2015 Long Term Plan - Financial Strategy 2015-2025

Local Government must be financially sustainable to continue delivering services to its communities now and into the future. This involves a balancing act of delivering services while keeping the income required affordable, ensuring equity between current and future generations, along with fairly sharing the costs of service delivery between different users.

Our financial strategy sets out the overall financial goals of the Council and where we want to be positioned during, and at the end of, the Long Term Plan period. It provides a guide for how we consider and approach funding of expenditure proposals in the current long term plan as well as informing all subsequent activity decisions made during the 2015-2025 planning process.

Background

The current Council's mission and vision is focused on provision of quality services and facilities that are affordable, a rating approach that is fair and equitable, empowering each of our communities to make decisions in their best interests, empathy for those who need support and promoting the current and future potential of the District through economic development. Our financial strategy has been updated to reflect this emphasis.

<u>Council's Vision</u>

We will be a leading District Council in New Zealand through the provision of quality services and facilities, which are affordable, and delivered, with a high standard of customer service.

We will earn respect, both as a good community citizen and through our support of community organisations, economic development and the protection of the environment.
Through our actions, the Coromandel will be the most desirable area of New Zealand in which to live, work and visit.

<u>Council's Values</u>

- Displaying empathy and compassion
- Fiscally responsible and prudent with ratepayers money
- Integrity, transparency and accountability in all our actions
- Treating all employees fairly and evenly in accordance with good employer practice
- Being a great place to work where staff are inspired to be the best they can
- Working with and having meaningful and on-going consultation with all of our communities
- Creating strong partnerships with our district's Iwi
- Having pride in what we do
- Being a highly effective and fast moving organisation

<u>Council Outcomes</u>

On behalf of the Coromandel Peninsula, the Council aims to achieve:

- A prosperous district – the Coromandel Peninsula has a prosperous economy
- A liveable district – The Coromandel Peninsula is a preferred area of New Zealand in which to live, work and raise a family and have a safe and satisfying life, and
- A clean and green district – The Coromandel Peninsula's natural environment provides a unique sense of place

The Coromandel Peninsula is a place of outstanding natural beauty with a proud history. Its many advantages can be seen in our soaring mountain ranges, white sand beaches, native forest and bush, as well as the Maori and early-European heritage evident in our older towns and settlements. In more recent times, the wonderful climate and proximity to the population centres of Auckland and the Waikato has meant the Coromandel holiday settlements have experienced periods of rapid growth.

The long term challenges we face in preparing a Long Term Plan arise in part because of these advantages. Our economy today is strongly reliant on the discretionary spend of visitors and our holiday-home owners making us particularly vulnerable to recessionary pressures. We have extreme peaks in demand for essential services at key holiday times. Our physical advantages also come with some additional costs: small settlements supporting a relatively large number of separate infrastructure networks; our coastal settlements are vulnerable to sea level rise and our hilly terrain and infrastructure sustains damage from extreme weather events. We also face the prospect of declining residential population and potential changes in demand for services from an aging population.

Another key challenge for us is that the growth outlook we are projecting for the next 30 years is considerably different and lower than what we assumed in previous long term plans. While this has an upside, as we do not need to provide as much new infrastructure as had previously been thought, we also have spare capacity in some of our assets and we have to reconsider how to fund some of the infrastructure already in place.

Overview of Financial Strategy

In the face of these advantages and challenges our strategy can be summarised as:

1. Utilise our existing capacity: invest in economic growth which will in turn support residential growth, assisting our economy to diversify and keeping our communities vibrant.
2. Maintain our assets: careful stewardship of the investments already made by our community now and for the future.
3. Manage our costs: maintain current service levels but keep pushing for operating efficiencies and provide new infrastructure "just in time" and at the "right size".
4. Prioritise essential services, but empower each community to have some choice and flexibility for those discretionary activities which support the uniqueness of each place.
5. Spread the burden of rates fairly and equitably ensuring that those who cause the need for the service are, as far as possible, contributing to those costs.
6. Be conservative; balance our budget over the long-term and recognise that debt is a prudent tool to use as a bridging mechanism when funding long-term assets but ensure the costs of borrowing (interest) are not unaffordable in the future and that there is a fair contribution to costs of growth from developers.

Financial Parameters

In order to ensure that we are prudent in delivering our services and achieving our aspirations, we have set financial parameters so that we can check that we are living within our means. The key financial parameters we set as the foundation for this strategy are:

Rates

- Our ultimate target is an average cumulative district rate increase of no more than CPI
- Our target for the Strategy is an average cumulative district rate increase of less than or equal to LGCI[1] + 2%
- We will aim for no more than 80% of total revenue to come from rates.

Debt Levels
- Debt will not be any more than 150% of total rates revenue

Interest on external debt
- Annual interest charged on external debt will not be any more than 15% of total rates revenue

Context for the next ten years - demographics, population and land use changes

Population change
Knowing where and how the population of the Thames-Coromandel District is changing is a key factor in our long term planning. Different demographic groups have different needs and preferences. These changes are a key driver of the need for any expansion of current services or need for new services; they also drive the timing and approach to our infrastructure management which is responsible for approximately 64% of our costs. Lastly, these changes are critical to our understanding of affordability and the ability and willingness of ratepayers to pay for these services.

Our Ratepayers

A particular characteristic of Thames-Coromandel District is that approximately 55% of the ratepayers reside outside of the area. The proportion of absentee ratepayers varies from around 27% in the Thames community board area to around 71% in the Tairua-Pauanui community board area and this is projected to increase in the future, particularly in the eastern seaboard holiday towns.

Community Board	Percentage of absentee ratepayers in Community Board area[2]
Coromandel-Colville	45%
Mercury Bay	61%
Tairua-Pauanui	71%
Thames	27%
Whangamata	65%

[1] Inflation is commonly measured by comparing the price of a fixed collection of items used by households over time. This is known as the consumer price index or CPI. The goods and services that Councils need to purchase to deliver services are a different mix than for households, for example asphalt for roads, so local government inflation is typically different, and higher than the CPI. This rate of inflation is referred to as the Local Government Cost Index or LGCI.

[2] This information is drawn from a survey of ratepayer addresses conducted in 2010. It provides an indication of the likely level of ratepayers whose primary residence is outside the Thames-Coromandel District

Resident population

The Thames-Coromandel District has long attracted those retiring from the nearby metropolitan and farming areas which means an overall aging residential population. In 2013 the proportion of people aged 65 and over made up around 27% of the usually resident population. This is nearly twice the national average (14%). This trend is projected to continue, with the proportion of people aged 65 and over expected to increase to over 40% of the usually resident population by 2045.

In general, the incomes of residents of the District are lower than for New Zealand as a whole. In 2013, 43% of people in the Thames-Coromandel District aged 15 years and over received personal income of less than $20,000, compared to 38% across New Zealand. As our population ages over the next 10 years, more of our residents are likely to be on lower, fixed incomes.

The income levels of the residents of the District are part of the picture in assessing whether our costs of activities (and rates) are affordable. While we have a higher than average number of residents on low incomes, a balancing trend is that their rate of home ownership is much higher than average at 70% (including those owned in family trusts) compared to 55% across New Zealand. Likewise, while information about the income levels of non-resident ratepayers is not captured, their rate of home ownership is likely to be significantly higher than average.

