

# Financial Strategy

**Meeting:** LTP Council Briefing  
**Date of meeting:** 08 July 2020  
**Reporting officer:** Sue Davidson, GM Sustainable Growth & Investment

## Purpose/Ngā whāinga

The Financial Strategy sets out how Council plans to finance its overall operations in order to meet its community outcomes for the next 10 years and the impacts on rates, debt, levels of service and investments. It will guide Council's future funding decisions, and along with the Infrastructure Strategy, informing the capital and operational spending for the Long Term Plan (LTP) 2021-2031.

## Context/Horopaki

Section 101A of the Local Government Act 2002 states:

- (1) A local authority must, as part of its long-term plan, prepare and adopt a financial strategy for all of the consecutive financial years covered by the long-term plan.*
- (2) The purpose of the financial strategy is to -*
  - (a) facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and*
  - (b) provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.*

The Financial Strategy is part of the required documentation for the LTP and demonstrates how Council will:

- Provide for growth in its region and manage changes in land use
- Ensure that the level of rates and borrowing are financially sustainable and are kept within pre-set limits
- Be accountable for maintaining the assets that it owns on behalf of the community
- Fund network infrastructure and maintain levels of service
- Give securities on borrowing.

In preparing the LTP and this Financial Strategy, Council considered the balance of:

- Service levels, the costs of these services and the money required to achieve those levels of service
- Priorities for expenditure across all activities
- Setting rates and charges across the full 10-year period of the LTP
- The level of debt that current and future ratepayers would need to fund
- The level of growth that is expected in the next 10 years and beyond.

## Discussion/Ngā kōrerorero

The financial strategy will be in a narrative form but to enable introductory discussion amongst Council, the previous year's drivers, challenges and solutions have been highlighted along with proposed drivers for the next 10 years. The first step is looking for a basis of fundamental principles underpinning our financial strategy that which will support delivery of the outcomes.

## Key drivers

Key Drivers	Drivers 2018 LTP	Drivers 2021 LTP
Balance Sheet	<ul style="list-style-type: none"> <li>Balanced Budget,</li> <li>Financially resilient, equitable and sustainable funding</li> </ul>	<ul style="list-style-type: none"> <li>Balanced Budget</li> <li>Attention to risk management to be more financially resilient</li> <li>Strong Balance Sheet</li> </ul>
Debt	<ul style="list-style-type: none"> <li>Reducing risk and quantum of debt</li> <li>Meeting debt ratios</li> <li>Prudently use debt</li> </ul>	<ul style="list-style-type: none"> <li>Manage debt</li> <li>Meeting debt ratios</li> </ul>
Capital Expenditure	<ul style="list-style-type: none"> <li>Just in time policy as regards capital expenditure</li> </ul>	<ul style="list-style-type: none"> <li>Delivery of new capital program as specified</li> <li>Maximum funding of depreciation on all strategic assets (Do we need to consider what not to fund)</li> </ul>
Asset Renewals	<ul style="list-style-type: none"> <li>Avoid loan funding for operational expenditure by increasing depreciation levels</li> <li>Base levels of service and no extras</li> </ul>	<ul style="list-style-type: none"> <li>Minimal changes to level of service</li> <li>Aging Infrastructure-Reinvest in infrastructure to address historical underinvestment- Additional renewals</li> <li>Bridges</li> <li>Water</li> <li>Renew/Upgrade public assets??</li> </ul>
Rates	<ul style="list-style-type: none"> <li>Rates affordable</li> <li>Treat the district equitably</li> </ul>	<ul style="list-style-type: none"> <li>LGCI plus allow for improvements</li> <li>Recognise COVID-19 impacts on affordability</li> </ul>
Growth	<ul style="list-style-type: none"> <li>Have a sustainable plan</li> </ul>	<ul style="list-style-type: none"> <li>Recognition of high growth district- Change in population and land use</li> <li>Sustainable growth supported by Spatial Plan, additional infrastructure provided for, and development and financial contributions for</li> <li>Mangawhai, Kaiwaka, Maungaturoto</li> </ul>
Climate Smart/Sustainability		<ul style="list-style-type: none"> <li>Climate change resilient</li> <li>Investigate Carbon footprint</li> </ul>

