



## Financial Strategy Rautaki Tahua

The Financial Strategy describes how we plan to finance our activities in a way that is sustainable over the long term and promotes community wellbeing. This provides the framework for delivery of the Long Term Plan 2021-2031 (LTP) and the 30-year Infrastructure Strategy. Debt and rates limits are tools that enable us to deliver projects and services through providing the financial resources, while also making sure that the costs are controlled and spread prudently. Prioritisation is the key to ensuring the community has the services it expects to have, in a way that balances affordability with delivery.

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## Introduction

Western Bay of Plenty District aspires to be a vibrant, healthy and welcoming place with a thriving economy and clean, green and valued environment. We want to promote inter-generational community wellbeing – across each of the social, environmental, cultural and economic aspects. To achieve this, we need to have the capacity and resources to deliver quality and affordable services to the community.

The Western Bay of Plenty District is a high growth area and has had considerable population and economic growth over the past 10 years. Our close proximity to Tauranga City, and location in the 'golden triangle' (between Auckland, Hamilton and Tauranga) has led to the popularity of our District for new residents and businesses. We expect growth to continue for the foreseeable future. This growth does come at a cost, with investment in infrastructure necessary to provide increased capacity and allow for development of new areas. Our debt profiles peak in alignment with the delivery of this infrastructure and reduces over time as growth occurs and costs are recovered from developments.

Council's finances are in good shape. The economic climate in which we are operating is currently more uncertain (due to the impacts of COVID-19), but we are still confident in the economic strength underpinning our District over the long-term. We understand circumstances can change and have adopted a balanced financial approach in this strategy that supports the District's continued population and economic growth, while ensuring prudent management of debt and rates levels and providing scope to adapt to changing circumstances. Recent Central Government funding, as part of the COVID-19 recovery funds, has increased the number of capital projects we plan to deliver.

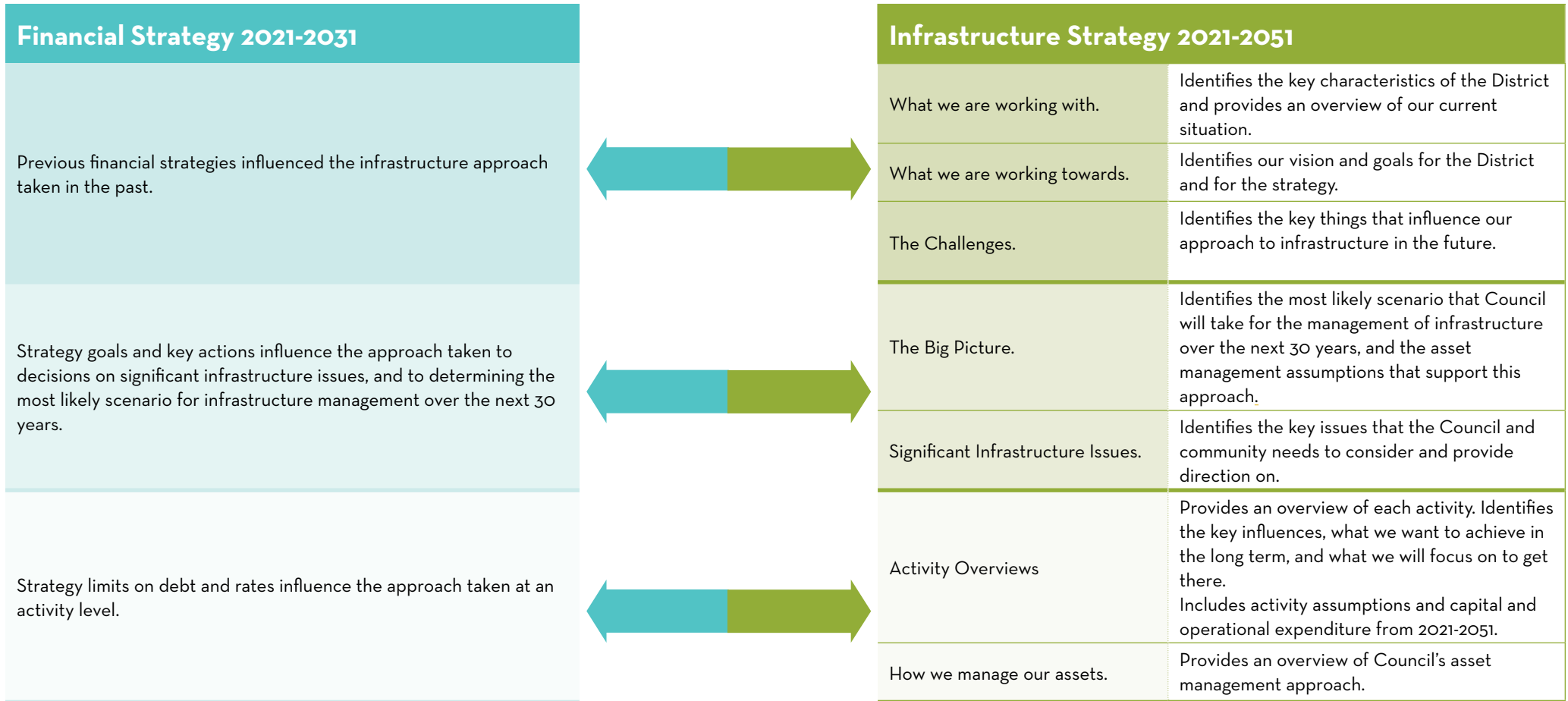
Year one of the LTP 2021 sees a planned step-change for rates. This is in response to an increase in capital project delivery to respond to growth, increased levels of service including the new kerbside waste service, increased maintenance costs for our roading assets and to meet legislative deliverables such as the review of the District Plan and Three Waters' compliance. Council has plans to limit the average rates increase across the District to 12% for year one of the 2021 LTP and subsequently reduce this limit to 4% per annum, for year two onwards, and ensure that net debt does not exceed 180% of our total revenue.

This approach supports delivery of the Infrastructure Strategy where the focus is on maintaining the infrastructure we currently have, and investing in infrastructure where benefits for community wellbeing can be achieved, and where legislation requires it. Priorities include infrastructure investment in Ōmokoroa and proactively planning for and responding to environmental issues including climate change and increasing water quality standards that impact on Council's water supply, wastewater and stormwater activities. Proposed changes to levels of service are highlighted as are other key decision points. The Financial Strategy provides 'room to move', recognising that decisions made down the track may change our forecast expenditure profile.



# How the Financial Strategy and Infrastructure Strategy work together

The two strategies go hand in hand. The Infrastructure Strategy outlines what we need to do, when and why, and the Financial Strategy puts the financial framework around this to provide a balance between delivery and affordability.



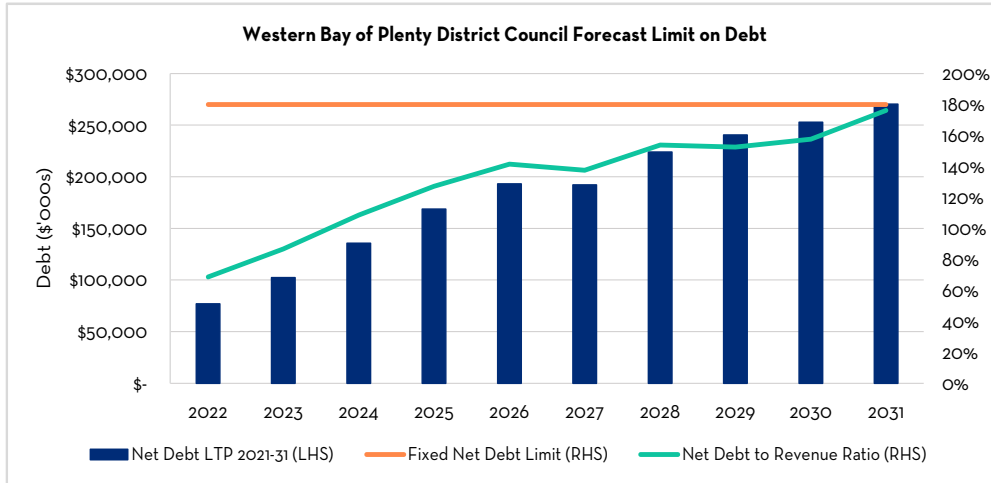
## Key messages

Council will continue with the good financial progress made over the last three years. The focus from 2021 to 2031 will be on achieving the following goals and actions.

