Clutha District Council

FINANCIAL STRATEGY

YOUR COMMUNITY YOUR COUNCIL YOUR FUTURE 2018/28

MANAGING OUR FINANCES

This financial strategy sets out how Council intends to manage its finances during the 2018/28 period, including our targets for investments along with the limits we have set ourselves for rates and debt.

WHERE WE HAVE COME FROM

Clutha District Council was formed in 1989 with the merging of a number of boroughs and counties in varying financial positions. Since then Council has gone on to consolidate its financial position. This has been helped by asset sales and changing the way we operate e.g. contracting out the operation and maintenance of services and assets, particularly core ones like roading, water, sewerage and solid waste.

WHERE WE ARE NOW

Financial Position

We are a relatively small council, but with a sound financial base. As the excerpt from the Prospective Statement of Financial Position shows, we expect to maintain this position during the next ten years.

EXCERPT FROM THE PROSPECTIVE STATEMENT OF FINANCIAL POSITION - $M

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Total Assets	1,047	1,142	1,149	1,155	1,254	1,254	1,253	1,349	1,346	1,344
Total Liabilities	12	21	28	32	31	30	28	24	20	16
Net Assets	1,035	1,121	1,121	1,123	1,223	1,224	1,225	1,325	1,327	1,328

Rating Units

Based on historical data and changes to the district's rating base Council is projecting that the number of rating units in the district will continue to grow at a rate of at least 0.2% per annum. Council's rating base is expected to increase incrementally from 11,124 to 11,348 during the life of this plan. This doesn't take into account the impacts of Council's focus to grow the rating base as this is too difficult to predict in detail and at this early stage.

Dwellings

This plan assumes that the number of dwellings will increase as set out in the Rationale Ltd report, 'CDC Growth Projections to 2048'. The Benhar, Bruce, Waihola and Taieri Mouth communities are projected to experience higher dwelling growth rates of around 1% per year while most other settlements are projected to grow at between 0.1% and 0.7% per year. The exceptions are Clinton, Lawrence and Tapanui where dwelling numbers are not expected to increase.

CLUTHA DISTRICT OVERVIEW

Economic Trends

As our district's economy depends significantly on the primary sector, the ability to absorb and sustain labour in the district is influenced by this sector's economic performance. The sector has been positive across the previous decade, showing employment and GDP gains since 2000.

We expect the agricultural sector will continue remain relatively strong over the next ten years, although its performance will be highly affected by factors like the exchange rate, climate and fuel costs, so will be more volatile than can be predicted here. Likewise, increased productivity trends and consolidation of rural processing industries will continue to impact on the number of jobs required to sustain this sector of the economy. The tourism sector has also shown growth in recent years, and is expected to continue to do so, although it is only about 3% of the district's economy.

Land use changes

No major shifts in land use are expected during the life of this strategy that would have a significant impact on Council's finances.

Recent conversion to dairying has steadied and intensification is expected to be subject to water availability and being able to meet increasing standards for environmental discharges.

Maturation of forestry blocks and subsequent harvesting and processing throughout the district will impact on roading infrastructure. However, our current regulatory framework provides for these impacts to be dealt with directly with forestry owners and this demand is known and planned for.

As part of our strategic growth focus Council has made provision for urban growth in some areas of the district and this is expected to continue through the District Plan review, so as to facilitate urban and industrial growth where there is demand in key areas of the district. Examples of this include the proposed Milton-Waihola pipeline and further work to look at increasing the capacity for relevant rural water schemes.

CHALLENGES WE FACE

COUNCIL FACES THE CHALLENGES OF BALANCING THE KNOWN WITH THE UNKNOWN.

Increasingly we face added pressure financially, geographically and politically. It is against these challenges that we set our financial strategy. This section acknowledges the following significant factors that have been considered in preparing this strategy. These are also mirrored in 'managing our infrastructure', council's 30 year infrastructure strategy 2018/48. In this strategy we will focus on the coming 10 years, acknowledging the interrelated nature of our finances and infrastructure.

Our changing communities

Like other rural areas in New Zealand we have a relatively small, static and aging population. The modelling undertaken indicates how the number of people in the district will change. Clutha's population is forecast to remain relatively static during the life of this plan. Council has adopted a medium growth scenario that projects usually resident population to change from 17,250 to 17,490 by 2028.