## Key challenges

Key Challenges	Key challenges 2018	Key Challenges 2021
Asset Renewals	<ul style="list-style-type: none"> <li>Didn't have full asset information</li> <li>Get preferred approach to renewals funding by 2021</li> <li>Renewals deferred as long as possible to ensure affordability</li> <li>Much of the depreciation on infrastructure is unfunded (MCWWS until 2025)</li> </ul>	<ul style="list-style-type: none"> <li>Reality of Aging Infrastructure and Affordability</li> <li>Smooth out the maintenance programme</li> <li>Improve the whole network resilience</li> </ul>
Rates	<ul style="list-style-type: none"> <li>Revaluation moved the incidence of rates</li> </ul>	<ul style="list-style-type: none"> <li>Revaluation (always in an LTP year) could change the incidence again</li> <li>Small population and economic base</li> </ul>
Economic Development	<ul style="list-style-type: none"> <li>Growth within Kaipara especially Mangawhai</li> <li>Holiday and visitor population</li> </ul>	<ul style="list-style-type: none"> <li>Holiday and visitor population</li> <li>Drought on communities</li> <li>Govt money-Consider impact on maintenance and funded depreciation thereby impacting on rates</li> </ul>
Climate Smart/Sustainability		<ul style="list-style-type: none"> <li>Decline in markets for Recyclables may mean recognising local NZ demand</li> </ul>
Customer Services	<ul style="list-style-type: none"> <li>Frontline and back office services neglected</li> </ul>	<ul style="list-style-type: none"> <li>Getting the right balance with digital improvements and staffing</li> </ul>

## Solutions

Solutions	Solutions 2018	Solutions 2021
Debt	<ul style="list-style-type: none"> <li>Seek external advice on debt management</li> <li>Borrowing used minimally</li> <li>Debt will be used to fund desludging</li> <li>Sale of assets to decrease debt</li> </ul>	<ul style="list-style-type: none"> <li>Access better interest funding rates</li> <li>Refinancing large tranche of debt</li> <li>Middle of the pack debt per ratepayer</li> </ul>
Capital Expenditure		<ul style="list-style-type: none"> <li>Ensure development contributions maximised</li> <li>Use financial contributions for capital expenditure on reserves for east</li> <li>Maximise external funding-look for partners, identify alternative funding</li> </ul>
Asset renewals	<ul style="list-style-type: none"> <li>Renewals cleared over a 30-year period</li> <li>Get preferred approach to renewals funding by 2021</li> </ul>	<ul style="list-style-type: none"> <li>Renewals cleared over a 30-year period</li> <li>Smooth out the maintenance programme</li> <li>Improve the whole network resilience</li> </ul>
Rates	<ul style="list-style-type: none"> <li>Mangawhai differential rate to fund capital</li> <li>Historic separation of Te Kopuru wastewater</li> <li>Implement forestry rate till 2027</li> <li>UAGC fair</li> <li>Capitalise 50% interest on development contributions. Rest funded by general rate</li> </ul>	<ul style="list-style-type: none"> <li>Revenue and Financing Policy reviewed</li> <li>Potentially equalisation of costs</li> </ul>
Economic Development		
Climate Smart		<ul style="list-style-type: none"> <li>Kaipara Adaptation Action Plan</li> <li>Kaipara Mitigation Action Plan</li> <li>Kaipara Sustainability Action Plan</li> <li>Further waste minimisation</li> </ul>
Customer Service	<ul style="list-style-type: none"> <li>Investment in technology and staff as service levels below desired levels, statutory obligations not being addressed, IT failing in support</li> </ul>	

## Next steps/E whaiake nei

This will be used to guide staff in the preparation of the LTP and aid prioritising. Council will have further meetings to look at the debt and affordability of the LTP.