tasman
district council

DRAFT FINANCIAL STRATEGY

making the right choices for tasman's future

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Purpose of the financial strategy

This strategy outlines the Council's financial vision for the next 10–20 years and the impacts on rates, debt, levels of service and investments. It will guide the Council's future funding decisions and, along with the infrastructure strategy, informs the capital and operational spending proposed for the Long Term Plan 2015-2025 and outlined in the Consultation Document.

EXECUTIVE SUMMARY – TURNING THE TIDE ON DEBT

This financial strategy sets the overall direction for the Council's finances over the next ten years. It outlines a fundamental change to the Council's approach to financial management of depreciation and capital expenditure from the last financial strategy. These changes are proposed to more fairly allocate costs and to reduce debt levels over the long term to create a more financially sustainable future.

As a result of this proposed strategy, significant debt reductions are forecast. Reductions in debt are mainly driven by two things:

- Moving to fully funding the wearing out of assets over their lives (funding depreciation). This will result in improved cashflows into Council, so it needs to borrow less to fund the replacement of existing infrastructure;
- Reducing the overall capital expenditure programme.

Reducing debt has multiple benefits, including more affordable rates over the long term, and the flexibility to respond to unexpected events as they arise.

Council has set out its key financial goals that drive the budgets of the Long Term Plan 2015-2025. Key goals include:

- To reduce net debt from a projected $172 million in 2015 (168% of operating revenue) to $109 million in 2025 (76% of operating revenue);
- To limit increases in rates income to a maximum of 3% per annum plus growth;
- To move to fully funding the wearing out of assets over their lifetime (funding depreciation) and have this change fully implemented by 2025;
- To ensure there is sufficient funds or borrowing capacity available to fund the planned capital programme (i.e. provide essential infrastructure and services);
- To ensure the costs of providing the growth component of infrastructure are paid by those that benefit from it (i.e. the growth component of capital projects will be primarily funded through development contributions).
- To limit the provision for new community facilities and renewals in the short term, and increasing the minimum community contribution in the long term;
- To review Council assets and investments for potential sale to reduce debt or fund key projects;
- To increase the Council's income by seeking better performance from the Council's commercial investments and activities and to remove rates exemptions for utility networks.

Population growth and an ageing population, land use change, changing legislation, natural hazards, and infrastructure demands are just some of the matters that have been considered in developing this financial strategy.

The strategy dove-tails with the Council's infrastructure strategy, growth strategy, activity management plans and other financial policies. The goals and proposals in this strategy will help inform the financial decisions in the Long Term Plan 2015-2025.

1. INTRODUCTION

This financial strategy focuses on reducing the Council's long-term debt and proposes setting strict limits on increases to the Council's rates income.

The strategy outlines the financial challenges facing the district, and Council's proposals for responding to these challenges. It also sets out its financial goals that will be used to guide decisions in the Long Term Plan 2015-2025.

The strategy looks at the strategic issues affecting Councils financial planning, including the impacts of:

- high debt;
- a small but growing and widely-dispersed population;
- settlements located in areas vulnerable to flooding and coastal inundation;
- increasing infrastructure demands;
- improving water security on and around the Waimea Plains;
- rates increases; and,
- Tasman's relationship with Nelson City Council on regional investments.

Turning the tide on increasing debt levels, while also responding to all of these issues is a major challenge.

This financial strategy explains each of the Council's proposals in relation to:

- income;
- rates;
- expenditure; and,
- debt.

Impacts on levels of service to residents and ratepayers arising from changes to the financial strategy are considered in section seven. The last sections outline the Council's policy on giving security for borrowing, and financial investments and equity securities.

This proposed financial strategy is closely linked to the Council's new infrastructure strategy. The infrastructure strategy details the capital and operational budgets and specific projects in the areas of transportation and roads, water supply, stormwater, wastewater, and rivers and flood protection. Both the Financial Strategy and Infrastructure Strategy feed into the Consultation Document for the Long Term Plan 2015-2025. These documents are available to view or download from Council's website (www.tasman.govt.nz). Alternatively, you can view them at any Council office or library.

THE COUNCIL'S FINANCIAL MANAGEMENT RESPONSIBILITIES

PRUDENCE AND SUSTAINABILITY
COUNCIL WILL MANAGE IT'S FINANCES PRUDENTLY AND IN A WAY THAT PROMOTES THE CURRENT AND FUTURE INTERESTS OF THE COMMUNITY

FINANCIAL STRATEGY
THE 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 PREDICTABILITY AND CERTAINTY OVER THE SOURCES AND LEVEL OF FUNDING

BALANCED BUDGET REQUIREMENT
UNLESS IT'S PRUDENT NOT TO, OPERATING REVENUES WILL BE SET AT A LEVEL THAT MEETS OPERATING EXPENDITURE

2. FINANCIAL GOALS

The Council's proposed goals for managing its finances are outlined in the following table. Twenty two financial goals have been set to reflect where the Council wants to end up in 2025.

TOPIC	PROPOSED GOALS FOR THE NEXT 10 YEARS
Financial prudence	1. To run a balanced budget in all years of the 10 year Long Term Plan. This means that operating income will meet or exceed operating expenditure each year. 2. To reduce its reliance on debt to fund capital expenditure.
Income	3. To improve the equity and fairness of rates by removing the general rates exemptions for utility networks. 4. To improve the financial performance of the Council's commercial investments and assets. This will be achieved by managing these as a group with capital requirements met by the group as a whole. The goal is to also have the commercial group as a whole make internal dividend payments to the Council to primarily offset the general rate. To achieve these goals low performing investments may be considered for disposal and replacement. 5. To review Council's assets and investments for potential disposal of surplus assets by 2019. The source of funds, restrictions and the use of related income will be recognised in the use of the proceeds. Council has a preference for using these funds to reduce debt.
Rates	6. To limit – total rates income increases at a maximum of 3% per annum in each of the next 10 years, plus an allowance for growth that averages 1.37%. 7. To limit general rates income to $51 million per annum and targeted rates income to $46 million per annum over the 10 year period. 8. To complete a review of the impact of the Revenue and Financing Policy by 2018. A focus of the review will be the equity and fairness of the incidence of rates across the whole district. 9. To continue with an approach that sees the whole district contribute funds to a range of infrastructure assets irrespective of their location and the population they serve. Through this club approach, all residents will share in the costs and benefits of paying for each other's infrastructure and services. Once in a club areas cannot opt out at a future date. In addition, joining the club will involve a consideration of the related future capital works programme for the area.

TOPIC	PROPOSED GOALS FOR THE NEXT 10 YEARS
Expenditure	10. To reduce its reliance on debt to fund the smaller capital expenditure programme. To move to fully fund the wearing out of assets over their lifetime (funding depreciation) and to have this change fully implemented by 2025. To use the timing of the stepped increases in depreciation funding to help smooth rates increases over the 10 years of the Long Term Plan. 11. To ensure there are sufficient funds or borrowing capacity available to fund the capital program including major projects. To assist with moderating the demand for funds the total capital programme will be limited to a maximum of 1.5 times the annual depreciation amount. 12. To ensure that the growth component of capital projects will be primarily funded through development contributions and Reserve Financial contributions, where appropriate. 13. To increase community contributions (i.e. fundraising) for new, large, community, recreational, sporting or cultural facilities, and their renewal, to a minimum of one third of the total project costs. 14. To consider where a community is prepared to fund two thirds or more of the cost of a new project that is not in Council's Long Term Plan, the Council will consider the viability of the project and the affordability for Council to contribute to the remaining costs. 15. To develop equitable funding arrangements with Nelson City Council for regional activities, services and facilities e.g. Nelson Provincial Museum, Saxton Field, Suter Art Gallery etc. The Council is aiming for fair and reasonable distribution of costs and benefits to Tasman ratepayers. 16. To consider pre-funding significant capital costs of major projects.
Debt and Borrowing	17. To limit external net debt to a maximum of $200 million and to reduce net debt over the term of the Long Term Plan. Planned external net debt is proposed to reach a maximum of 170% ($193 million) of total operating revenue, reducing to 76% ($109 million) by 2025. 18. To match loan terms to asset lives and to limit the terms for new loans. New loans will not normally exceed a 20 year term (excluding the Waimea Community Dam's 30 year table loan). In a table loan the total annual repayments remain the same over the life of the loan.
Levels of Service	19. To maintain overall levels of service as set out in the Long Term Plan 2015-2025 and provide similar levels of service for growth areas.
Planning for emergency events and contingencies	20. To have the emergency fund reach $6.5 million by 2018, provided there are no major adverse events before that time. The financials include ongoing regular transfers into the fund over 10 years. Due to uncertainty of disaster events, no drawings on the fund have been budgeted. 21. To maintain appropriate insurance cover, activity budgets, committed borrowing facilities and self-insurance funds to mitigate costs related to unexpected events

ASSUMPTIONS

This financial strategy has been developed based on some important assumptions. If these assumptions change, there may need to be changes to the financial strategy. It is assumed that the Waimea Community Dam will go ahead, with a significant amount of funds contributed by external parties. If the Dam does not go ahead, there would need to be a change in focus, particularly on alternatives for securing urban water supplies.