Population Change

Population projections indicate that the usually resident population of the Thames-Coromandel District as a whole, is anticipated to increase slowly over the next 10 years, with an expected net increase of around 30 people per year. The rate of growth is projected to slow slightly beyond the ten years.

In terms of geographic spread of growth, the majority of the growth is expected to occur in the Mercury Bay and Coromandel-Colville Community Board areas with the usually resident population projected to decrease in other parts of the District.

The usually resident population of the Mercury Bay Community Board area is expected to increase by around 0.8% or 62 people per year and the Coromandel-Colville Community Board area is expected to increase by around 0.3% or 8 people per year.

The population in the other community board areas is projected to decline; Tairua-Pauanui by around -0.5% or a loss of 12 people per year, Thames by -0.1% or a loss of about 15 people per year and Whangamata by -0.3% or a loss of around 14 people per year. These results are consistent with recent trends.

Housing and Rating Unit Growth

The number of houses is projected to increase by 1474 across the District over the next ten years with positive growth in every community board area. The Mercury Bay and Coromandel-Colville community boards are expected to experience the highest growth in new houses, at around 90 and 22 dwellings per year respectively. In other parts of the District growth in the number of houses is expected to be lower, at around 12 new houses per year.

Much of the expected growth in the number of houses is expected to occur in the peninsula’s holiday settlements.

The increase in the number of rating units is projected to be 156 rating units per year. Around one third of the non-housing rating unit growth occurs in the Mercury Bay area with the remainder spread evenly between the other areas.

Land Use

Council's notified a new District Plan in 2013 and at the time of writing this Strategy, it was part way through the public hearings process. With the exception of any changes that come as a result of this process, it is expected that, while there will be some pockets of new development over the next ten years, land use will largely remain the same as now as there is already sufficient capacity within the main settlements, as provided for in the current district plan, for the growth projections throughout this period.

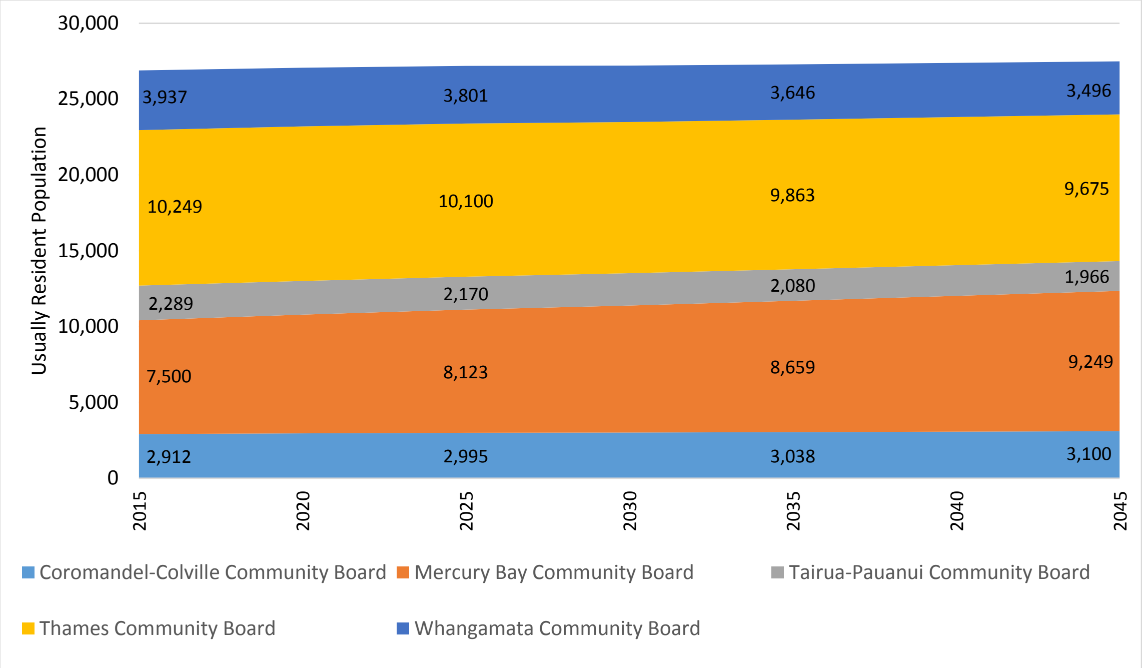
A full report, setting out the detailed population, housing and rating unit growth projections which the Long Term Plan is based upon is available at xxxx.

The tables below summarise the projected growth for the District and by Community Board area for the next 30 years[3].

Projected Growth

Output	2013 (estimate)	2015	2025	2035	2045	Change (2013 - 2045)	Average annual change	Annual average growth rate
Usually Resident Population	26,847	26,888	27,188	27,286	27,486	639	20	0.1%
Total Dwellings	24,164	24,421	25,894	27,338	28,952	4,788	150	0.6%
Total Rating Units	26,679	26,977	28,540	30,059	31,749	5,070	158	0.5%

Resident population growth by community board



3 This information is a summary of a growth projections review prepared independently for Thames-Coromandel District Council. Several scenarios were prepared and the medium scenario, a slow growth scenario, was chosen as the most appropriate basis upon which to base the Council's long term planning.

Financial Overview

To deliver our services to the community and maintain the District's assets to the level forecast over the next 10 years (2015-2025) will require an investment of $892 million for operating expenditure and $197 million for capital expenditure.

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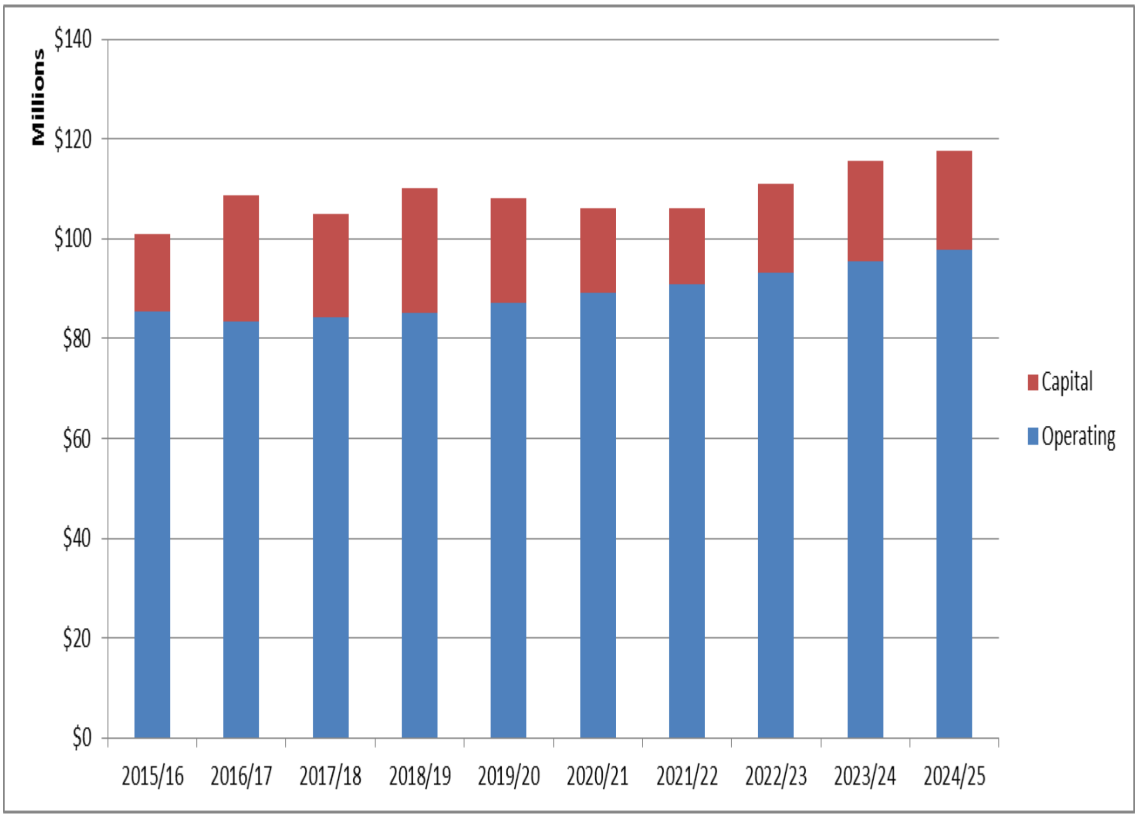