### Goal 1: We will continue to manage our levels of service

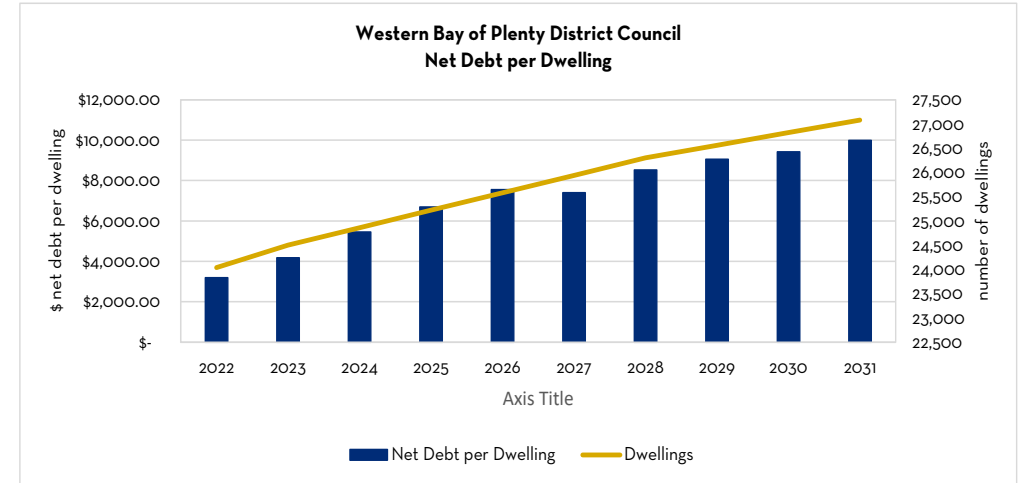
Why is this important	What we have done to date	Key actions to achieve this goal
<p>It is important that we can achieve the community's aspirations in a fiscally responsible way, through balancing delivery of services that people want, with the community's ability to pay for these services. We also need to ensure we have 'room to move' for those unexpected situations that can arise.</p>	<p>Since 2015, we have been including a rates portion to fund growth-related debt interest payments. Through the 2018-28 LTP, the community supported Council reviewing the actual amount annually to take account of growth. Over the last three years, the amount we put towards this has been able to reduce, due to increased building and the recovery of the costs from developments and favourable interest rates.</p> <p>This approach, coupled with prudent management of the capital works programme, means our net debt has reduced from \$144 million in 2015 to \$75.5 million in 2019/20. For the 2020/21 year our total gross debt is tracking below what was forecast in the 2018-28 LTP (\$90m vs \$120m) which creates a more manageable financial situation for the future.</p> <p>Over the next 10 years we will see net debt increase, but remain under our self imposed 180% of total revenue cap*. Debt spreads the costs of an asset across its lifetime, meaning that all those that benefit from it contribute. This is key to intergenerational wellbeing.</p> <p>*The Local Government Funding Agency Limited currently sets a limit of net debt at 300% for local authority borrowers.</p>	<ol style="list-style-type: none"> <li>1. Ensure that net debt (total external debt less cash on hand) does not exceed 180% of our total revenue. While we are currently substantially below this limit (net debt to revenue was 83% in 2019 reduced from 168% in 2015), the limit is set at a prudent level to ensure we can respond to unforeseen circumstances as necessary.</li> <li>2. That Council has the option to contribute a portion of rates per year to growth related interest and debt repayments, according to forecast growth. This will be considered by Council each year through the Annual Plan process.</li> <li>3. Continue to apply a prudent approach to implementation of the capex programme through the 'just in time' principle, assessing capacity to deliver, and staging works where practical.</li> </ol>

Figure 1: Forecast Debt 2021-2031



Net debt is projected to peak at 2031 with projections post-2031 indicating a reduction in debt levels based on the infrastructure demands contained in the Asset Management Plans that support Council’s Infrastructure Strategy within the 2021-31 Long Term Plan.

Figure 2: Net Debt per Dwelling 2021-2031 and number of Dwellings



\* The number of dwellings is based on Council’s population growth and dwelling projections.



## Goal 2: We will continue to manage rates

Why is this important	What we have done to date	Key actions to achieve this goal
<p>It is important that we can achieve the community's aspirations in a fiscally responsible way, through balancing delivery of services that people want, with the community's ability to pay for these services. We also need to ensure we have 'room to move' for those unanticipated situations that can arise and are difficult to predict.</p>	<p>In the 2018-28 LTP the community supported Council continuing to limit rates increases to 4% per annum. This includes an allowance for growth and inflation ((local government cost index (LGCI) - the inflation measure used by councils) each year.</p> <p>Since 2015 the actual rates increase has been below 4% (with one exception just above 4% due to growth exceeding forecast estimates).</p> <p>Year one of the LTP 2021 sees a planned step-change for rates. This is due to increased capital project delivery to respond to growth, increased levels of service including the new kerbside waste service, increased maintenance costs for our roading assets and to meet legislative deliverables such as the review of the District Plan and Three Water's compliance.</p>	<p><b>4.</b> Limit the average rates increase to 12% for 2021/2022. This includes inflation and excludes growth.</p> <p>Limit the average rates increase across the District to 4% per annum for years 2022/2023 onwards. This includes inflation and excludes growth.</p> <p><b>Figure 3</b> shows the total rates increase excluding growth and <b>Figure 4</b> shows the total rates increase including growth.</p> <p><b>5.</b> Rates income is limited to a maximum of 80% of total revenue, with the balance derived from other sources. Figure 5 shows the sources of revenue and Figure 6 shows how this will be achieved over the LTP period.</p>

**Figure 3:** Planned increase in total rates excluding growth

Total rates	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rates before inflation	8.31 %	1.08 %	1.00 %	0.70 %	(0.07)%	1.01 %	0.45 %	0.41 %	(1.45)%	(0.69)%
Inflation (LGCI)	3.20 %	2.90 %	2.90 %	2.90 %	2.90 %	2.80 %	2.90 %	2.90 %	2.90 %	2.70 %
<b>Rates after inflation</b>	<b>11.51 %</b>	<b>3.98 %</b>	<b>3.90 %</b>	<b>3.60 %</b>	<b>2.83 %</b>	<b>3.81 %</b>	<b>3.35 %</b>	<b>3.31 %</b>	<b>1.45 %</b>	<b>2.01 %</b>

These rate increase percentages exclude water by meter and rating penalties.

**Figure 4:** Planned increase in total rates including growth

Total rates	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rates before inflation	8.31 %	1.08 %	1.00 %	0.70 %	(0.07)%	1.01 %	0.45 %	0.41 %	(1.45)%	(0.69)%
Inflation (LGCI)	3.20 %	2.90 %	2.90 %	2.90 %	2.90 %	2.80 %	2.90 %	2.90 %	2.90 %	2.70 %
<b>Rates after inflation</b>	<b>11.51 %</b>	<b>3.98 %</b>	<b>3.90 %</b>	<b>3.60 %</b>	<b>2.83 %</b>	<b>3.81 %</b>	<b>3.35 %</b>	<b>3.31 %</b>	<b>1.45 %</b>	<b>2.01 %</b>
Growth	1.43 %	1.50 %	1.36 %	1.34 %	1.32 %	1.30 %	1.29 %	1.18 %	1.17 %	1.16 %
<b>Increase in rates (including growth)</b>	<b>12.94 %</b>	<b>5.48 %</b>	<b>5.26 %</b>	<b>4.94 %</b>	<b>4.16 %</b>	<b>5.11 %</b>	<b>4.63 %</b>	<b>4.50 %</b>	<b>2.62 %</b>	<b>3.17 %</b>

These rate increase percentages exclude water by meter and rating penalties.

