Part 6:

FINANCIAL STRATEGY

Rautaki Ahumoni

Our Financial Strategy 2024-2034

CONTENTS

Summary

The Financial Strategy outlines how we will manage our finances over the next ten years.

It sets out our general approach and principles we will follow and provides a guide to assess spending proposals. It also discusses what challenges we are facing, how these will impact our finances, and how we will address these challenges.

The strategy includes limits on rates increases and borrowing and aims to promote financial stability and affordability over the short, medium and long-term. In simple terms, the strategy determines the size of our financial cake over the next ten years, while our policy decisions will determine how the cake is cut.

This Financial Strategy is closely linked to our Infrastructure Strategy, which sets out how our critical infrastructure will be managed over the next 30 years. Our district continues to steadily grow, and this growth coupled with upgrades for some of our network infrastructure, will see our biggest ever capital expenditure programme for our district over the next ten years. This will mean that we will be increasing our debt to levels that we have not done so before. These two strategies underpin our 10 Year Long Term Plan, which contains our detailed plans and programmes for our district.

Over the next 10 years, our gross debt is projected to peak at $192.4 million in 2027/28 and then reduce to $152.8 million in 2033/34 (year ten). This is due to our focused debt repayment plan. Rates are projected to increase by 65% (including inflation) over the ten-year period.

Despite the debt we will be taking on, we are currently in a strong financial position, largely due to previous Council decisions and direction focused on infrastructure renewals and replacements. Since 2019, Council has retained a Fitch Credit Rating of AA+. This is one of the highest ratings for a territorial authority in New Zealand.

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

This strategy is connected with our financial policies such as the Revenue and Financing Policy and Treasury Management Policy. It is recommended to read these policies for further details on Council's financial management.

1. Where are we now and what are we aiming for?

Our vision for Ashburton District is to be the district of choice for lifestyle and opportunity. Our Financial Strategy is focused on making this happen, through meeting the needs of growth along with the rising expectations of our community and ensuring regulatory compliance. It's a balancing act, there is a limit to what our community can afford. This strategy, therefore, also sets out how we'll keep our rates affordable, minimise our borrowing and optimise our spending.

Our current financial position

Council is currently in a strong financial position, with a Fitch Credit Rating of AA+. We obtained this credit rating in 2019 and continue to hold it due to the efforts of current and previous elected Councils to operate responsibly and efficiently for our community. It indicates we have a strong capacity for payment of financial commitments.

Debt levels

Our current debt as of 30 June 2023 is sitting at $85.6 million, which is 77% of our total revenue for the year. This is below our current debt limit of 250% of total revenue, as set out in the 2021-31 Long-Term Plan and our Treasury Policy.

Our current annual Plan 2023/24 is projecting Council to end the year with a gross debt level of $153 million, which is 79% of total revenue, and still well below the 250% debt to total revenue limit.

Rates levels

Our overall rates increase for 2023/24 was 5.97%. This was slightly above the 5.5% we signalled in our last 10 Year Plan but is still sitting below our current rates limit of 5% exclusive of LGCI (2.5%), as set out in the 2021-31 Long-Term Plan. Rates revenue for 2023/24 is anticipated to contribute 50.8% of total income.

Rates increases over the last three years are shown in Table 1. The overall rates increase for 2022/23 breached the limit set in our last 10 Year Plan, due to a higher inflation rate, at 5%.

Table 1

	Overall rates increase – limit (%)	*Overall rates increase - actual (%)*
2021/22	8.6	6.3
2022/23	7.9	9.4
2023/24	7.5	5.97

Assets

Assets include current and non-current assets. Current assets include cash, term deposits, receivables, property intended for sale and inventory. Non-current assets include investment, property inventory, investment properties, forestry and property, plant and equipment.

Council's total assets as at 30 June 2023 are $1,056 million.

Ratepayer equity and reserves

Council's total equity as at 30 June 2023 is $949.9 million. This is made up of $521.4 million ratepayers' equity, and $428.5 million from other reserves.

Liabilities

Total liabilities as at 30 June 2023 is $106 million, which is 10% of total assets.

Cash investments

Council had $2.9 million investments in Other Financial Assets as at 30 June 2023 which is made up of investments in other entities, such as Local Government Funding Agency and Transwaste.

What we're aiming for

Our financial future

Our overall goal is to ensure that Council remains financially stable, while financing our key priorities.

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

- Council will remain in a strong financial position.
- At no time over the period 2024/25 – 2033/34 are we expecting to breach our debt ratio limits.
- Rates revenue is budgeted to contribute 50.8% of total income in 2024/25 (2023/24: 50.8%), increasing to 62.1% in year ten.

- Total assets are forecast to be $1,663 million (2023/24: $1,157 million).
- Total equity is forecast to be $1,494 million (2023/24: $983 million).
- Liabilities are forecast to be $170 million, which is 10.2% of total assets (2023/24: $174 million, 15% of total assets).
- Cash investments are budgeted to end the ten-year period at $54million (2023/24: $44.7 million).

Our responsibilities

Balancing the budget

We are required by law to ensure that the operating revenue we budget for is enough to meet our operating expenses each year (a balanced budget) – unless it is financially prudent not to do so.

The work programmes and budgets included in this 10 Year Plan show a balanced budget each year.

Operating revenue
e.g. rates, fees and charges.

Operating expenses
The day-to-day costs of providing our services and maintaining our assets.

Affordability

Ensuring our rates remain affordable for our residents is a top priority. The chart below compares the affordability of our rates with the other district councils in the Canterbury region.

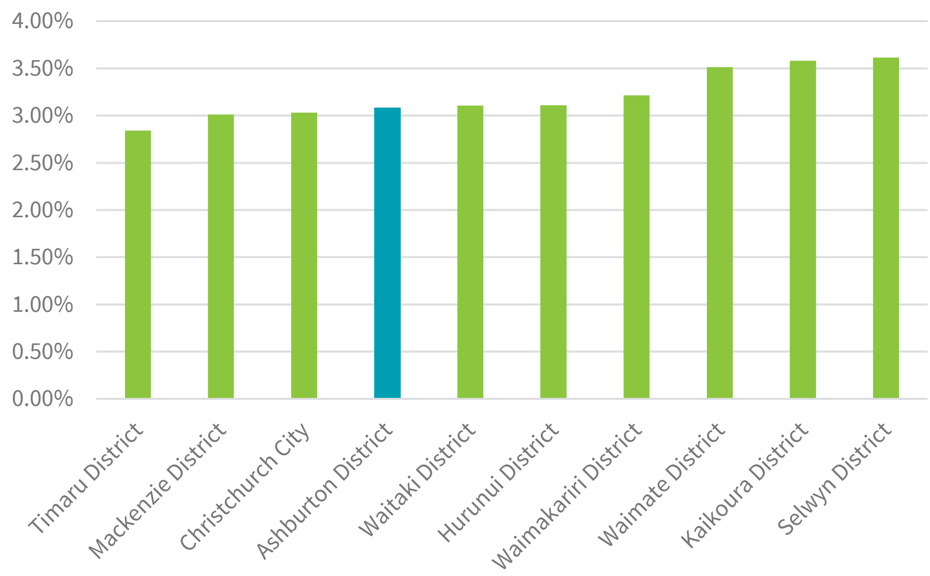

Figure 1. Affordability - Average rates 2023/24 as a percentage of mean household income 2023

2. What do we have to think about?

We do not operate in isolation. The local, national and global environment affects what we do and how we do it. Our job is to consider how this will impact our finances and our ability to meet the expectations of our community.

