Rautaki Ahumoni

Financial Strategy

Balancing the need to protect our environment and our assets while planning for our future, in a financially sustainable way.

Contents

Our region is growing and continues to be an attractive place to live and work. To support our community, respond to climate change and protect te taiao (our natural environment), Te Kaunihera o Te Tairāwhiti (Council) will make a significant capital investment in our infrastructure.

This Financial Strategy proposes a higher initial spend in the early years of our Long Term Plan (LTP). We plan to renew and upgrade critical infrastructure networks where needed and increase capacity over time to accommodate for growth. Major projects include: the Gisborne Wastewater Treatment Plant upgrade (disinfection); Waipaoa River Flood Control Climate Change Resilience project; restoration of Waingake; Olympic Pool redevelopment; and improved water supply demand management.

We know that we cannot simultaneously complete these critical projects while restoring financial reserves and keep rates revenue below a 5% increase.

In order to meet the rising costs we are facing, Council will:

- smooth increases to rates in the short term by using some reserves;
- increase our debt limit;
- work with our Council Controlled Organisation, Gisborne Holdings Limited, so we have more dividends up front;
- capitalise on funding from central government; loan fund significant planning costs associated with the delivery of planning for freshwater and our review of the Tairāwhiti Resource Management Plan; and
- phase the funding of the new depreciation costs that arise from the Wastewater Treatment Plant disinfections project and the pool redevelopment project.

While we will increase debt in the short term, we will repay it by year ten of this LTP. In the long term, we will recover our financial position by increasing our reserves, and lowering debt levels.

This approach supports the needs of our current community, without overly burdening future generations. It balances the appropriate level of debt against what is affordable now without transferring the burden of this debt to future ratepayers.
By the end of this LTP we will have the building blocks for sustainable development for our region through:

- prioritising expenditure on our critical activities and infrastructure like roads, wastewater treatment and flood protection
- developing our response to climate change
- reviewing what our district will be like through the Tairāwhiti Resource Management Plan and planning for management of freshwater.

Strategic Financial Limits

Ki te tirohanga

At a glance

Purpose

Our Financial Strategy (the Strategy) sets our overall financial goal posts for the 2021-2031 Long Term Plan (LTP), including sources of revenue to fund capital and operational costs, and the impacts of our decisions on rates, debt, levels of service and investments.

This Strategy also guides Council's future funding decisions and, along with the Infrastructure Strategy, informs the capital and operational spending for the 2021-2031 LTP.

How to use this Strategy

The Financial Strategy is organised into the following parts:

- **A.** Introduction | Our context
- **B.** Key Issues and Opportunities
- **C.** Key Directions (Our Responses)
- **D.** Financial Levers
- **E.** Strategic Links

A. Introduction | Our context

Council is in a strong financial position, with our debt being low compared to both the assets we own and to other unitary councils of the same size. Our road network – the largest financial component of our infrastructure assets - is in a better shape than when we started the 2018-2021 LTP, helped by the significant financial support that Central Government has provided in the last three years. However, this 2021-2031 LTP is not without its financial challenges and issues.

Since adopting the 2018-2028 LTP, Council faces increased requirements in order to meet recent legislation and implement national direction from Central Government. These costs are significant, and range from $2.8m in year 1, peaking at $3.9m and dropping to $615k by year 10. At its peak these costs constitute a 5% increase in rates.

When Council decided to move the Wastewater Treatment Plant disinfection project forward, we had planned to prefund and smooth potential rates spikes in 2023 and 2024. The significant investment needed for this major project always meant that rates increases would be needed to pay for the upgrade.

With the COVID-19 pandemic in 2020 our plans changed. Council lowered our overall rates in the 2020/21 Annual Plan from 4.89% to 3.26%, to ease some of the economic pressures from COVID-19, as the degree of impact on the community was unknown. There are two key consequences from us lowering rates in 2020-2021:

- A rates increase must now occur in year 1 of this LTP, as the previous year's rating revenue is lower than forecast.
- We do not have enough prefunding set aside to smooth rates spikes in year 2, requiring rates to be higher than our previous 5% threshold.

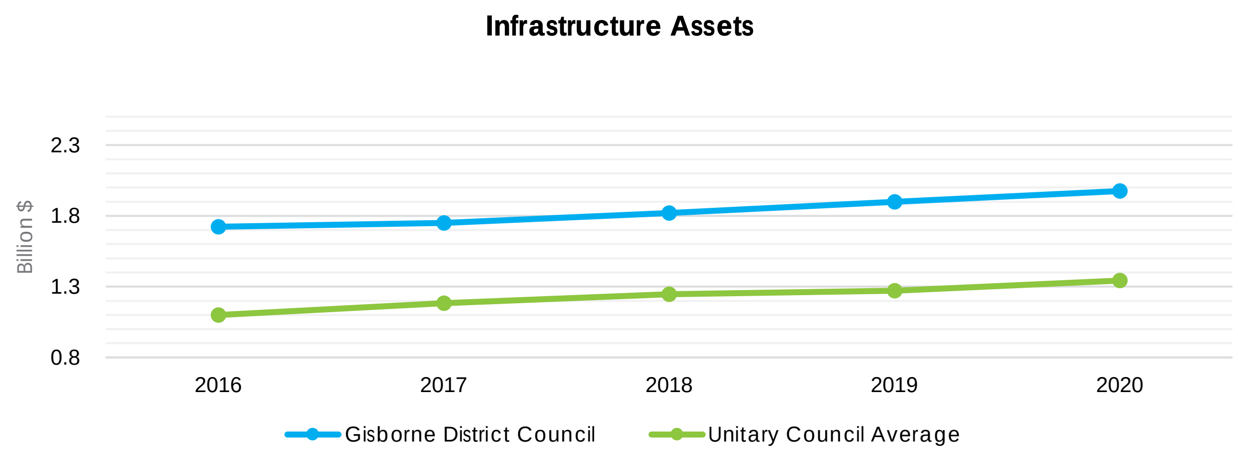
This Strategy aims to smooth the rates increases as much as we can, particularly during the first 3 years. After that it aims to be back to the same rates increase limit of less than 5% as set within the 2018-2028 Long Term Plan.

We will be increasing borrowing in order to look after our infrastructure, whilst still managing the debt levels prudently. By focusing on replenishing reserves and repaying debt, we are in a strong position by the end of the Plan to accommodate funding for unforeseen events or changes to Council priorities or directions that may arise, in particular the likely increased cost of having to manage the impacts of climate change.

Our Council and our region

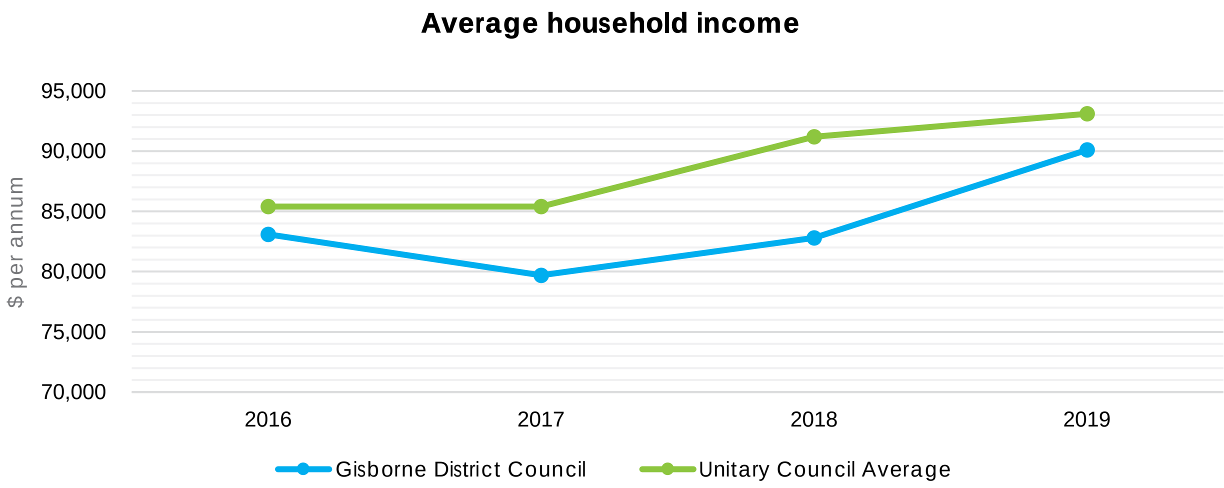
The Gisborne District covers a land area of 8,265 square kilometres. We have one of the largest roading networks when compared to similar sized unitary council authorities, but we have the lowest average household income and lowest number of rateable properties.