At this stage growth is not predicted to occur evenly throughout the district. Bruce, Clutha Valley and Kaitangata-Matau wards are projected to experience positive population growth. The population in the Clutha, Catlins, West Otago, Lawrence-Tuapeka and Clinton wards are forecast to decline slightly, however dwelling and rating unit growth is still positive. Benhar, Waihola, Taieri Mouth, Kaka Point and Stirling settlements are expected to have slight population increases.

The average age of the population of the district will continue to increase over the long-term and is expected to impact on the way Council delivers its services. In 2013 people aged 65 and over made up around 16% of our population. This is expected to increase to 33% by 2048. A major increase in the number of older people is likely to change the type of services and ability to pay for those services. This is unlikely to result in new activities, rather similar types of services and how they are delivered. The specifications of services such as footpaths and library services may need to be adapted but overall it is unlikely to result in significantly higher costs. There is expected to be increased demand for activities such as walking and cycling, as identified through the development of community plans for the district's main towns, where further investment in walking and cycling has been identified. The proportion of the population under 15 years of age is projected to decline to between 14.5% and 18% by 2048. The result of this changing profile of the population is that people aged between 15 and 64 years of age are projected to decline from over 63% to fewer than 50%. This results in a net decrease in the number of people in this age group under all growth scenarios. This may have a flow-on effect to the make-up of the district's work force.

Initiatives such as Council's Economic Development and Living and Working in Clutha strategies aim at attracting residents in the 15 to 64 age group to meet work force needs, and to slow growth in the proportion of the population in the over 65 age group.

Widespread infrastructure needs

We are a widespread district covering an area of over 6,000 km2 with a number of towns and several smaller settlements that all have their own infrastructure needs. Council maintains just under 3,000km of local roads and 401 bridges. There are 22 water schemes that deliver water to 15 urban areas and more than 2,000 rural properties throughout the district. We protect the environment and public health by collecting, treating and disposing of treated sewage from 14 townships via 11 sewerage schemes. Stormwater drainage helps protect people and properties across 13 of the district's communities. Maintenance, replacement and renewal of this infrastructure to support our communities sustainably into the future will always be an important financial aspect that we need to carefully plan for. Further information about infrastructure and its estimated remaining life can be found in the 2018/48 Infrastructure Strategy that sits alongside this strategy.

Accurate information about our infrastructure

We have approximately $1 billion worth of infrastructure assets, including the third largest local roading network in the country. To be able to best manage this infrastructure we need to have accurate information about the various components, which includes their age, condition and their expected remaining life. This is needed to plan for maintenance and renewals and to calculate the annual use of the asset (depreciation) for residents and ratepayers. Council has an ongoing programme to improve the quality of the information we have about our assets to ensure we have accurate estimates of asset value and lifespan, and to fund depreciation accordingly.

Co-funding for local roads

Maintaining our local roading network is essential to our economy. It is also our biggest and most expensive asset. The New Zealand Transport Agency (NZTA) is the main source of funding for our roading operations. Council receives a baseline level of funding (59%) from NZTA for the maintenance of the roading network, while funding for new projects may be received depending upon the costs and benefits of each project. Overall NZTA income makes up 20% of Council's total income. It is important to note that NZTA funding is conditional on our planned roading programme meeting NZTA criteria. Changes in the criteria and/or the level of funding would mean that ratepayers could be required to contribute more towards the overall financial cost of roads, or potentially lead to reductions in the roading programme, which will affect the quality of local roads. Based on information at hand the baseline percentage levels of NZTA funding have been assumed to be those as set out in the table below.

FORECAST NZTA FUNDING FOR LOCAL ROADS 2018/28 - $M

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Local roads	59%	59%	59%	59%	59%	59%	59%	59%	59%	59%
SPR* maintenance & ops renewal and minor improvements, new & other improvement projects	89%	83%	77%	71%	65%	59%	59%	59%	59%	59%

***Special purpose roads i.e. Southern Scenic Route**

Tourist and visitor growth

As for New Zealand as a whole, the number of visitors to the Clutha District is forecast to increase. The 'average day' and 'peak day' visitor numbers to the district are projected to increase annually by 2.4% and 1.7% respectively during the term of this plan. Visitors to all eight wards of the district are expected to increase. Average visitors per day are expected to increase from 2,358 in 2013 to 4,267 by 2028. Peak visitors are expected to increase from 6,616 to 9,793 over the same period. Balclutha, Milton, Lawrence, Owaka and Kaka Point have the highest number of visitors in the district and this is expected to continue.

