can continue to pay the associated costs (interest) within our 10% of revenue limit. This shows that our debt is sustainable

Managing our debt

Council has the ability to offer as security a charge over rates. This allows us to offer strong security to secure lower interest rates. Full details are provided in our Liability Management Policy available on our website.

Council will borrow from the Local Government Funding Agency (LGFA) and will be subject to the following relevant debt covenants required by the LGFA.

LGFA Financial Covenants

Financial covenant	Lending policy covenants
Net Debt / Total Revenue	<175%
Net Interest / Total Revenue	<20%
Net Interest / Annual Rates Income	<25%
Liquidity	>110%

What if interest rates increase?

Like many of the uncertainties we have to deal with in this Long-Term Plan, we have made assumptions about our borrowing rate on the basis of the Official Cash Rate (OCR) which will be adjusted annually. There is a risk that borrowing rates could rise before the required funds are drawn, meaning the costs of borrowing could be higher than we have forecast. Our Significant Forecasting Assumptions outlines our assumption on borrowing interest rates and other key assumptions we've made.

What assumptions have you made on interest rates?

We have assumed borrowings costs remain fixed at 5% for the duration of the 10 years.

Investments

We're going to continue to invest.

Council has a range of investments which provide returns which offset rates. Our investments include cash on term deposit, equity (our 4.96% share of Alpine Energy Ltd), forestry (953 hectares of plantation), and a range of property investments.

Cash Investments

The Council funds cash investments for the following reasons:

- To support the balance of cash backed reserves.
- To ensure strong lines of liquidity and access to cash remain available to the Council. Cash is supplemented by committed banking facilities.
- As a reserve for an unforeseen event

Overall Short-Term investments will remain stable at approximately $13.768 million at the end of 2024 and grow steadily to $16.984 million over the next ten years. Cash is invested on short term deposits and bonds to manage cash-flows and maximise returns. The Council targets returns that exceed the 90-day bank bill rate.

The following limit has been set to ensure that our investments continue to pay off for our community:

Investment Limit One: the returns on investments and equity securities will be between 2-4%

During this Long-Term Plan, Councill will review its investment portfolio and consider new opportunities to that they are bringing the best outcomes for our community.

Equity Investments

Currently, we hold one equity investment being a 4.96% share in Alpine Energy Ltd. This asset is not readily tradeable on the open market. It is our objective is to retain ownership of this investment

Forestry Investments

We hold approximately 953 hectares of plantation trees. Forestry assets are held as long-term investments and an appropriate technique is used to establish fair value. Income from forestry is used to offset rates. The Investment policy also determines what the proceeds from forestry may be applied towards. Weare currently working through a Forestry and ETS Strategy with our new contractor PF Olsen.

Property Investments

The overall objective is to own property that is necessary to achieve Council's strategic plan objectives. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. A similar process is applied for considering new property and land investments.

Balanced Budget

We're working towards balancing our budget.

Although Council shows an operating surplus on our comprehensive revenue and expenditure statement, the balanced budget prudence measure excludes revenue which is used to fund capital expenditure such as financial contributions and revenue which is non-cash such as vested assets and derivative gains.

A local authority meets the balanced budget benchmark for a year if its revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) for the year exceeds its operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment) for the year.

The balanced budget provisions of the Local Government Act 2002 (s100) allow a council to not fully fund all expenditure (which includes depreciation) provided it can demonstrate that it is financially prudent to do so. Our decision to do this contributes to the situation below.

For years one, two, three and four our revenue (when excluding the items above) is less than our operating expenses, Council does return to a balanced budget from year five onwards. We think that we need to do this to pay for everything that we need to do without further increasing rates and Council had made a conscious decision not to fully fund depreciation.

Depreciation is non-cash expense and so the amount of cash on hand that Council holds is not affected by this decision

What does this graph show?

Simply put, we are running a balanced budget if we are bringing in at least the same amount of income, as the costs we will incur during a year. While this is important, we can run an unbalanced budget for a few years to keep rates down when we have high expenses in particular years, but it is important that we get back to balancing our budget by meeting all of our costs.

Our balanced budget graph shows that we will have an unbalanced budget in Years One, Two, Three and Four but we return to a balanced budget for the latter years of the Long-Term Plan. We think that we need to do this to pay for everything that we need to do without further increasing rates.

For years three and four the balanced budget is close to 100% (99.4% and 99.2% respectively).