The following outlines the key factors we've considered when preparing this strategy. These are closely aligned with the key assumptions included in the Long-Term Plan, which describe what we have assumed and why, and how this affects our plans, programmes and budgets.

Legislative change and compliance

Councils are constantly subject to change. The new coalition government are implementing changes that will impact how local government delivers some services and the rules under which we operate. For example this includes the introduction of new water services management legislation and a review of the resource management act. These changes may have a significant impact on our day-to-day work, so we need to be able to adapt.

Councils are also facing more pressure to comply with increasing standards. The costs of meeting these changes can be significant, such as the upgrades to our drinking water treatment plants that are required to meet health standards.

Where legislation requires review of our processes or staffing, we will seek to achieve the most efficient and cost-effective way forward. However, if we are required to provide additional services or increased levels of service, this may require increases to rates or user fees.

There has also been an independent review into the future for Local Government, which was completed in 2023. This may impact local government in the future. We are awaiting Central Government's response to this report.

Local Water Done Well

There remains uncertainty about the management and delivery of water services in the coming years. The coalition government have repealed previous legislation that would have established a new way of delivering water services. They are implementing a new regime, called Local Water Done Well, with the second Bill to establish this regime recently introduced to Parliament. Initially, this will require local authorities to prepare a Water Services Delivery Plan within one year of the enactment of the Bill. These plans are intended to provide an assessment of water infrastructure, how much investment is needed, and how it is planned to finance and deliver this through the preferred service model. This work will progress once the Bill is enacted, but we are uncertain as to the impact on our services and funding at this time.

At this point, bearing in mind this uncertainty, we are planning for the future of three waters assets under the assumption that we will continue to own and operate them, with higher standards of both water quality and reduction in environmental impact, and asset management practices.

Resilience

Recent flooding events across our district and extreme weather events that have affected New Zealand are prime examples of why planning for emergencies is important. From Covid-19 to climate change and the possible Alpine Fault rupture, there are many reasons why we need to ensure we are in a strong financial position to weather these emergencies, and ensure that the resilience of our infrastructure will allow the continued delivery of our services. We are committed to upgrading our infrastructure to improve its resilience should future events occur, as seen in our Infrastructure Strategy and our work programmes included in this 10 Year Plan. For example, water sources of all types may be threatened in the longer-term due to drought conditions caused by climate change, or infrastructure asset damage from an earthquake. Some water sources have alternatives already proposed in the 10 Year Plan, including the drilling of an additional water supply source in Ashburton.

Council is a member of the Local Authority Protection Programme Disaster Fund Trust (LAPP) which helps cover emergency works. We also have a Disaster Relief Fund for the replacement of infrastructural assets (excluding roading) in the event of a natural disaster. In the case of a large scale event, funding may be available from Central Government and their agencies.

If, in the next 10 years, the Government decides to escalate the Pandemic Protection Framework – for either a new strain of Covid-19 or another pandemic – it is likely that our services (e.g. recreation services) would be impacted by reduced hours, restrictions on users or closure. Supply and staff shortages may also impact on project budgets and timelines.

Financial trends

Economic growth

Our district's Gross Domestic Product (GDP) was $2.873 billion for the year to March 2023. This was an increase of 1.9%, compared to the national increase of 2.9% over the same period. This compares to 2021 growth at 0.3% locally (-0.3% NZ) and 2022 growth of 4.0% locally and 4.8% (NZ)[1].

Overall, most forecasters are suggesting a more subdued outlook for the NZ and Ashburton economy over the next few years. Continued high inflation and interest rates will moderate strength in the economy. These are expected to slowly reduce in impact over time. The latest available information has the Ashburton District economy easing slightly by 0.1%% (NZ: 0.2%)[2]. It is worth noting that our local economy's reliance on land resources presents some risks to the overall economy as exposed by the drop in milk prices in the past. Similarly, extreme weather, natural disasters and events, such as the Covid-19 pandemic, and the impacts of legislation can pose risks to our local economy.

Our economy took a relatively modest hit at the onset of the Covid-19 pandemic, owing to the district's heavy reliance on the primary sector and relatively low exposure to international tourism. Implementation of any policy changes by the new coliation government may have positive effects for the Ashburton District economy.