Figure 5: Sources of Revenue (excludes vested assets)

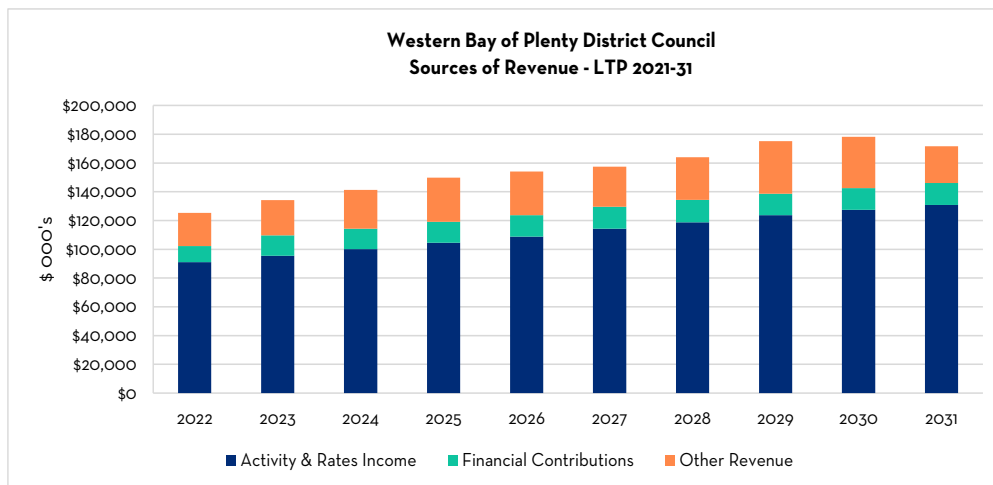
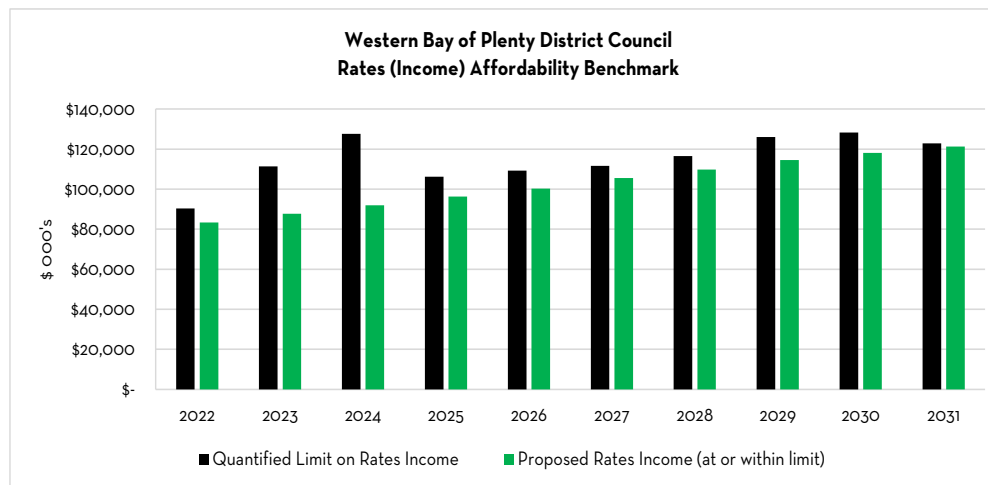


Figure 6: Maximum Rates Income Limit

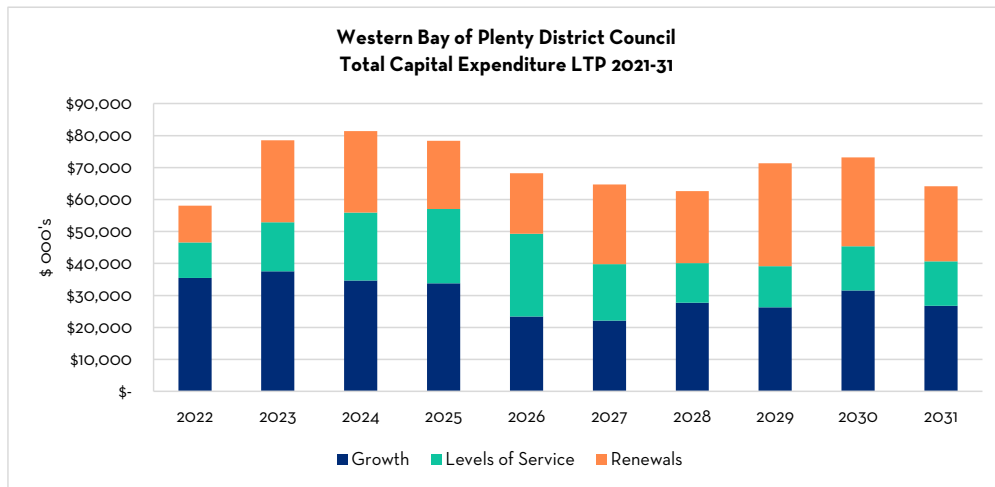


**Goal 3: We will continue to invest in our communities and the future of our District**

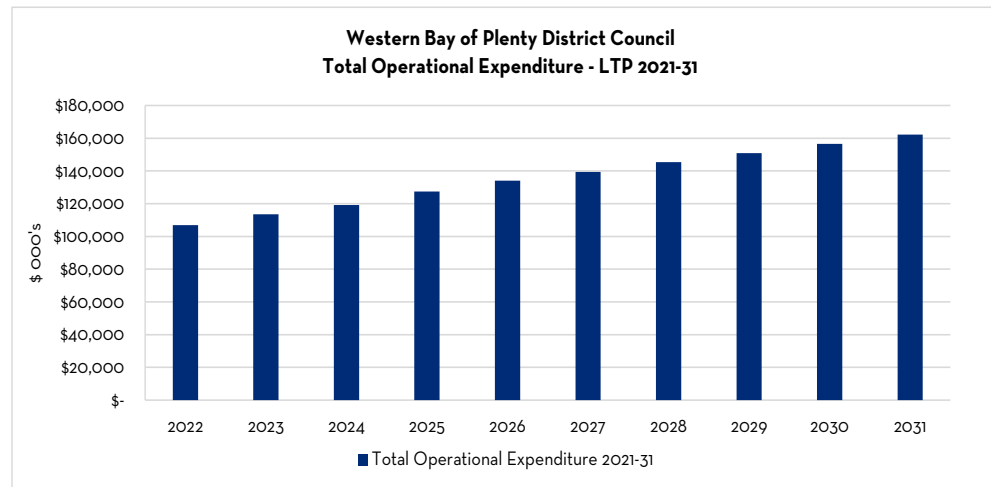
Why is this important	What we have done to date	Key actions to achieve this goal
<p>It is important that we provide good quality infrastructure to attract investment to our District and provide confidence to ratepayers that levels of service can be delivered now and in the future.</p> <p>It is important that Council continues to encourage growth in our District as it brings many benefits including increased prosperity, attracting investment, and community vibrancy and diversity.</p> <p>Our approach enables intergenerational wellbeing to be safeguarded, with today's communities and tomorrow's communities paying their share.</p>	<p>In the 2021-31 LTP supporting information, Council has outlined the planned infrastructure spending for stormwater, wastewater, water supply and transportation. This recognised the need to spend over \$500 million on new or replacement infrastructure, and over \$300 million on operational costs such as maintenance over the 10 years.</p>	<ol style="list-style-type: none"> <li>6. Allocate \$187 million during 2021-2031 to renew assets for water, wastewater, stormwater and transportation.</li> <li>7. Allocate \$296 million during 2021-2031 for water, wastewater, stormwater and transportation infrastructure to provide for growth. The majority of this is for development of Ōmokoroa.</li> <li>8. Continue to charge developers a contribution towards costs of providing new infrastructure required for growth.</li> <li>9. Continue with a 'just in time' approach to infrastructure provision, with close monitoring of the actual uptake of growth.</li> <li>10. Ensure that there is sufficient funding in place for renewal of assets when required.</li> </ol> <p><b>Figure 7</b> shows the whole of Council capital expenditure from 2021-2031. <b>Figure 8</b> shows the whole of Council operational expenditure from 2021-31.</p> <p>Note: for a breakdown of the infrastructure expenditure components of these graphs, please refer to the Infrastructure Strategy.</p>