We will fund operating and capital expenditure in accordance with the Revenue and Financing Policy:

- Operating expenditure will be funded primarily through rates and activity revenue (financial reserves, fees and users charges, water rates), grants and NZ Transport Agency funding
- Capital expenditure will be funded through financial reserves, development contributions, NZ Transport Agency funding and debt.

Forecasts have been inflated using the Local Government Cost Index (LGCI) produced for Local Government New Zealand. Council has interest hedges over the tenure of the plan much like a fixed home mortgage that covers a portion of our anticipated borrowings. Accordingly, forecast interest rates have been determined based on Council's anticipated borrowing requirements using these interest hedges and with the un-hedged portion of forecast debt calculated at the forecast floating interest rate.

This plan has been developed assuming that existing levels of service are preserved, that we are being good stewards maintaining our assets and that new assets are provided "just in time" based on quality asset management information and well researched growth projections.

Our starting financial position for this ten year plan is sound. At 1 July 2015 we are projecting a balance sheet with opening balances of:

Retained earnings reserves	$6.4 million
Depreciation reserves	$8 million
Special Purpose Reserves	$33.5 million
Debt	
- External debt	$53.2 million
- Internal debt*	$63.2 million

* Internal debt is the temporary use of Council funds (reserves) for a different purpose from that for which they were received. The funds will be repaid at a later stage to enable them to be used for their original purpose.

A feature of our governance approach is that local decisions should be made locally - so our community boards are empowered to be fully engaged in recommending local priorities and projects to be locally funded. This has led to some variations in relative expenditure levels between each community board area. In particular, the Mercury Bay community board area, with its higher projected growth levels and growing resident population has provided for some substantial local infrastructure upgrades. Community boards have also been encouraged to consider direct local fund raising for local community projects.

The main new expenditure in this plan is for the economic development of the Coromandel Peninsula to support the economic health and vibrancy of our communities and to encourage the use of our existing infrastructure and other built capacity. Our three anchor projects, investing in major events and destination marketing as well as joint ventures with our neighbouring provinces are features of our approach. In total, the Economic Development activity accounts for 3.6% of our total expenditure. Note: a number of the larger projects will only proceed with substantial contributions from other parties.

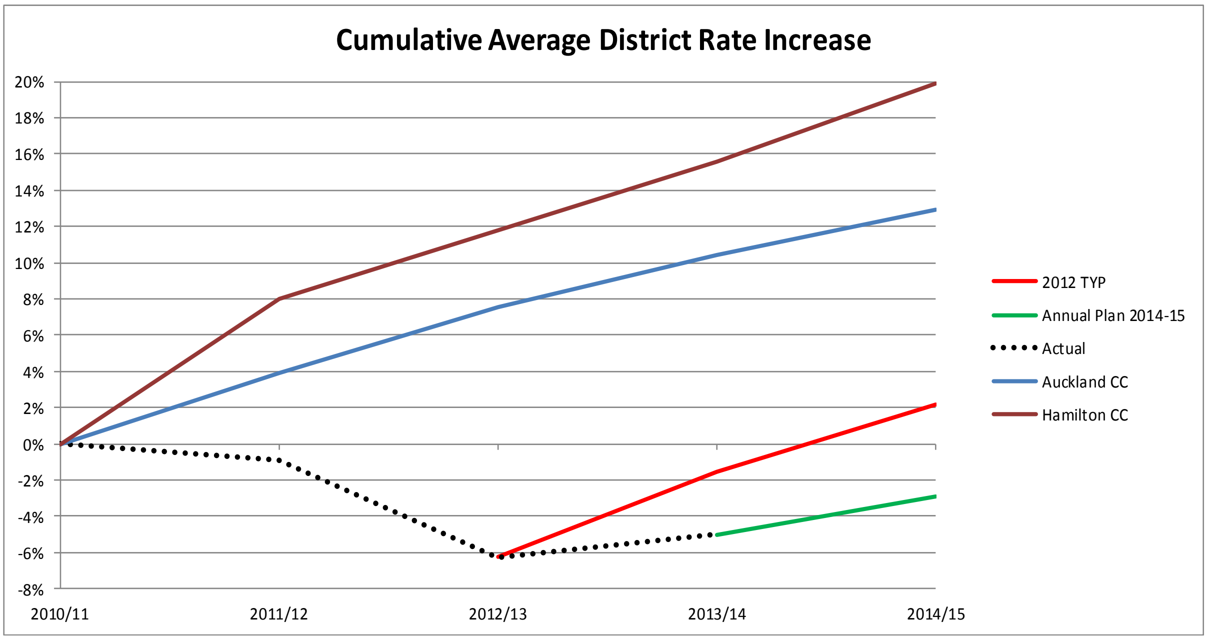
Our major areas of expenditure are:

Roads and Footpaths	$218.6 million
Wastewater	$194.6 million
Water	$123.6 million

Rates increases

The cumulative rates increase in the proposed 2015-2025 Long Term Plan is 20.98%. The increases in rates revenue in the early years of the Long Term Plan are a concern to the Council but they have been driven by a major change in circumstances which must be dealt with if we are to be financially prudent.

Our strategy going back to 2010 was to reduce rates to a more affordable level by refocussing the administration on essential services, empowering each community to make its own choices, and ensuring there was more equity in the payment of rates. As the majority of our absentee ratepayers live in Auckland or Hamilton, the following graph shows the cumulative average rates increase in our District as well as of those areas from 2010/11 to 2014/15.



This clearly shows that we have taken a different, much more conservative approach to services than our neighbours. We made some hard choices over the last four years so we are in a relatively better financial position to weather this change.

This does not in any way make us complacent. We recognise that any rates rise is felt in the community and amongst our ratepayers while keeping up the services that our communities need and expect if this is to be the kind of place where we all want to live, work and raise their families.

Operating in a financially sustainable way requires good information, sound planning and careful decision making. There are always decisions to be made where the future and the present need to be weighed up and the balance found. We consider that we have taken the prudently correct position to have a balanced budget dealing with the implications of a past decision where the assumptions are no longer correct in relation to our operational expenditure. We have also proposed a conservative debt position which contains our costs but also leaves us capacity to borrow more should there be that need in the future thus increasing our flexibility and resilience.

