Far North District Council
Te Kaunihera o Tai Tokerau ki te Raki

LONG TERM PLAN 2021 - 31

Financial Strategy

THIS STRATEGY AIMS TO:

- Achieve a balanced budget each year, ensuring that projected operating revenues are set at a level sufficient to meet that year's projected operating expenses.
- Moderate the impact of funding depreciation on strategic assets
- Include the impact of Economic Stimulus and Employment Opportunity (ESEO) Crown-funded projects
- Ensure that no more than 90% of revenue will come from rates, with the balance coming from other sources such as subsidies from Government agencies including the New Zealand Transport Agency, and user fees and charges
- Limit annual overall rates increases to inflation (Local Government Cost Index) plus 3.5%
- Ensure that net debt does not exceed 175% of total income until year 4 of the plan and then does not exceed 280% of revenue from there to the end of the plan. The change is due to the planned process to obtain a credit rating when debt increases to a level that makes it cost effective.
- Maintain interest costs at less than 10% of rates revenue.

Council has, over the past several years, taken stock of gaps in services and infrastructure following a period where maintenance and operational spending was cut, and new capital projects curtailed in response to the global financial crisis. This resulted in a decline in asset condition and internal capacity to plan for and manage those assets that the District is still recovering from.

The 2018 Financial Strategy recognised that a step change in the quality of asset management, maintenance and planning is required to ensure sustainable provision of service now and into the future. The 2018-28 Long Term Plan therefore allocated significant resources to an initiative known as Programme Darwin. Programme Darwin is underway and is expected to continue over the first two years of the 2021-31 Long Term Plan.

Programme Darwin is about evolving asset management so that Council has an enterprise-wide view (ie. from strategy to operation) of how we manage the assets we own. The intention of Programme Darwin is to move Council from reactive asset management and into proactive asset management. This will be done by:

- Implementing an asset management system that will integrate with our other core systems
- Analysing the data in the system to provide better information to decision makers so that we make the best financial decisions and ensure better outcomes for our communities
- Having an asset condition programme, so our assets are regularly inspected, and we know how our assets are functioning at any point in time
- Delivering a Living Asset Management Plan which is easy to navigate, uses real time data and informs the plans for our assets
- Establishing an enterprise management culture, where roles and responsibilities regarding assets are clear across the organisation.

THE APPROACH FOR THE 2021 FINANCIAL STRATEGY IS:

TOWARDS SUSTAINABILITY, AFFORDABILITY AND ECONOMIC RECOVERY

The overall focus of our Financial Strategy is financial sustainability, affordability and economic recovery within the context of community wellbeing.

The change of purpose for Local Government in May 2019, re-introduced the obligation on councils to promote the social, economic, environmental and cultural well-being of their communities.

To the Far North, taking a sustainable development approach means that our commitments to deliver infrastructure and services are funded in a way that is affordable for the community and that meet Council's obligation to be effective stewards of the District's assets now and into the future. Council has a good understanding of how its daily business contributes to and promotes community wellbeing, and as part of the work programme for the next 10 years will seek to more strongly embed the checks and balances that help Council to enhance and protect community wellbeing in decision-making and daily business.

In developing this Financial Strategy, Council reflected on several challenges the District faces:

- The security and resilience of water supply and storage
- Sustainable economic development, particularly in the wake of the Covid-19 pandemic
- Better asset management leading to enhanced delivery of core infrastructure
- Adaptation to the effects of climate change and sea level rise on communities and infrastructure
- Deepening sense of place and connection in the many communities, towns and settlements across the District
- Providing infrastructure and services in a way that is affordable to the District's ratepayers.

These challenges form the strategic priorities for the next 10 years. Although we recognise that it may not be possible to resolve all of these issues, and that progress is likely to be lengthy, Council commits to appropriately prioritised work programmes, careful decision-making and collaboration across all district and regional partners and stakeholders, and residents and ratepayers.

Where possible, this Strategy ensures that:

- Revenues are sufficient to cover expenses (we have balanced our budget every year)
- Current service level targets are achievable within the funding envelope
- Subsidies and grants are used effectively to complete projects that benefit the community
- Funding allows for major capital projects the community wants, within reason
- The needs of current and future ratepayers have been considered.

Council acknowledges that:

- There will be economic disruption in our communities for at least 12 months as the impacts of Covid-19 become evident and that the community will need Council's assistance to navigate the short and medium term
- With affordability a big issue for many, ratepayers cannot afford continuing escalating costs
- The cost of providing services will not reduce without significant intervention
- Council will need to continue to make difficult trade-off decisions, compromise on delivering 'nice to haves' to ensure essential services are provided and costs are kept down
- Council will have to balance the affordability and prudence of increasing debt levels. Too much debt now could compromise future development projects.

Although we acknowledge that there is a lot of work to be done, we consider this Strategy to be a solid starting position, and prudent given our current situation.

FUNDING SOURCES

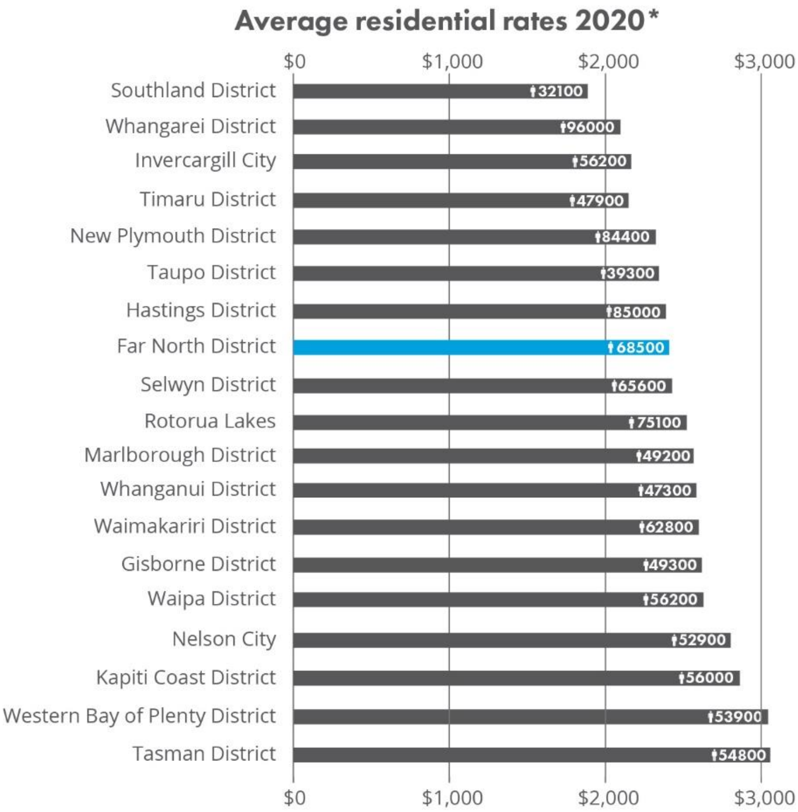
Council's main source of funding is from rates. While we try to maximise Government subsidies and grants and have adopted a 'user pays' policy (exercised through targeted rates and consumption and user charges), for many services and assets the bulk is funded by rates.

It has long been acknowledged that rates in general in New Zealand are high; the table below shows how we compared in 2019.

Average residential rates*

Far North District	Average for provincial councils	National average
$2,428	$2,258	$2,445

*Average residential rates include compulsory user charges (such as water)
Source: New Zealand Taxpayers Union Report 2020 (www.taxpayers.org.nz)



*Average residential rates include compulsory user charges (such as water)
Source: New Zealand Taxpayers Union Report 2020 (www.taxpayers.org.nz)

Rates review

Since the last local body election, Council has reviewed its rates structure, and recently carried out soft consultation to see if there is an appetite by the community for changes to improve fairness and equity across the District. 230 submissions to the online survey were received. The survey sought feedback on several potential rating changes:

- Maintaining the current ward (targeted) rate for Kaikohe-Hokianga, Te Hiku and Bay of Islands-Whangaroa wards
- Increasing the urban stormwater targeted rate to better cover costs
- Consult on changing the targeted water and wastewater rates to a district wide rate and include a small ‘public good’ charge.
- Reduce the availability charge by 40% for those who could connect to a reticulated system but choose not to
- Reduce the commercial differential from 2.75 to 1.75
- Transition over the next 10 years to capital value as the basis for calculating the general rate.
- Disestablish uniform charges (the uniform annual general charge and the roading uniform charge)
- Remove the current roading targeted rate.