1 *Data retrieved from Infometrics Regional Economic Profile (latest available)*

2 *Data from Infometrics Quarterly Economic Monitor (March 2024)*

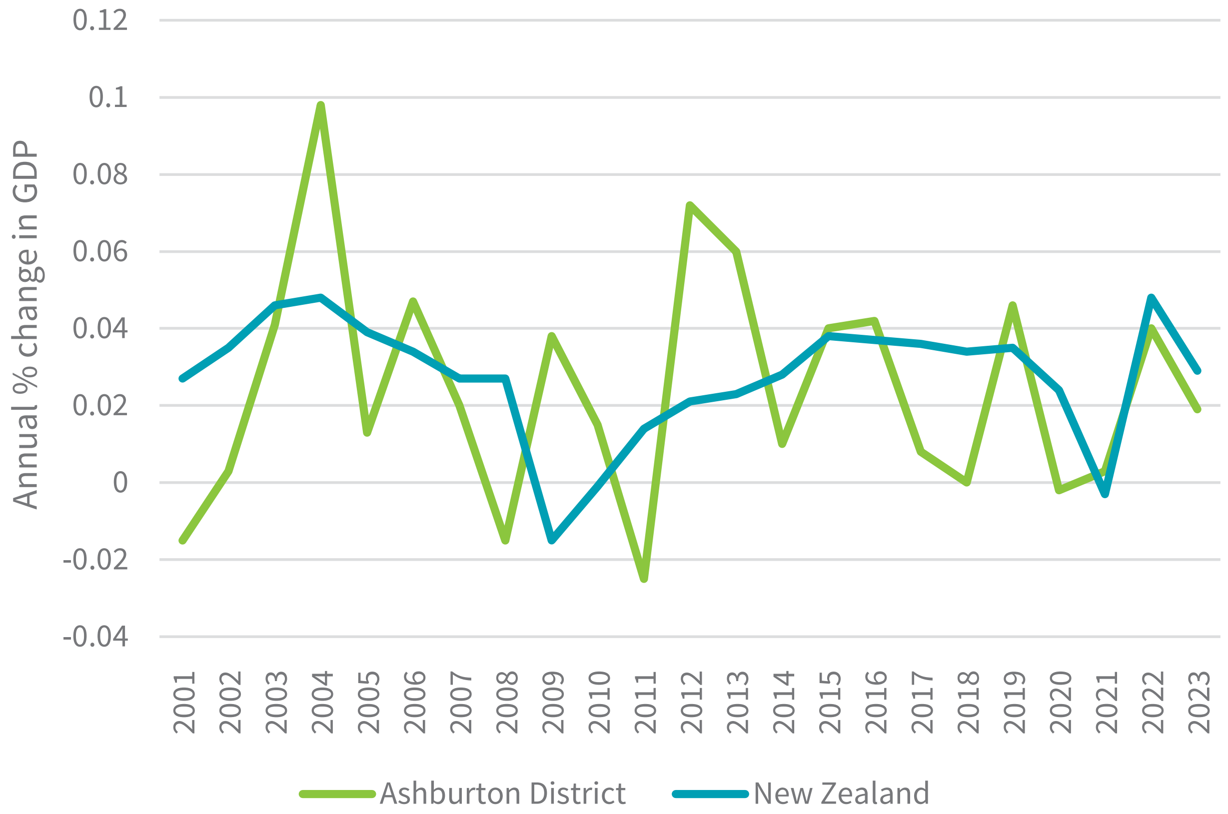

Figure 2. Annual % change in GDP for Ashburton vs New Zealand 2001-2023

Inflation and cost of living

The latest year on year CPI (Consumer Price Index) was 4%[3] and is expected to remain above the Reserve Bank's target band of 1-3%, until later in 2024[4]. This sudden and sustained increase in inflation is putting pressure on people's budgets, forcing many households and businesses to substantially curtail their spending to cover essential costs.

This may impact on ratepayers' ability to pay rates, and Council will aim to maintain rates increases within the limits we have set out in this strategy.

Local Government costs use a rate of inflation different to the normal CPI, called the Local Government Cost Index (LGCI). This better reflects the costs that impact on Councils that are different to a normal household or business. This has been taken into account when preparing our budgets and is explained further in section three of this strategy.

Expenditure

Growth in the district, regulatory requirements and the need to replace infrastructure means we have an extensive capital expenditure programme for the next ten years. This will mean that we will be increasing our debt to levels that we have not done so before.

3 Statistics NZ, Consumer Price Index: March 2024
4 Economic forecasts, ANZ New Zealand Data Wrap March 2024

Our level of expenditure is also closely linked to the level of service we provide to our community. Our 10 Year Plan details the levels of service we aim to provide over the next ten years, and is determined through considering the following:

- Legislative compliance
- Our community outcomes and strategic priorities
- Community expectations
- Political mandate

Roading remains a significant cost driver for the district. This 10 Year Plan increases our investment in roading to meet these increasing costs. However, even with this increased investment, it will only maintain roads at the levels of three years ago. We will not have a final outcome on government investment via Waka Kotahi until later in 2024.

The table below shows our capital expenditure on growth, improved levels of service and renewals budgeted over the next 10 years. Around 80% of this expenditure is planned for Drinking Water, Wastewater, Stormwater and Transportation.

Where practical, the timing of major projects will be coordinated across council's activities to manage their impact on rates affordability. However, where there is an immediate need, or a regulatory deadline, this may not be possible. The strain on resources will require judicious decision-making when programming forward work.

Activity group	Growth $000s	Improve service level $000s	Renewals $000s
Drinking Water	4,867	20,777	39,709
Wastewater	1,796	270	43,819
Stormwater	0	24,993	0
Transport	0	158,460	100,239
Other	600	59,513	7,935
ALL ACTIVITY GROUPS	**7,263**	**264,013**	**191,702**

Demographic trends

Population growth

Our district saw consistent growth of approximately 2% per year between 2006 and 2018. While we continue to grow, the rate has slowed, with average growth forecasted at 0.5% per year over the next 25 years, adding around 4,600 people between 2023 and 2048.[5]

Ratepayer growth

The average household size is not projected to change across the next 25 years – staying consistently at 2.5 occupants per household. There is a projected increase in the number of households in our district – increasing from a forecast of 14,300 households in 2023 to 16,300 in 2043[6]. This will mean an increasing number of rateable properties which will help spread the impact of rates.

In addition to an increase in rateable properties, population growth also leads to increased load on our infrastructure and assets, and increased demand on our services. The Activity Management Plan process accounts for the impact of growth on our assets and services. Additional infrastructure due to growth can also be funded through development contributions.

5 *Data retrieved from Statistics NZ – Census data – usually resident population (2006, 2013 and 2018), estimated population (2023), subnational population projections (2033, 2043 and 2048).*

6 *Data retrieved from Statistics NZ – subnational household projections (2023, 2028, 2033, 2038 and 2043).*