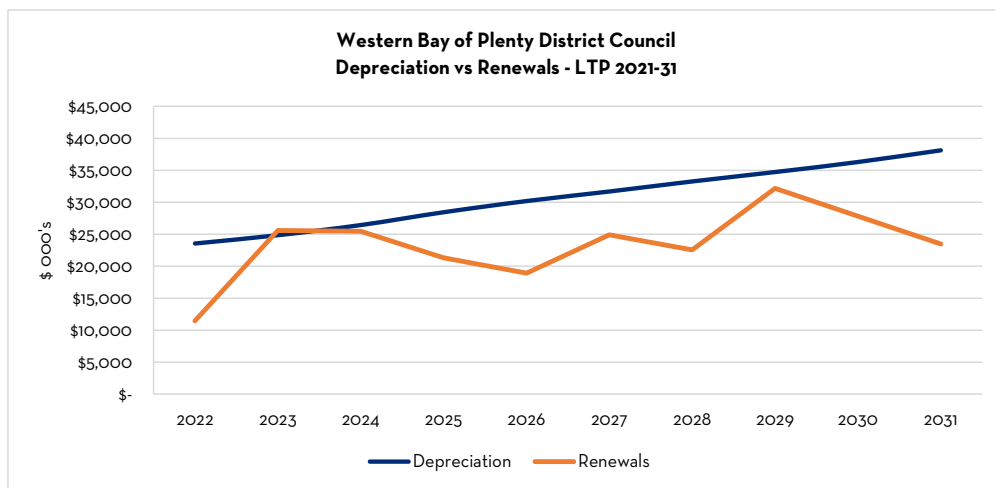
**Figure 7:** Total Capital Expenditure 2021-2031



**Figure 8:** Total Operational Expenditure 2021-2031



**Figure 9:** Depreciation vs renewals



## Future influences on our financial approach

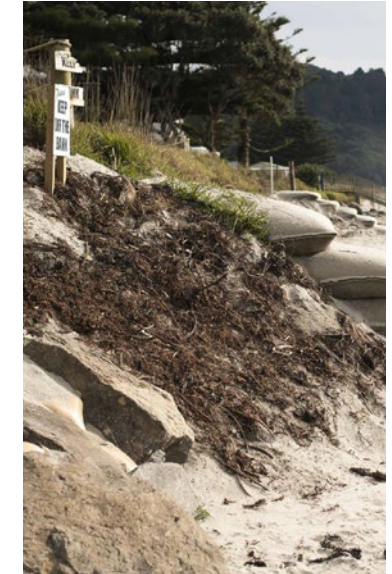
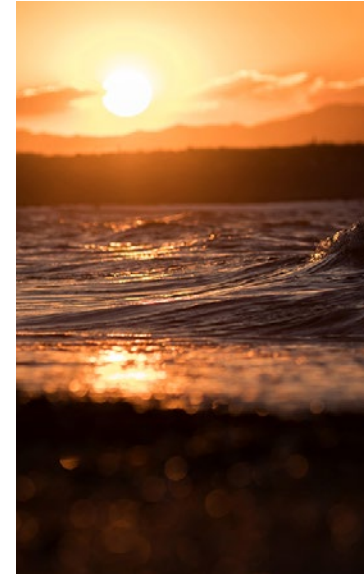
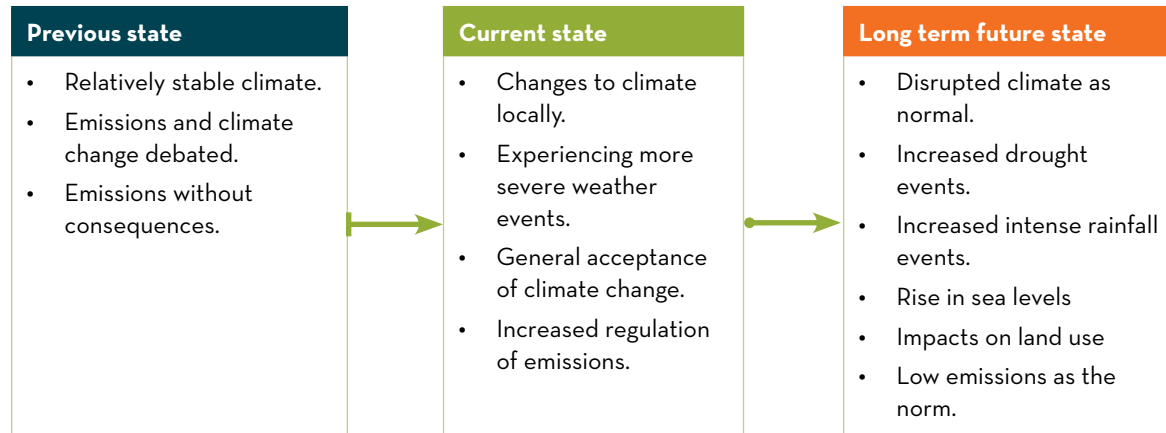
### Significant infrastructure issues over the next 30 years

The Infrastructure Strategy identifies 12 significant issues over the next 30 years (outlined below). Significant decisions on these issues are required within the term of this LTP however the potential budget implications are likely to be felt over a longer period of time.

Issue	Why this is significant
<b>1.</b> Significant investment in growth infrastructure for Ōmokoroa, in particular implications of Ōmokoroa Stage 3 Structure Plan.	Currently underway.
<b>2.</b> Development of the Rangiuru Business Park and associated infrastructure.	Initial works currently underway. Further decisions necessary in 2021- 2023.
<b>3.</b> Implementation of SmartGrowth / UFTI growth infrastructure. Including the implications on local roads from the construction of the Takitimu North Link and Ōmokoroa four laning.	Significant decision required for 2027-2037 LTP process.
<b>4.</b> Provision of community and recreation facilities for a growing community – swimming pools, libraries/ community hubs and recreation facilities	Significant decision required for 2021-2031 LTP process, and 2036-46 LTP process.
<b>5.</b> Increased roading costs due to asset maintenance needs and growth pressures	Significant decision required for 2021-2031 LTP process.
<b>6.</b> Increased standards of compliance for treatment of and method of wastewater discharge.	Significant decision required for 2024-2034 LTP process.
<b>7.</b> Increased demand for new and improved walking and cycling facilities.	Significant decisions required for 2021-2031 LTP process.
<b>8.</b> Council's level of service for solid waste, kerbside services, provision of a greenwaste/recycling/ resource recovery centre in Ōmokoroa and waste infrastructure investigations.	Decision made through the LTP Amendment in 2019. Further decisions to be made following investigations in 2024.
<b>9.</b> Increased standards of compliance for treatment of stormwater discharge.	Decision made through the 2018 LTP, however there are ongoing decision points
<b>10.</b> Provision of boat launching facilities to the harbour to cater for growth.	Works planned for 2021-31.
<b>11.</b> Security, resilience and increased compliance for water supply.	Further decisions required following initial works.
<b>12.</b> Investment into provision of elder housing stock.	Significant decision required for 2021-2031 LTP process.

## Climate Change

A key consideration is how climate change may impact our communities and our assets. We expect that we will experience increased effects from climate change and will have to have the financial capacity to prepare and respond.



We have to make provision to plan for and address the implications of climate change. We will progress this through four work streams to establish our governance, our strategy, our risk management approach and to put in place metrics and targets. This involves individual projects in our activity areas, a Council-wide approach to mitigation and risk, and providing sufficient debt headroom for works as needed (either in responding to events made more severe by climate change or undertaking mitigation actions). The strategic assumptions set out the basis of our current planning. The uncertainty around the exact timing of climate change impacts requires a flexible approach and it is important to ensure we have financing available if we need it.

## Affordability

A key financial consideration is the ability of our community to pay for the cost of services delivered through their rates. The ageing population will result in a high proportion of our community being on fixed incomes. This impacts on their ability to absorb significant or cumulative rates increases.

The current measure used to describe rates affordability is the rates affordability benchmark. The Financial Strategy sets in place the limits that this benchmark is assessed against. Council meets the rate affordability benchmark if:

- its actual rates income equals or is less than each quantified limit on rates
- its actual rates increases are equal or less than each quantified limit on rates increases.