The outcome of the survey showed that many ratepayers supported a change in rates but were undecided about what part of the rating system should change. This is likely linked to the complexity of rates in general. Council has decided to consult on the above changes as part of the 2021-31 Long Term Plan.

Current rates

General rates

General rates are currently made up of two elements: a Uniform Annual General Charge (UAGC), which is a fixed amount that is charged for all Separately Used or Inhabited Parts of a rating unit (SUIPs), and a ‘rate in the dollar’ amount which is based on the land value of each rateable unit.

As a result of consultation

Council may decide to remove the UAGC portion of the general rate. This means that funds previously collected through the UAGC would need to be collected through the general rate itself.

Targeted rates

Targeted rates include operating and a combination of capital and operating rates. Council has several targeted rates, including:

Ward rates

Council levies a targeted rate to all SUIPs in each ward to fund urban, recreational and other local services and activities within the ward. The ward rate is set on a differential basis according to the ward in which the rating unit is located:

Bay of Islands-Whangaroa	47%
Kaikohe-Hokianga	24%
Te Hiku	29%

Council is not proposing a change to ward rates

This means that the ward rate is likely to continue to be calculated the same way it always has been, which is each ward's percentage share of operating costs (for those services funded by the rate) divided by the number of each rated unit in the ward.

Roading rates

Consisting of two elements: a UAGC, which is a fixed amount charged for all SUIPs, and a 'rate in the dollar' amount, which is based on the land value of each rateable unit, with differentials as follows:

	Residential	29%			Dairy	7%
	Lifestyle	20%			Horticulture	1%
	Commercial	7%			Forestry	13%
	Industrial	2%			Mining/quarry	4%
	Farming General	16%			Other	1%

As a result of consultation

Council may decide to remove the entire roading rate, including its uniform charge. This means that funds previously collected through the roading rate would need to be collected through the general rate.

Stormwater rates

Council levies a stormwater rate to fund specific stormwater capital developments within urban areas across the District. All urban ratepayers are levied this rate, with commercial are charged a differential of 2 (meaning that they are charged twice as much for stormwater as are other rating categories).

Urban areas subject to the stormwater rate are:

Ahipara	Haruru Falls	Kaikohe	Kawakawa
Awanui	Hihi	Kaimaumau	Karikari Communities
East Coast	Houhora / Pukenui	Kaitaia	Kerikeri / Waipapa
Kohukohu	Okaihau	Paihia / Te Haumi	Taupo Bay
Moerewa	Opononi / Omapere	Rawene	Tauranga Bay
Ngawha	Opua / Okiato	Russell	Whangaroa / Kaeo

As a result of consultation

Council may decide to target 90% of stormwater charges to urban areas based on Capital value with the remaining 10% being charged district wide based on land value

Sewerage rates

Council's policy on funding wastewater infrastructure is that each scheme must pay its own capital costs.

To ensure this, we levy two targeted rates that fund the provision and availability of sewerage services from each of the District's 16 sewerage schemes:

- Capital rate: Each scheme has a targeted rate to fund capital costs (interest and depreciation) levied against all properties (SUIPs) connected to the scheme or properties where connection to the scheme is available.
- Operational rate: Operating costs for all schemes are charged district-wide to all properties (SUIPs) connected to any Council wastewater scheme.

Council also imposes a pan change on any property (SUIP) with more than three toilets (pans). This is a flat fee per additional pan.

Council may change the targeted wastewater rates to a district wide rate and is suggesting that the availability rate be lowered

This means that the current capital and operational rates for each scheme will be apportioned across all those who are connected to (or could be connected to) the scheme and the availability rate may be reduced by 40%.

Water rates and charges

As for wastewater, Council's policy on funding water infrastructure is that each scheme must pay its own costs.

Capital costs are funded through a targeted rate levied on all properties connected to (or capable of being connected to) a Council water scheme. Capital costs consist of interest and depreciation.

Operational costs for each scheme, however, are funded through a per cubic metre volumetric charge which is determined by meter or an assumed amount for those who do not have a meter.

Council may change the targeted water rates to a district wide rate but as for wastewater it is suggesting that the availability rate be lowered

This means that the current capital rate will be apportioned across the district and the cubic metre charge will continue to be levied to those who are connected to (or could be connected to) the scheme, the availability rate may be reduced by 40%.

Targeted improvement rates

We levy several targeted rates to fund improvement projects that have been requested across the District:

- Paihia Central Business District Development: used to fund Paihia central business area improvements. The rate is charged per SUIP in the area defined (see Council's Funding Impact Statement for more details). The rate is set on a differential basis, with all rating units assessed as commercial being charged a differential of 3 (300%) on the general differential.
- Kaitaia Business Improvement Development (BID): Allows for the Kaitaia Business Association to undertake improvement works in the Kaitaia business area. The rate is set on land value and is charged to commercial rating units in Kaitaia.
- Bay of Islands Recreation: This is a targeted rate to provide funding for an operational grant to support the Bay of Islands Recreation Centre in Kawakawa. The Centre (formerly the ASB Recreation Centre) was built by the community on Ministry of Education land at Bay of Islands College in the 1970s and was initially run by a community trust that was wound up in 2004. Since then, Sports Northland has managed and maintained the centre which has a heated pool, squash court, fitness centre and gym and is used by about 33,000 people a year.

Private roading contributions

Council's Community-Initiated Infrastructure Roading Contribution policy provides a mechanism for residents to co-fund the sealing of their unsealed road (or part thereof). Provided that 75% of affected ratepayers agree, the resident's share is funded through lump sum contributions or targeted rates for a specific area of benefit. The remainder is funded through the general rate.

Increases to rates

Due to the cost of infrastructure and service provision, which continues to rise faster than general inflation, Council assumes that its costs will increase in accordance with the Local Government Cost Index (LGCI). In the 2021-31 Long Term Plan, we intend to increase the general rate beyond the level of inflation, as shown in the table below.

Financial Year ended 30 June	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
LGCI	3.6%	2.9%	2.5%	2.5%	2.5%	2.5%	2.6%	2.7%	2.7%	2.6%
Increase (decrease)	1.9%	2.3%	0.3%	3.3%	1.0%	1.1%	0.0%	0.6%	0.8%	-2.3%
Proposed rates increase	5.5%	5.2%	3.2%	5.8%	3.5%	3.6%	2.6%	3.3%	3.5%	0.3%

Forecast rates $m

Financial Year ended 30 June	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Proposed rates $m	$97	$102	$105	$111	$115	$119	$122	$126	$131	$131

The projected number of rateable properties within the District at the end of each proceeding financial year is shown in the table below.

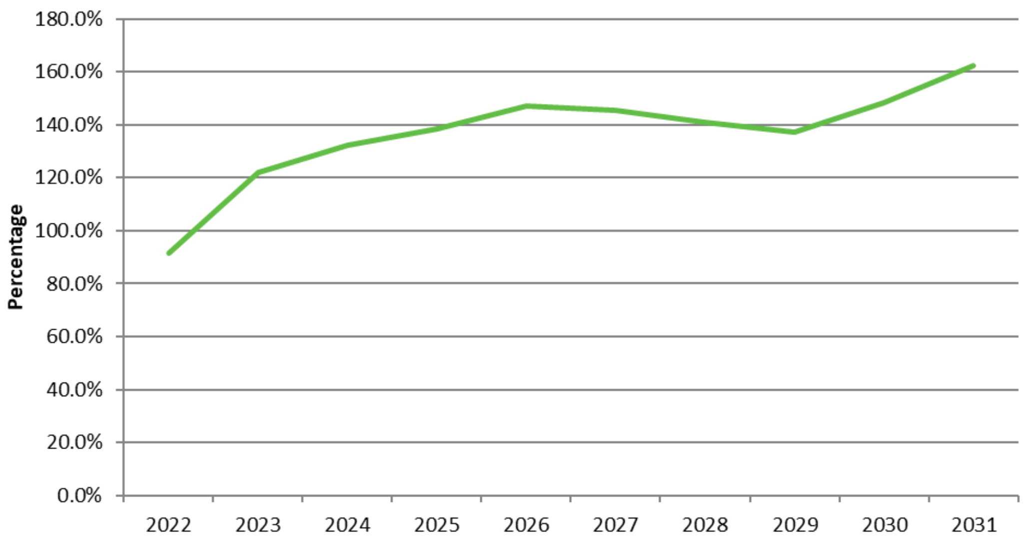
Projected rating base information

2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
38,737	38,785	38,833	38,882	38,931	38,980	39,029	39,078	39,127	39,176

Debt, interest and internal funding

External debt is planned to be $159 million at the end of the first year of this plan and is anticipated trend upwards to $333 million at the end of the 2031. The chart below compares net debt to revenue.