Visitor numbers may increase demand on infrastructure and services such as water supply, sewerage, solid waste, parking, public toilets and roading. While improvements to the level of service for public toilets is budgeted in this plan for Balclutha, Milton and Cannibal Bay. Further work is required in this area to fully assess what additional levels of service are needed and how this can be funded with the least cost to ratepayers. Council has committed funding towards a tourism infrastructure feasbility study and district destination plan to progress this issue.

Liability funding

A 2017 legal determination concluded Council had to pay a $2M liability under the Construction Contracts Act. This liability will be funded partly through general reserve funds, partly loan funded (over 25 years paid via the UAGC rate) and partly asset funded. This spreads the cost of the liability between historical and future ratepayers. Council has also committed over $440,000 in additional investment income received in 2017/18 towards reducing the cost to rates.

Adapting to the effects of climate change

The strategy anticipates that no significant climate change impacts requiring unforeseen mitigation will occur during the period of the 2018/28 Long-Term Plan. It assumes that the rate of climate change will be gradual, allowing Council time to plan and prepare its response options around services and infrastructure.

Longer term climate change impacts that may affect Council assets include:

- Increased risk of flooding, landslides and erosion. The capacity of stormwater systems may be exceeded more frequently due to heavy rainfall events which could lead to surface flooding, damage to infrastructure and road closures.
- Water availability- water security is most likely to be an issue. Droughts are likely to increase in both intensity and duration over time.
- Coastal hazards -there is likely to be increased risk to coastal roads and infrastructure from coastal erosion and inundation, increased storm surge and sea-level rise.

If the impacts of climate change are felt sooner than expected there may be demands on Council's budgets. Council's ability to deliver the level of service to the community may be impacted if climate change occurs faster than expected or to a greater extent. If this occurs it may require unbudgeted emergency work to be carried out and/or create additional costs to mitigate impacts, such as improving protection of critical infrastructure or increasing maintenance.

However, Council's low level of debt allows it greater flexibility to respond to any unexpected climate movements through borrowing for emergency works, if required. In addition, Council self-insures its underground assets to help provide for emergency work if required.

In the short term, Council will ensure that future assets are of sufficient standard to cater for the predicted near-term effects of climate change, including rainfall amount and intensity, and sea level rise. Council plans to carry out more detailed modelling around climate change impacts over the next three years and will continue to monitor climate change science and the response of central government, and will adapt its response where required.

Council does acknowledge that the effects of climate change are expected to be felt over the longer term (50-100 years), but that these are unlikely to have a significant impact during the period of this strategy.

DISTRICT VISITOR NUMBERS 2018/28

	2013	2018	2028
Total Visitors (Average day)	2,358	3,366	4,267
Total Visitors (Peak day)	6,616	8,148	9,793

Changes in legislation and regulations

Council is bound by various regulations and legislation with many responsibilities prescribed by various acts, including the Local Government Act 2002, Reserve Management Act 1991 and Building Act 2004. The recent changes in government also increase likelihood of additional legislative/policy shifts that may have an effect on Council's finances and levels of service. Stipulations around the quality of drinking water and treatment discharges have added additional costs to Council delivering its services and thereby adding costs to ratepayers. This strategy assumes that Council will meet consent conditions and that conditions of resource consents currently held will not be significantly altered. It is assumed that updates to obtain consent renewals will progress as programmed and this can be achieved within allocated budgets.

It is anticipated that there will be heightened level of controls on stormwater discharges relating to the Otago Regional Plan Change 6B. No additional capital budgets have been included at this stage until more is known so that Council is in a position to assess potential financial impact in the 2021/31 Long Term Plan. Council is purposely taking a wait-and-see approach when we are in a position to be able to estimate the costs and the possible impact on rates.

Rates affordability

Maintaining rates affordability where there are variations in income and economic circumstances within our communities is an ongoing issue. Rates do vary for properties throughout the district depending upon their location and the bundle of services they receive. Council is aiming to continue to review how it rates for activities and services with the aim of making our rating system as fair and affordable as possible. Further information about this aspect is contained within the Revenue and Financing Policy.