Our activities require $892 million in operating expenditure and $197 million of capital expenditure over the ten years of the Plan. A significant driver of this expenditure is the need to operate and maintain Council's assets. Of the total operational spend, around $542 million, or 61% is directly related to the delivery of essential infrastructural asset services (roading and footpaths, wastewater, water supply, stormwater, rubbish and recycling services). Essential infrastructural assets account for around 77% of Council's capital expenditure.

It is our aspiration to contain rate increases so that the cumulative increase is no more than household inflation (the CPI) over the ten years of the plan. However, in this strategy, we set a limit for the increase of revenue we derive from rates at the LGCI level plus a 2 per cent margin recognising the challenges that must be met. The projected cumulative average rates increases and our two rate increase parameters are shown in Graph xx

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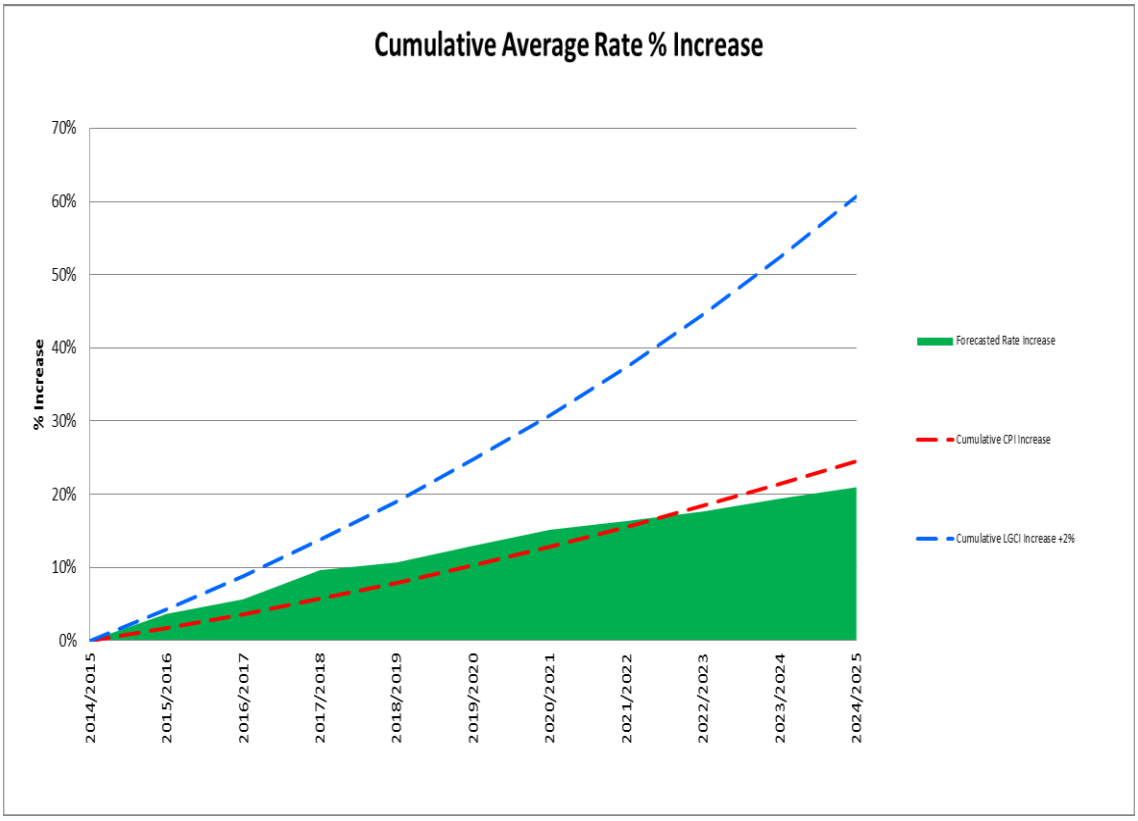
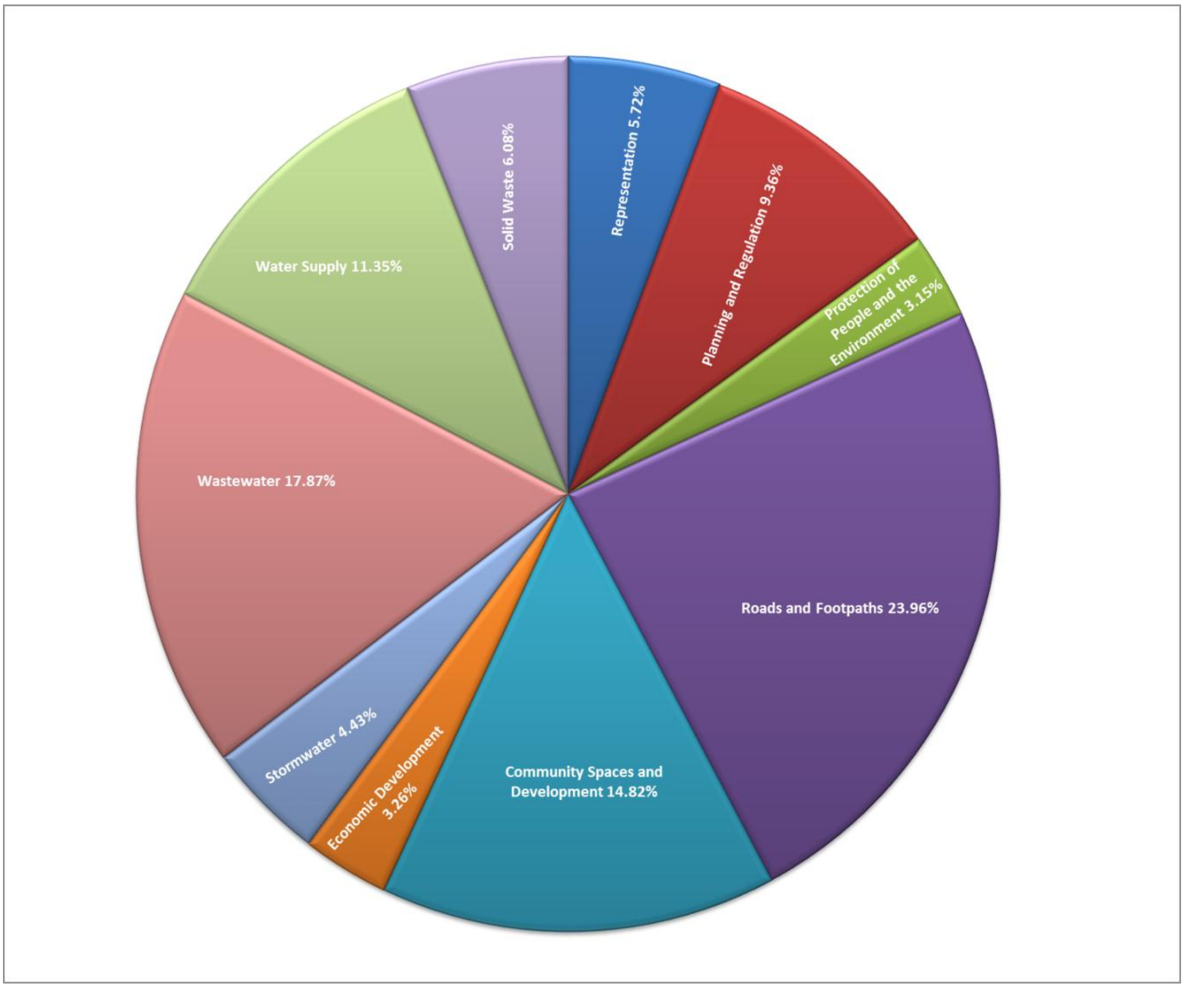


A key financial challenge which must be dealt with in the first years of this Long Term Plan is the change to the allocation of debt on the eastern seaboard wastewater plants which is explained in more detail in the Long Term Plan and Consultation Document (reference). Moving $46.6 million of debt so it is paid for through rates rather than future development is the main driver of the rates increase in the first year of the Long Term Plan. It accounts for 1.80% of the proposed 3.66% increase in the 2015/16 financial year.