Council has assets of $2.3 billion. Of this, our infrastructure assets make up around $2 billion. This includes everything from waste, roads and footpaths (network infrastructure) through to libraries, pools and reserves (social infrastructure). The graph below show how the value of Gisborne's infrastructure assets compares to the average value of assets owned by three unitary councils, Nelson, Tasman and Marlborough.



The roading network makes up over 83%, or $1.6 billion, of our infrastructure assets. This is nearly double the amount for the average unitary council ($675m). Our challenge is to look after our assets – especially the wear and tear on our roads – and maintain levels of service to our community in an affordable way.

This graph shows that while the household income has increased in Gisborne, it still remains below that of the other unitary councils.



How do we address affordability?

Increased rates impact individual ratepayers differently. How we apportion rates is set out within our Revenue and Financing Policy. Council undertook a review of our Revenue and Financing Policy over 2019-2021, to address the issue of rates affordability and 'reset' how people pay.

For instance, the previous rating system used a high proportion of fixed rates, which impacted low income households more than high income households as the same amount was charged regardless of their ability to pay.

Key changes to the Revenue and Financing Policy aim to lessen the burden on those households, by effectively sharing the cost of services (such as roading and four waters) to those who benefit from the service and contribute most to its wear and tear.

Population Growth

We expect our regional population to grow to about 56,600 by 2051, with most of this occurring in the Gisborne urban area. We are also seeing a social shift with people returning to customary whenua or family land. This type of lifestyle is now supported by increased online connectivity, which could mean some modest growth in our rural and coastal townships over the next 30 years, and stabilization of our historically declining rural and coastal population over the life of this LTP.

Managing the demands of growth and balancing the opportunities for future ratepayers against affordable rates and debt levels for current ratepayers is a big challenge. To support and manage growth Council must ensure our critical infrastructure networks are renewed and in some areas capacity increased in anticipation of growth and increased use. Over the next 10 years, Council is prioritising investment in the most pressing needs of Tairāwhiti, and looking at alternate ways to fully fund this investment.

Over the next thirty years Tairāwhiti may see changes in population and land-use due to climate change – for instance shifts in the types of agricultural activity that are sustainable in our region. Any likely restriction of development in current coastal or at risk growth areas could also see growth shift to other areas in Tairāwhiti.

Economic growth

The Tairāwhiti Economic Action Plan (TEAP) was updated in 2019, led by a steering group that included senior representation from Council, iwi, Trust Tairāwhiti, and other major industry and government agencies. Its implementation is helping to unlock the economic potential of Tairāwhiti and bring more wealth into the district, which in turn will enable us to invest in services and infrastructure that benefit all our residents. Council is leading on 14 of the 59 actions, and partners with others to deliver outcomes.

Areas of economic growth since 2018 include wood processing; expansion of domestic tourism offerings; Aerodrome Business park development; digital technology; and significant expansion in commercial winter vegetable production and high-value crops such as apples, kiwifruit and persimmon grown on the Poverty Bay Flats. These changes, along with continued growth in plantation forestry harvest, has seen the district's economic base expand and the population grow strongly over the past three years.

Over the 10 year period to March 2018, Gisborne averaged 1.5% growth in GDP per annum, compared to an average of 2.1% per annum nationally. However, Gisborne's GDP measured $1.6 billion[1] in the year to March 2018, an increase of 2.8% from the previous year. In the year to March 2019, Gisborne experienced the highest rise in GDP of any region. In the year to June 2020, Gisborne was the only region to record an annual rise in economic activity (of 0.1%).

B. Key Issues and Opportunities

The approach defined in the Strategy is based on addressing some key issues and opportunities:

- COVID-19
- Rates affordability
- Pressure of debt
- Maintaining reserves
- Investment in critical infrastructure
- Vulnerability to natural hazards and Climate change
- High emergency expenditure
- Supporting economic development – including the Māori economy
- Tairāwhiti 2050
- Rau Tipu, Rau Ora

Key issue: Implications of COVID-19

Treasury, the Reserve Bank of New Zealand (RBNZ) and Business and Economic Research Ltd (BERL) are all predicting an increase in unemployment in 2021, followed by a gradual recovery.

Investment in infrastructural connectivity over the next ten years, as well as continuity of key activities is essential. Connection in our context refers to: physical connections through our land transport network and four waters (drinking water, waste water, storm water and coastal/river inundation) infrastructure; social connection and amenity space through recreation areas and community facilities; better engagement methods and improved digital connection opportunities online; and investing in actions captured in our Rau Tipu, Rau Ora economic recovery plan, in collaboration with partners across the region.

[1] Infometrics. 2018 Annual Economic Profile for Gisborne District

This will ensure the resilience of our community and our ability to deliver our services, regardless of the uncertainty COVID-19 brings to this LTP period. While unexpected delays may occur due to further lockdowns or delays in materials supplied from overseas, projects we have committed to over this LTP will still be delivered by year ten, regardless of national uncertainty from any potential further COVID-19 interruptions to the way we work and live.

Key issue: Affordability + setting rates that get us where we need to go

While there is growing prosperity, we know that parts of our community are struggling and the benefits of a positive economy are not accessible to everyone. A key challenge of this Strategy is managing the impact of the financial constraints we place on our community's ability to pay.

There are multiple factors contributing to this challenge. These include: an ageing population; low income levels; high deprivation; increased costs to maintain the same levels of service; the need to renew or replace critical infrastructure; and greater urgency to create, or review existing plans and policies, all amidst changes to the national and global economic context on our region, e.g. COVID-19.

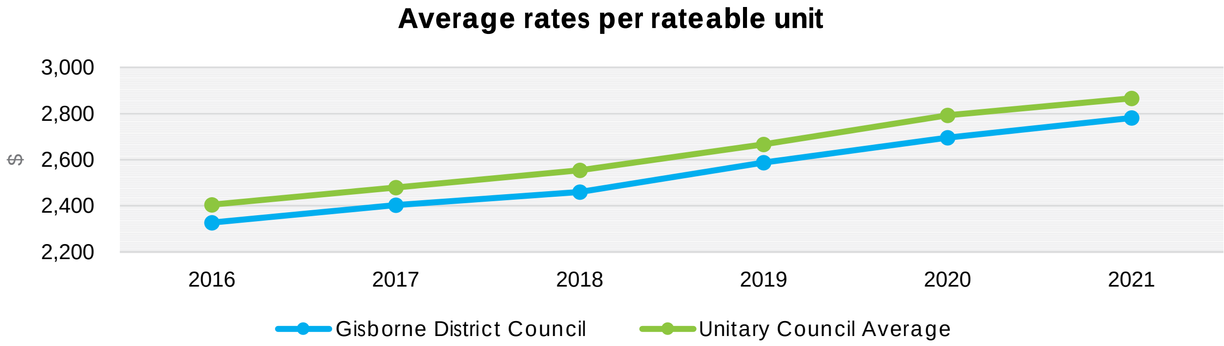
There are a number of levers Council looks at to see how we can deliver what we need to in a financially sustainable way, including how we address affordability when the impacts occur differently across our district.

The Shand report[2] in 2007 introduced a very approximate threshold of rates affordability as being where rates exceed 5% of gross household income. A Government rates rebate of up to $655 per household is available for low income ratepayers and Council also provide rates remissions for financial hardship or low value properties. This is in addition to the Government rebate. For example, a property with a median household income of $34,950[3] and rates of $2,500 would have rates as a proportion of household income of 7%. After the combined rebate and remission of $750, the rates would effectively be $1,750 and rates as a proportion of household income would be 5%. So, using the Shand estimate as a measure of affordability, we can effectively mitigate against rates affordability issues using a combination of rebates and remissions.

Our wider response to rating affordability is to loan fund key pieces of work that affect the future of our region and its environment, while using reserves and income from our council controlled trading organisation Gisborne Holdings Limited (GHL), to help smooth the cost for ratepayers.

Doing this means our rates increase from year one is capped at a maximum of 6.5% over years one to three, and subsequently lowered to an increase of 5% from year four. The graph below shows how average rates (posed in this Strategy) per rateable unit in Tairāwhiti compare with other unitary authorities.