Debt affordability benchmarks are also set in this strategy through quantified limits on borrowing.



### Long Term Plan consultation

Consultation on the LTP is the key way to 'test' the community's willingness to pay the rate increases (to achieve the delivery of services). From this Council determines the appropriate level of increase that ratepayers could absorb.

Council is required to include a disclosure statement in the Annual Report on the financial performance in relation to these benchmarks.

## National and global influence

Our 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 our financial situation.

The continued impacts of the COVID-19 pandemic at an international and national level will be a disrupting force. Council's resilience and ability to respond to these factors outside of its control will be enhanced by the prudent approach to debt management. This gives us flexibility to respond to new situations.

Recognising that there are many unknowns about future events and circumstances, we have included a brief comment from work carried out by BERL (economists) to look at economic scenarios to 2030 below, as well as a brief comment with a more local focus.



## COVID-19 and beyond

### Immediate impact

Immediate spike in unemployment, especially face-to-face sectors like tourism. Alert level 4 containment measures imply a 21 percent decrease in employment. Alert level 1 containment measures imply a three percent decrease in employment.

Accommodation and food services; construction; and arts and recreation services exhibit a drop in employment of 39, 36 and 36 percent, respectively.

### Long term recovery

The economic crisis brought about by COVID-19 containment measures has seen a sharp drop in economic activity. While official Treasury and Reserve Bank scenarios project a swift recovery, global considerations along with vaccine timelines suggest a recovery over a longer time horizon. We suggest a five to eight-year recovery scenario; as opposed to a two-year turnaround.

The manufacturing, construction, agriculture, education, and healthcare and social assistance sectors will recover by 2030. Tourism will experience a more prolonged period of lower activity.

### Challenges and opportunities

A growing population reinforces the need for local government to continue providing services.

While a shrinking working-age proportion of the population implies the need to consider new challenges.

New options for local government funding should be explored. Debt financing is a prudent option, especially as long-term interest rates are set to remain low for longer.

The role of local government during the recovery will be to support the demand side by maintaining (if not bringing forward) operating spending. On the supply side, investments in community infrastructure to instil confidence will be important.

Māori have historically been disproportionately affected by economic crises. However, the increasing diversification of Māori economic activity may also be a factor in improving resilience to future crises.

**Leisure, work, and ways of living are changing. One common theme that has emerged is connectedness. Local government has a role to play in facilitating connectedness through effective investment in “third places”, including actively advocating for digital inclusion.**

(Economic Scenarios to 2030: The post-COVID-19 scene – July 2020)

## The local outlook

At the District and sub-region wide level, the economic outlook is fairly positive. Our economy has been cushioned from some of the impacts of COVID-19, due to our diverse economy, strong rural sector (especially horticulture) and low reliance on international tourists.

### Our economy pre-COVID-19

- six years of strong growth
- high demand for housing
- development pipeline
- low unemployment - 3.3%
- Port of Tauranga strong
- diversified regional economy
- some challenges: housing, transport, environmental.



Figure 10: Top 10 Industries (Western Bay sub-region) - GDP



Figure 11: Employment by sector (Western Bay sub-region)



We expect to see continued population growth due to the District's natural appeal and attraction to internal migrants. We expect to see continued economic growth, but not at the levels forecast pre-COVID-19. There will be growth in terms of jobs and output. This is an area where continual monitoring and engagement with the business community is important.

## What are we working with

### Our District

The Infrastructure Strategy provides an overview of the key characteristics of the Western Bay of Plenty District. In summary our District is:

- A sunbelt destination due to the coastal and harbour location and temperate climate.
- Growing from 30,000 people in 1991, to an estimated population of 57,355 in 2021, and projected to continue to grow to 71,367 by 2051.
- A mix of four urban growth areas at Ōmokoroa, Waihi Beach, Katikati and Te Puke, smaller settlements such as Maketu and Paengaroa, and the balance being predominately rural.
- An area with a higher national average of people aged 65 years and over.
- Located next to one of New Zealand's fastest growing cities, Tauranga, where the growth is projected to continue over the next 30 years.
- Dominated by the primary industries of agriculture and horticulture, that drives a multitude of professional businesses and service industries.

The context provides both challenges and opportunities for the future of our District and the ability to achieve our aspirations. The challenges and opportunities are explored further in the Infrastructure Strategy with some reference where relevant in this strategy (e.g. ageing population, or affordability).

### Our current financial situation

**When the Western Bay of Plenty District Council was created in 1989 it had few financial reserves or investments and inadequate infrastructure to service its fast-growing communities. Since then Council has committed significant investment in infrastructure, including improving the quality of water supplies, establishing wastewater schemes, sealing roads and improving stormwater networks.**

Debt was used to pay for this infrastructure as a fair way of funding the cost. Our District now has infrastructure that will last well into the future. However high debt levels were a consequence of this lead investment and the impact of the global financial crisis in 2007 reduced revenue from growth required to pay for this debt. **Figure 12** shows the debt profile from 1993-2020.

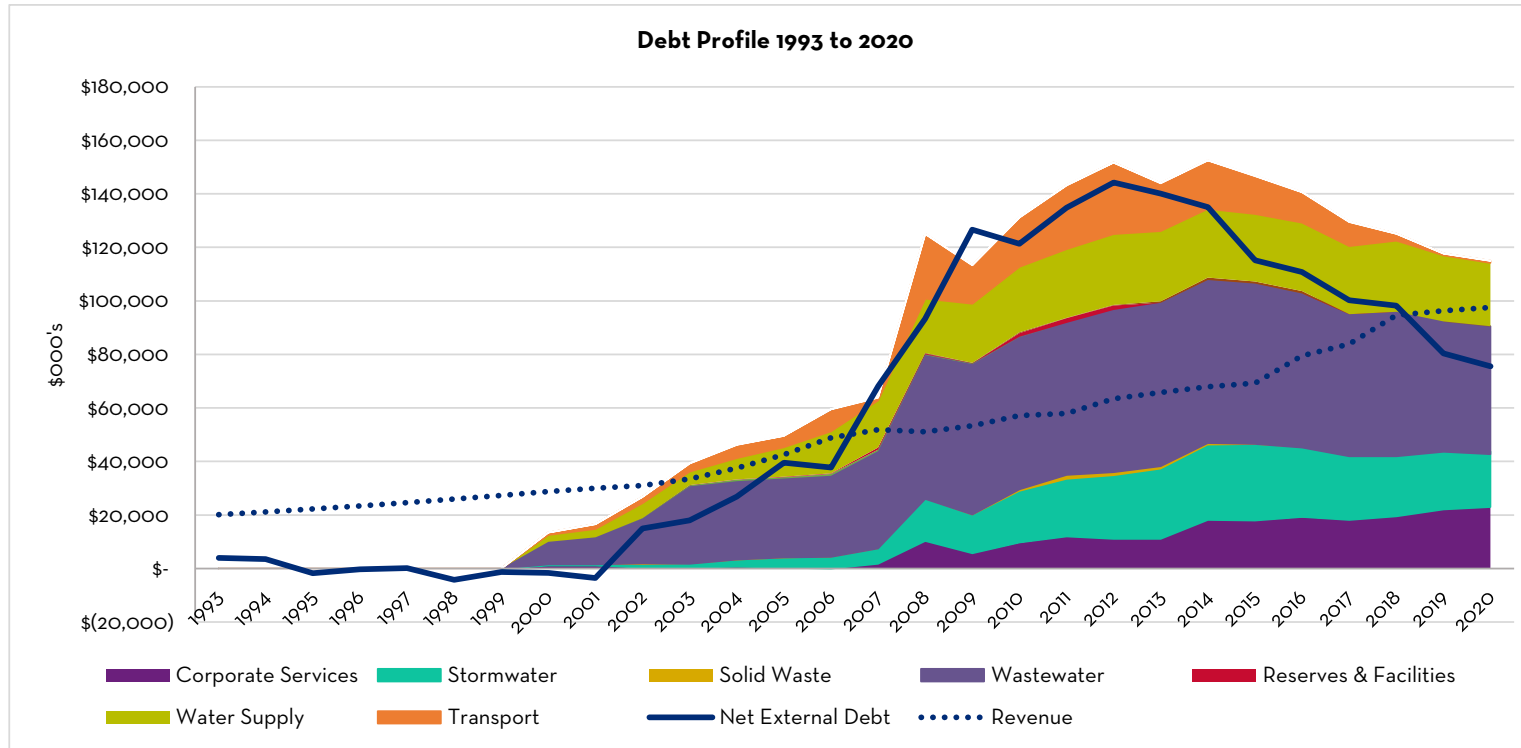
From 2015 we increased the amount of rates funding towards growth-related debt interest payments. Through the 2018-28 LTP the community supported Council reviewing the actual amount annually to take account of growth. Over the last three years, the amount we put towards this has been reduced, due to increased building and favourable interest rates.