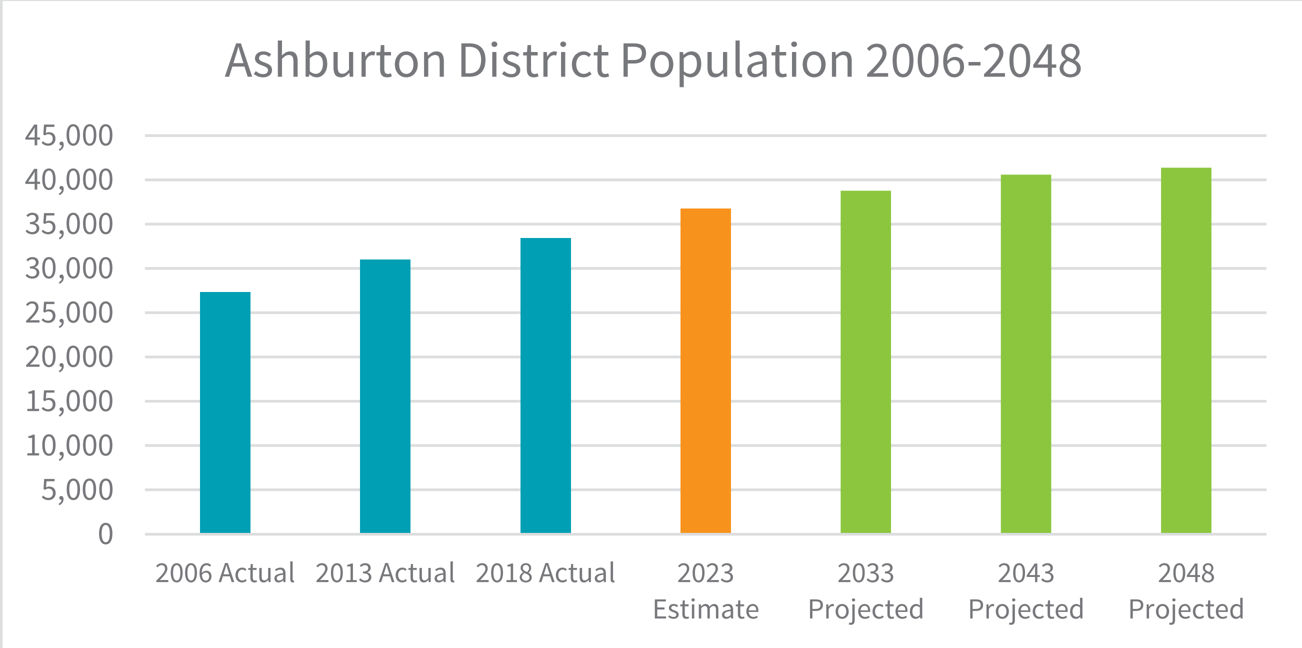

Figure 3. Ashburton District population 2006 – 2048, actual, estimated, and projected

An ageing population

It is projected that 23% of our population will be 65 years and over by 2048. This equates to an additional 2,500 persons in the 65+ age group, or a 36% increase from the estimated figure for 2023[7].

This will have an impact on customer needs and demands on our service delivery, which may increase costs. The increase of persons in the 65+ age group also means that there will be more people on a fixed income, which may apply pressure to households ability to handle a significant rates increase. We will accommodate the effects of the changing demographics by adapting or redirecting activity provision to meet needs where possible within reasonable costs.

7 *Data retrieved from Statistics NZ - Subnational population projections (2023 and 2048).*

Land use trends

Agriculture

Most land in our district is rural farmland. Irrigation has enabled land use changes, leading to a reduction in dry stock and arable farming, an increase in dairy farming and high-value cropping such as seeds. We have the highest concentration of irrigated land in New Zealand. However, most land conversions have now occurred and the rate of land change has slowed.

The primary sector faces substantial challenges over the medium to longer term as the impact of new regulatory changes is realised. National Environmental Standards for Freshwater may impact land use changes across our district, while efforts to curtail agricultural greenhouse gas emissions will impact the primary sector as well. We are yet to understand the full impacts of any changes proposed by the new government for these areas.

Our district's economy has a heavy reliance on the primary sector, therefore these challenges may have an impact on our costs and rates affordability. We will do our best to keep rates increases within the limits we have set out in this strategy.

Development

Growth is expected to occur at a higher rate in our rural communities and Methven township compared with the rest of the district. These areas continue to have new residential developments on the urban periphery of Methven and other rural towns, expanding the urban footprint into surrounding zoned but undeveloped rural and rural-residential areas.

There are sufficient zoned residential and commercial sites available or planned, to accommodate current foreseeable growth for some years, and there may be over-capacity for residential land in the Ashburton North area.

This development may lead to increased load on our infrastructure and assets, and increased demand on our services, in particular areas. Where possible, our planning processes consider the impact of this growth on our assets and services, and additional infrastructure due to growth can also be funded through development contributions.

3. How are we going to get there?

Our overall vision is to ensure that Council remains financially stable, while financing our key priorities.

The diagram below shows our financial objectives along with the strategies we will use to achieve these over the next ten years.

The rest of this section discusses what needs to be paid for, what funding options we have available, our financial parameters, as well as investment and equity information.

Our financial goal	**To ensure Council remains financially stable, while financing key priorities**						
Our financial objectives	• Spend prudently to deliver agreed levels of service, cater for growth and manage our assets soundly • Ensure rates and fees are kept to a reasonable level • Provide clear financial parameters for Council work programmes						
How we plan to get there	Maintaining a balanced budget	Delivering projects to budget	Funding depreciation and capital expenditure	Taking inflation into account	Ensuring we keep within our rates limits	Ensuring we keep within our borrowing limits	Maximising financial investment and equity securities
	This ten year plan includes a balanced budget for each of the ten years	Clear prudent expenditure and financial parameters are provided for delivering on Council work programmes and levels of service	We plan to cater for growth and manage assets well, while funding depreciation for our key assets	Adjustments are made to our budgets to ensure inflation is included, using credible economic data	Rates limits are set to ensure our rates are kept at a reasonable and affordable level	Borrowing limits are set to ensure financial stability	Careful financial investments are managed to generate a maximised return

Operating expenditure

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

Rates are used to fund the balance of operating expenditure after all other revenue streams are accounted for.

Forecast operating expenditure

We have budgeted for operating expenditure to increase from $76 million to $126 million between June 2024 and June 2034.

The increase is the result of:

- price increases and escalation (inflation), including rising interest costs;
- maintaining the levels of service we provide;
- the impact of new regulatory frameworks (e.g. quality drinking water)
- to a lesser extent, population and other growth factors.

The following graph provides a breakdown of our forecast operational expenditure.

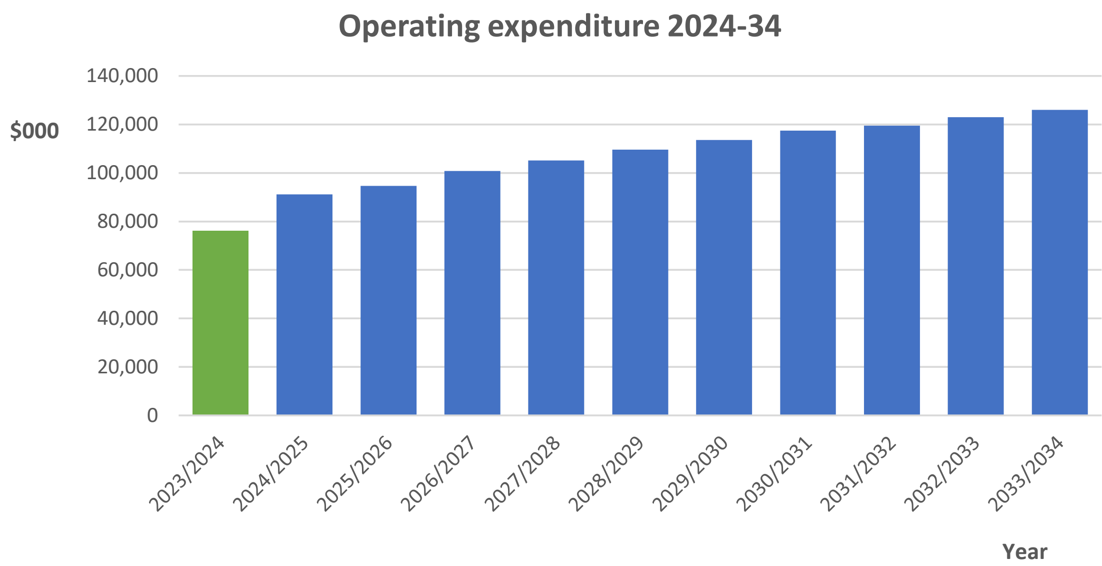

Figure 4. Operating expenditure, 2024/25-2033/34

The following table shows the budgeted operating expenditure for network infrastructure activities over the coming ten years.

