West Coast Regional Council Financial Strategy

Overview
Generally, Council wishes to continue the financially prudent approach to managing public funds. Council is proud of the fact that it provides quality resource management, planning and hazard management services to the West Coast community at very affordable rates. Council wants this to continue.

Council philosophy is to charge users of our services wherever this is possible, but to ensure those user charges are fair and reasonable. With the General Rate, annual increases should match the rate of growth in the region. This generally results in a nil rate increase to existing ratepayers, but the total rate taken increases due to new rateable properties being created in the region (new subdivisions).

The Council's investment income is to be used 70% for operational programmes with the other 30% reinvested in the fund so that it grows over the longer term. Council will continue to diversify investments to protect this asset. The VCS business unit income is also a major income source.

The Council wants to relax its caps on targeted rates, so that if communities wish to purchase flood or erosion protection infrastructure, Council can respond quickly to those needs.

Introduction
The Local Government Act requires each council to prepare a Financial Strategy as part of its Long Term Plan. The purpose of the Strategy is to facilitate:

a) Prudent financial management, by providing a guide for Council to consider proposals for funding and expenditure against.
b) Consultation on the Council's proposals for funding and expenditure by making transparent the overall effects of those proposals on services, rates, debt and investments.

The Financial Strategy includes:

1. Expected changes in population and land use and the impact of these changes on operating costs.
2. Expected capital expenditure that is required to maintain existing levels of service.
3. Other significant factors affecting the ability to maintain existing levels of service and to meet additional demands for services.
4. Quantified limits on rates and rate increases.
5. Quantified limits on borrowing.
6. Policy on giving of security for its borrowings.
7. Objectives for holding and managing financial and equity investments and quantified targets for returns on those investments.

The four main obligations on Council to ensure that financial prudence is achieved are:

- Manage finances prudently in a way that promotes the current and future interests of the community.
- A financial strategy that informs and guides the assessment of funding and expenditure proposals.
- Funding and financial policies that offer predictability and certainty about sources and levels of funding.
- Operating revenues that meet operating expenses.

Council's Key assumptions

- Investment returns will continue to deliver at least 7% per annum (except for Catastrophe Fund Conservative portfolio which is budgeted to return 6% per annum).
- VCS Business Unit returns will at least equal $500,000 per annum.
- General rate income is maintained in real terms.

1. Expected Changes in population and land use and their impact on operating costs

The Statistics New Zealand "medium series" population estimates for the Region show modest population growth over the ten year period, from 33,000 people in 2015 to 34,000 people in 2025. Council therefore does not expect increased operating or capital expenditure resulting from population change in the Region.

There are at present approximately 380 dairy farms in the Region. Modest growth in the number of dairy farms, or the total hectares of land used for dairy farming is expected. This is not expected to have a significant impact on Council operating or capital expenditure requirements. Land use in the region is otherwise not expected to change significantly over the ten year period.

2. Expected Capital Expenditure for Maintaining Existing Levels of Service

Council has identified the following capital expenditure over the 10 year life of the Long Term Plan:

Replacements (to maintain existing levels of service)	$2,951,385
Improved Levels of Service	0
Meet additional demand	0
Total	$2,951,385

3. Other significant factors affecting the ability to maintain existing levels of service and meet additional demand for services.

Council relies on the following income sources across the 10 year life of the LTP:

Income type	(average over 10 year period)
General rates	23%
Targeted rates	15%
User charges	20%
Business Unit income	30%
Investment income	11%
Other	1%
Total	100%

General Rates
It will be important for Council to maintain the value of its general rate income in "real terms", ie after adjusting for projected future cost increases (inflation). The estimated general rate income over the LTP has been adjusted to take into account these estimated future cost increases. If the general rate income was not to keep pace with these cost increases, then this could affect the ability of Council to maintain existing levels of service.

Business Unit Income and Investment Income
The earnings from the Council's Investments and the VCS Business Unit are a key part of Council funding requirements. If Business Unit or Investment incomes do not meet expectations this could also affect the ability of Council to maintain existing levels of service.

Meeting Additional Demands for Services
Council has not identified any expenditure requirements in the LTP which would be necessary to meet additional demands for services. The most likely future demand would be in the flood protection area, which is financed by loans repaid by targeted rates set on the benefitting community. The caps on borrowing have been relaxed in anticipation of that possible demand.

Council’s ability to provide and maintain existing levels of service and to meet additional demands for services within the quantified limits on rates increases and borrowing.
Council assesses that it can maintain the existing levels of service within the previously mentioned quantified limits. Future drivers for Council borrowing are likely to be requests for new or upgraded River, Drainage & Coastal protection schemes from particular defined communities. Such schemes will involve consultation with the initiating community in accordance with Council’s Significance & Engagement Policy.

Any capital expenditure on new protection schemes agreed on with the initiating community will normally be funded by borrowing and repaid by that community by way of a targeted rate which will match the term of the loan. It is for this reason that Council has adopted caps on targeted rates and borrowing that allow it to respond to borrowing requirements such as described above.