To help manage the impact of this one issue, we have offset the rates requirement by applying some of Council's wastewater retained earnings against the rates requirement for each of the first three years in order to spread the period over which this increase will apply. We consider this to be financially prudent because it is using funds already paid by ratepayers, but not yet spent, to offset the current rates bill for an unexpected cost.

The pie chart below shows the allocation of expenditure to the different activities. The single biggest expenditure item is Roads and Footpaths representing 24% of total expenditure.



Cost of providing for expected changes in population and land use

The projected changes in our population and land use are summarised in Section X of this Strategy. While growth projections are very modest over the next 10-30 years, there are small increases in dwellings in every area and larger increases in resident population projected in the Mercury Bay and Coromandel community board areas. These growth projections necessitate a need for a small amount of additional capacity in our assets and the capital cost associated with this additional capacity is $12.5 million (6%) of total capital expenditure).

Cost of Increasing Levels of Service

While service levels are generally being maintained throughout the period of the Long Term Plan, there are some changes that are required for a range of reasons - for example, improvements to the water supply networks to ensure the public health standards are met. The capital costs associated with providing for increased levels of service are $54.7 million (28%) of total capital expenditure).

Funding Council Activities

Council will fund our forecast expenditure primarily through rates, user charges, NZ Transport Agency funding and development contributions. We are also developing the concept of "shared funding" for projects where it is important that there is a shared commitment to ensure that the benefits are realised. "Shared funding" means the project will be paid for partly by Council but the main beneficiaries will also provide some of the funding directly. The main projects where this is relevant are Council's anchor projects as well as local recreational projects. Examples include:

- The Sugarloaf Coromandel Harbour , where Council has resolved it will only provide part of the funding and its share of the funding is contingent on the aquaculture industry meeting significant up-front costs;
- At a local level, the construction of the Thames Indoor Sports Facility has been subject to a significant up-front community fund raising effort.

While this is not yet a major source of Council's funding, the principle is important to ensuring that the Council and community aspirations are balanced with affordability for all.

The specific funding mechanism for each activity of Council is set out in the Revenue and Financing Policy (reference).

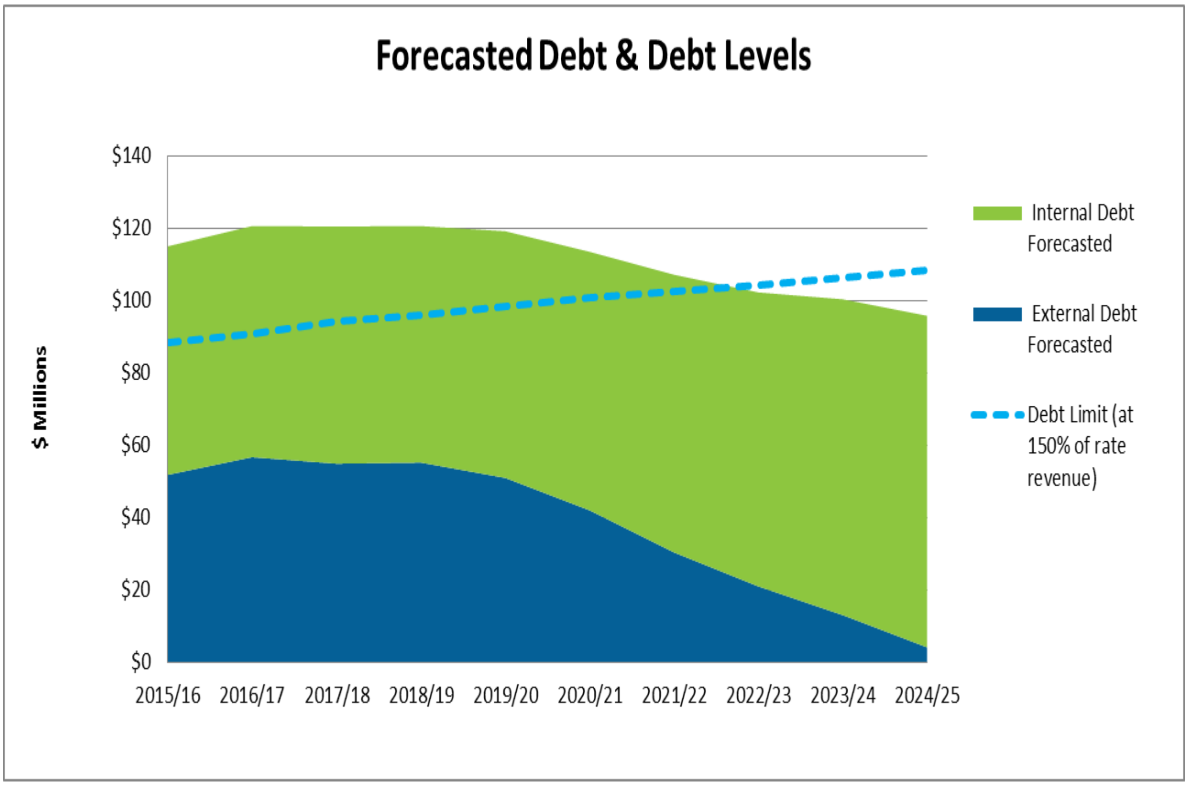
<u>Infrastructure – the next ten years and beyond</u>

Managing our essential infrastructure networks of roads, water supply, wastewater and stormwater, with inconsistent growth patterns, and service level and environmental and health standard increases will be challenging into the future. Our key on-going challenge is to provide a network which can provide for short but very intense peak population fluctuations without increasing capacity to the extent that it is mostly redundant. Another significant challenge is the need to renew a number of aging networks within this period.

Managing these challenges is made somewhat easier as there has been a commitment to funding depreciation for many years now which means there are substantial financial reserves available to Council for infrastructure renewals. At 1 July 2015, the depreciation reserves are projected to be $8 million. Generally, any significant new (non-replacement) infrastructure will be constructed to provide for growth and it will therefore be funded by development contributions. If there are any further capital costs to be met, debt can be used as the bridging mechanism to fund the costs upfront, and then repayment can be made over a longer timeframe.

Preferred options for maintaining, renewing and developing the different classes of infrastructure have been developed to ensure that service levels are either maintained or improved (to meet legal or regulatory requirements) while remaining affordable. Good stewardship underlies this approach to infrastructure and, to this end, in the next few years there is a funded commitment to improve the asset information in order to ensure that the forward renewals programme is soundly based on clear priorities.