For the purpose of this financial strategy, it is also assumed that Tasman District Council will remain an autonomous organisation.

Many of the financial assumptions used in developing Council's financial strategy and budgets for the Long Term Plan can be found in the 'supporting information' to this financial strategy. Copies of the assumptions are available at www.tasman.govt.nz/LTP, or can be viewed at any Council service centre or district library.

3. CONTEXT AND STRATEGIC ISSUES

The following commentary provides a context to the financial planning undertaken by Council, and considers the specific strategic issues affecting Tasman District.

HIGH COUNCIL DEBT

As at June 2014, Tasman debt per rateable property will be $6,554. The debt level has risen steadily over the last 15 years, and is at higher end of the range for local authorities in New Zealand. This debt was used to provide a high level of community and utility infrastructure. Now, Tasman District is very well 'set up' with infrastructure compared to most, and can afford to cut non-essential projects or delay others to reduce costs. Improved management will also allow the Council to get more life out of the assets before they have to be renewed.

GROWTH IN POPULATION AND DWELLINGS

The Council must consider how to respond to the needs of current and future communities. Future growth will not be spread evenly over the district. These changes in population and land use will also lead to changes in the capital and operational costs for the Council.

The population is projected to increase at a moderate rate from 48,800 in 2013 to 54,000 by 2043 (figures supplied by Statistics New Zealand). This increase is marginally lower than previously forecast. The population is growing more from net migration than from birth rates.

The rate of growth in housing is higher than the rate of population growth. This means there will be more houses but fewer people will be living in each one, with less income to pay for the infrastructure and services provided to that household.

The impact of population change on both capital and operational expenditure has been built into the limits on rates. Council rates income increases will be 3% per annum limit on increases in overall rates income plus an allowance for growth in the range of 1.18% to 2.55%.

Areas are growing at different rates across the District, due to a range of factors including community preferences and economic growth. Based on current growth models, the Richmond, Brightwater/Wakefield, Motueka and Mapua/Ruby Bay areas are expected to be the urban centres with the most growth over the next 30 years. Development contributions will pay for most of the new infrastructure costs related to growth. However, the areas with rapid growth will also need the Council to invest in infrastructure to meet current and future needs.

DISPERSED SMALL POPULATION – INFRASTRUCTURE DEMANDS

Tasman's relatively small, but widely dispersed population lives in 16 main urban settlements, and rural areas, across 9771 km^2. This means there is a small rating base to pay for the significant amount of infrastructure required, including roads and wastewater and water supply services.

The Council considers that the whole district should contribute funds to a range of infrastructure assets irrespective of their location and the population they serve. This ensures everyone can be provided with essential infrastructure and (at least) minimum levels of service. Through this club approach, all residents will share in the costs and benefits of each other's infrastructure and services, all receiving benefit over time.

SIGNIFICANT INFRASTRUCTURE ISSUES OVER THE NEXT 30 YEARS

The infrastructure strategy identifies three significant issues over the next 30 years:

- Waimea Plains water – security for reticulated water supplies, because extended periods of dry weather or drought have occurred nearly every summer since 2001, with impacts on the Waimea River, related aquifers and the communities reliant on it for water;
- Stormwater management, because most residential areas in the district are subject to some level of flood hazard, and many of the district's stormwater systems are under capacity;
- Joint landfill with Nelson City Council, because it would be more efficient to operate a single landfill servicing both areas at any one time, reducing operating costs and avoiding duplication of consent processes and costs in future.

Each of these issues has budgetary considerations that need to be planned for and taken into account in the Long Term Plan.

OTHER LAND USE CHANGES

Changes in land use, and the demand for housing, directly impacts on the property revaluation that is carried out every three years for rating purposes. These changes cause fluctuations in the general rates and in the targeted rates based on land or capital value paid by each property. Increases in capital values do not increase the Council's total rate take. Rather it affects the incidence of rates – i.e. who pays and how much.

VULNERABILITY TO NATURAL HAZARDS

Most of Tasman District's settlements are near the sea, or in low-lying river valleys and plains. These areas are susceptible to sea level rise and coastal inundation, and to flooding from rivers during high rainfall. The impacts of natural disasters can be significant and impose substantial unbudgeted costs on the Council. Predicted sea level rise is also likely to increase the costs to the Council when infrastructure needs replacing or relocating. The Council wants to reduce the district's vulnerability to natural hazards.

INCOMES, INEQUALITY AND PROPERTY PRICES

The Tasman District, along with Nelson City, has experienced a significant growth in residential property prices in recent years. Residential prices have increased by 5.6% over the past three years. The high growth in prices has been concentrated in Richmond, Motueka, Mapua, Brightwater and Wakefield, which have experienced an 8% average rise in values. This is one of the highest increases for a provincial area in New Zealand. While this can be a benefit for existing home owners, it is contributing to a housing affordability challenge for younger and lower income residents. It also means higher rates for people who live in the areas where property values have increased (relative to the district average). However, this is off-set by lower increases in rates in other areas (again, relative to the district average).

Tasman District has a median wage economy with lower incomes than some other parts of the country. A relatively high proportion of people are on a fixed income. For these reasons the Council will focus on lower rates increases, and review the overall incidence of rates across the district by 2018. This review will include examining the balance of rating between fixed charges and rates based on property values.

Also, Tasman District's population is getting older. Currently 17.9% of our population is aged over 65, and this is expected to increase to 29% by 2031. Most of these older people are likely be retired, therefore on fixed incomes, and financially vulnerable to rates increases above the movement in the Consumer Price Index.

RELATIONSHIP WITH NELSON CITY

The Tasman and Nelson Councils have a close working relationship. Currently the two Councils have over 100 shared service arrangements. The Councils also have a range of shared investments (including Nelson Airport Ltd and Port Nelson Ltd), services (such as Nelson Regional Sewerage Business Unit), an agreement to operate a joint landfill in future and other funding agreements.

Both the Councils benefit from the current shared water supply agreement, which relates to industrial and residential properties in Stoke. Tasman and Nelson Councils are discussing Nelson's interest in, and contribution to, the proposed Waimea Community Dam.

THE WORLD AROUND US

The Tasman District is influenced by 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 the Council's finances.

The Council's resilience and ability to respond to these factors outside of its control will be enhanced by reducing debt. This is a significant priority in this financial strategy. If the Council spends and borrows to moderate levels, it will have more flexibility to respond to new situations.

4. OUR STRATEGY AND PROPOSALS

This document explains Tasman District Council's strategy for meeting its financial goals and addressing its strategic issues.

The strategy focuses on Council's income, rates, expenditure, and debt and borrowings. Each of these areas contains specific proposals that Council intends to apply when it makes decisions for the Long Term Plan 2015-2025.

4.1 INCOME

PROPOSAL: REVIEW THE RATING BASE

This financial strategy proposes reviewing the previous policy of exempting network infrastructure utilities from paying general rates on their networks. Network infrastructure utility assets include electricity, telecommunications, water supply and wastewater service networks. This will have an impact by reducing general rates and increasing targeted rates which largely affect urban areas. That is, it shifts some rates off existing ratepayers. Some of these new rating charges will apply to the Council's own utilities, as shown below.

PROPOSAL: REVIEW FEES AND CHARGES

The Council's preference is to recover costs that provide private benefits to members of the public or specific organisations through user fees and charges. These fees and charges are reviewed regularly and normally adjusted for inflation and increases in costs. During the first three years of the Long Term Plan the Council will be reviewing a range of fees and charges as part of its Revenue and Financing Policy review. There has been no additional income included in the forecasts from this review

PROPOSAL: REVIEW COUNCIL ASSETS FOR POTENTIAL SALE

During the first three years of the Long Term Plan, the Council proposes to review the Council's assets and investments, to determine which may be surplus and suitable for sale. The Council's preference is to use proceeds from asset sales to reduce debt or purchase new assets, rather than offset operational expenditure.

To be considered for disposal, assets would need to be low-performing, and the overall impact of the asset sale must be to reduce interest costs by more than the level of lost income from these assets. For example, if $2 million was earned from forestry investments, this would be taken into account when calculating the value. Following the review of assets, any proposed sale and intended use of proceeds from the Council's strategic assets would be discussed with the community prior to making a final decision. There has been no income included in the forecasts from these potential asset sales.