This approach, coupled with prudent management of the capital works programme, means our net debt has reduced from \$144 million in 2015 to \$75.5 million 2019/20. This has created a more manageable financial situation for the future.

Although Western Bay has higher rates than other similar local authorities it now has infrastructure that will last well into the future and accommodate expected growth.



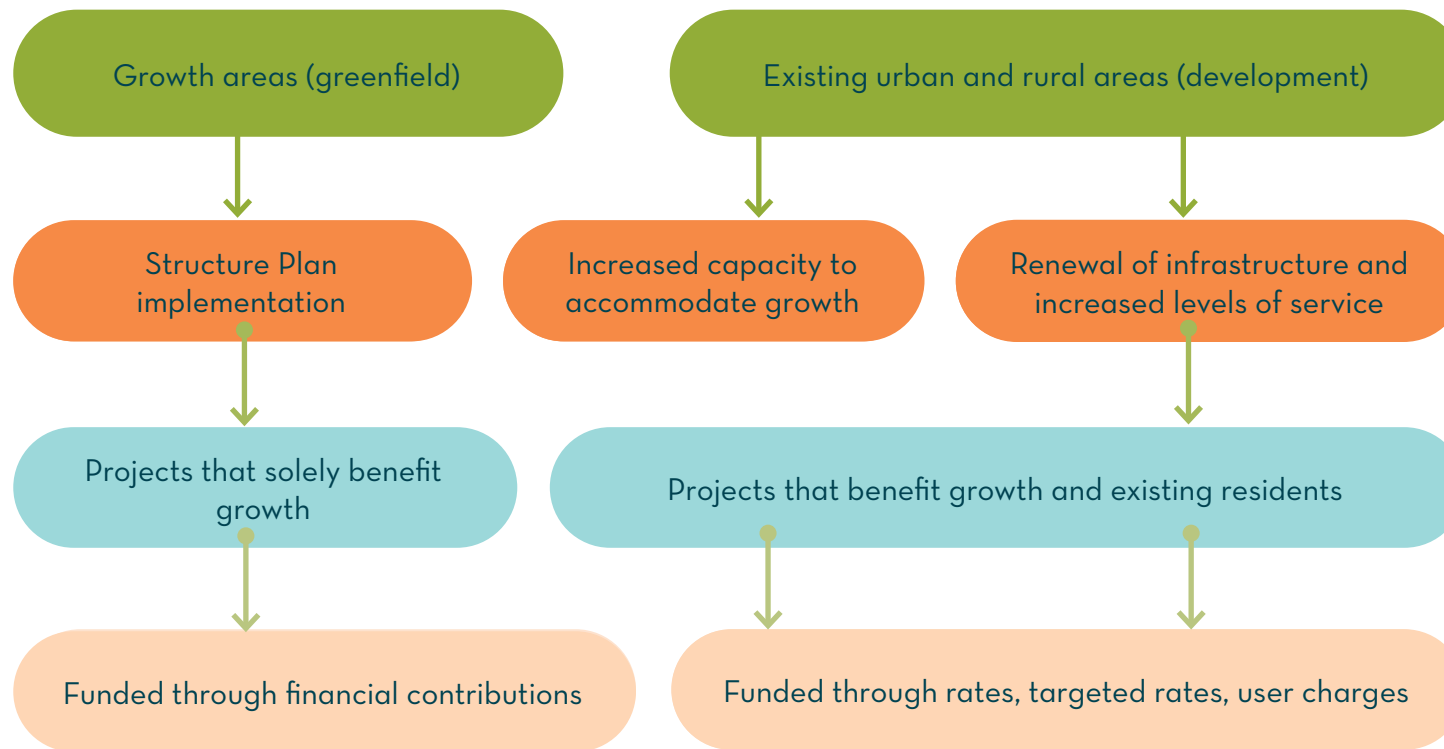
**Figure 12:** Council's Debt Profile 1993-2020



### Funding growth

We fund growth-related infrastructure in a number of ways. Developers are charged financial contributions under the Resource Management Act 1991 and we use rates, targeted rates and user charges. Our sources of income to fund growth-related infrastructure are shown in **Figure 13**.

Figure 13: Sources of income to fund development



### Use of debt

By using loans to pay for assets with a long life, we can recover the cost from ratepayers over the life of the asset. In this way the cost is allocated fairly between current and future ratepayers and better provides for intergenerational equity. The roading, sewerage, stormwater and potable water extensions and upgrades that we have invested in have long lives and will continue to be used over the next 20-50 years. We need to ensure that future ratepayers pay their fair share of the cost of infrastructure developed for their eventual use, rather than costs being met by current ratepayers.

### Reliability of asset data that forecasts are based on

Overall asset condition data is considered to be extensive and reasonably accurate, particularly in the transportation activity due to the nature of the performance-based contract. Wastewater and stormwater assets are relatively young in age so there is limited need to confirm condition assessments. In some cases there is still data to be obtained and this is a focus moving forward to ensure asset condition data is captured as required. This information will improve future investment decisions.

Council has a good degree of confidence in the reliability of asset information however regular analysis is undertaken to identify opportunities for improvement. One of the key tools is implementation of our asset management system called AssetFinda and associated resourcing to improve asset data and modelling and to provide technical advice and support to managers.



## Cost influences

There are several major drivers of Council cost shown in the table below.

Driver	Key considerations
<b>Increased service demand</b>	<ul style="list-style-type: none"><li>• growth in population, visitor numbers, businesses and properties</li><li>• changes in land use</li><li>• extending the areas covered by existing utility networks.</li></ul>
<b>Changes in service levels</b>	<ul style="list-style-type: none"><li>• frequency and reliability of service</li><li>• higher or lower standards of service - can be in response to community aspirations, legislation or affordability constraints.</li></ul>
<b>New services</b>	<ul style="list-style-type: none"><li>• new infrastructure such as wastewater schemes</li><li>• new services - usually in response to community demand</li><li>• new services required by legislation.</li></ul>
<b>Asset management</b>	<ul style="list-style-type: none"><li>• maintaining and renewing assets - is influenced by the type and age of assets</li><li>• depreciation - this is a way of providing for future replacement of assets</li><li>• purchase and sale of assets.</li></ul>
<b>Debt servicing</b>	<ul style="list-style-type: none"><li>• changes in interest rates</li><li>• new expenditure funded through loans</li><li>• speed of debt repayment - largely depends on income from financial contributions paid when properties are subdivided.</li></ul>
<b>Price changes</b>	<ul style="list-style-type: none"><li>• local government cost index - this reflects price changes in the goods councils usually purchase</li><li>• contract price escalations - long term contracts sometimes contain cost escalation clauses</li><li>• tender prices - this is influenced by availability of materials and skilled labour.</li></ul>
<b>Productivity</b>	<ul style="list-style-type: none"><li>• finding smarter ways of doing things in everyday business</li><li>• shared service delivery - working with other councils to avoid duplication and provide better services.</li></ul>

## The challenges

### Population growth



In 2021, the estimated population of the Western Bay of Plenty District is 57,355. This is projected to grow to 71,367 in 2051, bringing another 14,012 people to our District. The majority of this growth will be experienced in Ōmokoroa where the population will more than double in size over the next 30 years, increasing from 4,575 in 2021 to 12,086 people in 2051.