Net debt as a % of revenue



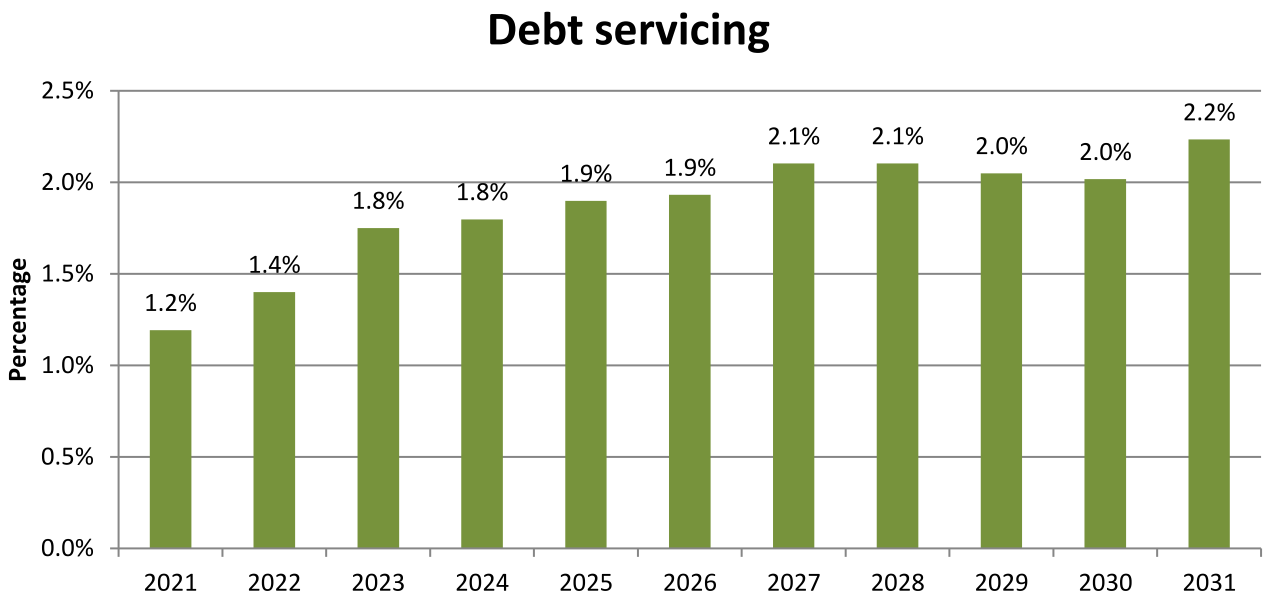
Council's intention is to ensure that net debt does not exceed 175% of total income until year 4 of the plan and then does not exceed 280% of revenue from there to the end of the plan. The change is due to the planned process to obtain a credit rating when debt increases to a level that makes it cost effective. Council has also considered the impacts of its borrowing against the debt servicing benchmark.

Council plans to continue to secure its borrowing and interest rate risk management instruments against rates and rates revenue as this lowers the cost of borrowing.

Council minimises its financing costs as a member of the Local Government Funding Agency (LGFA). This means that we can borrow at better rates than those available through direct lending from trading banks.

The 2021-31 Long Term Plan assumes an interest rate averaging 1.6%.

Interest as a % of revenue



As part of treasury management, Council seeks to reduce overall interest costs by using funds held in reserve. Where Council has a cash surplus, rather than hold funds on deposit and borrowing all funds needed for capital works, reserve funds are used as short-term funding. Internal interest is not charged for this funding.

Fees and charges

Most fees and charges will be adjusted annually to align with the Local Government Cost Index inflation factor (LGCI) which is expected to be relatively stable between 2.6% and 3.6% over the 2021-31 period. In some areas, actual costs will be recovered in accordance with the Revenue and Financing Policy. This may exceed the rate of LGCI. All fees and charges are reviewed annually.

Subsidies

Government subsidies via the New Zealand Transport Agency (NZTA) provide a significant source of funding for our transportation activities. In 2021-22 we expect to receive operating and capital subsidies of $56.7 million, representing 68.9% of the gross cost of both operating and capital expenditure on a wide range of approved items. At the time of completing this Strategy, NZTA had not confirmed the subsidies we will receive.

Crown Infrastructure grants

In response to the economic impact of the Covid-19 pandemic and subsequent lockdowns, Central Government allocated a large amount of funding to local authorities to invest in infrastructure projects that would create jobs and stimulate the economy. The Far North District Council applied for a range of funding from this source and was successful in securing money for the following projects:

Rangitane boat ramp parking
Unahi maritime renewals
Mangonui boardwalk extension
Paihia waterfront storm mitigation - breakwater
Pukenui maritime asset renewals
Bay of Islands sports facilities development
Te Hiku o te Ika revitalisation programme
Lindvart Park pavilion upgrade in Kaikohe

Central Government reform programme for the 'three waters'

Over the past three years, central and local government have been considering solutions to challenges facing delivery of water, wastewater and stormwater services to communities.

This has seen the development of new legislation and the creation of Taumata Arowai, a new water services regulator with the mandate to oversee and enforce a new drinking water regulatory framework, with an additional oversight role for wastewater and stormwater networks.

While addressing the regulatory issues, both central and local government acknowledge that there are broader challenges facing local government water services and infrastructure, and the communities that fund and rely on these services.

There has been underinvestment in what is referred to as 'three waters infrastructure' in parts of the country, and persistent affordability issues in many; along with the need for additional investment to meet improvements in freshwater outcomes, increase resilience with respect to climate change and natural hazards, and enhance community wellbeing.

In July 2020, the Government announced a funding package of $761 million to provide immediate post-COVID-19 stimulus to local authorities to maintain and improve three waters infrastructure, and to support a three-year programme of reform of local government water services delivery arrangements.

The Government has indicated that its starting intention is public multi-regional models for water service delivery to realise the benefits of scale for communities and reflect neighbouring catchments and communities of interest. There is a preference that entities will be in shared ownership of local authorities. Design of the proposed new arrangements will be informed by discussion with the local government sector.

There is a shared understanding that a partnership approach between Central and Local Government will best support the wider community interests and ensure that any transition to new service delivery arrangements is well managed and as smooth as possible. This has led to the formation of a joint Three Waters Steering Committee to provide oversight and guidance on three waters services delivery and infrastructure reform

Central and Local Government consider it is timely to apply targeted infrastructure stimulus investment to enable improvements to water service delivery, progress reform in partnership, and ensure the period of economic recovery following COVID-19 supports a transition to a productive, sustainable economy.

Initial funding will be made available immediately to those councils that sign a Memorandum of Understanding (MoU) and associated funding agreement and delivery plan for the first stage of the Three Waters Services Reform Programme. The Far North District Council sign the MOU in August 2020 to enable funds to be received for the benefit of our communities. This is a non-binding MOU that doesn't in any way commit Council to agreement on future actions. The Government expects to make substantive decisions regarding the level of reform during April/May 2021. Council will be asked to participate in the new service delivery system in late

2021, in the form of an 'opt out' approach. This means that affected councils would be included in one of the new water service delivery entities by default but can decide not to participate (in consultation with their communities). We expect to consult with the community separately to this Long Term Plan on the opt-out decision. For councils that participate in the reform, transfer of responsibilities and assets is likely to occur from 2023/24.

Our community needs three water services regardless of what happens. As such we have included three waters in our financial and infrastructure strategies.

The Reform Programme is designed to support economic recovery post COVID-19 and address persistent systemic issues facing the three waters sector, through a combination of:

- stimulating investment, to assist economic recovery through job creation, and maintain investment in water infrastructure renewals and maintenance; and
- reforming current water service delivery, into larger scale providers, to realise significant economic, public health, environmental, and other benefits over the medium to long term.