PROPOSAL: INCREASE INCOME FROM COUNCIL OWNED COMMERCIAL ASSETS AND COMMUNITY HOUSING

The Council has a number of commercial and semi-commercial assets such as, forestry, Port Tarakohe, commercial campgrounds, Mapua wharf, and aerodromes. The Council has appointed a commercial manager in order to improve the Council's return from its investments. This manager along with the Commercial sub-committee is ensuring that commercial disciplines are applied in managing these investments. A series of new activity management plans have been prepared for the Long Term Plan 2015-2025.

The Council intends to review the charging regime for its commercial assets and will ensure charges fairly represent costs and a return on investment. The Council also intends to provide a greater level of re-investment in commercial assets to ensure their ongoing commercial viability. Planned reinvestments in commercial assets have been included in the financial forecasts along with known increases in fees and charges.

Another option to increase income is to set community housing rents closer to market levels. Any such change would need to be phased in over time. Rents for existing tenants are currently being gradually increased to 80% of market rates. Rents for new tenants are already being set at 80% of market rates.

4.2 RATES

PROPOSAL: SET A LIMIT ON INCREASES TO RATES INCOME

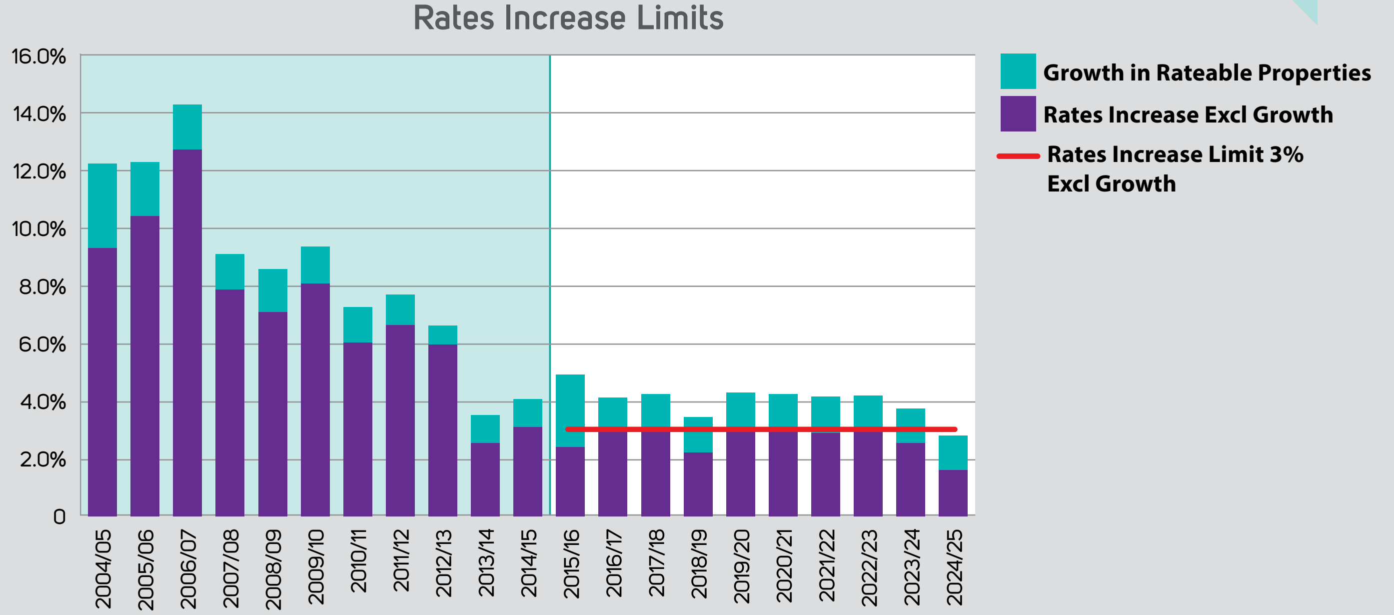
To assist in keeping rates affordable, Council proposes that general rates income is limited to $51 million per annum and targeted rates to $46 million per annum over the life of the Long Term Plan 2015-2025.

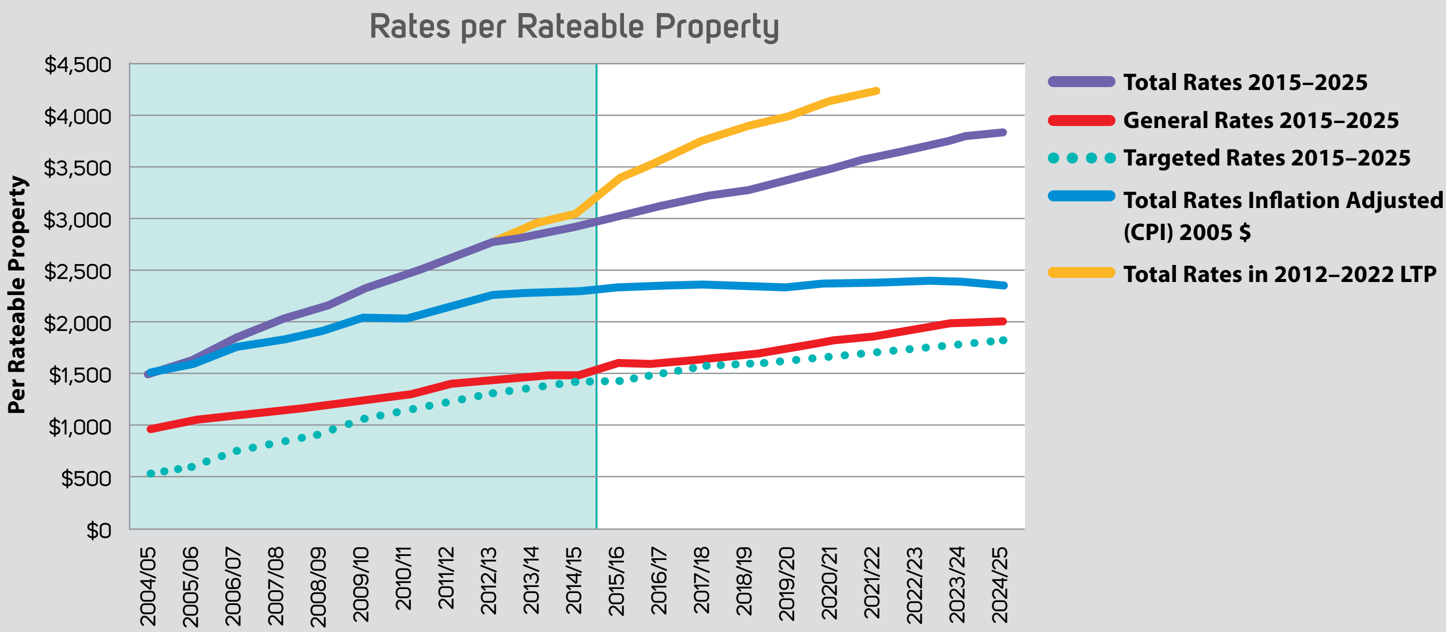
Total rates income increases are proposed to be limited to a maximum 3% per annum, plus an allowance for annual growth in rateable properties. This growth component varies from 1.18% to 2.55% per annum during the 10 years of the plan. Within this overall limit, individual rates may change to a greater or lesser extent depending on the services available to the property and changes to relative property values. This is a substantially lower level of increase than has occurred in the past.

Graph commentary

Under this strategy rates income increases are much lower than forecast in the Long Term Plan 2012-2022. When adjusted for inflation, the increase in rates during the Long Term Plan 2015-2025 is relatively low and well below the level of increase experienced between 2005 and 2014.

Since 2005 the increases in targeted rates have been higher than general rates, which reflects the investment in infrastructure. This increase in targeted rates impacts on households receiving the services, usually households in urban areas. During the term of the Long Term Plan 2015-2025 increases to targeted rates are similar to general rates.