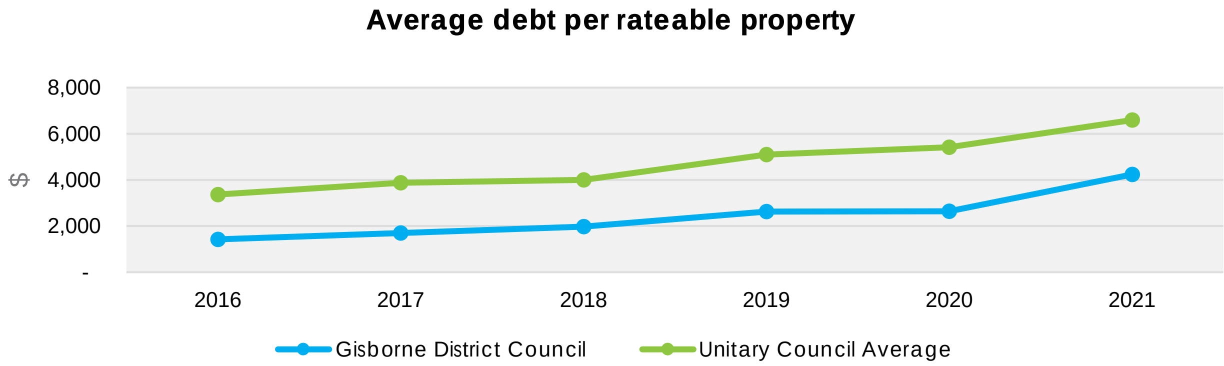
[2] 2007 Funding Local Government: report of the Local Government Rates Inquiry
[3] The median annual earnings for individuals working in agriculture, forestry and fishing in Gisborne, for 2019. MBIE Regional Economic Activity data visualisation



Key Issue: Pressure of debt on those who pay

The sustainable management of debt presents a major challenge. Debt is used to fund asset construction or purchase. This debt is then repaid over the life of the asset through depreciation funding. This ensures that ratepayers only pay the cost of a service when they benefit from it. This is an equitable approach that effectively pays for the assets as they are being used, by those who are using them.

Our net debt has been historically lower than other councils and low relative to the value of our asset base and the organisation's ability to generate revenue streams. The graph shows how our level of debt per rateable property compares with the average from other unitary authorities.



Council has made the decision to increase our debt limit to 130% of our revenue, as critical infrastructure projects cannot be funded from rates, reserves and grants alone.

This approach balances the level of future focussed resilience we need (including our capacity to respond to emerging issues and challenges like COVID-19 and climate change) against the burden that increased debt places on future ratepayers and increasing rates places on current ratepayers.

Key issue: Maintaining reserves

Council plans a large initial spend on upgrading and renewing critical infrastructure – increasing debt to do this. There are insufficient reserves to cover the renewals programme in full. Once over this 'infrastructure hump' in 2025 we will undertake a concerted effort to subsequently reduce debt and replenish our reserves.

It is important to acknowledge that this approach requires a longer-term commitment to see the benefits through to fruition. Reserves will be built up over time – reducing debt in the long term – making us more resilient and able to face the demands of a growing region in the future.

Key issue: Investment in critical infrastructure and planning for the future

Growth comes with the need for further investment in infrastructure. This involves providing growth capital expenditure where we need new or improved assets to enable more residents to live in our city and region, capital expenditure to improve service levels, and renewals to restore existing assets to their original performance, condition and capacity. While Council is contributing significantly to growth, not all growth infrastructure can occur at once.

A key part of our role, and one that is valued at a local level, is the provision of sport, recreational and community facilities. In addition to the existing programme to renew, upgrade, or join facilities, Council has also committed to the development of a new Olympic Pool Complex, and continues to seek external funding and partnership to improve our network of community facilities overall.

Investment in the resilience of our asset groups and services while ensuring new infrastructure growth is financially sustainable, is a key challenge to manage over the life of our assets – well beyond the period covered by this Strategy. Our approach for this LTP is to prioritise expenditure on resilience and climate change adaptation through maintaining and renewing existing assets before creating new ones, and where needed enlarge and extend our infrastructure to respond to growth in localised areas in the medium and longer term. We will also be developing a new Tairāwhiti Resource Management Plan, which will guide where new or upgraded infrastructure is needed in the future to support growth.

Key issue: Vulnerability to natural hazards and climate change

Climate change is a global problem that we are experiencing at a local level. Our region is already subject to a range of natural hazards – including flooding, earthquakes, drought, and land instability. Regional climate change assessments indicate that over the next century Tairāwhiti can expect sea levels to rise, more droughts, more intense storms, less rainfall and increased wind.

At a high level, climate change will have increasing implications for Council infrastructure and service provision. More frequent, and more severe, weather events are expected. Some of our infrastructure may no longer be adequate to deal with more rainfall, or a warmer climate. Sea-level rise will increase risks for assets on the coast from inundation and erosion.

Over years one to three of this LTP, Council aims to invest in better understanding the likely impacts of climate change on Tairāwhiti. This will ensure that we and our communities, can prepare knowing the probability, type and severity of impacts and prioritise further investment in a regional response from years four onwards.

Dealing with these issues takes careful planning and a better understanding of our existing assets - which should be renewed, which should be replaced and where more investment is needed in order to maintain them. Our planned review of the Tairāwhiti Resource Management Plan will also guide where and how our communities will live work and play in the mid to long term.

Through the review of the Tairāwhiti Resource Management Plan we aim to identify high hazard areas, linked to both existing hazards and those anticipated from climate change. This will be closely linked with planning, zoning and other risk management functions, and will be done in collaboration with tangata whenua and input from the community and key stakeholders.

Key issue: High emergency expenditure

We are planning for improvements to infrastructure resilience in the event of natural hazards and during times of maintenance or repair to ensure business continuity for Council, the community and businesses. The effects of climate change are increasingly being felt in storm damage to coastal assets and more frequent landslips across the region and Council will continue to see high emergency expenditure from natural hazard events.

Unplanned expenditure is a result of emergency repairs. For example, our road network is vulnerable to closure during adverse events and a lack of alternative routes results in economic and social disruption. This also has a flow on impact of increasing the forecast cost of renewals. In the past Council has had to borrow to cover excess expenditure due to natural hazard events, which creates an unplanned debt position.

In the short term, Council anticipates emergency expenditure through our annual budgets for repairs and maintenance. The challenge is to better plan for these events in the long term, and afford future resilience by building our reserves from year 4 of this LTP.

To support us anticipate and resolve the future of our infrastructure affected by storm events and coastal erosion and inundation, Council is implementing a programme to review our District and Regional plans that form our unitary Tairāwhiti Resource Management Plan. This will address things like our built environment, infrastructure, and coastal management, natural hazards, planning for freshwater and cultural and historic heritage.

Completing physical high priority climate change adaptation projects alongside plan review and development is expected to significantly decrease emergency maintenance costs in the future, such as the amount of road cautions and closures to deliver a more consistent level of service, and maintain connectivity.

Key Opportunity: Supporting economic development- including the Māori economy

Council funds economic development activity and planning for our region, alongside collaborating with other lead organisations to grow and incubate the Tairāwhiti economy. Adopted in 2017 and refreshed in December of 2019, the Tairāwhiti Economic Action Plan (Te Huarahi Hei Whai Oranga) lays out our region's plans for economic growth, including iwi aspirations.

The Tairāwhiti economy is heavily structured around the primary industry, which is sensitive to external factors such as the capability of the roading network, flooding and droughts and the availability of water. Ongoing investment in core infrastructure will be required, as will considered planning for our natural resources.

New business or industry moving to the region may require or expect a different level of service, or new infrastructure assets. Ongoing investment in core infrastructure (such as transport, water, and wastewater) will be required to support economic growth and development of existing industry– for example a significant increase in high-value tourism, domestic wood processing, honey processing or medicinal cannabis production. Conversely, land use change associated with development can impact our infrastructure and change the expected levels of service from our residents and ratepayers.

This Strategy encourages providing for land owner aspirations as part of enabling the Māori economy across Council's functions and duties – including rating of Māori land, compliance and statutory processes, and addressing historically limited access to regional infrastructure and resources. Council aims to continue with actions committed to in our 2018-2028 LTP, while increasing our resourcing of:

- business and project partnerships with Māori
- organisation responsiveness for Māori outcomes and
- leveraging central government funding for shared projects and outcomes.

Key opportunity: Tairāwhiti 2050

Adopted in 2020, Tairāwhiti 2050: Shaping the Future of Our Region is a first generation spatial plan for our region, and a significant forward planning document for Council. Created together with tangata whenua, communities and agencies Tairāwhiti 2050 provides a clear and shared vision on what we want our region to look like in 30 years' time.