Development Contributions

In 2003, a Development Contributions policy was introduced to assist with funding new infrastructure that is needed as a result of growth in the District. Over the years, we have invested more than $22 million in providing infrastructure for anticipated developments which would use and pay for this infrastructure. However due to many factors, including the global financial crisis, growth slowed dramatically, and Council decided in 2014 that it was not justifiable to continue to charge Development Contributions.

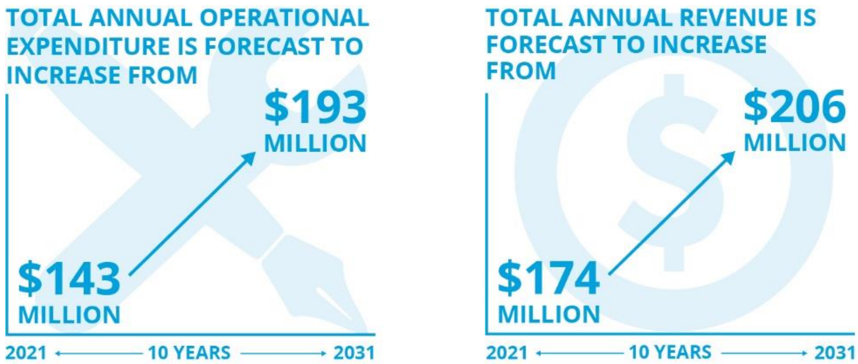
Sustainable growth has again become evident in some locations in the Far North, and to ensure that the implications of growth are funded in a fair and balanced way, Council intends to introduce a new policy and charges as soon as possible. This can only be achieved in concert with Programme Darwin's delivery of core asset capacity and condition data, which will not be available until June 2021, too late to implement a new policy and charges for 1 July 2021.

Given that a Development Contributions policy can only be adopted alongside a Long-Term Plan, Council plans to amend its 2021-31 Long Term Plan in its first year to consult on and adopt a policy for implementation on 1 July 2022.

EXPENDITURE

Note that total operating expenditure is net of remissions which range from $3.6 million to $4.4 million annually over the 10 years of the 2021-31 LTP. This expenditure is netted against rate income.

Operating Expenditure



Above are the forecast levels of operating expenditure and revenue across the 10 years of the Plan. This provides for an operating surplus in every year of the Plan sufficient to balance the budget in accordance with Section 100 of the Local Government Act 2002.

The tables below show the split of total forecast operating costs for each activity and expenditure type for the planning period.

Breakdown by activity

Breakdown by activity	$m	% of Total
Network		
Roading and Footpaths	553,667	32.4%
Wastewater	194,898	11.4%
Stormwater	60,449	3.5%
Solid Waste Management	63,941	3.7%
Water Supply	126,849	7.4%
Total	**999,803**	**58.5%**
Other		
District Facilities	212,984	12.5%
Environmental Management	167,645	9.8%
Governance and Strategy	102,643	6.0%
Customer Services	125,616	7.4%
Strategic Planning and Policy	100,063	5.9%
Total	**708,952**	**41.5%**
Total activity expenditure	**1,708,755**	**100.0%**

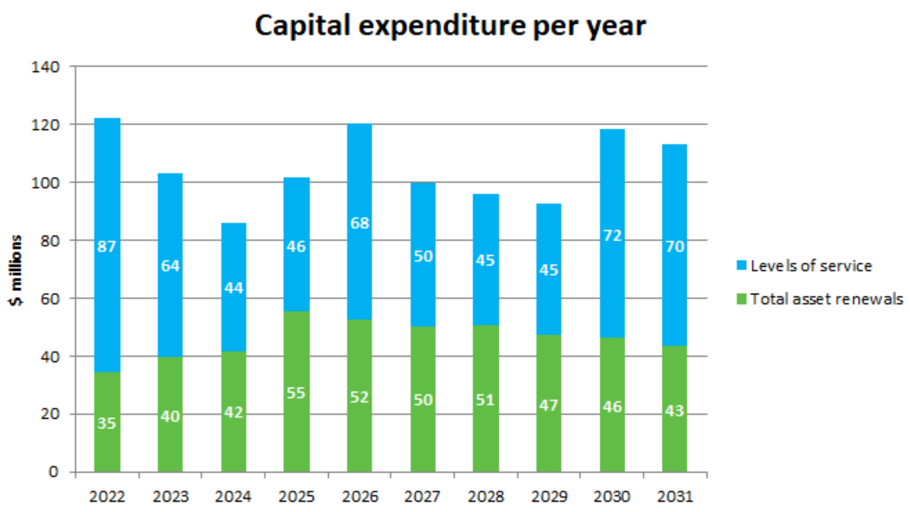
Capital Expenditure

Total annual spend on capital projects ranges from $86 million to $122 million.

Expenditure is funded by:

- a combination of operating surpluses;
- rates collected for depreciation; and
- Government subsidies and debt.

The graph below illustrates planned capital expenditure over the 10 years of the Plan of $1.1 billion. 44% of total expenditure is for the renewal of existing assets, with 56% for improving levels of service.



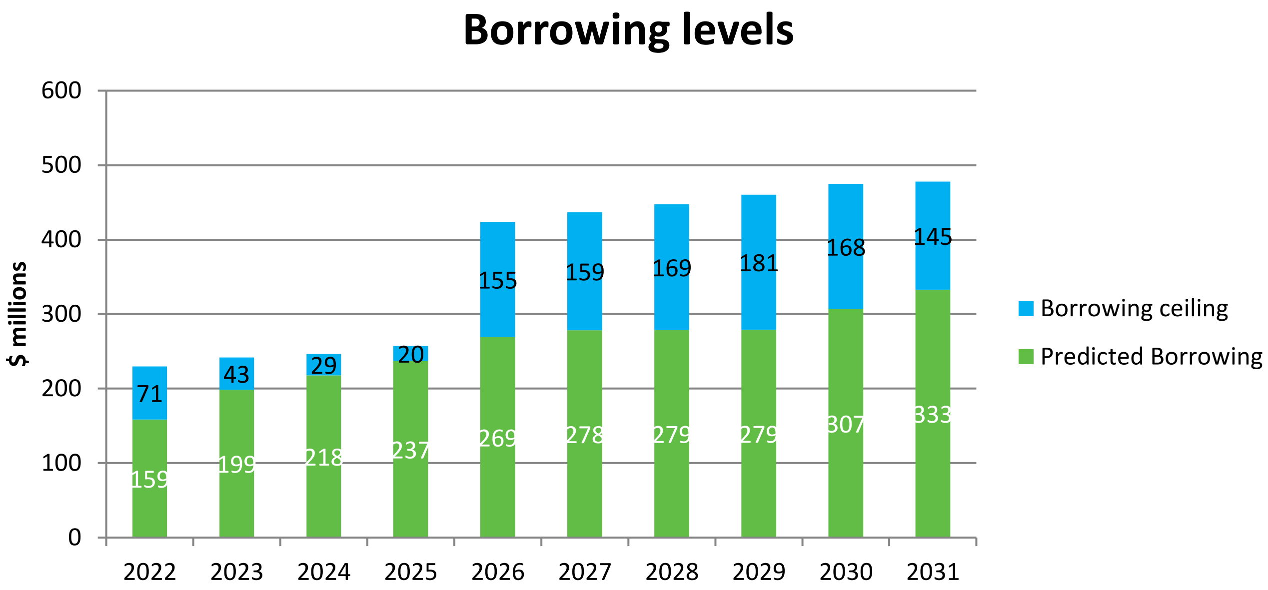
Council has undertaken a comprehensive review of all funding mechanisms (including rates). We have committed to developing an Asset Management System to ensure that asset information is provided that will allow for improved planning for asset replacement. Until the work required to implement the system has been completed, Council is planning a business-as-usual approach which includes funding depreciation rather than renewals.

Limiting our capital works programme

Council remains committed to strengthening its capacity and capability to maintain and renew assets, to ensure that the continued provision of effective service now and into the future. This is imperative in proposing a capital works programme that is affordable, realistic and achievable.