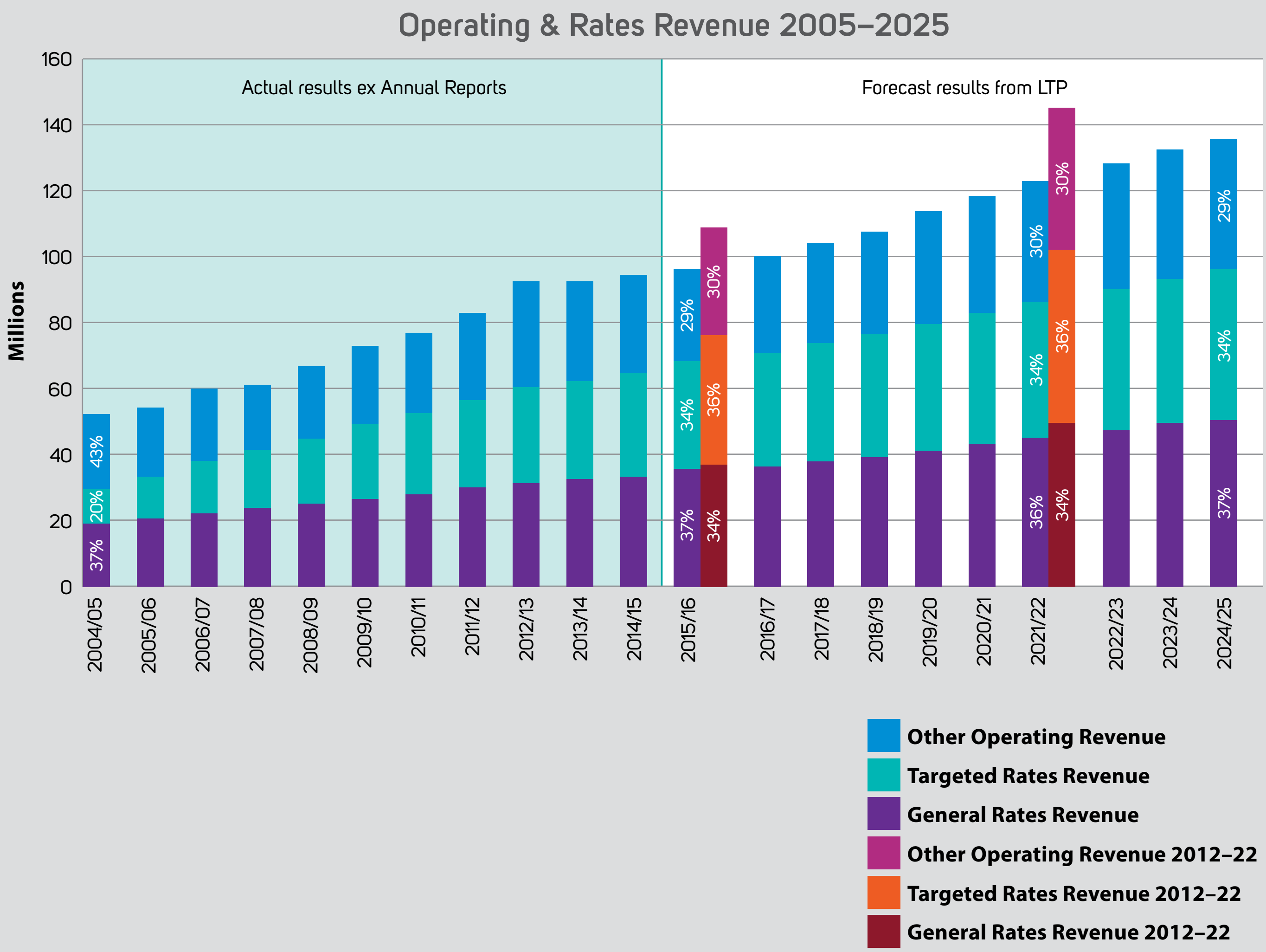




RATES AS A PORTION OF THE COUNCIL'S INCOME

Graph commentary

The graph shows rates income is growing faster than other income. This financial strategy proposes no change to the relative contributions to the Council's income made by general rates, targeted rates and other fees and charges. This contrasts with previous policies that resulted in larger increases in targeted rates. As illustrated in the above graph, targeted rates will make up a lower proportion of total income than in the last long term plan. This reflects the changes to the capital programme, the impact of changing how depreciation is funded and operational savings.

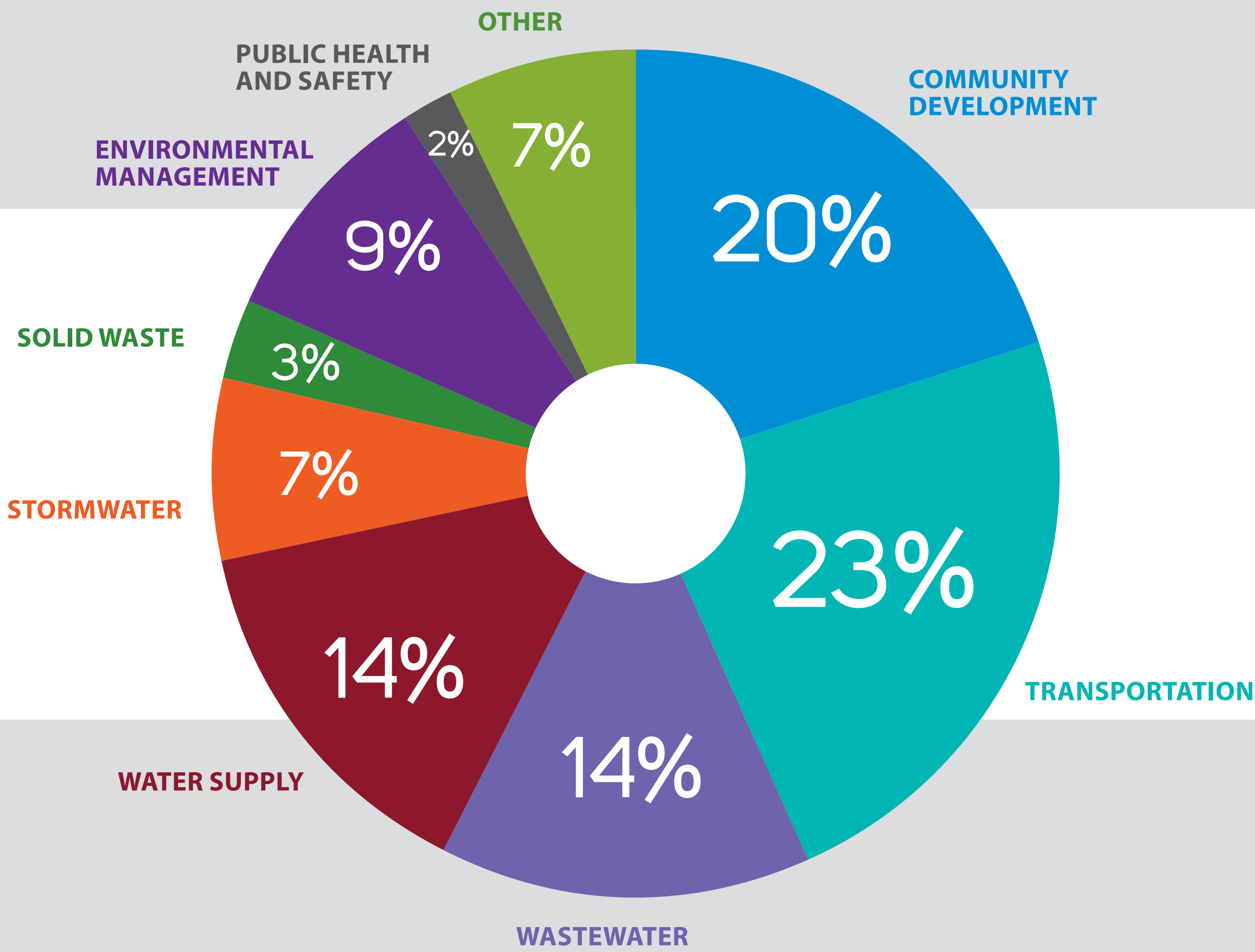


4.2 RATES CONT.

WHERE YOUR RATES GO

Graph commentary

The Council provides a wide range of services to residents, businesses and also visitors to Tasman. The following graph shows the proportion of rates proposed to be collected for these services over the life of the plan. This will not match expenditure for all council activities as many activities like councils regulatory functions have large income from fees and charges.