The first ten years of the infrastructure strategy is covered in this Financial Strategy. At the end of the 10 years, total debt requirements will be $95.8 million; of this only $4 million is projected to need to be borrowed externally which is well within the Council's self-imposed prudential limit. Graph C shows that we also remain well within our prudential limit of interest costs on external borrowing being no more than 15% of our rates revenue.



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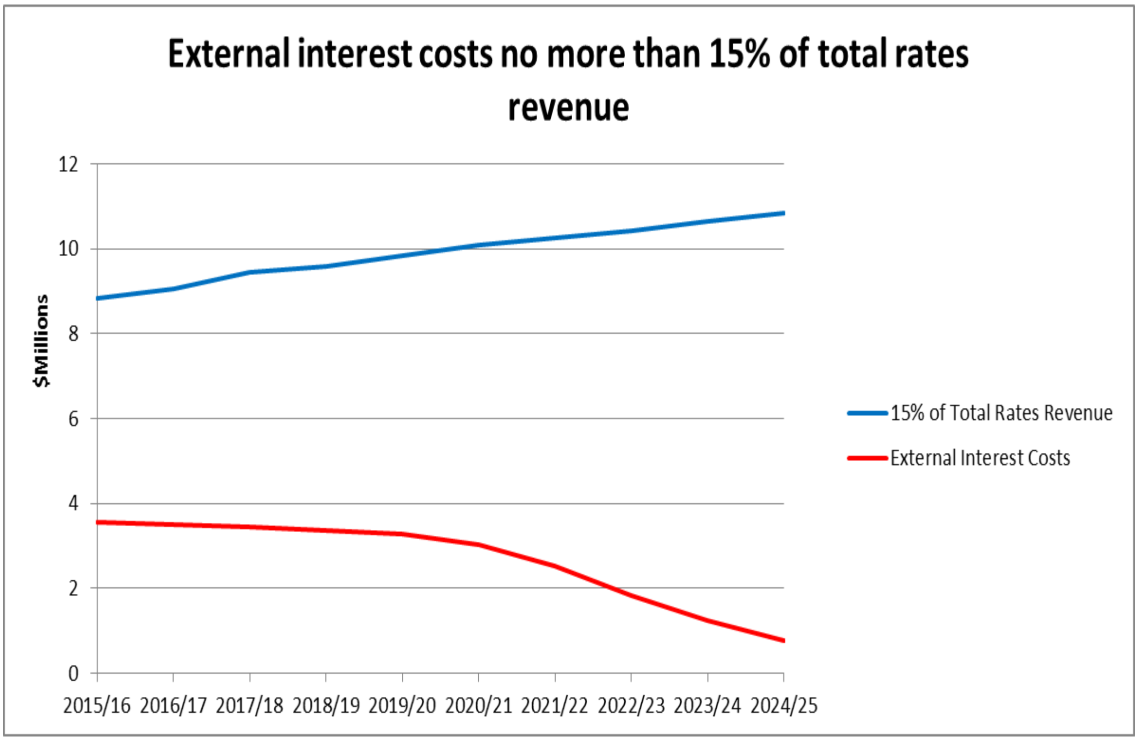


This debt position provides council with financial resilience and capacity should the need arise. Council has signalled in the Long Term Plan, a number of major projects which are in the early stages of investigations. Should any of these projects proceed to implementation, it is highly likely that Council would need to raise additional debt to finance the proposals.

The current depreciation reserves and the levels of funding being provided for renewals, as well as the available debt capacity, is expected to provide for all essential renewal expenditure over the 30 years of the Infrastructure Strategy. As better asset management information becomes available, the generalised renewals programme currently provided for beyond the ten years of the Long Term Plan, will be given greater specificity which will allow for a relatively even spread of the large capital projects associated with major network renewals. This information will be fully updated in 2018.

Additionally, over the next three years there will be a focus on ways in which to manage the peak demands over summer. In relation to water (which also impacts on wastewater) work is already underway on a water demand strategy. This work will move from technical advice to potential strategies to consult on with the community in the near future.

At $4 million, our external debt position is very low but that is in large part because we are significantly increasing our depreciation reserves throughout the ten year plan period, as well as increasing some of our other reserves, allowing for greater internal borrowing. Should we either need to increase our renewals programme, once we have better asset condition information, or decide that any major new projects should be undertaken, the external debt will increase.

Further information is available in the Infrastructure Strategy (reference), a source document that will form part of the final Long Term Plan.

Finding the Right Balance while Balancing the Budget

This Financial Strategy is based on balancing our operating budget over the long-term, maintaining levels of service and providing and paying for local services locally, providing for renewal of our assets, containing our debt levels and containing our costs so rates remain affordable. To balance the budget, we must raise sufficient revenue to cover our forecast operating expenses unless we consider it prudent not to do so.

Balancing our budget is supported by our practice of seeking external funding for some of the major projects we are involved in as well as some more community driven initiatives. Part of ensuring we do not exceed our budget, is a commitment to only proceeding with these projects if and when the external share is received.

Fully balancing the budget is accepted as standard practice by Council but an exception has been made in relation to the costs of two of the economic development "anchor projects" and certain aspects of depreciation for two key assets.

Council's contributions to the Hauraki Rail Trail and the Cathedral Coast Walkway are both operating expenditure because the assets they are part funding are not on Council land and owned by the Council. However, given that the expenditure is supporting activities which will have long-term, on-going benefits to the District, the Council considers it is appropriate to contribute to these projects and to loan fund these contributions to be paid back over the next six years. This position has been taken to recognise the need to smooth the rating impacts of such large, one-off expenditures annually and means the Council's budgets will not be "balanced" until the fourth year of the Ten Year Plan.

While containing our debt levels is a prudent strategy, it is appropriate that debt is used to finance our long lasting assets to ensure there is intergenerational equity and no rates "spikes". Intergenerational equity means that, over time, those people who use or benefit from the assets should pay for a fair proportion of what they are using, when they use it. If the asset is new, funding it initially using debt means that it can then be repaid from rates over the life of the asset rather than upfront, all at once. This also enables rates levels to be kept at relatively constant levels rather than varying widely according to where Council is in the asset replacement cycle.

For assets that already exist, they need to be continually “renewed” or kept to the same standard. By funding depreciation on assets, reserves are built up so that renewals (or replacements) can be funded once they fall due. This means that those who use the asset contribute to its replacement ensuring there is intergenerational equity.

We have fully funded depreciation, with two key exceptions, for many years now:

- The depreciation on the subsidised portion of roading works because we expect to continue to receive funding from the NZ Transport Agency at the time these assets need to be replaced; and
- The depreciation on the additional capacity component of the Eastern Seaboard Wastewater Plants to allow time for a portion of the growth to eventuate.