These values are based off the 10 Year Plan budgets $000	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Drinking Water	5,453	6,045	6,402	6,541	6,968	7,391	7,444	7,527	7,443	7,435
Wastewater	3,845	4,121	4,359	4,429	4,836	4,984	4,984	4,873	4,849	4,758
Stormwater	890	899	1,005	2,040	2,105	2,018	2,680	2,182	2,271	2,256
Transportation	12,172	12,072	13,160	14,081	14,327	14,573	14,839	15,017	15,288	15,514

Capital expenditure

In general, we look to at least maintain the level of service that we currently provide across our different activities. This means, each year, we need to ensure enough work is done to maintain our assets and, when necessary, to rebuild or replace them – this is called our capital renewal work programme.

New capital expenditure is budgeted to be funded mostly from loans, with the principal and interest costs being funded by a mixture of rates, grants and commercial income. Loans are typically over a 20-year term, or the expected lifetime of the asset.

Forecast capital expenditure

Capital renewals for Network Infrastructure

The following capital renewal expenditure is budgeted for network infrastructure activities over the coming ten years to ensure we can continue to provide the current levels of service. The total cost of delivering this renewal programme is expected to be $184 million over the next 10 years.

These values are based off the 10 Year Plan budgets $000	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Drinking Water	2,924	7,565	4,075	3,213	5,882	3,779	4,120	2,141	4,614	1,395
Wastewater	7,498	5,735	3,719	10,844	3,164	2,900	1,130	3,449	2,699	2,682
Stormwater	-	-	-	-	-	-	-	-	-	-
Transportation	8,334	8,745	8,800	9,922	10,140	10,373	10,613	10,856	11,106	11,350

Total capital expenditure

Capital expenditure (including renewals) is budgeted to be $43.8 million in 2024/25. The bulk of this ($32.25 million) is due to investment in improving roads, drinking water, wastewater and stormwater.

Over the next ten years, we have budgeted a total capital expenditure of $463 million, including capital expenditure on network infrastructure - transportation, drinking water, wastewater and stormwater.

The following new capital expenditure is budgeted for our activities over the coming ten years to ensure we can meet additional demand - due to either population growth or improvements to the level of service we provide.

Activity group	Growth $000s	Improve service level $000s	Renewals $000s
Drinking Water	4,867	20,777	39,709
Wastewater	1,796	270	43,819
Stormwater	0	24,993	0
Transport	0	158,460	100,239
Other	600	59,513	7,935
ALL ACTIVITY GROUPS	**7,263**	**264,013**	**191,702**

Our total planned capital expenditure is shown in the following graph for the next 10 years.

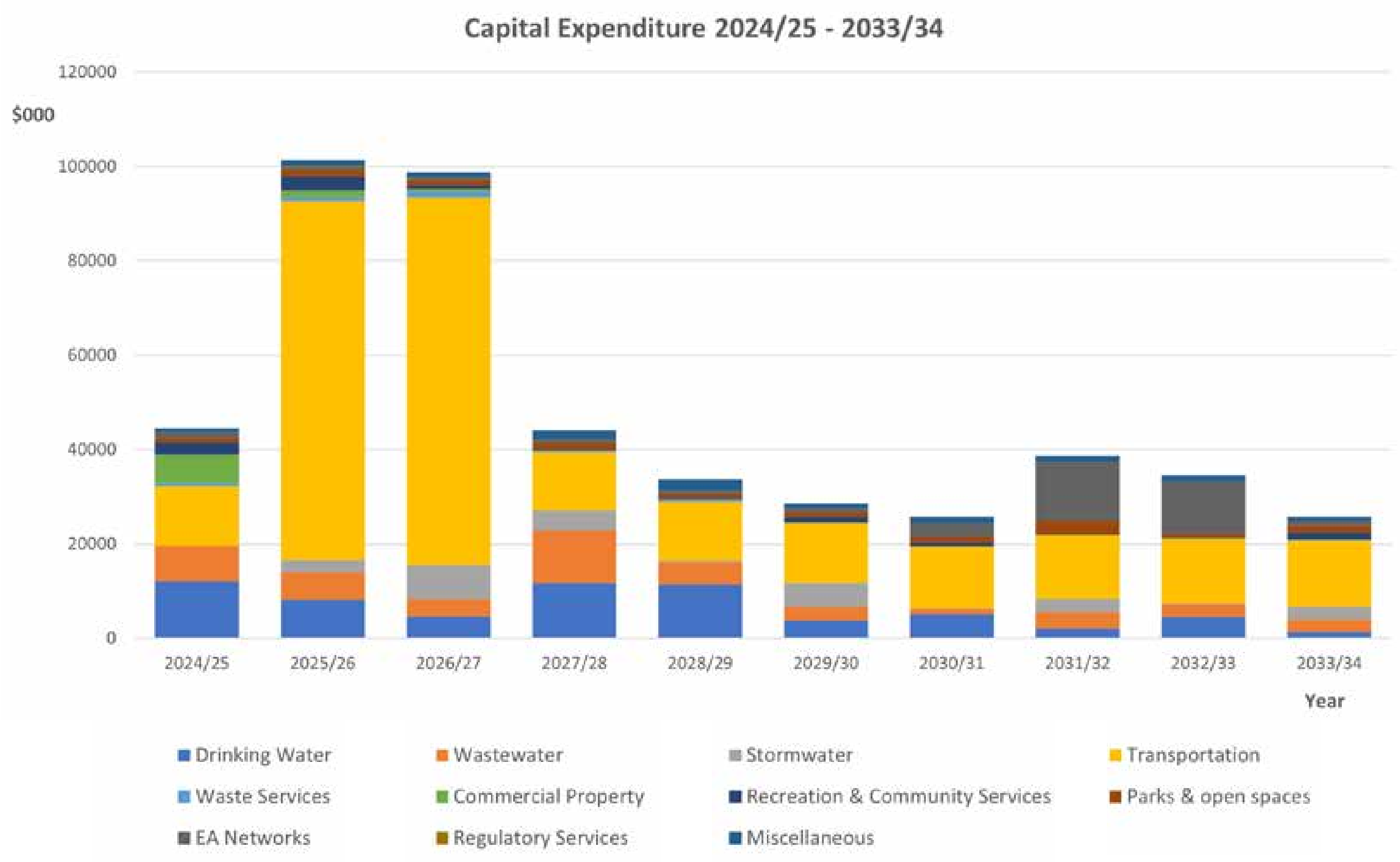

Figure 5. Capital expenditure by activity, 2024/25 -2033/34

Significant Capital Expenditure

Ashburton second urban bridge

We have budgeted that we will contribute $7.5 million of the costs to the second urban Ashburton bridge, with the balance to be sourced from a combination of Waka Kotahi, Crown funding, or some other charging regime (e.g. congestion charging).