Council's commitment to capital works delivery is an average annual programme of $51.9 million in the first 10 years of the plan across network infrastructure groups

Breakdown by activity	$M	Average
Network		
Roading and Footpaths	191,008	
Wastewater	171,774	
Stormwater	41,649	
Solid Waste Management	11,109	
Water Supply	103,122	
Total	**518,662**	**51,866**
Other		
District Facilities	154,960	
Environmental Management	1,008	
Governance and Strategy	28,717	
Customer Services	19,048	
Strategic Planning and Policy	285	
Total	**204,019**	**20,402**
Total activity expenditure	**722,681**	**72,268**



Renewals and depreciation

Council recovers the expense of depreciation through rates. The depreciation expense is determined by spreading the value of the asset being depreciated across its useful remaining life. For complex assets such as a wastewater system, depreciation is calculated for each category of the component parts that make up the complete system, as each category of component asset may have a different useful life.

Council maintains its assets on an annual basis and periodically renews (replaces or overhauls) the assets that make up the component parts of the larger systems so that, generally, the asset is kept in a condition to provide the required level of service over the long term.

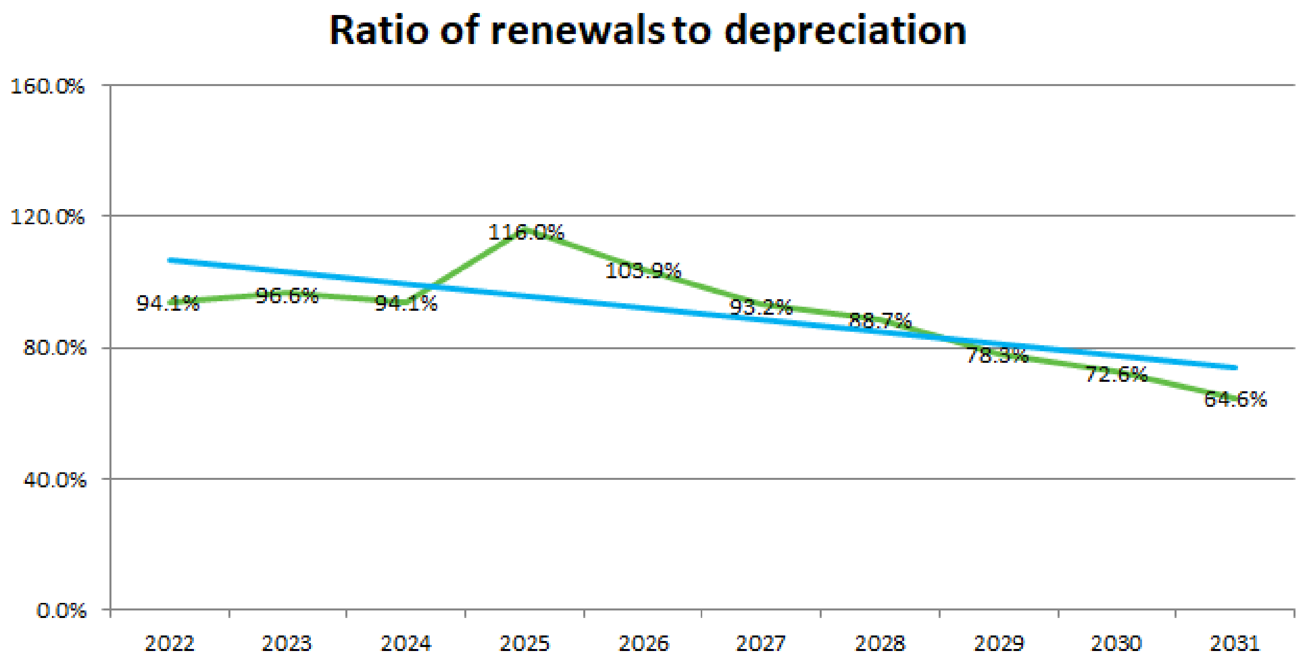
Over the lifetime of our assets, the amount of depreciation charged, and the amount spent on renewals should be equal.

As part of the 2020-21 Annual Plan, Council agreed not to fund 24% of the depreciation charge for strategic assets (predominantly water and wastewater assets) to assist the communities that were facing significant impacts resulting from Covid-19. As part of the 2021-31 LTP, Council will continue to modify the funding policy relating to the rate impact of depreciation for the first three years of the plan. The basis for this is twofold:

1. Programme Darwin is on track to provide asset information on which future renewal of assets can be based. This could see a move away from funding depreciation, to funding renewals through rates and/or borrowing.
2. The economic impact of COVID-19 will continue to be felt by the business community and the targeting of this change to strategic assets will reduce the rate impact for all connected services, including commercial ratepayers, and help to ease the economic downturn resulting from the closure of the boarders to offshore travellers.

Renewals to depreciation

The below chart shows the average ratio of renewals to depreciation is expected to be 98.4% for the 10 years of this Plan.



Capital expenditure by activity type is allocated as shown in the table below. This shows that over the 10-year period 78.4% of capital expenditure is focussed on network infrastructure. It is also recognised that our community facilities such as playgrounds and reserves are important to our District promoting the vision of Creating Great Places, Supporting Our People. To that end, our proposed capital expenditure includes District Facilities spend of 17.0% of the remaining total capital budget in the 'other' category.

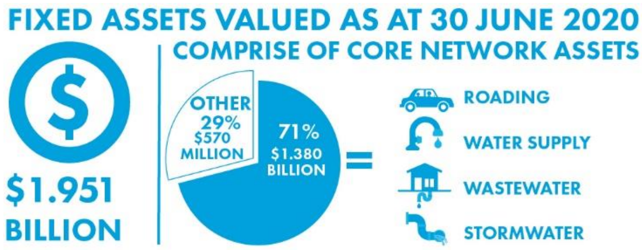
Breakdown by activity

Breakdown by activity	$M	% of total
Network		
Roading and Footpaths	498,243	47.3%
Wastewater	171,774	16.3%
Stormwater	41,649	4.0%
Solid Waste Management	11,109	1.1%
Water Supply	103,122	9.8%
Total	**825,897**	**78.4%**
Other		
District Facilities	178,726	17.0%
Environmental Management	1,008	0.1%
Governance and Strategy	28,717	2.7%
Customer Services	19,048	1.8%
Strategic Planning & Policy	285	0.0%
Total	**227,785**	**21.6%**
Total activity expenditure	**1,053,682**	**100.0%**

Major capital projects

Key	Project	Timing	Estimated cost $m
Water	Development of the Sweetwater borefield and pipeline	Year 1	4.90
	Upgrade watermain, Heritage Bypass, Kerikeri	Year 5	9.70
Wastewater	Reducing wastewater overflows in Kaitaia	Years 1 to 5	10.70
	Kaikohe wastewater upgrade	Years 2 to 5	13.50
	Kaitaia wastewater scheme improvements	Years 3 to 5	13.10
	Kerikeri wastewater treatment plant upgrade	Years 8 to 10	35.00
	Taipa wastewater treatment plant upgrade	Years 1 to 3	7.60
Stormwater	Upgrade to Kaikohe stormwater lines	Years 4 to 6	4.10
	Moerewa stormwater upgrade	Years 1 to 4	2.00
Transport	Dust sealing of critical risk roads (unsubsidied)	Years 1 to 5	15.00

ASSETS



Asset Management Plans have been prepared for infrastructure assets, setting out required maintenance and renewal expenditure to ensure they are appropriately managed and maintained to provide our targeted levels of service.

Council also holds a number of operational and investment assets including property (land, buildings and ground leases) and small forestry blocks held for sewage soakage/ponds.

Assets are revalued according to the accounting polices set by Council.

MINIMISING RISK

Council carries comprehensive insurance for reasonably foreseeable risks for infrastructure (other than underground assets, which are generally undamaged by weather events). The premiums remain high and we have a $100,000 excess for weather related events to help keep the premiums more affordable. For significant storm-related roading damage, we are generally able to access emergency funding through central government which helps to offset the costs of restoration and rehabilitation, but there can be substantial delays in receiving funds and they are not always enough to return services to the state they were in before the event.

In previous years, Council prudently decided to rate 1% for emergency flood related works, and that rate has been continued in this plan. The funds raised contribute to the emergency roading works subsidy received, and where possible, provide funds for replacement of other damaged assets. Where costs arising from a major event exceed available funding, we re-prioritise our work programmes as necessary to address the short-fall.