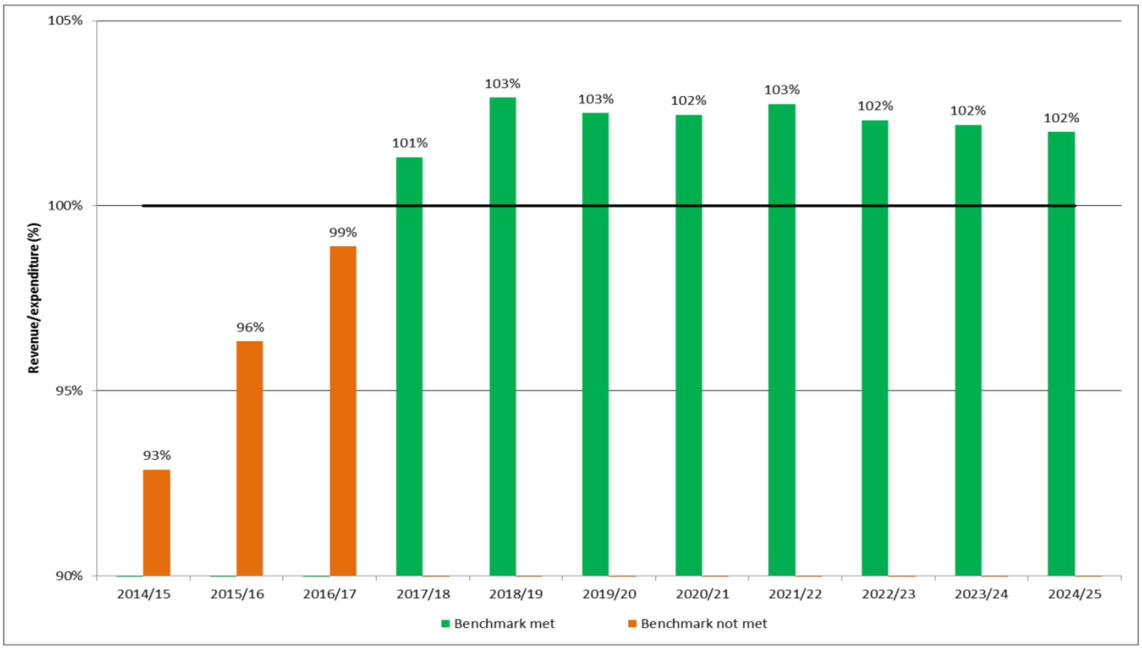
Non-funding the depreciation on the subsidised portion of roading works remains an appropriate and prudent approach. However, new information about the rate of growth projected for the District for the long term has led to Council reconsidering its approach to the charging of development contributions to pay for a significant proportion of the Eastern Seaboard Wastewater plants debt and it is now proposed that this is funded through rates. It follows that, to be prudent, the depreciation associated with this proportion of the plants should also be funded through rates.

There continues to be $8.8 million of debt on the wastewater plants which will be funded by future development. As in the 2012-2022 Long Term Plan, Council considers it would not be equitable to require the existing ratepayer to fund the depreciation on the portion of these wastewater plants that will benefit these future ratepayers. As these wastewater plants have a life expectancy of around 50 years, is it considered that non-funding the depreciation on this portion of the plants will not create an undue burden for the future.

Ideally, fully funding depreciation allows Council to deliver a programme of asset renewals within projected revenues. In common with other Councils though, fully funding depreciation is a relatively new practice in local government which means that the reserves are not always sufficient to fund all replacements as they fall due. This is especially the case with older network infrastructure such as the Thames Water Supply. Where there is insufficient funding in reserves for replacement infrastructure, Council uses debt funding to ensure essential infrastructure is replaced and services are maintained while managing rating impacts and ensuring more than the current generation funds the works.

The following graph displays the Council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment). The budget is balanced when planned revenue equals or is greater than planned operating expenses.

In the first three years of the Long Term Plan the budget is not balanced because the Council's contributions to the Hauraki Rail Trail and the Great Walks project are funded by debt. This position resolves itself by Year 4 of the Long Term Plan.



Revenue Sources

Rates

Rates funding is applied to operational expenditure after other available funding sources have been used. Rates are also collected for renewals via depreciation and provisions for funding debt on loans.

The national average of Council income collected from rates is around 61%. Historically, Thames-Coromandel District Council has had a much higher proportion of its income from rates as it has never owned the income producing assets allocated to some Councils through earlier local government reforms. While the average of local government revenue collected from rates is 61%, it is not really appropriate to consider this as a benchmark because there are such varied circumstances amongst the Councils. However, deriving such a high proportion of its revenue from rates does provide a focus for Council on ways in which other income can be maximised.

There has been a move to directly charge for a wider range of services but this will likely remain a reasonably low proportion of funding in order that these services remain affordable for all. Likewise, Council's shared funding approach discussed in section xx recognises that wider funding sources than rates are necessary for some projects to proceed.

The maximum rate limit for Thames-Coromandel District Council has been set at 80% of total revenue and the following graphs the forecasted level of rates to total revenue through the ten years of the Long Term Plan 2015-2025. Council is projecting to remain within this limit throughout the ten years,

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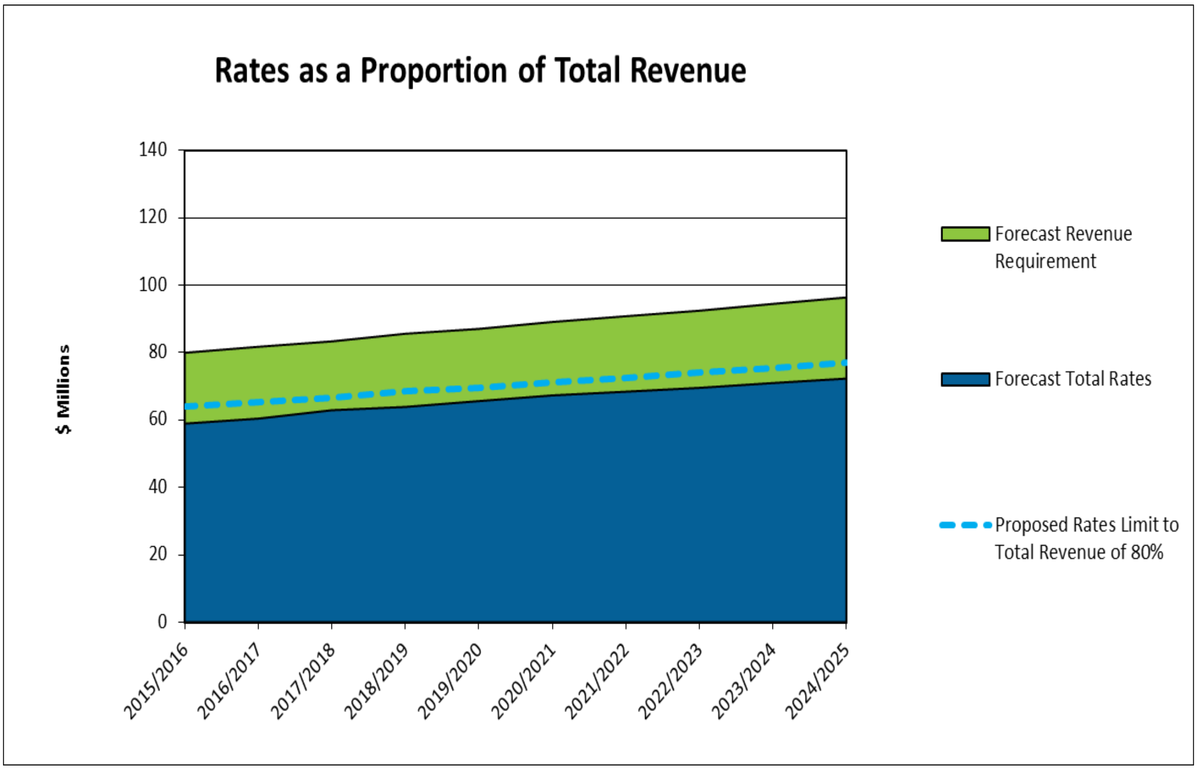