The government's strategic investment programme (draft GPS 2024) has identified the Ashburton second bridge project as part of the National Land Transport Programme (NLTP). The focus is around achieving a total transport system solution which provides better connectivity and travel choice while improving resilience, safety and economic prosperity.

While early conversations indicate that the project could receive central government funding this has not been finalised. Should sufficient funding not be secured from government, either via Waka Kotahi or other government sources, we will need to reconsider other funding options, including if the balance could be loan-funded from within existing debt limits. Insufficient funding could result in a lower level of service, project delays or halt construction of the bridge altogether.

Drinking Water upgrades

Compliance with drinking water standards is continuing to drive our ambitious upgrade programme across our water supplies. Including both new capital work and renewals, our programme proposes $12.1 million of work in year 1 and $8.2 million in Year 2. Details of this work programme can be found in the Drinking Water section of the LTP.

EA Networks Centre Stadium extension

Due to continual high usage during peak hours, we are proposing to extend the EANC stadium by adding three indoor courts. This is included in the budget across Years 7-9, at a total cost of $22.9 million, Council have resolved to spend up to $23.7 million if required.

Ashburton Business Estate – stage 3

$5.5 million has been included in Year 1 of the budget for Stage 3 development of Northeast Industrial Park (Ashburton Business Estate).

Funding options available

We have several funding options available to us. These include rate revenue sources, and non-rate revenue sources. For further details on each of these funding sources and how they are used, please refer to the Revenue & Financing Policy.

Sometimes we budget based on the assumption that funding will be received from third-party sources, for example, we expect that we will continue to receive subsidies from Waka Kotahi for road maintenance and renewals.

Rate revenue sources

- general rate
- uniform annual general charge
- targeted rates

Non-rate revenue sources

- grants, sponsorship and subsidies
- investment income, dividends and interest
- development contributions
- financial contributions
- proceeds from asset sales
- fees and charges
- bequests
- borrowing
- lump sum contributions

Rates

The percentage of our annual revenue that comes from rates varies from year to year and over time - for the 2024/25 year it is expected to be approximately 50.8% (2023/24 50.8%).

These values are based off the 10 Year Plan budgets	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Rate increase (%)	8.6	7.6	8.8	5.3	1.4	3.0	2.3	1.2	1.8	1.3
Average LGCI adjustment (%)	3.2	2.5	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.2
Rate increase after LGCI adjustment (%)	11.8	10.1	11.0	7.5	3.6	5.3	4.6	3.5	4.1	3.5

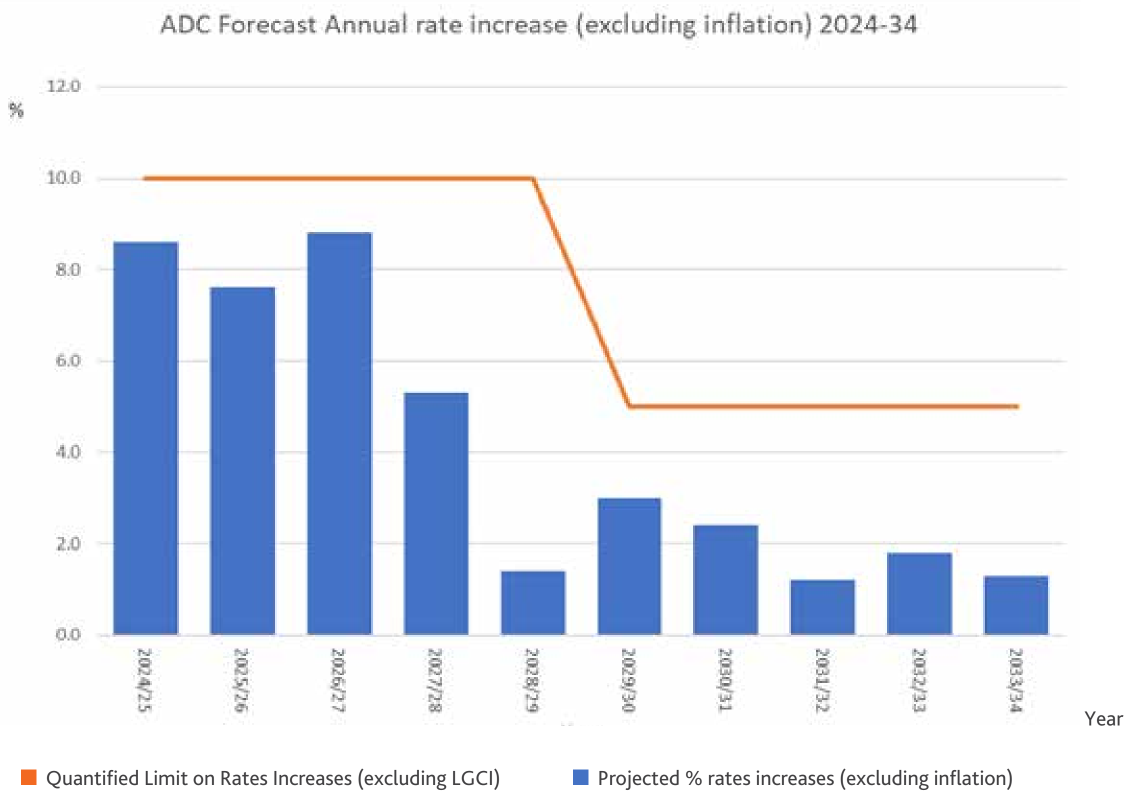

Figure 6. Projected % rates increases vs rates limit (excluding inflation), 2024/25-2033/34

Rates limits

Our plan for the next ten years has been prepared based on the following limits on total rates and annual total rates increases.