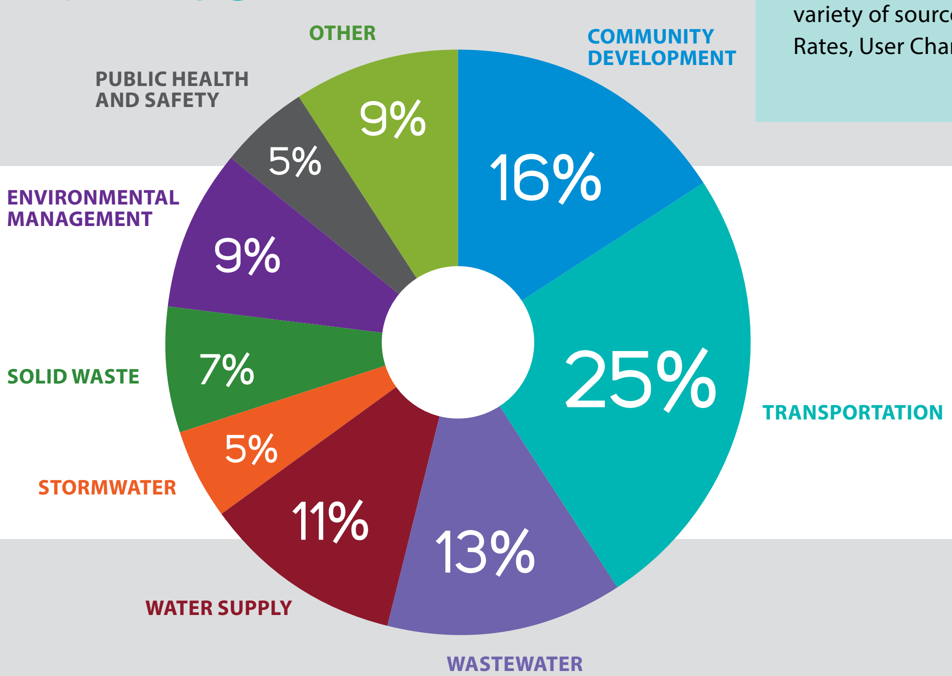


4.3 EXPENDITURE

2015-2025 TOTAL OPERATIONAL EXPENDITURE BY CATEGORY

Graph commentary

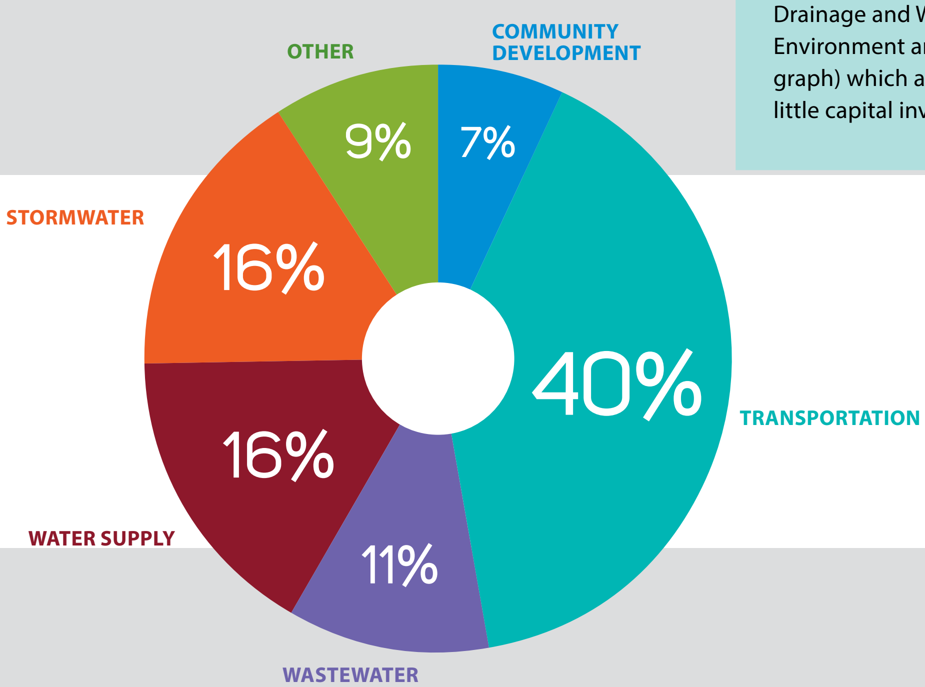
This graph shows the proportion of council operating expenditure for each group of activities, excluding depreciation. Operational expenditure is funded from a variety of sources including, but not limited to, General Rates, User Charges, Subsidies, and Investment Income.



2015-2025 TOTAL CAPITAL EXPENDITURE BY ACTIVITY

Graph commentary

83% of Council's planned capital expenditure over the Long Term Plan is spent by the Transportation, Sanitation, Drainage and Water Supply activities. Activities such as Environment and Planning (included in "Other" in the graph) which are mainly operational in nature require little capital investment.



4.3 EXPENDITURE CONT.

PROPOSAL: PROVIDE FUNDS TO IMPROVE WAIMEA WATER SECURITY

In December 2014, the Council resolved to provide a water augmentation scheme for the Waimea River. The Council proposed that up to a maximum of $25 million be included in the budgets for the Long Term Plan 2015-2025 to enable this. The $25 million would be funded through general rates, water rates and charges. If the funds aren't used for the Waimea Community Dam a portion will be needed to meet the cost of an alternative community water supply.

How the funding is proposed to be allocated for community reticulated water supply networks, environmental flows, the Council Controlled Organisation, and irrigators is outlined below.

Community Reticulated Water Supply Networks (i.e. the Council network):

Of the $25 million, approximately $8 million dollars has been budgeted Dam capcity to meet the needs of reticulated water supplies.

The urban water supply component would be paid via a 'club approach' – i.e. all properties that are supplied with reticulated water (with the exception of parts of Motueka) are in the urban water club. They would all contribute towards the urban water supply capacity costs of the Dam. This is consistent with the current club approach to funding other urban water supply investments.

Only irrigators and reticulated water users that take water from the Waimea River system would contribute to the costs of the Dam, except where the costs relate to environmental flows. The allocation of environmental flow costs is explained below.

Environmental flows:

Under the current proposal, 30% of the capacity of the Dam is expected to be required for maintaining water flows in the Waimea River. Council has decided that it will make a maximum contribution of two thirds of the cost for this capacity. This equates to approximately $14 million.

The environmental capacity is proposed to be paid via a uniform charge on rateable properties. This means all properties in the district contribute towards the environmental health of the Waimea River – like they do with other rivers in the district. The remaining one third of the environmental capacity component would be paid by irrigators and reticulated water users that take water from the Waimea River system.

A Council Controlled Organisation:

Up to a maximum of $3 million is proposed to be allocated for establishing, capitalising and operating a Council Controlled Organisation (CCO).

The CCO would be responsible for representing Council interests in relation to environmental flows and community reticulated water supply networks.

This responsibility is narrower than previously proposed because the CCO would no longer represent private interests.

Irrigators:

The Council will not be funding the irrigator's share of the Dam.

While the details for securing access to water for current and future capacity have yet to be finalised, irrigators will need to make their own arrangements and make their own financial decisions on whether they share in the costs and benefits of the Dam. This might include working with Crown Irrigation Investments Limited to secure additional funding, or water supply agreements.

It is proposed that funding to assist the development of proposals and negotiations between irrigators and funders would be supported by the Waimea Water Augmentation levy on water permit holders in affected areas. This levy is collected by Council and has previously been used to fund the activities of the Waimea Water Augmentation project. This will be a change to the use of the levy.

Irrigators and reticulated water users will need to pay for the dam capacity they need. They may also need to pay a greater share of the costs associated with the environmental flows. This recognises the 'exacerbator-pays principle'. This means those that contribute to the problem contribute to fixing it.

Timing:

The change in approach and the development of an investment proposal for external funders would see up to a two year delay to the project. The delay would enable a review of the size and scope of the Dam to ensure optimum sizing, particularly given the affordability challenge. Construction is now proposed to begin in 2018/2019.

Tasman Resource Management Plan:

The Council will need to amend the water management provisions set out in the Tasman Resource Management Plan (TRMP). The amendments will relate to the water allocation rules for the Waimea Plains. These amendments will be separately notified as part of a Plan Change process.

PROPOSAL: ALLOCATE FUNDS TO IMPROVE COUNCIL'S UNDERSTANDING AND MANAGEMENT OF STORMWATER

Council proposes to undertake catchment management planning and sets out the strategy for improving stormwater services across the district's settlements.

The catchment management plan process, stormwater modelling and assessments will cost $2.017 million over the next 10 years. The costs to implement the catchment management plans won't be known until the plans are completed. Therefore there is no provision for any capital works in the financial forecasts. Any capital works that were to be undertaken would be primarily debt funded and this would impact on the debt levels and the targeted rates forecast in the Long Term Plan. Details on the locations and timeframes for these catchment management plans are included in the Infrastructure Strategy (2015-2045).

PROPOSAL: OPERATE A JOINT LANDFILL WITH NELSON CITY COUNCIL

Tasman District and Nelson City Councils run two landfills within reasonably close proximity to each other. It would be more efficient to operate one landfill at a time.

Tasman District and Nelson City Councils have recently agreed to a joint solid waste initiative.

The agreement will see Tasman waste taken to Nelson's York Valley landfill from July 2015 until 2030, at which time Tasman will reciprocate and take Nelson City's waste to the Eves Valley landfill. This arrangement allows the landfills to be operated more efficiently and reduces costs for both Councils over the long term.

The proposal delays the capital costs for expanding the Eves Valley landfill by 12 years. This is expected to produce capital savings of over $10m and interest savings in excess of $3.0m over the 10 years of the Plan. These savings have been included in the financial forecasts.