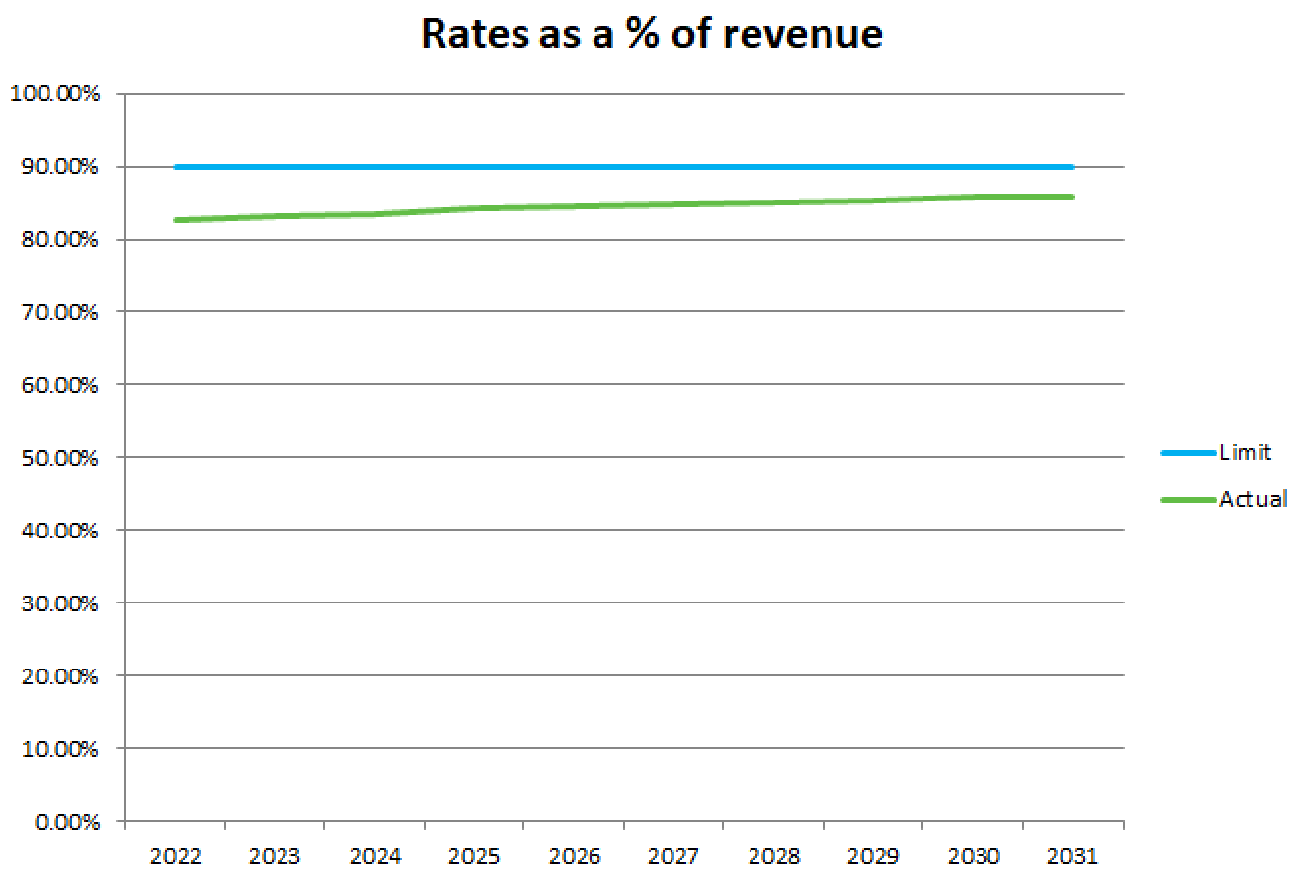
LIMITS AND POLICIES

Limit on rates (excluding water) as a percentage of revenue

Council does not have a diverse income stream, with the main source being rates and contributions from fees and charges and government subsidies (e.g. transportation).

Council will limit rates (excluding water) collected each year to a maximum of 90% of total Council revenue.

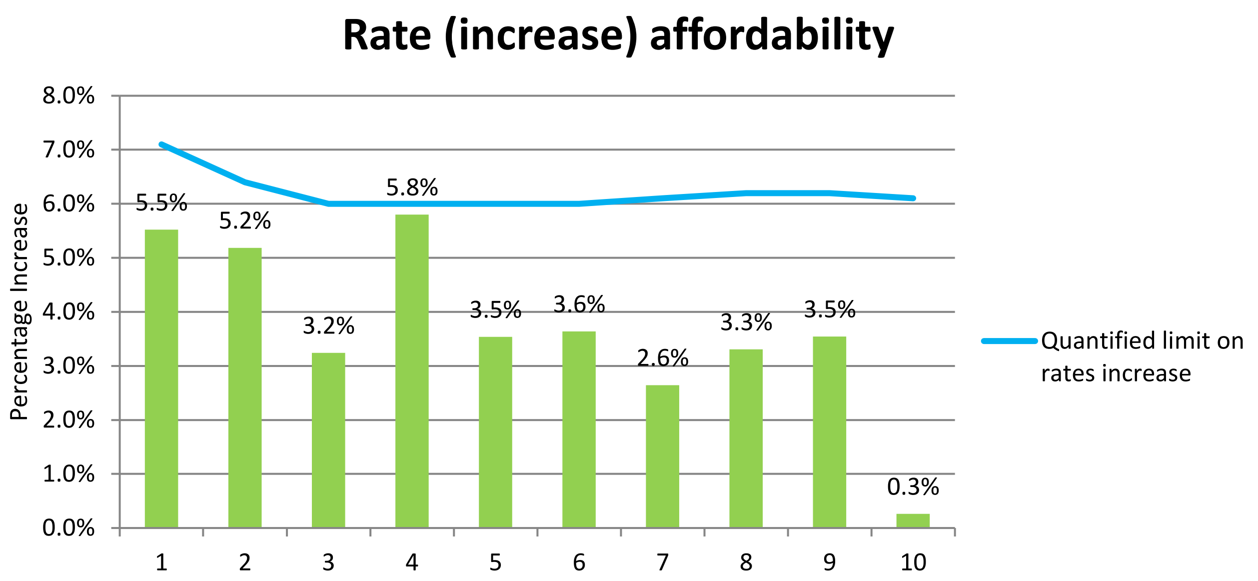
As part of every Annual Plan and LTP this limit will be reviewed to ensure it remains appropriate considering Council's financial position and the global economic conditions at that time.



Limit on rates increases

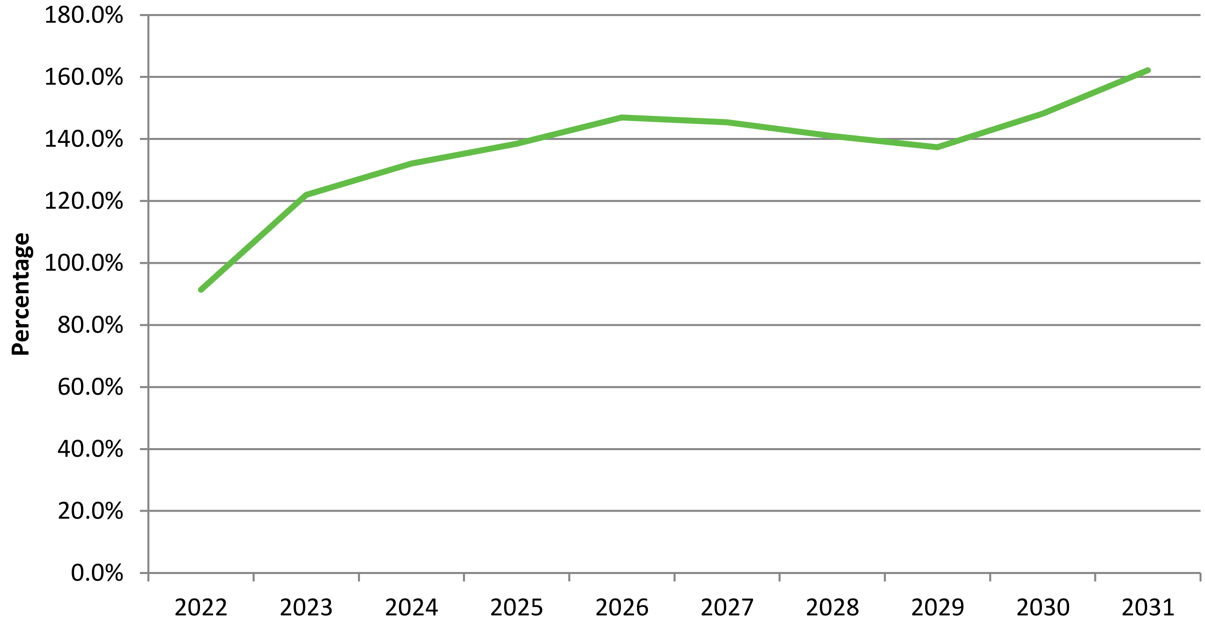
The limit on rates increases is set at LGCI plus 3.5% for the entire plan.