- Total rates increase for 2024/25 - 2028/29 to be no greater than 10%, exclusive of LGCI each year.
- Total rates increase for the years 2029/30 – 2033/34 to be no greater than 5%, exclusive of LGCI each year

Forecast rates

Rates are a form of property tax. Other revenue comes from fees and charges, government subsidies, investment income and a variety of other sources.

The graph below shows the overall rate requirement and our total revenue for the past five years and the coming ten years covered by this 10 Year Plan.

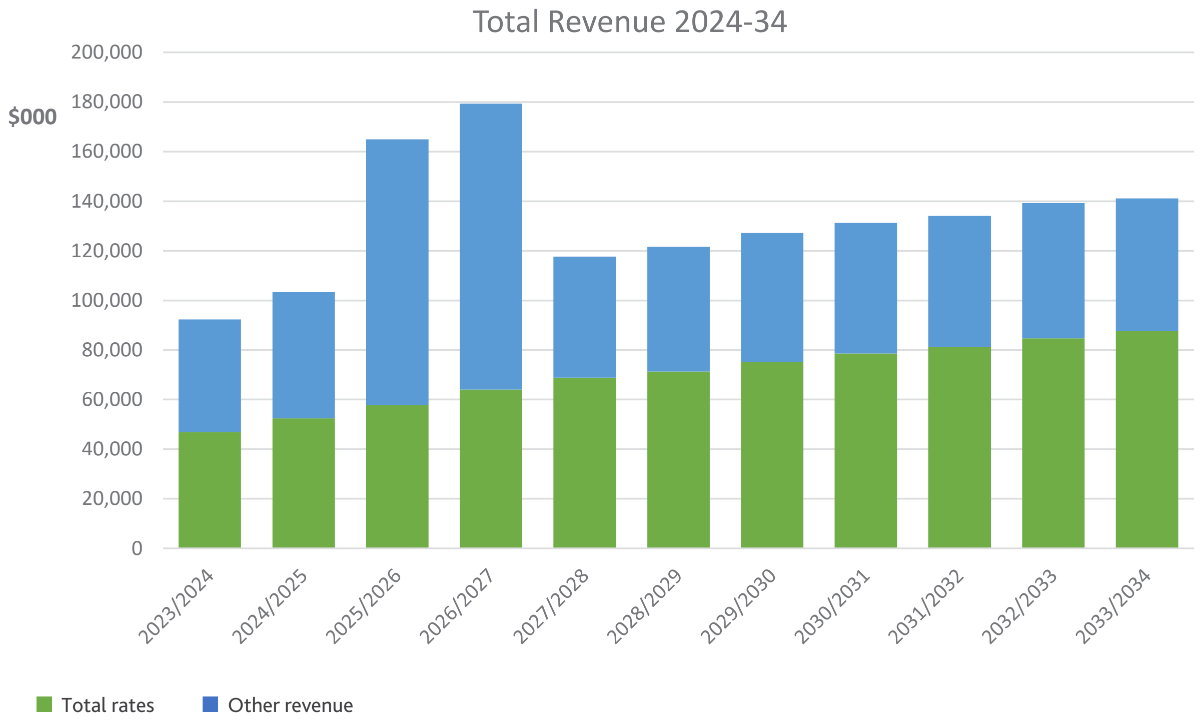

Figure 7. Total revenue 2024-2034

Funding review

We have reviewed our funding approach as a part of the development of our 10 Year Plan and considered who benefits from each of our services. Further detail of our decisions can be found in our Revenue and Financing Policy[8].

Depreciation

We typically rate for depreciation each year based on how much it would cost to replace an asset, divided by its expected useful life. Different assets have different expected useful lives – the time you can expect them to work efficiently before they need replacing.

These funds are included in our operating expenditure and are used for any capital work that is required on that asset. Any funds that are not required in the year they're rated for, are held for future expenses. We see this as fair, as this spreads the costs evenly across the ratepayers who use the asset over its lifetime. This is the principle of intergenerational equity.

Due to our concern about the affordability of the rate rises, we have chosen to only fund depreciation on the equipment at the EA Networks Centre to the value that is required for capital works in the year we are rating for it (as assessed at the time). In addition, we have also only partially funded depreciation on Te Whare Whakatere across our 10 Year Plan (this affects Year 2 onwards). We also will not fund hall depreciation and will instead rate for repairs and renewals as needed.

8 *The Revenue and Financing Policy can be found at ashburtondc.govt.nz → Council → Policies and Bylaws.*

Borrowing

In developing this strategy, we have set limits on borrowing, to promote financial stability, affordability and value for money over the short, medium and long term.

These limits have guided the preparation of our work programmes and budgets set out in our plan for the next ten years and will be used to guide the preparation of yearly work programmes and budgets in the future.

We can exceed borrowing limits if it is prudent to do so; however, any breach must be explained in the relevant Annual Plan and Annual Report, along with the reasons why a breach is considered prudent.

During the period of this ten-year plan, we have budgeted to repay debt at a level that reduces the impact of finance charges (e.g. interest).

Debt limits

Our plan for the next 10 years has been prepared based on the following limits on external debt:

- Net interest payments to service external debt must be less than 20% of our total revenue (excluding vested assets, infrastructure revaluations and other gains).
- Net interest payments to service external debt must be less than 25% of total rates for the year.
- Net debt shall not exceed 250% of total revenue.
- Council must maintain access to liquidity of not less than 110% of projected core debt.

Internal debt

As well as external borrowing, an option available to us is using realised investment funds to internally fund capital expenditure. This reduces the net cost of borrowing as we can internalise the lender's margin.

We have used internal funding from our investment pool in the past and may do so again in the future. Where cash resources permit, we will continue to use internal borrowings.

Net debt

Net debt represents total borrowings less cash and cash investments. Gross debt is the external debt liability with our lending agencies.

External debts

Debt interest no more than 10% of total income is widely considered appropriate. It is important to note that having debt interest higher than this does not necessarily mean debt is not sustainable, but it could limit future options and we need to be mindful of managing debt at this level. The cost of future borrowing may also increase if lenders perceive a greater risk.

Management of both our internal and external debt is regularly monitored and as applicable, advice is sought from our Treasury Advisor.