This Strategy provides a 10 year stepping stone towards the 30 year vision of Tairāwhiti 2050. Our shared vision for Tairāwhiti is an ambitious one, and will need collaboration, further partnership and the leveraging collective resources to get us there. Council's significant investment into regional planning and critical infrastructure this LTP is our initial commitment to putting the building blocks of 'Tairāwhiti 2050' into place, doing our part as a regional 'enabler'.

Key opportunity: Rau Tipu Rau Ora

Rau Tipu Rau Ora is our regions action plan to guide post-COVID-19 recovery. The plan identifies crucial issues such as housing, employment, health – including the isolation caused by Covid-19 and the risk of future pandemics – stimulating the economy, and education and training.

The plan is a combined effort of many organisations and stakeholders. We will take a unified approach to its short and mid-long term implementation- working with Iwi, organisations, our business sector and our diverse community groups.

C. Key Directions

This Strategy focuses on prudently managing Councils long term debt and smoothing increases to rates income

Our LTP identifies the challenges that our region faces, including the affordability of Council services and the sustainability of our regional economy. While all activities that are planned to move Tairāwhiti forward will have a financial component, the Financial Strategy focuses on our overall approach.

Council wants to be able to protect its environment and its assets, while also planning for the future. The focus in the Strategy is on meeting our obligations, looking after our critical infrastructure, and to maintain our levels of service in a way that is affordable to our community.

To achieve this while being financially sustainable and prudent the Strategy sets out six inter-linked key strategic directions.

Keep rates as affordable as practicable.	Keep rates as affordable as practicable while recognising the need to fund critical activities and infrastructure, and keep the region functioning well.	**Ensure beneficiaries of services pay the costs.**	Ensure users and those who benefit from Council activities and infrastructure pay for them. This includes mechanisms such as user levies, targeted rates and development contributions.
Focus on critical activities and infrastructure.	Focus on critical activities and infrastructure which meet the community's needs and respond to climate change during the long term plan period and beyond.	**Manage debt prudently.**	Increase maximum debt levels still within prudent levels, to smooth the cost of delivering key infrastructure projects over years one to three of the long term plan, in line with our financial policies.
Increase alternative revenue streams.	Increase and optimize the use of alternative revenue streams through partnerships, targeted contributions and investment income.	**Grow and enable our rating base.**	Grow the rating base through economic activity without the need to trigger additional costly capital works projects or grow Council's infrastructure footprint without care.

Key direction: Keep rates as affordable as practicable

Managing affordability in the context of uncertainty, the infrastructural challenges Council is facing, and the region's comparatively low income levels and high social deprivation scores is incredibly complex.

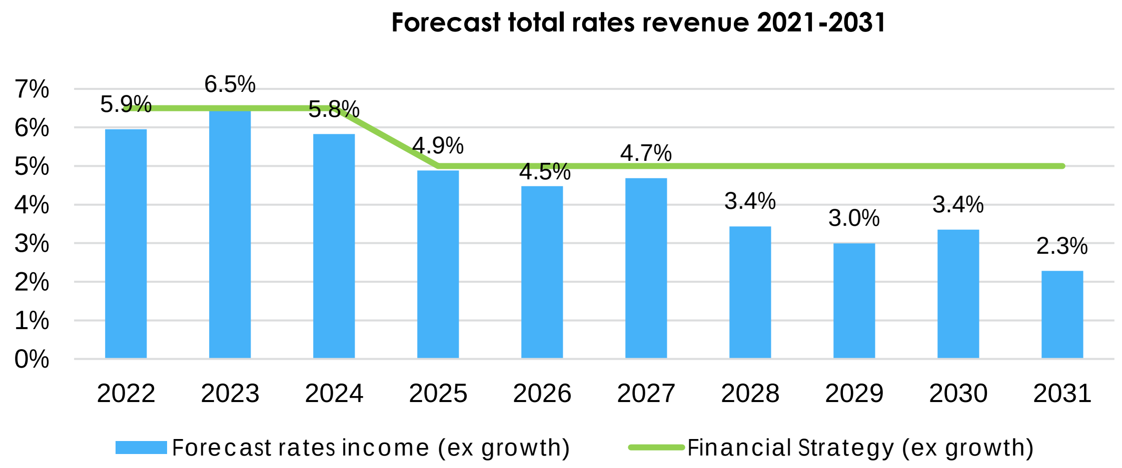
We know the community wants to maintain our current levels of service and in areas enhance or improve the levels that we currently provide. We balance this with doing the things that we must (regulatory functions and statutory compliance), and looking after our assets.

Critical infrastructure and essential Planning have been prioritised for delivery. Other capital projects, unless externally funded, will be delayed or deferred to prevent massive spikes in expenditure.

Total rates revenue increase will be set to a maximum of 6.5% plus growth[4] over years one to three, and drop back to 5% plus growth from year four. Going back to 5% in the later years of this LTP aligns with our commitment to the community in 2018 to cap our rates revenue at 5%, while recognising that we have a significant number of major projects to deliver over years one to three.

Council do not forecast using the rates revenue limit to its maximum potential. This gives us some flexibility if we decide to do more in some areas (such as biodiversity), want to build up reserves for resilience or emergency funding, want to repay debt faster or be able to respond in the face of future uncertainty.

[4] "Plus Growth" refers to growth in the number of rateable properties. It is assumed 0.5% growth (per annum) will occur throughout the LTP.



We also anticipate growth in the rating base over the life of this long term plan, which will enable Council to increase overall revenue without further increases to the rating limit. Council also aim to increase our other sources of revenue (a key direction of this Strategy) in order to offset the cost impact of operational activities on rates.

Key direction: Focus on critical activities and infrastructure

Council intends to focus on delivering and maintaining essential services and infrastructure at levels that are appropriate to meet community needs and expectations about how we do business.

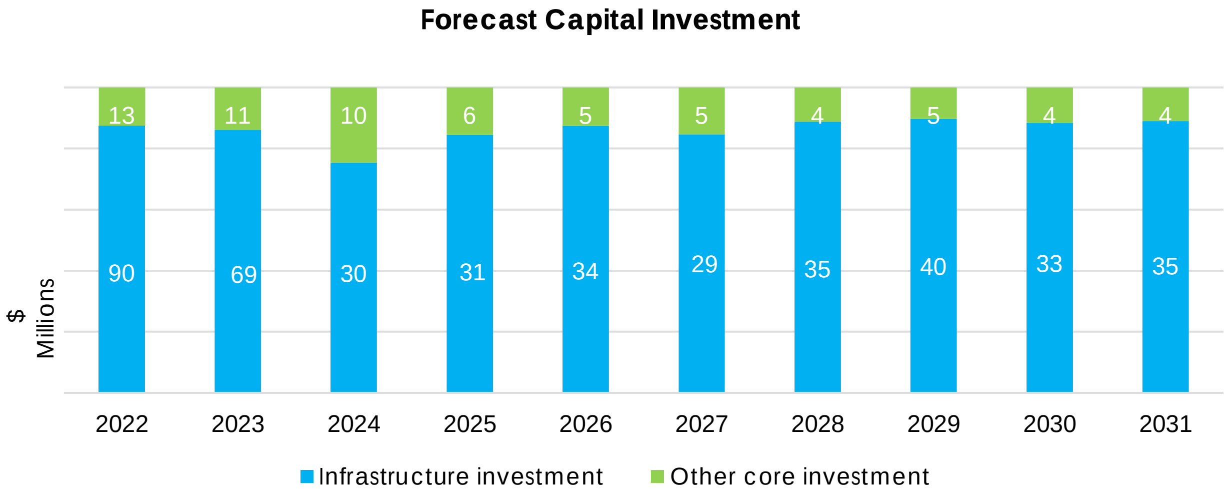
The critical infrastructure projects being funded through this LTP are:

- Waste Water Treatment Plant significant second tranche of capital investment to upgrade the treatment of wastewater to include disinfection, and progress land-based disposal options.
- Fast tracking delivery of the Waipaoa River Flood Control Climate Change Resilience project to take into account climate change impacts and provide greater protection to the community.
- Waingake restoration project which will protect the main water supply pipeline and enhance biodiversity and cultural values.