There may be extraordinary circumstances in which Council may choose to go outside this limit, for example, funding a clean-up from a catastrophic event. These occasions are considered unlikely and therefore have not been provided for in this Plan.



Limits on borrowing

Net debt as a % of revenue



External debt is planned to be $158.7m at the start of this plan and then peak at $332.9m by 2030/31. Council has also considered the impacts of its borrowing against the debt servicing benchmark.

Securities for borrowing

Council currently secures its external borrowing against the total of rates revenue via a registered Debenture Trust Deed.

COUNCIL ORGANISATIONS

The Council-Controlled Trading Organisation (CCTO) Far North Holdings Limited (FNHL) is a wholly owned subsidiary of Council. FNHL serves as Council's commercial function, therefore facilitating and developing commercial and infrastructural assets with the aim of maximising profit for its shareholder, the Council.

FNHL's income from investments is paid to Council in the form of a dividend. In the past two years, Council has allowed FNHL to reinvest the net profit (after tax), minus the dividend, in new commercial projects. Future opportunities for this re-investment will be considered by Council based on merit.

While we acknowledge that the amount of return on financial investment is the responsibility of the lender and therefore outside of Council's control, it is a legal requirement to identify targets for the returns received on its investments and equity securities. In keeping with Council's objective: 'To invest in a secure, low risk vehicle which will result in lower return in investment but does not compromise on the principle', the quantified financial investment target is to achieve a return equivalent to the five-year government stock rate. Targeting returns for equity securities is not applicable.

The 2020 Coronavirus pandemic created a downturn in income for FNHL. The closure of the border to cruise ships and tourists has significantly impacted the business, and revenues from the Bay of Islands Airport in the form of landing fees and these have been disrupted, sometimes at very short notice, as New Zealand continues to be substantively locked down to international tourists.

Dividend returns to Council are therefore forecast to be disrupted for at least the next few years until such time as the borders open and international tourism rebounds. Treasury and Business and Economic Research Limited (BERL) assume this to be no earlier than January 2022.

MONITORING AND REVIEWING THE STRATEGY

As part of business as usual we constantly scan both the financial environment and our own performance to monitor:

- The sustainability of our financial performance and position
- Any emerging risks
- Whether the Strategy is being implemented as intended
- Any trends in the community's ability to pay.

The Strategy will be reviewed tri-annually as part of the LTP process. Consideration will also be given to the impacts of any significant changes in local, national or global economic conditions during each year's Annual Plan process.

SUPPORTING INFORMATION

The strategies and policies listed below have been developed in conjunction with the LTP and can be obtained from our website:

- Revenue and Financing Policy
- Treasury Policies
- Infrastructure Strategy

LONG TERM PLAN DISCLOSURE STATEMENT FOR THE PERIOD COMMENCING 1 JULY 2021

The purpose of this statement

The purpose of this statement is to disclose Council's planned financial performance to enable the assessment of whether we are prudently managing revenues, expenses, assets, liabilities and general financial dealings. We are required to make this disclosure under the Financial Reporting and Prudence Regulations 2014. Refer to these regulations for more detail, including definitions of some of the terms used in this statement (www.legislation.govt.nz).

For the period spanning 2021 to 2031, we expect to meet all of these benchmarks, (with a few exceptions that are explained in this section) and by doing so, debt ratios will remain low, along with limits on rates revenue, rates increases and borrowing will stay within our self-imposed limits, demonstrating a strong and prudent financial position.

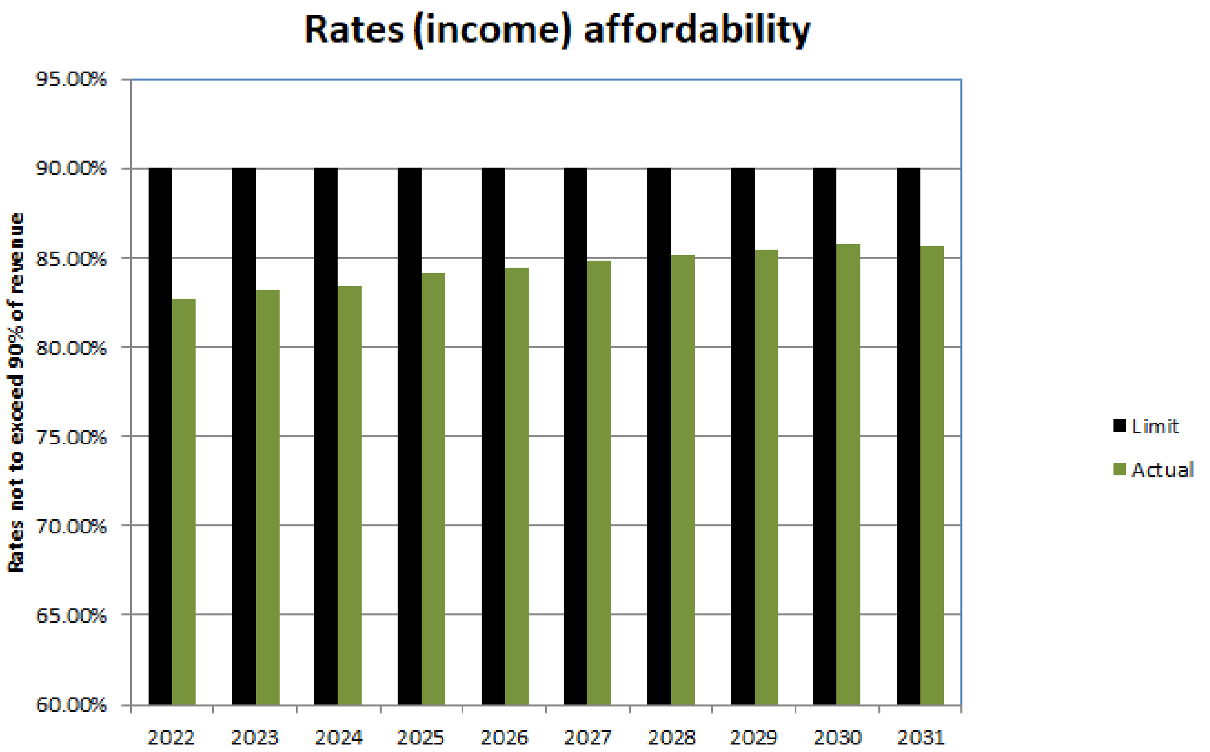
Rates affordability benchmarks

We meet the rates affordability benchmark if:

- Planned rates income equals or is less than each quantified limit on rates; and
- Planned rates increases equal or are less than each quantified limit on rates increases.