The total forecast rates requirements and the average annual increases are detailed in Table xx
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Total Revenue	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
Forecast Total Rates ($m)*	57	59	60	63	64	66	67	68	70	71	72
Forecast Revenue Requirement ($m)	75	80	82	83	86	87	89	91	92	94	96
Proposed rates limit to total revenue of 80% ($m)	60	64	65	67	69	70	71	73	74	76	77
Forecast Increase for Total Rates		3.66%	1.93%	3.76%	0.96%	2.05%	1.94%	1.05%	1.12%	1.49%	1.33%
* Water-by-Meter charges are not included in these figures											

It is important to recognise that the percentage increases outlined above are only averages. The specific rates paid by an individual ratepayer may vary widely with some being less and others being higher. In addition, specific targeted rates applying to a particular property will affect the specific rate. The revaluation of properties applicable from November 2014, will also affect the change in rates from the last year. Tables showing the impact of the movements on a selection of individual properties are included in the Funding Impact Statement which will form part of the Long Term Plan, and in the Consultation Document reference

Rating Structure

As part of its consideration of the Revenue and Financing Policy, Council has reviewed its rating structure.

Thames-Coromandel District Council has a relatively complex rating structure with more than 20 different types of rates. This reflects a diversity of community needs and demographics. This year there have been a number of changes to the approach to rating. The main changes are summarised as:

- A proposal to implement a previously signalled change for funding stormwater services from a local targeted rate to a district rate so that the costs of all essential services are spread across all communities, rather than each scheme being paid for by the community in which it is located.
- In order to facilitate greater community empowerment, a proposal to fund certain services that have been funded by a district wide rate in the past to local funding; the levels of these services are then able to be varied by each community board according to the preferences of their community. These services are public conveniences and cemeteries.
- A proposal to fund economic development from a broader mix than in the past with a new targeted rate of $200 per rating unit proposed for the short term accommodation sector (small bed and breakfast businesses, Book-a-Bach etc.) as these businesses are considered to directly benefit from much of the economic development activity. Bed and Breakfast properties with four or more bedrooms will be classified as commercial properties and all commercial properties will continue to fund $665,000 of the economic development rates requirement. The balance of the rates requirement continues to be funded by the district as a whole through the UAGC.
- For the Strategic Planning and Grants and Remission activities, charging more of the rates at a fixed level so that, overall, the Uniform Annual General Charge is closer to the maximum 30% allowed. This is to reflect the Council's values of fairness and equity as these services are considered to benefit everyone in the district to more or less the same extent.

The Funding Impact Statement sets out the structure in more detail and illustrates the impact of this rating structure on sample properties. The Funding Impact Statement can be accessed at ..

Fees and User Charges

Fees and charges are applied where there is a clear link between the user and the service. This area includes the regulatory fees and charges that are set as part of the Long Term Plan and activity charges such as for rubbish bags for collection of domestic rubbish. It also includes rental income. Fees and user charges revenue is forecast to be $107 million over the ten years of the Plan. The full cost of the services is charged where possible but there is often a public good element to the service which is funded by the general rate.

NZ Transport Agency Funding and Other Grants and Subsidies

Council is projecting to receive $69 million in revenue from the NZ Transport Funding Agency. This level of funding reflects the funding assistance rate increasing moving by 1% per annum from 46% in 2015/2016 to 51% in 2020/2021 and onwards for the ten years of the Long Term Plan. This means that existing levels of service can be maintained without increasing the rating input even though there are expected to be some price increases. We have assumed that central government will continue to provide this level of funding for subsidised projects in the future. Any reduction in this funding would have a corresponding impact on the local roading network.

Included in this funding are contributions to projects from other external parties without which the projects would not proceed as is outlined in section xx.

Development Contributions

As a Council that was experiencing significant growth, Thames-Coromandel implemented a Development Contributions regime to pay for new infrastructure needed for this growth in 2004. The revenue projected to be received in development contributions in the 2012-2022 Long Term Plan was about $54 million. Last year, legislation was passed which has restricted the growth related expenditure for which the Council can seek development contributions. This factor, coupled with lower than previously projected growth has reduced the projected level of development contributions in the 2015-2025 long Term Plan to $13 million.

Income from Development Contributions has been calculated in accordance with the revised Development Contributions Policy. Reference. It relies on the identification of the growth related portion of capital expenditure and assumptions about the rate of growth. The growth assumptions need to be continually monitored to ensure either that growth projections are on track or, that they are updated as early as possible, if they are found to be diverging.

Financial Reserves

Council has created a number of reserves for specific purposes. The four categories of financial reserves are:

- Retained earnings: surplus of rate revenue available to fund either operating or capital increased levels of service expenditure in the area of benefit for which the original rate was collected
- Depreciation reserves: available to fund renewals or assets to increase service levels
- Special reserves: available to fund specific purposes as set by Council policy; and
- LGA Contributions reserves: generally contributions collected under the Resource Management Act to be used in the area and for the purpose for which it was levied.

The largest of Council's reserves is the special purpose reserve created from the proceeds of the sale of the Power New Zealand shares. Its balance at 1 July 2015 is forecast to be $23.928 million. Council has resolved that this will be used solely to fund internal borrowings and that the interest on this reserve is applied to subsidise the UAGC rate requirement.

Financial Investments

Our investment policy has been updated and is available at.

Council is currently a net borrower and is likely to remain so for the foreseeable future. We borrow internally in the first instance to meet future external capital expenditure requirements unless there is a compelling strategic imperative to establish external debt.

We do not intend to undertake financial investments for the purpose of generating significant returns. Investments are maintained to meet specified business needs. Financial investments are only held to manage cash flow generated from short term surpluses.

In our financial investment activity, our primary objective when investing is the protection of Council's investment capital. As a result we adopt a conservative approach to the risk/return trade-off. Accordingly, only approved credit-worthy counterparties are acceptable. The Local Government Funding Agency is an acceptable counterpart for both investments and borrowing.

In relation to equity (shares in stocks), we will only hold it for strategic purposes such as holding equity in a shared service to help us provide services more efficiently.

Investment Targets

We are required to identify targets for the returns received on our investments and equity securities. In keeping with our objective to invest in secure, low risk vehicles, our quantified target for short term financial investments is to exceed the official cash rate over the term of the investment. As our equity investments are held for strategic purposes, we do not seek a particular dividend return.

Policies on Securities against Borrowing

Council has a Liability Management Policy which has been updated and can be accessed at reference. Just like a home mortgage, we give securities against our borrowing from external lenders. In our case, we intend to continue to secure our borrowing and interest rate risk management instruments against rates and rates revenue. In unusual circumstances, security may be offered by providing a "charge" over one or more of our assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase of construction of the asset which it funds.
- We consider a charge over physical assets to be appropriate.

Securities are not provided for our own internal borrowing.

Financial Implications of Service Provision

The Council is required to provide a statement on our ability to provide and maintain existing levels of service and to meet additional demands for services within the rates and borrowing limits. As outlined in this strategy for the 10 years to 2025 the expenditure incurred to maintain existing services, increase service levels and provide for additional capacity falls within the limits set in this strategy and its associated financial policies.