PROPOSAL: LIMIT SPENDING ON NEW COMMUNITY FACILITIES

In the past, the Council has invested significantly in community facilities, including recreation and sports grounds, community halls, and district libraries. As well as the capital costs of construction, these facilities generate ongoing costs to the Council, including the funding of depreciation to enable replacement of the assets at the end of their lives.

The Council proposes to limit the budget for new community facilities and renewals in the short term. Within these budgets there is provision to the complete the Golden Bay community facility; renewal projects; additional facilities and improved access at Saxton Field; and the Motueka Library upgrade.

In the future, the Council will seek a larger proportion of funding directly from the community before it will contribute money from the Community Facilities rates for new, large, community, recreational, sporting or cultural facilities, and their renewal. Council is proposing to increase the community contribution to a minimum of one third of the total project costs.

Where the community is prepared to fund two thirds or more of the cost of a new project that is not in Council's Long Term Plan, the Council will consider contributing the remaining costs based on affordability and viability of the project.

It is also proposed that communities contribute one third of the community facilities' renewal costs, so that the Council will only fund depreciation of its share of any facilities.

The Council's borrowing for Saxton Field facilities will be limited to the size of the outstanding loans in 2014/15. Further investment in Saxton Field will be limited to the principal repayments on the existing loans, averaged over the years of the Long Term Plan 2015-2025.

PROPOSAL: ALLOCATE OPERATIONAL COSTS MORE EFFECTIVELY AND MINIMISE OPERATIONAL EXPENDITURE

The Council proposes to continue focussing on effective accounting practices, in order to track and allocate costs appropriately. This will help ensure costs are borne by those who receive the benefit (where applicable).

In order to reduce overall costs to the Council, operational expenditure budgets have been minimised. This increases risks. Overall it can be expected that in any year one or more activities may go over budget due to external events, such as changing legislative demands or natural disasters or unexpected failure of infrastructure. The Council cannot determine in advance which activities will be impacted in this way. Accepting this will occur, and responding when it does, is considered a more prudent approach than budgeting for a worst case scenario for all activities, just in case of a budget overrun.

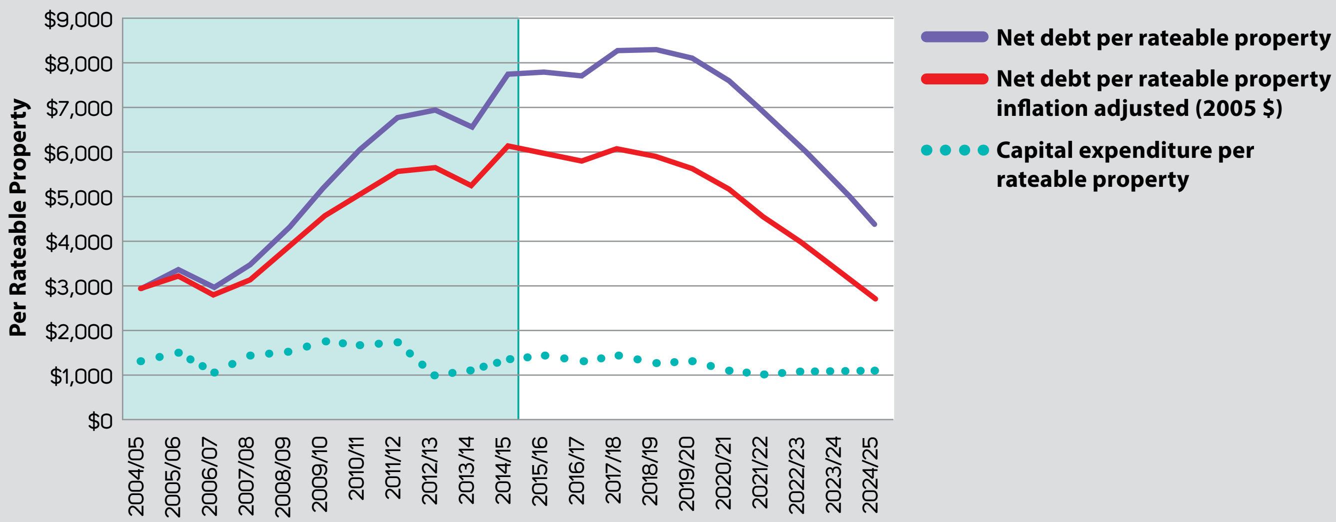
4.4 DEBT AND BORROWING

The Council's net debt is projected to be $172 million at 30 June 2015 ($7,759 per rateable property). If the Council continued with the programme in the Long Term Plan 2012-22, it would result in a gross debt level of $311 million (net debt $293 million) by 2022 ($12,165 per rateable property). This was a relatively high debt per capita ratio. Since 2012, the Council has focused on how the projected debt level could be reduced. The new financial projections show net debt will peak in 2018/2019 at $193 million, and then reduce to $109 million by 2025.

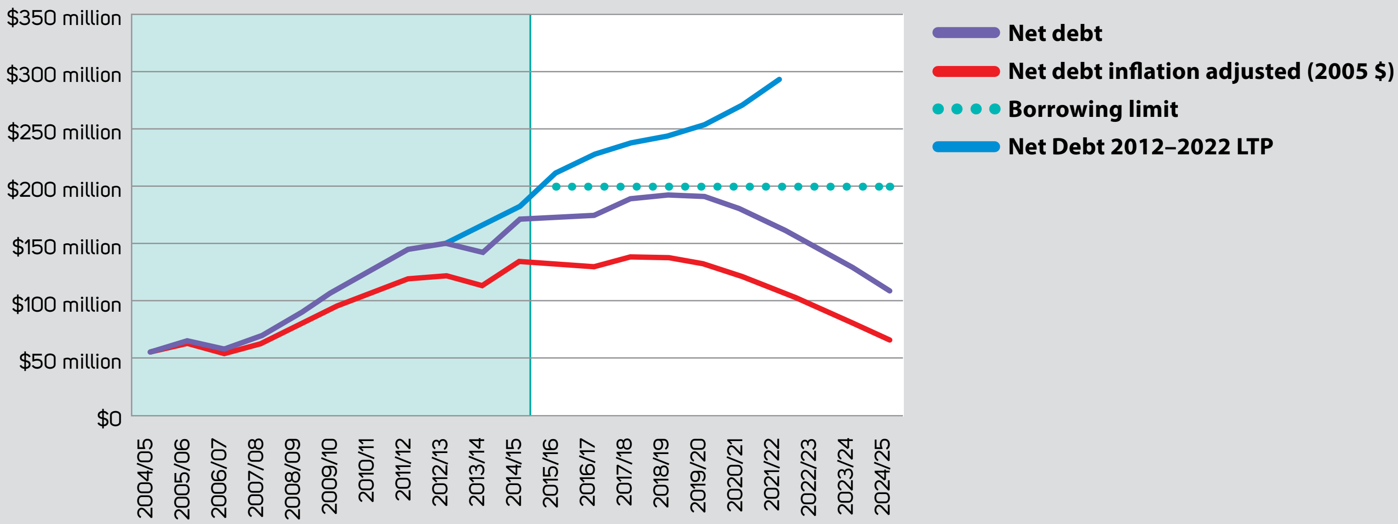
Graph commentary

The following graphs reflect the net debt profile, and limits on debt, based on the Long Term Plan 2015-2025. By the end of the Long Term Plan, debt per rateable property returns close to the 2005 level when adjusted for inflation.

Council Net Debt & Capital Expenditure per Rateable Property 2005–2025



Council Net Debt 2005–2025



PROPOSAL: PLACE A LIMIT ON DEBT

The council proposes to limit net external debt to a maximum of $200 million for the term of Long Term Plan

The Council also has a number of prudential limits for debt set out in its Treasury Risk Management policy. The maximum net debt cannot exceed the lowest of these limits (see table below). Debt will be limited by Council's ability to service interest and finance costs. Servicing of the Council debt will be kept to below 15% of operating income in any one year. Debt will peak at $193m with the funding of the Waimea Community Dam and reduce over the remainder of the Long Term Plan. After adjusting for inflation (CPI), debt in 2025 will be 25% lower than in 2015. Net debt peaks at 170% of total operating revenue, reducing to 76% by 2025 (with a projected net debt of $109 million in 2025).

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 not consolidated group.

Council's Treasury Risk Management Policy Borrowing Limits

		YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
MEASURE	LIMIT	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Net External Debt / Total Operating Income	<225%	168%	163%	170%	164%	157%	143%	126%	109%	93%	76%
Net External Debt / Equity	<20%	14%	14%	14%	14%	14%	12%	11%	10%	8%	7%
Net Interest on External Debt / Total Operating Income	<15%	9%	9%	9%	9%	9%	9%	8%	7%	6%	5%
Net Interest on External Debt / Annual Rates Income	<25%	14%	14%	14%	14%	14%	13%	12%	10%	9%	7%

4.4 DEBT AND BORROWING CONT.

PROPOSAL: PAY DEBT OFF EARLIER

Paying off debt earlier means that a greater portion of assets and infrastructure is paid for by current ratepayers over the next 10 years, rather than pushing all the costs out to future generations.