The critical activities funded through this LTP are:

- Where we have secured external grants, we will deliver key community facilities in line with our community facilities strategy
- Debt funding forward looking plans that increase our regional resilience, livability and environmental outcomes (freshwater planning and Tairāwhiti Resource Management Plan review).
- Investing in activity areas such as resource consents, to increase the capacity of our service, and improve organizational compliance,
- Investing in how we plan for and anticipate climate change, both through climate specific planning and research, and at an operational level in activity areas where investment in climate change adaptation and mitigation actions can occur now (such as energy efficient technology and transport, waste reducing activities, restoration projects).
- Working in partnership with Iwi and Hapū and enhancing Iwi and Hapū participation in decision making so that the best outcomes are achieved for our rohe (region), taiao (natural environment) and future generations.

The graph below provides a high level breakdown of capital investment, particularly the investment split between infrastructure and other debt funded activities.



Renewals funded to maintain our critical infrastructure through this LTP are:

- Continuing to renew our roading network (similar to our 2018-2028 LTP)
- Increasing the rate of renewals for waste water, storm water and drinking water infrastructure over years one to three.

Not all renewals can be delivered within the financial limits. Our approach for this LTP has been to prioritise expenditure on maintaining and renewing existing assets before creating new ones to target our resources on building resilience, and only pursuing delivery of noncritical projects where an external commitment to fund the work exists.

Key direction: Increase and optimise the use of alternative revenue streams

Council uses a variety of mechanisms to fund our operational and capital activity and continues to explore new ways of funding the critical things Tairāwhiti requires.

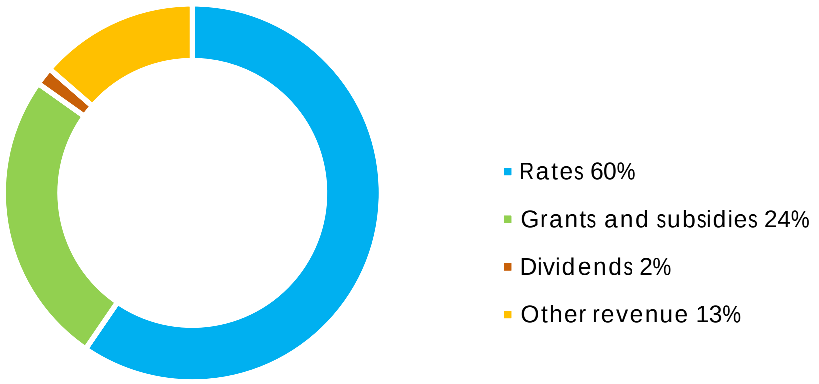
In the last three years from 2018 to 2021, we have been successful in securing $74.6m more in alternative revenue than forecast within the 2018-2028 LTP. For this LTP, central government will contribute $40m as part of COVID-19 stimulus to enable the redevelopment of our Olympic pool complex.

As we progress through this LTP, we will continue to seek sources of funding to facilitate what we do. But for the here and now, the Financial Strategy only recognises the funds that have been secured and how that contributes to the work that has been prioritised with the funds we have.

The graph below shows the proportions of revenue sources averaged across the life of the LTP. Rates are an important form of revenue for Council making up 60% of our total funding. The alternative sources of revenue are critical to help fund our activities. They also lessen any financial burden placed on ratepayers.

We have forecast future revenue from these non-rates sources but are not anticipating significant increases in this over the next 10 years. However, we will focus on making maximum use of them before we look to rates to fund our activities.

Forecast proportion of revenue sources



Revenue streams

While Council aims to increase all revenue, including rates, we also aim to target revenue from grants and subsidies and increase dividends from investment. The greater the contribution from these other sources of funding, the less Council needs to collect in rates in order to fund its activities and finance its infrastructure investments.

Grants and subsidies revenue streams

Most of Council's grants and subsides come from Waka Kotahi New Zealand Transport Agency for maintenance and renewals of our local roads.

During this LTP, the financial assistance rate from Waka Kotahi reduces, meaning that Council will need to make up the difference in either more rates, or use more of reserves or debt, to fund the shortfall.

The other significant grant funding is from Central Government with $40m going towards the redevelopment of the pool.

Funding Streams from Gisborne Holding Limited (GHL) and Trust Tairāwhiti

Council's main source of investment is Gisborne Holdings Limited (GHL), a Council Controlled Trading Organisation (CCTO). Dividends are used to smooth the impacts of rates or to facilitate the repayment of capital investment projects. During the first 5 years of the LTP, higher dividends will be used to offset the higher operating costs, but are forecast to revert back to lower dividend returns in the last five years of the plan.

Receiving higher dividends that normal within the first few years of the plan, may mean that there is reduced ability for GHL to do more capital investments. This is a balance between the affordability issues today, against growth and investment opportunities that may benefit future ratepayers. The lower dividend forecasts for the last five years of the plan, is enable GHL greater opportunities to them grow and plan for their capital investment.

Trust Tairāwhiti, the community's regional development trust, will be crucial to help meet funding investments challenge for Council. The LTP needs to provide clarity about the best us of funds and Council investments and seek firm commitment of the funding. Predictable and stable revenue is critical.

Other Revenue

Other non-rates revenue includes fees and charges and development contributions. Refer to the key direction "Ensure beneficiaries of services pay the costs", for further details.

Strategic Partnerships

In the longer term, Council will need to think beyond conventional ways of funding activities and look at leveraging community partnerships to deliver a wide range of community services.

Council will review how our services are currently delivered and how they can be provided in the most efficient and effective way. This includes review services of our CCTO, of the Council Group as a whole, how we interconnect and how we can work in partnership more even more effectively for our region. Potential opportunities include:

- Partnering more with Iwi and Trust Tairāwhiti, looking to maximise community benefit through shared outcomes and collaboration
- Reviewing options for our commercial arrangements
- Investigating and implementing other service delivery models
- Partnering more with community groups.

Key Direction: Ensure beneficiaries of services pay the costs

Council aims to ensure those who benefit from services and infrastructure that Council provides pay the costs associated with the provision of those services and infrastructure. We use a variety of tools to make this happen.

Council services are funded in a variety of different ways including:

- Rates
- Fees and Charges
- Depreciation Reserves
- Development Contributions.

Rates

Councils uses the following rating tools to decide who pays when rates are the most appropriate funding mechanism:

- **General rates**. These pay for our activities which the community requires and has available to them, but there is no specific person or property that benefits. How much you pay depends on the capital value of your property.
- **Uniform annual general charge (UAGC).** This also pays for activities that everyone benefits from. Every ratepayer pays the same amount, no matter where you live in Tairāwhiti.
- **Targeted rates.** This form of rate is used where an activity benefits an easily identifiable group of ratepayers (such as the commercial or residential sectors) and where it is appropriate that only this group be targeted to pay for some or all of a particular service. For example, sewage disposal and water supply for the Te Karaka community.

How Council applies these rating tools will impact on the incidence of rates across the district.

Fees and charges

Council's preference is to recover costs when a service can be directly linked to the user or beneficiary, through user fees and charges. It includes people or groups who use certain Council services, such as our swimming pool. In these instances, an identifiable benefit exists to clearly identifiable people and/or groups and they are required to pay for all or part of the cost of using that service.

Captured by our Fees and Charges policy, these are reviewed regularly and adjusted for inflation and any increase in cost to deliver services being accessed.

Growth

Council aims to ensure that activities that stimulate the need for infrastructure growth, (particularly where this is an extension of Council's infrastructure footprint), bears the cost of that growth. Depreciation reserves for the most part, will not be used to fund new growth related infrastructure as existing ratepayers should not be paying for growth related infrastructure.

This Strategy identifies and directs Council activities to ensure users and those who benefit from Council activities and infrastructure pay for them. This is particularly applicable to industry, and existing targeted levies/user charges will either be maintained or new levies introduced over the life of this LTP as part of offsetting our reliance on rates revenue to provide those services.

Investment Returns

Our Investment Policy sets out how Council plans to manage its investment portfolios to optimise investment value and returns in the medium to long term, while balancing risk and return considerations. Our approach to managing investment risk includes ensuring a mix of investments and regular monitoring of our Council-Controlled Trading Organisation (CCTO), Gisborne Holdings Limited (GHL) of which Council is the 100% shareholder.

Development Contributions

Our Development Contributions Policy outlines our approach to development contributions, which provide an alternative funding source for capital projects. This means our 'up front' investment into infrastructure projects that will enable growth will be accurately offset by contributions from developers.

We forecast that about $18m of capital projects in the 2021-2031 LTP may be funded through development contributions.

Other Opportunities

Council will review how it charges for services either through the current rating system, or through use of levies where a different form of charging maybe more appropriate. This includes looking at other ways of collecting the roading wear and tear costs caused by different sectors, including how we apportion costs to forestry.