Figure 8. Total external debt -2024 – 2034 with maximum debt cap

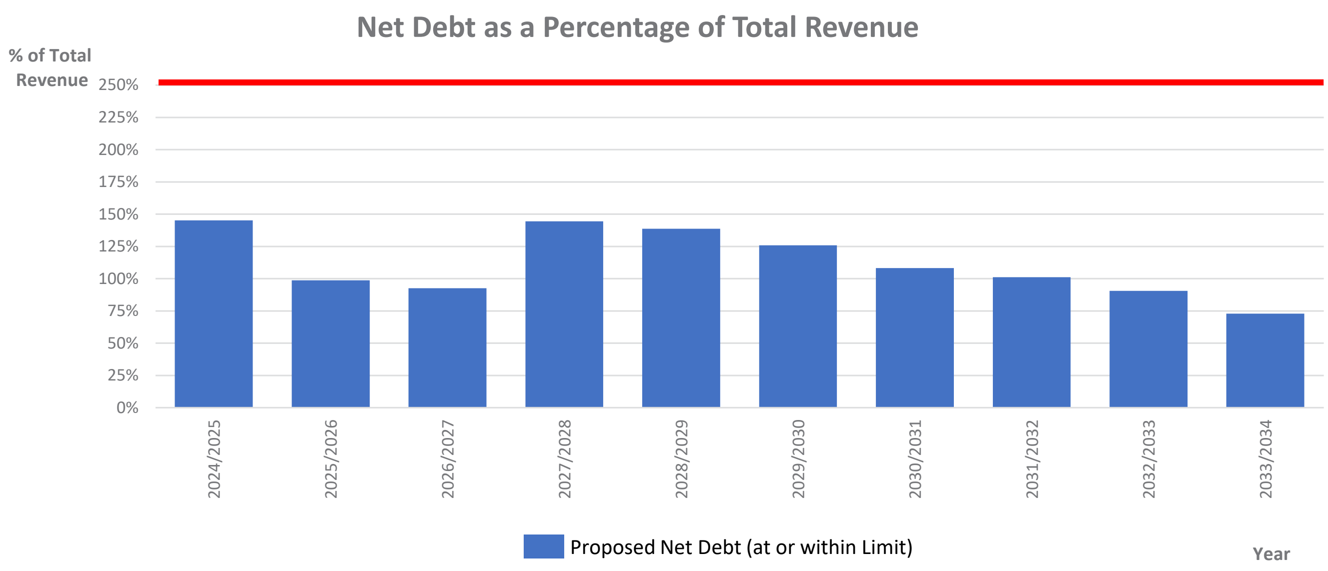

Figure 9. Projected external net debt as a Percentage of Total Revenue, 2023/24-2033/34

Net debt as a percentage of total revenue changes yearly, depending on "other" income that council may receive. For example, in years two and three, council is projecting that we will receive additional grant funding to build the Ashburton second bridge. As a result, the debt to total revenue appears lower than years four to seven.

Managing interest rate risk

Interest rates have risen over the last 18 months and are not predicted to start falling until late 2024/ early 2025. High interest costs places a burden on operating budgets and could present difficulty in managing the increased cost of capital in the future.

We have a Treasury Management Policy that seeks to minimise the impact of any such interest rate increase on our overall financial position.

Debt security

We provide lenders with security on its borrowings through a debenture trust deed. This gives lenders a charge over our rates income.

In the unlikely event of Council defaulting on a loan, the lender can ensure a rate is set to recover the outstanding amount owed. This security is attractive to lenders, which helps ensure we have ongoing support for our debt programme, while reducing the interest rates lenders charge.

Our Treasury Management Policy permits us to give security over specific assets, where

a. there is a direct relationship between the debt and the asset being funded and,

b. security over the asset is considered preferable to security over our rates income.

Currently, we have no securities issued over our assets and our plan for the next ten years does not include any provision to secure debt directly over assets.

Our approach to debt security seeks to maximise access to the capital needed for providing appropriate services to the community at the lowest cost possible.

Inflation

We budget for inflation in each year of our plan. Our costs reflect the type of work we undertake for the community and are significantly affected by the price of items such as energy, bitumen and civil contracting services. This is quite different from the average household, and so using the Consumer Price Index (CPI) for inflation is not appropriate.

Instead, Business and Economic Research Limited (BERL) and Infometrics have both prepared specific inflation values for councils - referred to as the Local Government Cost Index (LGCI). We have adjusted all budgets across the ten years using the average of these two LGCI values. They are also used as part of our setting of limits on rates and borrowing. See below for the average LGCI over the next 10 years.

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
LGCI	3.2	2.5	2.2	2.2	2.2	2.3	2.3	2.3	2.3	2.2

Cash reserves

Our projected balance sheet shows external gross debt of $152.8 million by 2033/34 and a building up of cash reserves to $54 million over the same period.

Cash reserves are generated through various methods, including rating for depreciation, income earned from investment activities, land sales from the Ashburton Business Estate, logging sales and other commercial activities. Council will make provision for the repayment of debt over the life of an asset for which the loan has been raised. However, it is not possible or practical in many circumstances to match the life of an asset with the underlying debt. This will be achieved either by making regular loan repayments or provision of sinking funds to be used to extinguish debt at a future time.

We consider it prudent to rebuild cash holdings (primarily through land sales and depreciation funding). This will increase our funding flexibility by enabling cash reserves to be used, or internally borrowed against, rather than requiring external borrowing.

Cash

We hold cash to operate and maintain stable cash flows. We also hold cash in reserves, largely to fund the renewal of assets. These funds are invested in internal borrowing or deposits as provided by our Investment Policy (included as Part I of our Treasury Management Policy). Our target return on cash is the average 90-day bill rate. The net return on commercial activities is expected to equal the ten-year government bond rate less inflation plus risk to reflect the long-term nature. Non-commercial properties are acquired for specific purposes and the return will be set in each case by Council.

Financial investments and equity securities

We have financial investments that generate a return, which can be used to pay for services and reduce rates. This section explains our objectives for holding and managing financial investments and equity securities and its targets for returns on those investments and equity securities.

Investment	Objectives	Target return
Ashburton Contracting Limited We own 100% of the 4,500,000 shares in Ashburton Contracting Limited (ACL).	• ensure local capacity and capability to undertake civil works, particularly for infrastructure • promote competition in the district for civil construction and maintenance activities • form part of a balanced portfolio of investments.	Our expected rate of return on average shareholder funds is a minimum of 10% after tax, based on the rolling average of the last five years, excluding any tax loss offset / subvention payment or the costs of ACL's investment in the Lake Hood extension project. This return, paid by way of dividend, is used to offset rates in the year it is received. This has been budgeted at $1,300,000 per year before inflation.
Transwaste Canterbury We are a 3% shareholder in Transwaste Canterbury Limited (600,000 shares). As at 30 June 2023, these shares had a net asset backing of $1.74 per share ($1,044,000).	• provide an environmentally sustainable facility for the disposal of the district's residual solid waste • form part of a balanced portfolio of investments.	Dividends are determined by the board of directors and dividend returns are applied against the general rate and the uniform annual general charge as detailed in our Revenue & Financing Policy. This has been budgeted at $500,000 per year before inflation.