The Council must carefully consider the intergenerational equity of apportioning costs to current and future generations. Different assets will have different loan terms to recognise this issue.

Paying off debt earlier also means the district's vulnerability to external or unexpected financial events such as interest rate rises is reduced, and enables more borrowing capacity in the event of natural disasters, a higher than expected level of renewals, and other unplanned events.

Where appropriate, the Council prefers to channel special dividends, or proceeds from asset sales (where permitted) into debt reduction.

PROPOSAL: FUND CAPITAL RENEWAL FROM DEPRECIATION NOT LOANS

Historically, Tasman District Council has funded new asset construction and renewals via borrowing. The Council proposes to now progressively fund depreciation (i.e. the wearing out of assets as it occurs) through rates and other income streams. This change will be stepped in over ten years.

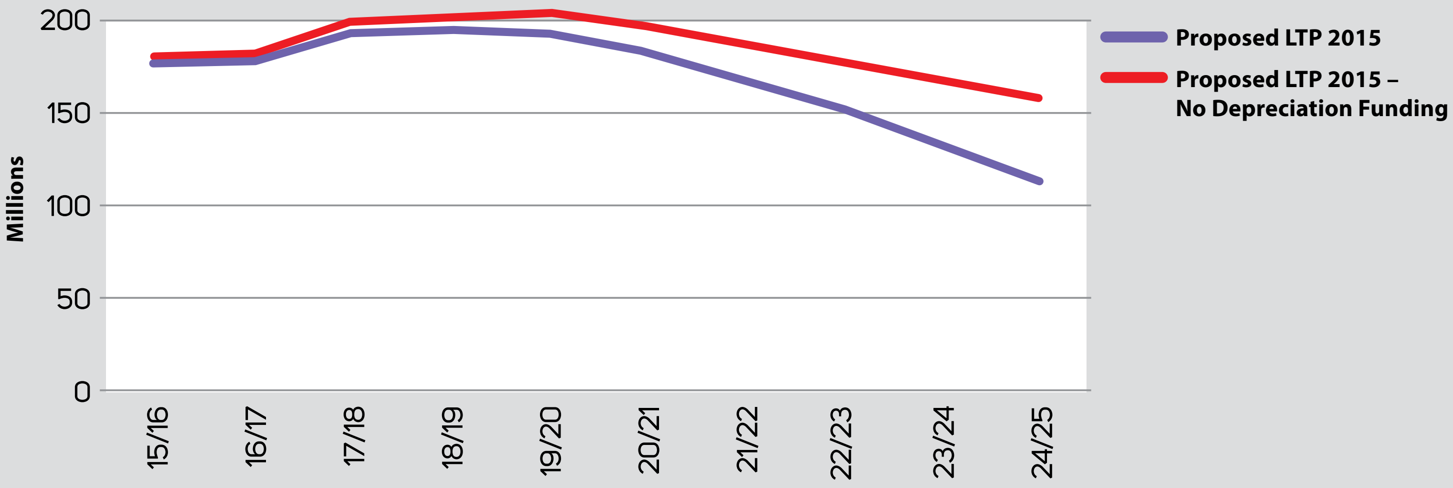
The move to fund depreciation will have a significant cost implication for the Council, and operational spending has been prioritised to remain within the set financial limits. Managing the timing of the stepping in of full depreciation funding has been used to smooth the increases in rates income over the ten years of the Long Term Plan.

The benefit of funding depreciation is reduced debt and increased cash reserves for asset renewals or new capital expenditure.

Graph commentary

The graph below shows the impact of funding depreciation on total debt. The full funding of depreciation is phased in over the 10 years of the Long Term Plan. As these additional funds are received they are used to fund capital expenditure and pay off debt.

Impact of Implementing Fully Funding Depreciation on Gross Debt



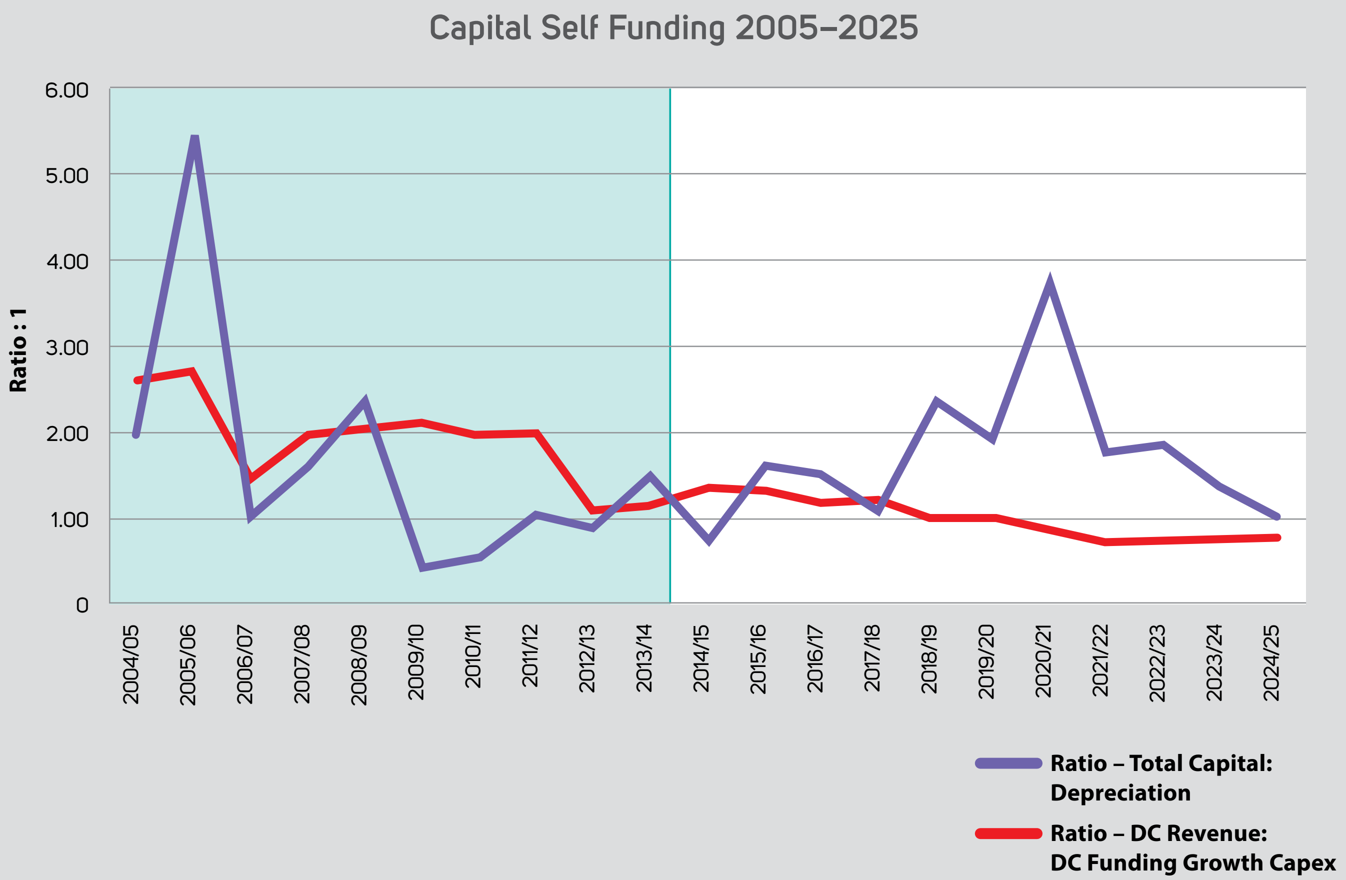
PROPOSAL: LIMIT THE CAPITAL EXPENDITURE PROGRAMME TO A MAXIMUM OF 1.5 TIMES DEPRECIATION

The Council proposes to limit capital expenditure. Capital expenditure has been a major contributor to increasing council debt. At a capital expenditure to depreciation ratio of 1:1 the Council would just be covering its renewals with no increase in levels or service and no allowance for growth projects. This limit has therefore been set at a higher but conservative conservative 1.5 to 1 ratio. This allows for growth and small improvements to levels of service provided by the Council.

Graph commentary

The graph (red line) illustrates the high level of capital expenditure during 2005 to 2012. During the Long Term Plan period capital expenditure remains above 1:1 until 2020 in the last 5 years of the Long Term Plan the ratio falls below 1: 1. This is possible due to the previous high capital investment and improved management of infrastructure. There is an increased risk of a reduction in levels of service through infrastructure failure under this approach, although improvements to asset management systems are expected to mitigate this risk.