The current rating system captures costs attributable to the sector as a whole for the damage cause on our roads but it doesn't take into account who is individually doing the damage and how that individual receives its income. By looking at alternative mechanisms that capture the costs when harvesting occurs aligns better to the "beneficiaries of services pay", as well as aligning to affordability, as the costs charged to the user follows when harvest income is received.

Key Direction: Manage debt prudently

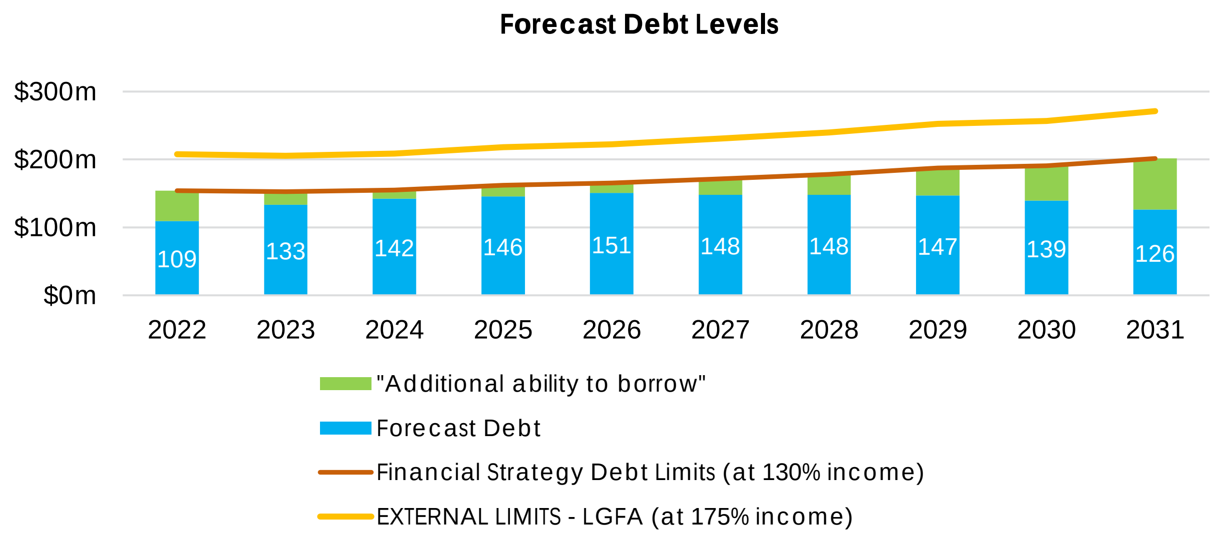
Council will prudently manage debt over the course of the LTP. Debt levels are currently low relative to the value of the asset base and the organisation's ability to generate income streams. Borrowing generally occurs to support the capital program. However, debt has also been used in this plan to smooth some of the steep operational costs that are forecast to occur as part of additional Freshwater planning and reviewing the Tairāwhiti Resource Management Plan.

Rather than impose a significant rates increase in any one year, these costs have been added to debt but will be paid back within the useful life of the plan; that is within ten years. This follows the premise that the cost of the plan is spread over the life of the plan, paid for by all the users of the plan.

Council anticipates raising debt limits from 100% (or peak of $105m) to 130% of net debt[5] to revenue. We anticipate our borrowing will peak in year five of the LTP, to fund key projects such as wastewater and flood protection infrastructure.

Our ability to raise debt is not dependent on our Financial Strategy limit of 130% of revenue. Council's ability to borrow is determined from external sources, such as Local Government Funding Agency (LGFA), where Council's limit is 175% of revenue. While this 175% allows additional capacity to borrow it has not been factored into any funding of capital projects, and it remains an additional buffer for Council in the case of unforeseen emergencies.

The graph below shows our debt limit, and our forecast total debt or borrowings per annum. It illustrates the gap, or 'buffer' between forecast net debt and our debt limit. This provides us with 'room to move' should our regional context change unexpectedly in the future (for instance, needing to take on more debt in the face of significant emergency repairs and maintenance from natural hazards).



To ensure sustainable financial management when considering what level of debt to take on Council takes to following into account:

- Possible impacts to levels of service (LoS)
- Deferred maintenance- particularly whether it will cost us more in the future, to defer what we could complete today.
- Intergenerational equity. Intergenerational equity requires that each generation that benefits from an investment should contribute to the cost of that investment. Debt is one way we

[5] Net debt is defined as financial liabilities less financial assets (excluding trade and over receivables) and less lease debt arising from CCTO arrangements

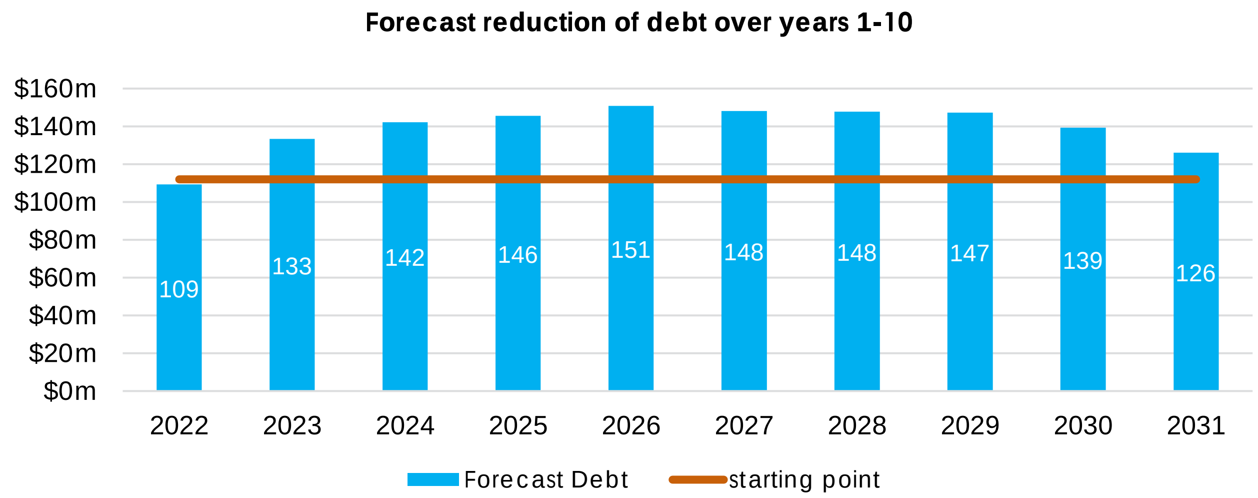
smooth the cost of construction over the generations that will make use of, or benefit from, the service.

- Our ability to ensure borrowings are undertaken efficiently and within set limits
- The long term sustainability of Council and the activities debt would fund.
- Our ability to service and repay any borrowings.
- We also manage debt within the constraints of our financial management policies (including investment, liability management and Revenue and Financing).

Being prudent, Council forecast repaying debt as soon as possible

At the end of the first year of the 2021-2031 LTP, debt is forecast to be $109m. While debt peaks at $151m in the middle of the ten years, we are forecast to return $126m by the end of the plan.

Paying off debt as early as possible reduces our regional vulnerability to external or unexpected financial events. This means we have more capacity to borrow in the future in the event of natural disasters or other unplanned events. It also reduces the risk if interest rates rise more than forecast in this LTP.

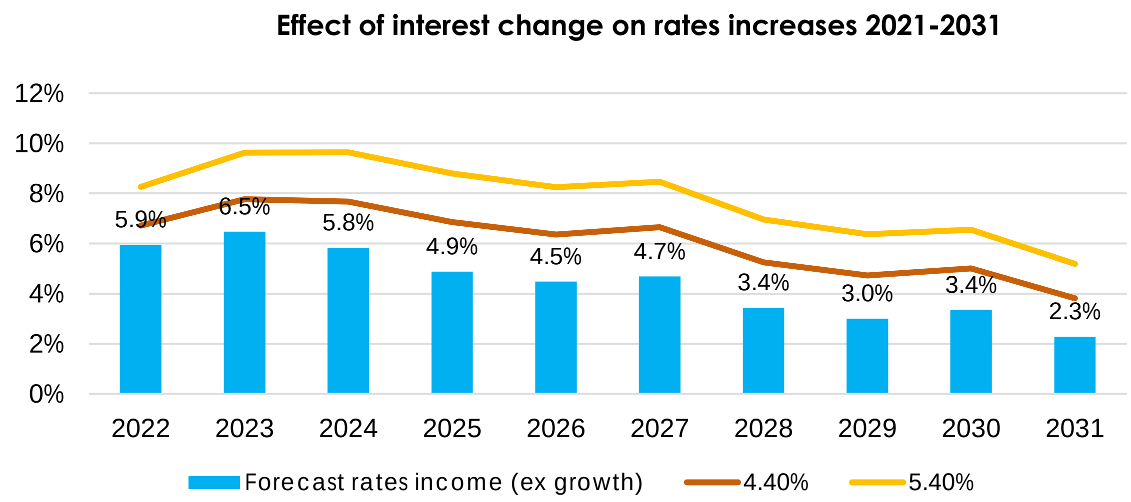


Council will actively manage interest rate risk

We acknowledge that while borrowing may be affordable today, Council must anticipate the risk of the current borrowing climate changing. The risk associated with interest rates increases is that we service the cost of loans through rates, so an unaffordable change in interest rates could mean a jump in rates.