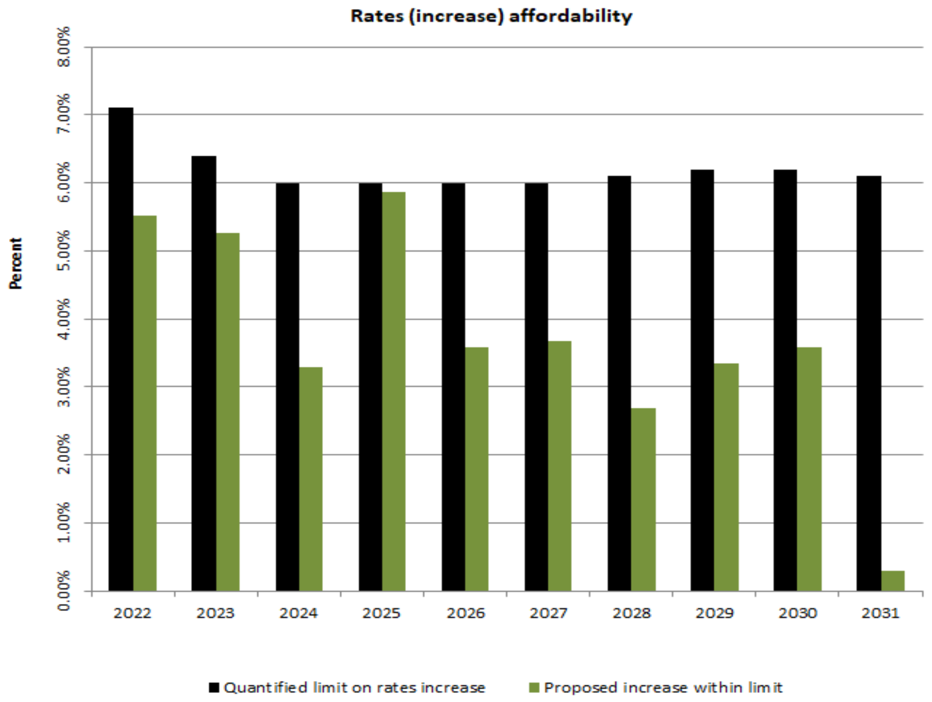
Rates (income) affordability

This graph compares planned rates with a quantified limit on rates contained in the Financial Strategy included in this Long Term Plan. The quantified limit is that rates income (excluding water) will not exceed 90% of total revenue. Council forecasts rates income within this limit for the period of the LTP.



Rates (increases) affordability

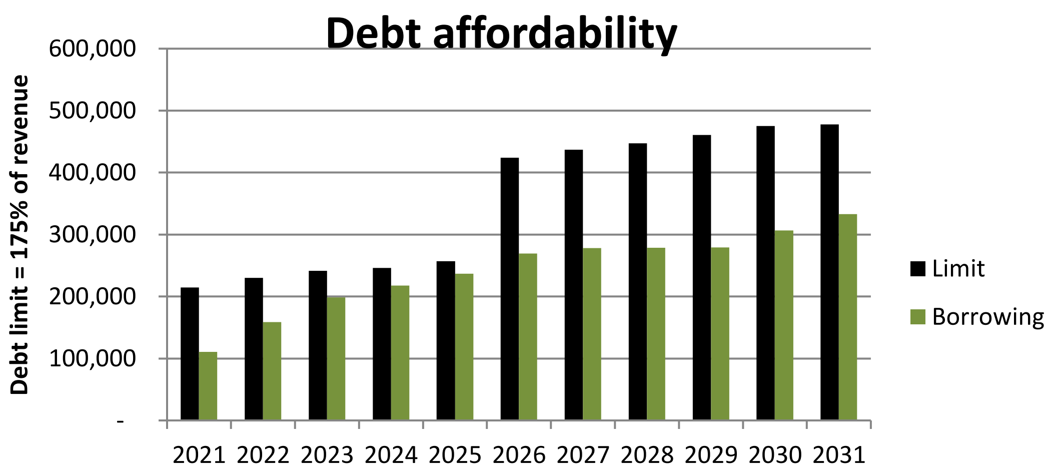
This graph compares planned rates increases with a quantified limit on rates increases contained in the Financial Strategy included in this Long Term Plan. The quantified limit is that the rates increase should not exceed LGCI plus 2.5%. Council forecasts rates increases within this limit in all years of the LTP.



Debt affordability benchmarks

External debt

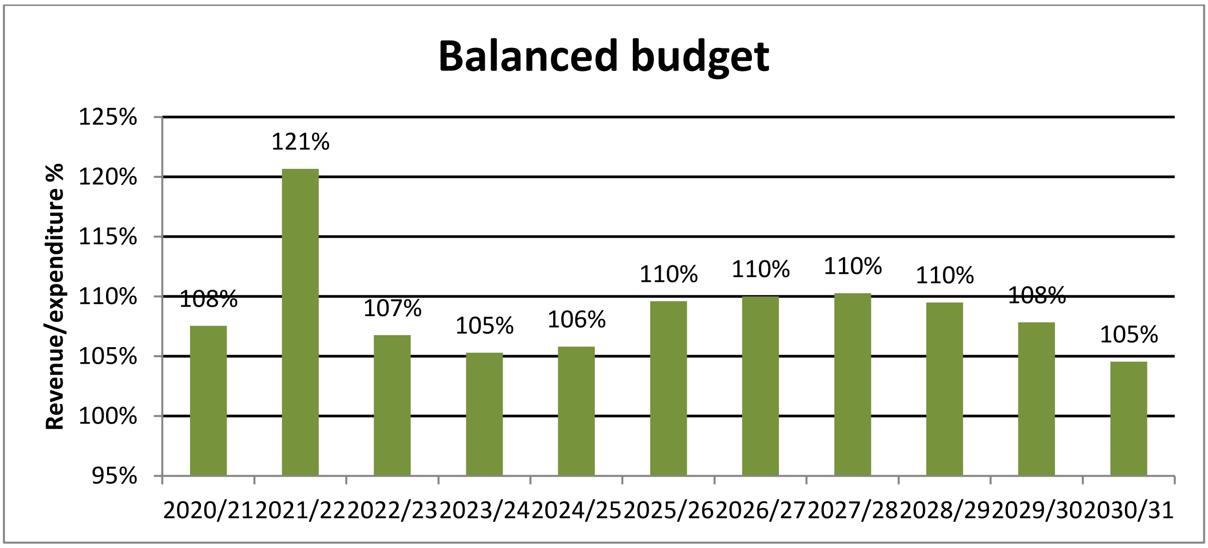
This graph compares planned debt with a quantified limit on borrowing contained in the Financial Strategy included in this Long Term Plan. The quantified limit is that net debt be no higher than 175% of total revenue excluding capital subsidies until 2024/25. After 2024/25 it is expected to increase to 280% of revenue excluding capital subsidies as Council expects to have secured a credit rating. Council forecasts external debt levels within this limit for the period of the LTP.



Balanced budget benchmark

The following graph displays our planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative vested assets, gains on derivative financial instruments, and revaluations of property, plant and equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant and equipment).

We meet the balanced budget benchmark if planned revenue equals or is greater than planned operating expenses. Council will achieve this benchmark in all years of the LTP.

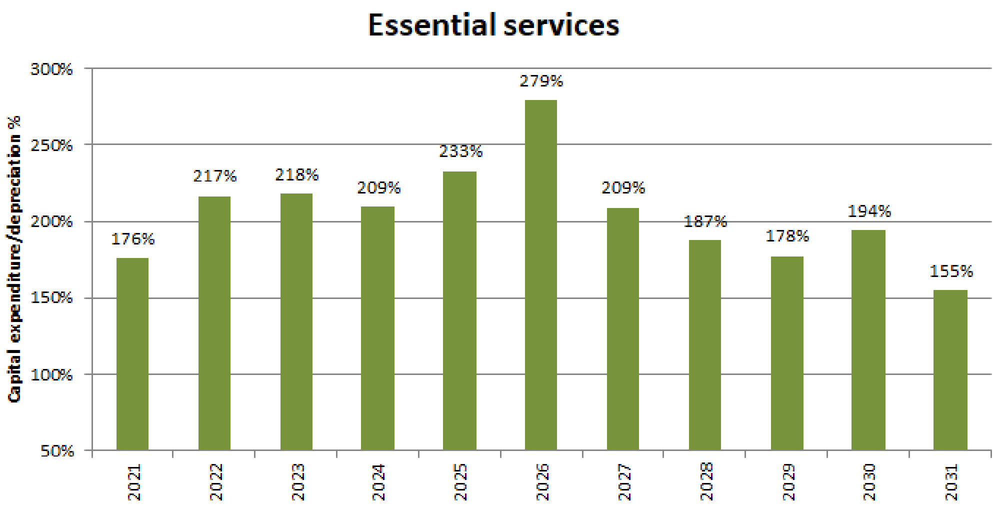


Essential services benchmark

The following graph displays our planned capital expenditure on network services as a proportion of expected depreciation on those same network services.

We meet the essential services benchmark if planned capital expenditure on network services equals or is greater than expected depreciation on network services.

Council will achieve this benchmark in all years of the LTP.



Debt servicing benchmark

The following graph displays planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant and equipment). Council meets the debt servicing benchmark if planned borrowing costs equal or are less 10% of planned revenue. Council expects to achieve this benchmark in all years of the LTP.