The planned population capacity for the Ōmokoroa urban growth area is around 12,000 and this is expected to be reached by 2045. That's almost the combined population of Katikati and Te Puke today. The majority of this growth will occur prior to 2031, and then we will experience a slowing down of growth which reflects a shift from natural increase to natural decline. Most of the population growth experienced to date has come from migration from other areas in New Zealand and also immigration and it is expected that this will continue to be the case. Further information on population growth projections is included in the assumptions section of the LTP.

#### Existing urban growth areas

Western Bay of Plenty District has four existing urban growth areas identified in the SmartGrowth Settlement Pattern at Waihi Beach, Katikati, Ōmokoroa and Te Puke. These towns have been growing since the 1980s and still have capacity for additional residential dwellings and commercial/industrial development. Minimal growth is expected outside of these main urban centres. In Ōmokoroa, planning is underway for development of the land between State Highway 2 and the railway which will increase the total capacity to 5,300 dwellings on the peninsula. The existing urban growth areas are where Council's planning and infrastructure investment has been focused to date.

#### Future urban growth areas

The Urban Form and Transport Initiative (UFTI), a collaboration of WBOPDC, Tauranga City Council, Waka Kotahi NZ Transport Agency and other Crown bodies has been working to identify how the sub-region may grow in the future. The adopted final report suggests the development of a new settlement in the East of the district and development of Te Puna and Plummers Point may occur beyond the next 30 years. These recommendations are still subject to several planning studies before significant infrastructure investment will progress, and there may be changes to timing. The UFTI final report also has implications for the Northern Corridor (Bethlehem to Waihi Beach), particularly around provision for public transport. The Infrastructure Strategy expands on this further. The Financial Strategy has been prepared to position Council's finances to allow for future investment as necessary to deliver on the expected growth.



## Repaying growth related debt



We manage our spending so that the timing of infrastructure projects is matched to income from financial contributions. In some cases, such as park and reserve development, the project can be undertaken in stages, timed to match revenue from growth as it occurs (i.e. the ‘just in time’ principle).

Difficulties arise with projects like wastewater schemes, which are typically designed for a large capacity so they are financially viable. In such cases it is more difficult to match expenditure to income because it is not practical to construct the project in stages so decisions are based on assumptions of growth for many years ahead. For example, our Ōmokoroa wastewater scheme was built to cater for an eventual expected population of 12,000 residents. If growth expectations are subsequently reduced, we have to find other funding sources to meet the interest and capital repayments on loans raised to pay for the development.

The paying down of debt, through rates, is one option. Goal One of this Financial Strategy enables the use of rates to fund debt repayments, however any potential use of this tool will depend on the economic and growth projections for coming years and will be assessed on an annual basis.

## Effect of changes in land use on service demand



Demand for infrastructure services (roads, water supply, wastewater, stormwater, reserves, facilities) increases where development occurs. Development may be subdivisions for housing, new commercial or industrial areas or intensification of existing development. For our District, growth is mainly driven by housing development.

Within the rural sector land use changes could affect service demand, especially for water supply and roading. For example, if an area serviced by the water supply network changed from a dry land crop to a crop requiring irrigation there could be an increase in demand for water. Likewise, for roading, if the land use changed from forestry to lifestyle blocks, the pattern of road use would change. The monitoring frameworks we have in place are important to understand actual growth and future growth projections for residential and other land use activities. The annual Development Trends report and our reporting requirements against the National Policy Statement on Urban Development are key ways that we can inform our infrastructure planning processes.

## Long term financial information for some activities



From a long term planning perspective, there is good information in place for the Three Waters and transport to determine a financial capital and operational programme of expenditure and highlight any forecast issues over a 30-year period as required by the Infrastructure Strategy.

Recreation and open space, solid waste and community facility activities currently only have robust financial information for the next 10 years to 2031. It is expected that Council’s asset management system (AssetFinda) will provide improved capability to forecast beyond this and will be incorporated into the 2024-2054 Infrastructure Strategy process.





## What we are working towards

### Vision for the Western Bay of Plenty District

**Our community has helped to identify what is important and these are things we want to retain and grow further so that our District will be a place where people continue to enjoy living want to move to and want to visit.**

**The type of District we want to live in is one where:**

We can all enjoy a healthy and safe lifestyle.

Our communities are vibrant and welcoming.

Leaders are effective, informed and inclusive.

Our environment is clean, green and valued.

Our economy is thriving.

Our strategies provide specific direction on the contribution that infrastructure and all Council services will make to this vision, and the framework for what we do and why do it. For this LTP, community conversations held during 2020 have helped to identify the key things that are important to the community and that require prioritisation over the next ten years. **The themes are centred on the wellbeing of our communities:**



Social



Environmental



Cultural



Economic

The role of the Financial Strategy is to support the ability of Council to appropriately invest in these areas of importance through providing a balance between prudent financial management and delivery of services.

### Where we will be in 2031

The goals and key actions in this strategy provide direction on the financial approach we will take to work towards achieving this vision and strategic direction. Our aim is that by 2031 we will have:

- Maintained annual average rates increases at less than 4% (excluding growth) over the course of the LTP period, excluding the planned 11.51% increase in 2021/22.
- Utilised our strong balance sheet and low interest rate operating environment to invest in long-term assets and community infrastructure.
- Development will continue to make a fair and reasonable contribution to the cost of growth infrastructure, through Financial Contributions.
- Provided infrastructure that meets the level of service needs of our community.
- Continued to provide timely infrastructure that enables growth in key areas.

**Looking beyond 2031, we will have more ratepayers and more infrastructure to look after and will still be growing!**

## How we will manage the unexpected

As the world continues to deal with the impacts of COVID-19, the future is somewhat uncertain. In developing this strategy, we considered how we would respond if faced with unexpected situations that could affect our financial situation.

### Lower than expected growth

Growth forecasts are volatile and can be affected by external factors outside of our control, such as what happens in overseas financial markets, or how the world responds to a global pandemic. We have been conservative in our approach to ensure that, should growth not meet expectations, we will still be in a good position to cover the interest costs on our debt (although we may not be able to make repayments on the principal).

**If growth is substantially less than forecast, the shortfall can be managed. Our general approach would be to:**

- Promote development in areas where there is existing capacity in infrastructure.
- Consider reductions in levels of service.
- Sell assets that are not essential to operations and are easiest to sell, for example Capamagian Farm, Waihi Beach.
- Sell and lease back operational land, for example our head office at Barkes Corner, Tauranga.
- Seek Central Government assistance where practical.
- Avoid adding to our debt until levels of growth improve. This means postponing the start of projects (particularly those driven by growth), delaying or cancelling planned projects that are funded by loans, and/or delaying infrastructure upgrades.
- We would be very reluctant to defer maintenance of assets or reduce maintenance standards, as this may end up being more costly in the long run. Borrowing to cover an income shortfall would be our last resort because this would make the problem worse in later years.

On the other hand, if growth and therefore financial contributions income is higher than our forecasts, there may be an opportunity to reduce the need for further rates increase.

Our strategy to use rates to service our growth-related debt where appropriate, will be reviewed each year. We will look at growth rates and interest rates, to determine if a rates contribution is necessary. Any significant or material changes to the level of rates used to repay debt will be publicly consulted on through the Annual Plan process for that year.

Enabling Rangiora Business Park is an important role for Council and this involves a number of projects. The Council is taking a largely administrative role as a funding mechanism for Waka Kotahi funding. Council mitigates its risk through the ability to walk away from projects if external funding arrangements aren't in place. Residual risk is the same as all other structure plan areas.



## Cost of debt and access to refinancing

Over the next few years there is a risk that access to borrowing may become more difficult. When our existing debt matures, re-financing may be harder to obtain, particularly if financial markets deteriorate because of ongoing financial problems globally that may be exacerbated by the impacts of COVID-19.

We considered what might happen if these markets deteriorated to such an extent that borrowing becomes difficult in New Zealand. While we believe this is unlikely, we have considered how we would respond. The situation would arise without notice and the severity of the immediate situation would depend on the maturity profile of our debt at the time.

### Our response would be to:

- seek central government assistance to meet immediate commitments
- seek Bay of Plenty Regional Council assistance (where practical)
- raise income through an emergency rates increase
- aggressively sell land and other liquid assets
- postpone the start of all projects not already committed.