Council assumes an interest rate of 3.4% over the life of this plan. The graph below shows the effect of interest rate changes on forecast rates revenue increases, and the forecast actual rates revenue per annum. The key risk associated with debt increase is the potential for interest rates to increase more than forecast. This would drive up operational costs of servicing loans and affect capital decisions and the financial feasibility of some projects. An increase of 1% would result in additional costs of about $1m (year 1) to $1.5m (year 6).

We limit debt levels by our ability to service loans and finance costs. We convert the uncertainty of floating interest rates into fixed rate borrowing, through forward rate agreements, interest rate swaps and interest rate options.



Opportunities

Council will review the benefits of being credit rated. To date, Council's lower debt has meant the cost of becoming credit rated outweighed the benefits of marginally lower interest rates, and access to higher debt limits. There are now opportunites for extending Council's favourable lending facility to our CCTO. It also means Council would have an even greater financial "buffer" to cope with any emergency events.

Key Direction: Grow and enable our rating base

Council aims to grow our rating base by supporting economic development activity and actively providing for the growth potential of our city, where we forecast most growth will be centred over the next 50 years. This includes:

- Ensuring long-term sustainable water sources for horticulture through the Managed Aquifer Recharge (MAR) Project and pursuing other sustainable water use and storage initiatives.
- Growing our tourism sector by working with Trust Tairāwhiti to develop and market a compelling regional brand, and new tourist offerings, to attract talent, capital and visitors to Tairāwhiti
- Ongoing investment in infrastructure to attract businesses to our rohe (region) and encourage our existing businesses to expand.
- Improving the resilience of our transport connections and upgrading our roading network through climate change adaptation actions to support freight movements with.
- Delivering new and up-to-date community infrastructure that improves the amenity and liveability of our place
- Identifying and delivering key infrastructure to support and provide for growth that is occurring and anticipated.
- Updating the Tairāwhiti Resource Management Plan to facilitate sustainable economic development while protecting the culture and values of Tairāwhiti.
- Working with iwi and hapū to support their aspirations and increase productivity of whenua Māori (Māori freehold land).
- Partnering with iwi and others to create more nature-based jobs – our flagship project is the Waingake restoration programme.

D. Financial Levers

Our financial levers

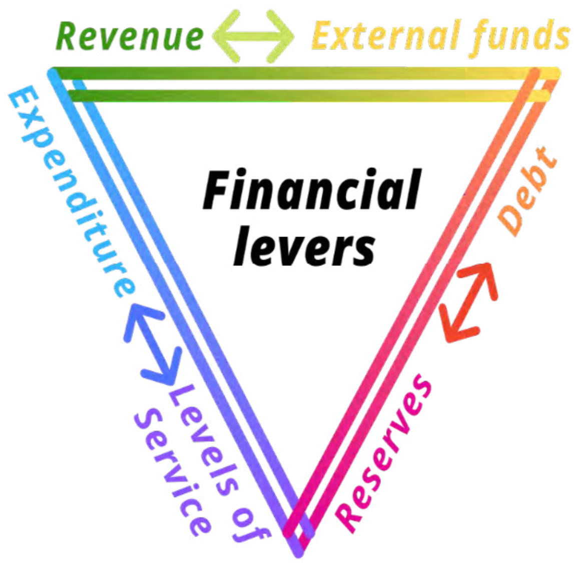
This Strategy aims to provide a balance between rates affordability, keeping council borrowings low, and delivering the activities and services our community expect in a fiscally responsible way.

We have three main financial levers to balance the work Council provides to community:

- the amount we spend
- how much debt we take on
- how much revenue we receive

The triangle represents the relationship between the three levers.

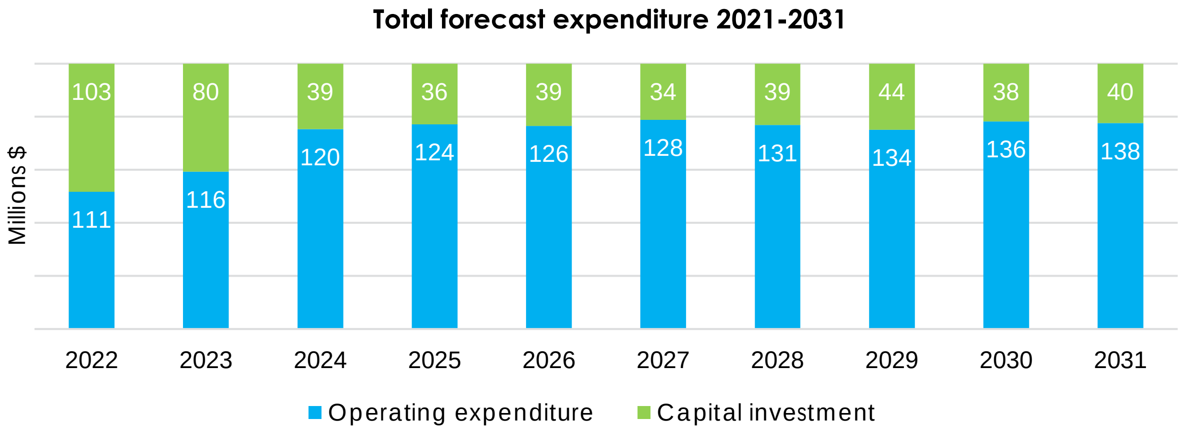
Changing one lever, such as increasing costs (expenditure) by providing new services will mean we need to either collect more revenue or use our reserves/debt to fund it. Conversely not investing in a capital project, will either reduce the need for more revenue or reduce the need to raise more debt.



Total Expenditure

Total expenditure for Council is what we spend on operational costs capital costs.

Expenditure is heavily dependent on the levels of service (how much we do) and the services and assets Council provides to the community. If Council does more – either because it must comply with new standards or because the community would like to see more – then costs will increase. Conversely, if Council reduces levels of service – either due to it no longer being needed or because it is no longer affordable or a priority to provide it to the level we did before, then costs associated with that service will decrease. This graph shows our forecast expenditure over the life of this Strategy, split between capital and operational spend.



Historically Council spends more on operational costs than capital projects. But for the first two years of this LTP our capital investment is higher. This is largely due to our commitment to redevelop the Olympic Pool complex and complete the Wastewater Treatment Plant Disinfection project. Operational costs include depreciation (wear and tear costs of our assets), employee costs and interest costs.

Council will review how our services are currently delivered, both in how they can be provided (either through partnership with Council, by other providers) and through reviewing the efficiency and effectiveness of our own activities.

In the future, our water service activities (including water supply, wastewater and stormwater) could be provided by a larger water provider outside of Council. This depends on the outcome of the Government's Three Waters reform programme. This creates an added level of complexity for Council, where the future of this asset is uncertain.

The Strategy has kept a forecast budget for our water infrastructure, to ensure we have available to us what is needed for the renewal and operation of the assets regardless of this potential uncertainty.