The purple line shows the ratio of development contributions to growth related capital works. The historic deficits arose because expenditure occurred before all the related development contributions had been collected. Some of these costs continue to be collected from current developers, as the growth capacity of assets is taken up.



4.4 DEBT AND BORROWING CONT.

PROPOSAL: REVIEW LOAN TERMS

In most cases, Council proposes to limit the term of new loans to 20 years. This reduces the total cost of the loan, and Council debt, but increases short term costs to ratepayers.

Some existing 40 year loan terms have been reduced to 20 years where they are for assets that the Council has contributed funding towards but that it does not own (e.g. Mapua Hall and Brook Sanctuary). Loan terms have also been reduced where the life of the asset is less than the loan term (e.g. hockey turf and athletics track). Most other legacy community facility loans remain at 40 years.

In some cases, where capital expenditure will benefit residents for a long period into the future and the expenditure is unusually large, for example where 100 year capacity is designed into a project, it may be more equitable to have a long term loan, to ensure those who benefit pay the costs. The Waimea Community Dam may have a longer term 30 year table loan for this reason. The use of a table loan keeps the repayments (principal and interest) constant over the life of the loan, but increases the total costs of the loan.

PROPOSAL: PLACE A CAP ON THE PROVISION OF LOW INTEREST LOANS

The Council proposes to cap the provision of low or no interest loans at the value of the current outstanding loans. Any new loans can only be made from current loan principal repayments.

5. IMPACT ON LEVELS OF SERVICE

The Council is tasked with providing good quality local infrastructure and local public services, and cost effective regulatory functions. The proposals in this financial strategy are designed to maintain the level of services, facilities and regulatory functions provided by the Council.

Previous investment by the Council means the district's infrastructure needs are well provided for. As a result, the Council has been able to pull back on many planned projects to lift service levels, particularly in the first 10 years of the Long Term. This helps achieve our financial goals of reducing debt and rates income increases.

For some activities and services there will be improvements to levels of service. In the short term, the Council's highest priority for service level improvements will be on ensuring water security for the Waimea urban water supply areas and stormwater improvements in the district. Other important improvements to levels of service that have been programmed are:

- Improvements to comply with drinking water standards;
- Improvements to stormwater drainage in some catchments
- Increased services for recycling solid waste and,
- Improvements to comply with wastewater disposal standards.

You shouldn't notice many changes in the services 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 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 Council anticipates 'sweating its assets' (the term described in the Infrastructure Strategy as a way of extending the life of an asset) which may increase the risk of occasional unexpected disruptions to service delivery. The Council will be working hard to avoid these disruptions, where possible, by improving its knowledge of asset condition; retaining budgets for operations and maintenance; and holding sufficient borrowing capacity should an asset urgently need to be replaced.

6. POLICY ON GIVING SECURITY FOR BORROWING

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

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

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

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

7. FINANCIAL INVESTMENTS AND EQUITY SECURITIES

OBJECTIVES AND TARGETS

The Council has prioritised improving investment performance. To achieve this, a commercial manager has been employed and a Commercial Sub-committee was established in 2013. The Sub-committee is focused on improving the Council's returns from its commercial and semi-commercial investments, including:

- Commercial property – Mapua, Richmond
- Port Tarakohe
- Forestry holdings
- Holiday parks – Motueka, Murchison, Pohara, Collingwood
- Motueka Harbour and Coastal Works reserve fund.

The Council's commercial activities operate under their own financial strategy. This strategy 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.

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

- Maximise returns from its investments while minimising the likelihood of capital losses.
- Ensure the investments benefit the Council's ratepayers.
- Maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements.

The Council 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). The Council maintains an ongoing review of its approach to all major investments and the credit rating of approved financial institutions.

FINANCIAL INVESTMENTS

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

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

- LGFA Borrower notes with an interest rate equal to the corresponding loan less 0.2%.
- Other liquid and short term investments with a 2%-5% return, depending on the term (overnight to 90 days).

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

EQUITY SECURITIES

The Council maintains equity investments and other minor shareholdings. The Council's equity investments fulfil various strategic, economic development and financial objectives. Equity investments may be held where the Council considers this to be of strategic value to the community. The Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments. Any purchase or disposal of equity investments requires the Council's approval. The Council may also acquire shares that are gifted or are a result of restructuring.

The Council's main equity investments are Port Nelson Limited and Nelson Airport Limited. The Council also has equity investments in the New Zealand Local Government Funding Agency Limited and New Zealand Local Government Insurance Corporation Ltd (Civic Assurance).

Tasman District Council also holds asset investments. The primary asset investment is forestry. In addition, the Council holds investments in commercial and semi-commercial legacy property, including community housing and camping grounds.

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

EQUITY INVESTMENT	OBJECTIVES	TARGET RETURNS
Port Nelson Ltd Council is a 50% shareholder with Nelson City Council 12,707,702 shares 2012/13 book value: $71.659 million 2012/13 net assets $143.32 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 the Council's reliance on rates income.	Annual dividend of not less than 50% of net profit after tax (approximately $4.2 million per annum, shared between the two councils).
Nelson Airport Ltd Council holds 1,200,000 shares. Council is a 50% owner with Nelson City Council. 2012/13 book value of the investment is $7.7 million. The 2012/13 net assets of the company were $9.4 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 the Council's reliance on rates income.	Annual dividend of 5% of the opening shareholders' funds for that year (approximately $500,000 per annum, shared between two council shareholders.)

EQUITY INVESTMENT	OBJECTIVES	TARGET RETURNS
New Zealand Local Government Funding Agency Limited (LGFA) The Council holds 3,731,958 shares (including uncalled capital). Council along with the Crown and 30 other local authorities is a minority shareholder. 2013/14 book value: $1.866 million. 2013/14 net assets: $28.848 million. Council has an outstanding loan used to purchase these shares of $1.87 million (2014).	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, the 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 $113,000 for 2012/13.
New Zealand Local Government Insurance Corporation Ltd (Civic Assurance) The Council holds 65,584 shares. Council, along with other local authorities, is a minority shareholder. 2013/14 book value: $73,454. 2013/14 net assets: $12.354 million.	The Council invests in New Zealand Local Government Insurance Corporation Ltd to ensure that the insurance market is competitive and that the local government sector is in a strong position to manage its own risk. These shares are not tradable and Council is unlikely to purchase further shares.	As a result of the Christchurch earthquakes, the company does not envisage paying dividends until its capital base is restored.
Forestry Current Council forestry policy to operate and maintain up to 3,000 planted hectares. 2013/14 book value: $20.1 million. Note: this is an asset investment, rather than an equity investment.	Forestry is a flexible investment that can be manipulated to suit cash flow requirements and market conditions by making choices about harvesting times (please check). Economies of scale with 3,000 hectares provides a marketing advantage and cost savings in operations.	10% of net forestry revenues derived from Rabbit Island must be used for maintenance of Rabbit Island each year. Occasional internal dividends contribute to reducing the Council's general rate requirement and/or assist with the repayment of Council debt.

8. GLOSSARY

TERM	DEFINITION
Asset investment	Investments held in physical capital assets rather than shares (equity investment). Councils primary asset investment is forestry. In addition, the 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.
Debenture Trust Deed	A debenture trust deed is a debt instrument that is accompanied by a contract for repayment from the company issuing the debt. The company receives cash to fund its capital expenditures, and the investor receives guaranteed interest and principal payments. Because the payments are guaranteed, the risk to the investor is lower.
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.
Fiscal envelope	A set of financial limits That control for example the amount of operational expenditure, capital expenditure or rates income of council
Fixed income	An income from a pension or investment that is set at a particular figure and does not vary like wages, dividends or other investment income. An example would Government Superannuation or a WINZ benefit.
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	The standard to which services are provided, such as speed of response times to information requests or the standard of the stormwater drainage system that prevent incidents of surface water flooding. It is what the Council will provide.
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.

TERM	DEFINITION
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.
Return on investment approach	Investments are managed to cover costs as well as return a surplus to Council. Investments with a higher return are favoured over those with a lower return.
Table loan	A loan where your regular repayments are the same each week, fortnight or month, unless your interest rate changes. Every repayment includes a combination of interest and principal. At first, your repayments comprise mostly interest but as the amount you still owe begins to decrease, your regular repayment will include less interest and repay more of the principal (the amount you borrowed).
Targeted Rates	A targeted rate is designed to fund a specific function or activity. It can be levied on specific categories of property (eg 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 Income	Total operating income is defined as earnings from rates, government Grants and 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.
Urban Water Club	Includes all those Council-owned urban reticulated water supplies (except Motueka). They are grouped together for the purpose of allocating the costs of urban water supplies. The charge is consistent across all members of the urban water club.

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district council

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