## Contingency and disaster management

The Canterbury earthquakes of 2010 and 2011 raised public awareness of our vulnerability to unexpected events and the potential for sudden destruction of infrastructure, such as water networks, roading and buildings that are the foundations of our community.

We considered how we might respond if there was a failure in major infrastructure that demanded significant unplanned expenditure. This might occur because of a natural disaster, accident or other event.

Council is part of the Bay of Plenty Lifelines Group which contributes to joint initiatives to reduce the vulnerability of utilities to hazards. The group undertakes an assessment of the vulnerability of various types of infrastructure to hazards including floods, earthquake, volcanic eruption, tsunami, storm surge, fire, wind and landslide.

We have built up a Disaster Contingency Fund which currently sits at \$9.3m and have insurances that cover some of our assets. However, in the event of major infrastructure failure this amount would not cover the total cost of replacement or repair.

### Our initial approach would be:

- use financial investments to provide ready cash flow
- use debt capacity to access borrowing
- use insurance payouts where available
- utilise the self-funding disaster contingency fund
- seek Central Government assistance
- sell assets not essential to operations that are easiest to sell.

**In the longer term, our recovery strategy would be to increase rates to top-up reserves or to provide increased insurance cover on underground assets.**



# Financial policies and investment holdings

## Notes on investment holdings

We are required to include in our Financial Strategy information on our objectives for holding financial investments and equity securities and to provide quantified targets for returns on those investments. We must also include our policy on giving of securities for our borrowing.

### Financial instruments

We hold financial investments such as term deposits, as part of managing our cash flow to finance expenditure on operations, for example to:

- Provide ready cash in the event of a natural disaster. This cash is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Invest amounts allocated to accumulated surplus, Council-created and restricted reserves, sinking funds and general reserves.
- Invest funds allocated for approved future expenditure, to implement strategic initiatives or to support inter-generational allocations.
- Invest proceeds from the sale of assets.
- Invest surplus cash and working capital funds.

Our main aim when investing is the protection of our investment so only creditworthy counterparties are acceptable.

We also seek to:

- maximise return on our investment
- ensure investments are liquid
- manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity.

We also invest in interest rate swaps and forward foreign exchange contracts, for the purpose of managing the risks of movements in exchange rates and interest rates. These financial instruments are used as hedging tools rather than to earn a return on the investment.

### Te Tumu investment

In 2007 Tauranga City Council and Western Bay of Plenty District Council jointly acquired a block of land in Papamoa, referred to as Te Tumu. This land was purchased with the condition of providing the vendor the option to acquire it sometime between December 2016 and December 2026 by repaying the loan and interest to Tauranga City Council and Western Bay of Plenty District Council.

Our objective in purchasing the land was to ensure development of the land was consistent with SmartGrowth initiatives. Neither council intended to be the developer of this land or retain ownership in the long-term.

In November 2020 Western Bay District Council disposed of its interest in Te Tumu to Tauranga City Council, in order to allow Tauranga City Council to negotiate directly with the developer rather than through a tripartite agreement involving both councils. This disposal involved a loan agreement between Western Bay District Council and Tauranga City Council, and it is envisaged that the loan will be repaid to Western Bay Council during the 2026 financial year. This loan has a projected balance on maturity of \$13m.

## Equity securities

We do not currently hold equity securities (shares) for the primary purpose of earning a return on our investment. There are no plans to invest in equity securities during the term of this plan.

Below is a list of the companies in which we currently hold shares and details of the objective for holding the equity securities and a target rate of return.

Company	Objective of holding equity	Target rate of return
New Zealand Local Government Funding Authority (LGFA) – 8% shareholding.	<ul style="list-style-type: none"> <li>To obtain a return on investment</li> <li>To ensure that the LGFA has sufficient capital to become and remain viable so that it continues as a source of debt funding for us.</li> </ul>	≥0%
Bay of Plenty Local Authority Shared Services – 1/9th holding.	<ul style="list-style-type: none"> <li>To provide the Bay of Plenty region councils with an umbrella vehicle to investigate, procure, develop and deliver shared services.</li> </ul>	≥0%
Western Bay of Plenty Tourism and Visitors' Trust – 50% holding.	<ul style="list-style-type: none"> <li>To facilitate the establishment and governance of a regional tourism organisation, Tourism Bay of Plenty, which is a not-for-profit entity established to promote the economic welfare and development of the western Bay of Plenty region and its citizens through marketing, management and other activities that impact the region as a visitor and tourism destination.</li> </ul>	≥0%
NZ Local Government Insurance Company Limited (Civic Assurance) – 16,142 shares or 0.3% holding.	<ul style="list-style-type: none"> <li>Civic Assurance is a mutual fund so a prescribed number of shares is held proportionate to our interest in the fund.</li> </ul>	≥0%
Zespri Group Limited – 17,660 shares.	<ul style="list-style-type: none"> <li>Shares were acquired as a result of purchasing of land under kiwifruit orchards. They are incidental to the main reason for buying the land, which is for future infrastructure development.</li> </ul>	≥0%

## Security for Council borrowing

Our Treasury Policy includes the following statement regarding offering security for Council borrowing:

Council's borrowings and interest-rate risk management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. The utilisation of special funds and reserve funds and internal borrowing of special funds/reserve funds and other funds will be on an unsecured basis.

Under the Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Rating Act, excluding any rates collected by Council on behalf of any other local authority. The security offered by Council ranks equally or 'Pari Passu' with other lenders.

Council offers deemed rates as security for general borrowing programs. From time to time, with prior Council approval, security may be offered by providing a charge over one or more of Councils assets. Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. an operating lease, or project finance).
- Council considers a charge over physical assets to be appropriate.
- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Trust Deed.

Council very rarely makes purchases in foreign exchange except for the occasional purchase of equipment or services. Our Treasury Policy precludes the use of foreign exchange risk management products, except to hedge significant commitments (i.e. those over \$10,000). As a result of its limited use of foreign exchange, Council has little direct risk of changes in currency exchange rates.



## Funding renewals and replacement of assets

Prudent financial management requires organisations to plan for the replacement or renewal of their assets when they reach the end of their useful lives in order to maintain the service they provide. The intergenerational equity principle suggests that, ideally, today's ratepayers should pay for the 'asset-life' they are consuming and likewise future generations should pay for their share of the asset's life. This provides for the intergenerational wellbeing of our communities. There are three principal ways this can be achieved:

Approach	Details
1. <b>Pay as you go</b>	Capital funded annually by rating existing ratepayers to cover the expenses incurred in that year. Suitable when capital expenditure is evenly spread over the years, so there is less risk that today's ratepayers are not paying their fair share when compared to future ratepayers.
2. <b>Saving for asset replacement (charge rates over the life of the asset – spend later)</b>	Ratepayers are rated annually to fund depreciation, which builds up in a reserve account to fund future replacements of assets. Unsuitable if ratepayers are already servicing debt incurred to acquire the existing asset. If debt were incurred, today's ratepayers would be paying twice for the asset, once through debt repayments and interest, and again through financing the depreciation.
3. <b>Borrowing to fund asset replacement (spend now – charge rates over the life of the asset)</b>	Ratepayers are rated annually to fund interest and capital repayments on loans matched to the life of the asset. In the future replacement of the asset would be financed in the same way. Suitable if our overall level of debt can accommodate the required borrowing.

We use a mix of these approaches to fund the replacement and renewal of our assets, choosing an approach that best suits each type of asset. We do not keep individual reserves to repay loans. We either fund loan repayments from rates, financial contributions and other income in the year repayments are due, or we refinance the loan. Shown below is the approach we usually take for different asset types.

Type of asset	Objective of holding equity
Water, wastewater and stormwater reticulation, treatment plants and buildings	<b>Borrowing to fund asset replacement.</b> <b>Pay as you go.</b>
Computer systems, office furniture and equipment, motor vehicles	<b>Saving for asset replacement.</b>
Roads and bridges	<b>Pay as you go.</b> <b>Borrowing to fund asset replacement.</b>
Other buildings	<b>Saving for asset replacement.</b>



Playground - Pukehina