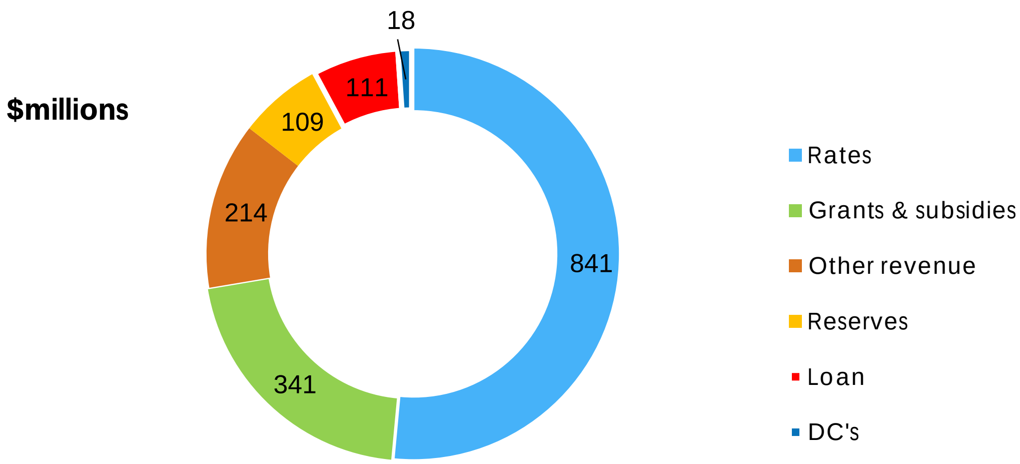
Revenue

Total funding forecast for 2021-2031 LTP is just under $1.6 billion. Rates make up 51% with the rest coming from grants (21%), other revenue including user fees (13%), reserves (7%) loans (7%) and development contributions (1%).

Total expenditure is forecast to be around $1.76 billion. The shortfall funding between revenue and expenditure relates to depreciation costs where rates are not collected to cover the full depreciation cost. Most of these "unfunded" depreciation costs relate to Council's roading assets, because we receive funding from Waka Kotahi NZ Transport Agency to help maintain and renew our local roads (so we don't have to collect rates to cover this future cost).

We have assumed that when roading assets are replaced in the future, funding from Waka Kotahi will be available at the same rate it is today (currently a 66% Financial Assisted Rate).

Total funding (operational & capital) 2021-2031



Debt and Reserves

Debt and reserves have an indirect relationship, as reserves reduce Council's overall need for external borrowing. Council only borrows for what is needed to meet cashflow requirements. We monitor the planning and the progress of our projects and only borrow what is required to fund them, and only when that funding is needed.

In order to minimise the amount of external borrowing, we lend internally between different reserves. By doing this, we minimise Council's overall interest costs. Reducing debt or increasing the amount of reserves can be done by:

- Reducing capital expenditure; or
- Increasing revenue (through rates or external sources).

This Strategy does both; it prioritises capital expenditure, and when there is not as much pressure on rates (as there is in the first three years), there is an acceleration of debt repayments. As reserves are used to repay debt, by separating rating for more debt repayments from Years 4-10, debt reduces as reserves increase.

Depreciation Reserves

There are two types of capital expenditure:

- Investment in renewal of existing assets once they reach the end of life e.g. existing roads
- Capital investments for new projects that are stimulated by growth and new needs e.g. the Waipaoa River Flood Control Climate Change Resilience project

Assets need to be maintained to maximise their useful lives and replaced to avoid asset failure. Provided assets are renewed when needed, they will continue to meet levels of service. As new infrastructure is built, Council starts to collect rates for depreciation. This goes towards future funding for the renewal of that infrastructure[6].

During the 2021-2031 LTP, Council's capital renewal programme is set to increase from $263m to $297m over the life of the LTP.

6 When Council builds new infrastructure from scratch due to growth this is funded through loans and development contributions

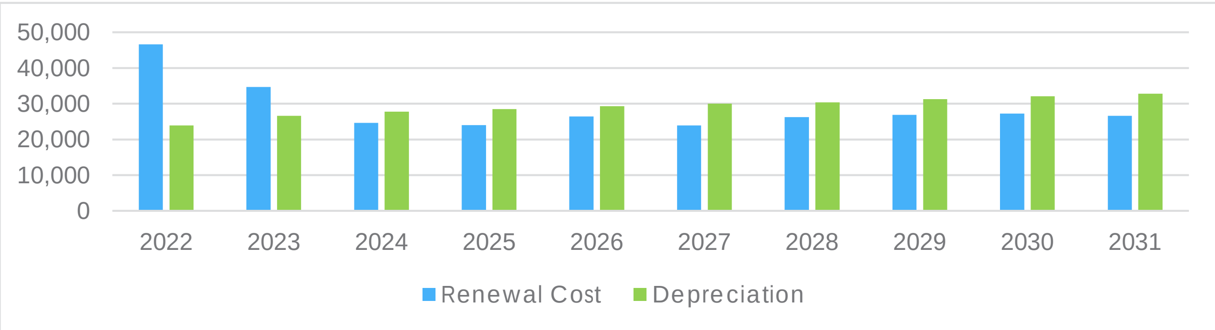
Capital renewals versus Depreciation

For the first three years of the LTP, we are doing some renewals at a faster rate than depreciation. The accelerated renewals are mostly within wastewater, flood protection and roading activities. We move at a slower rate renewal rate years 4 onwards, but overall we maintain a 98% rate of renewal to deprecation.

Overall LTP %	Years 1-3	Years 1-6
98%	135%	109%

Some areas of renewals are different to others, based on their condition, the remaining useful life, prioritisation of critical assets first, and balancing affordability. Affordability takes into account that we cannot do everything at the same accelerated rate for the course of the LTP and that we need to prioritise the critical assets first.

Relationship between renewals and depreciation 2021-2031



Balancing Reserves over time

Depreciation reserves are used to fund the capital renewals programme as well as principal loan repayments. Current reserves are at $41.6 million. In the early years of the LTP, capital renewals and principal repayments for new infrastructure, will be more than depreciation. However, from Year 6 of the LTP the reserves build up again. By the end of the Plan, reserves build back up to $35.7m.

This will be achieved by funding more depreciation (roading and wastewater) and rating for principal repayments separately. This Strategy suggests a long term view to building the health of the reserves. Council is unable to simultaneously complete capital works and replenish its financial reserves. This would require a further increase in rates revenue, more than what we have allowed for and negatively impacting on affordability to rate payers.

Over time Council will position itself so that funding for each activity is sufficient to fund debt repayments and to complete renewal work in the Asset Management Plans (AMP's).

Balancing Affordability against the increased costs of depreciation for new projects

In some cases, Council will not fund depreciation on certain assets. This includes situations where:

- The assets maybe not be replaced at the end of their useful life
- The portion of roading assets which will be funded from externally
- Where the portion of the asset has been funded in advance by capital rates
- Where the asset has been fully grant funded (e.g. Olympic Pool)

Also in the short term, there is a strategy to phase the fully funding of depreciation new projects when there is an issue of affordability. Both the Wastewater Treatment Plant Disinfection project and the pool redevelopment are completed around the same time, years 2 and 3.

The stepped increases arising from additional depreciation is just over $1.4m in year 2. In order to reduce the impacts on rates and therefore affordability, depreciation is funded to the extent of meeting the principal repayments. Before the end of this LTP, depreciation for both the Wastewater and the pool redevelopment project will be fully funded.

Balancing the Budget

Council sets its operating income at a level to meet each year's operating expenditure. This ensures that there is access to enough funding to enable services to continue to be provided over the Plan.

However, there are some costs or services that Council have planned for, where this approach may not be practical or prudent to do so. Not all of Council's depreciation costs are funded. Waka Kotahi currently funds a significant portion of the subsidised roading network, and as such we do not rate for this portion of deprecation.

Similarly, it is deemed not prudent to raise rates as they occur to match the steep planning costs associated with the delivery of planning for freshwater and the Tairāwhiti Resource Management Plan. Rather, the approach has been to raise a loan over the life of two plans, in order to smooth the impacts to the ratepayer.

Over each year of the LTP, Council is forecasting a surplus. Most of the forecast surplus relates either to capital grants, where the additional funds will be used for capital projects and reducing the need for additional external borrowing.

E. Strategic Links

This Strategy provides top down direction for – and is implemented through – a variety of policies, plans and actions taken by Council as outlined below:

Financial policies and their role:

Revenue and Financing Policy	This policy determines when debt and rates will be used as a funding source. This includes targeted rates for the cost of an activity or service that should be paid for by particular groups or particularly ratepayers who benefit from the activity or service.
Development Contributions Policy	This policy identifies growth-related infrastructure work as well as the charges that expect to be recovered from developers to support that work.
Investment Policy	Our Investment Policy looks at Council's mix of investments, management of risk where investment is concerned and our procedures for managing and reporting on investments.
Liability Management Policy	This policy covers debt repayment, credit exposure and provides policies for interest rate exposure and liquidity. It implements the judgements that our revenue and financing policy makes about intergenerational equity.
Remission Postponement and Penalty Policies	Remission policies are primarily used to address any inequities as a result of setting of the rates and provide assistance to those who are affected more than others.