4. Quantified limits on rates and rate increases.

The Council wishes to set rate caps as follows on future rate increases:

- General Rates: not more than 30% of total income (currently 23%, see table above).
- General rate % increases will not exceed the estimated BERL “other” inflation cost indexes.
- Targeted Rates: not more than 25% of total income (currently 15%, see table above).
- Targeted rates (sum of all targeted rates) not to exceed 100% increase on the 2015/16 baseline over the ten year period.

There is considerable allowance for the targeted rates to increase because Council believes there may be more demand from our communities in future for new flood or erosion protection schemes. Council does not know when this demand may arise nor the amount of money likely to be needed, however past experience shows that demand will occur over the ten year period and it is felt appropriate to allow for 25% of total income from targeted rates, so Council can meet this demand.

5. Quantified limits on borrowing.

The Council normally borrows money to fund flood or erosion protection schemes, with repayments made via targeted rates set on the benefiting ratepayers, normally over a 5-20 year repayment term.

The Council wishes to set a cap on borrowing as follows:

- Term Liabilities per capita will not exceed $500 per head of population.
- Loan interest costs plus loan principal repayments not to exceed 15% of total revenue. An increase to 15% is necessary to accommodate possible large scale borrowing in the future with regard to a Westport protection scheme.

The per capita cap for term liabilities contained in the 2012 Long Term Plan was $125. It is necessary to increase this to $500 to accommodate:

- Borrowing of $1.5 million for the Hokitika Seawall (not known or predicted in 2012).
- Possible substantial protection schemes at Westport and Franz Josef, of cost so far unknown.
- Possible further demand for borrowing from communities who may desire flood protection.

Council’s term liabilities per head of population are currently as follows:

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Population (,000s)	34	34	34	34	34	34	34	34	34	34
$ per head	$149	$140	$130	$120	$109	$100	$89	$78	$68	$61

Increasing the cap to $500 gives headroom for future borrowing, should communities demand that.

The following is the Council's interest costs + loan principal repayments, divided by total revenue:

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Interest costs	3.1%	2.9%	2.7%	2.4%	2.2%	2.0%	1.8%	1.5%	1.3%	1.1%
Loan principal	3.8%	3.6%	3.6%	3.6%	3.5%	3.5%	3.5%	3.5%	2.9%	2.5%
Total	6.9%	6.5%	6.3%	6.0%	5.7%	5.5%	5.3%	5.0%	4.2%	3.6%

Council debt repayments compared to total revenue are comfortably within manageable levels.

6. Policy on giving of security for Council borrowings.

As at 30 June 2015 Council borrowings will total:

Rating District protection schemes repaid by targeted rates	$3,449,720
Investment in Associates (PCR LP)	$443,034
Investment in commercial property (Rolleston land and building)	$814,126
Warm West Coast Insulation Scheme	$705,000
Leased Assets	$24,551
Total	$5,436,431

In accordance with its existing borrowing policy, Council may offer the following forms of security to lenders:

- Deed of Acknowledgement of Debt.
- Negative Pledge.
- Specific charge over particular targeted rates (s115 Local Government Act 2002)
- Specific charge over general rate (s115 Local Government Act 2002)

Westpac bank holds a general first ranking Deed of Charge over rates (targeted and general). This Deed of Charge secures:

Overdraft Facility	$500,000
Term Loan	$22,837
Bond	$30,000
Cards	$20,000
Multi option credit line	$7,500,000*
Risk management products dealing line	$350,000
Total	$8,422,837

* $5,389,043 will be utilised @ 30/6/15

7. Objectives for holding and managing financial and equity investments and quantified targets for returns on those investments.

As at 30 June 2015 it is estimated that Council Investments will amount to;

1. $11,500,000 managed in a diversified "balanced" portfolio by a Fund Manager.
2. Rolleston Land and Building Investment worth $1,300,000.
3. Pest Control Research LP shareholding worth $700,000.
4. $900,000 in a "conservative risk" portfolio with its bankers. This is a fund established by Council as a Catastrophe Fund.

The Council's objectives for holding and managing the first three investments are to generate capital gains in order to protect the real value of the investment portfolio; and to create income to be able to be used for Council activities and to be able to be reinvested to ensure further growth in the portfolio over and above the growth mentioned above.

The objectives of the $900,000 Catastrophe Fund portfolio are to help manage risks to Council Infrastructure (Rating District protection works) and to help ensure access to central government's 60% assistance contribution in the "Infrastructure Recovery Repairs" provisions of the National Civil Defence Emergency Management Plan (section 26.5).

Targeted level of returns

- The target return for the $11.5 million portfolio is at least 7% per annum.
- The Rolleston Land and Building target return is at least 7% per annum.
- The PCR LP target return is at least 7% return on investment.
- The target return for the Catastrophe Fund Portfolio is 6% per annum.