Natural disasters and planning for the unknown

The timing and scope of natural disasters are unpredictable. There have been an increasing number of disasters including earthquakes and floods in New Zealand during the past decade. The risk is reduced in Clutha because of its size and the number or widespread communities, reducing the likelihood of extensive damage throughout all critical infrastructures at the same time. But, any major event would impact on Council through the need for immediate funding, and depending on the scale, duration and location of the event, there could be unforeseen costs in terms of damage to Council assets.

In order to prepared for a significant unexpected event, Council has undertaken insurance cover for above ground assets covering $153M material damage as well as its separate self-insurance fund for underground assets that currently stands at $176K. Council also has an Emergency Fund of $4.2M to draw against should it be necessary. For immediate cash funds Council has a committed bank facility of $3M (multi- option credit line or bank overdraft facility) for meeting shortfalls.

WHERE WE WANT TO BE

IN DEVELOPING OUR 2018/28 FINANCIAL STRATEGY, COUNCIL HAS TAKEN THE OPPORTUNITY TO EXAMINE THE CURRENT AND FUTURE NEEDS OF THE DISTRICT. IT HAS BEEN IMPORTANT TO LOOK AHEAD AND CONSIDER WHAT OUR ORGANISATION CAN DO TO HELP FUTURE PROOF OUR DISTRICT. WE WANT TO CONTINUE TO CONSOLIDATE AND BUILD ON OUR SOUND FINANCIAL BASE.

As is mirrored in our Infrastructure Strategy, Council has committed to continuing to sustainably manage and maintain key infrastructure for residents throughout our district. In some instances we will increase levels of service to meet compulsory requirements, such as increasing standards for sewage discharges and water.

Council will also look at facilitating growth where there is potential for this, to help achieve our goal of growing our rating base. We acknowledge this is a medium to longer term goal.

OUR FINANCIAL STRATEGY IS TO:

- Review the way Council rates to gain efficiencies where possible (as part of looking at intergenerational equity and affordability of rates).
- Use debt appropriately by leveraging off our strong balance sheet by utilising low interest rates through the Local Government Funding Agency (LGFA).
- Comply with all legislative and statutory requirements.
- Ensure ratepayers money is invested and wisely.
- Allow capacity within the forecasts to respond to unexpected events as appropriate.
- Collect annual revenue sufficient to fund expenditure needs.
- Our strategy for funding depreciation is to:
  - Fully fund depreciation for water, sewerage and stormwater and phase in depreciation changes from subsequent revaluations if they are significant.
  - Review levels of depreciation for roading, to ensure correct levels going forward in light of proposed changes to levels of service and extending asset lives.
- Look at how we can increase non-rates income and maximise investment returns. But we will seek to preserve ratepayer funds when investing.
- Continue to use internal borrowing/debt to fund infrastructure that residents and ratepayers will benefit from, both now and into the future (intergenerational equity approach). We will not use debt to fund operational costs.
- Preserve investment momentum by resourcing any projects where additional cash is needed from external borrowing.
- Use our solid financial position and existing infrastructure as a platform to provide for the impacts of medium to long term growth in our rating base.
- Keep rates affordability at the forefront of our actions and decisions, and work to keep rates increases at a low level.
- Undertake a number of other pieces of work over the plan period, including:
  - More research around affordability and what this means in Clutha District and for the decisions of Council.
  - Considering the financial sustainability of Council to ensure that the decisions now are not limiting the choices of future generations.
  - Continuing to review the way Council rates to ensure that it is appropriate and efficient.

PROPOSALS TO FACILITATE GROWTH

Milton-Waihola Pipeline

North Bruce is one of our key rural water schemes and also supplies water for the Milburn to Waihola area, including the Waihola township. However, the scheme is fully subscribed meaning there's no capacity to support growth in this area. Council is looking at constructing a 15.5km pipeline and undertaking pump upgrades, so we could shift about a third of current customers off the scheme (freeing up space) and connect them to the Milton urban water supply instead. This is estimated to cost $3.2 million. Water is a core service provided by Council and the current set-up is limiting growth in Waihola-Milburn, an area with strong residential and industrial development potential. A new pipeline would support Council's mandate to encourage growth. In addition, Milton's water treatment plant is the most modern in the district and could support more customer connections.

Economic Development Property

Council has indicated in the previous Long Term Plan, the Economic Development Strategy and the Living and Working in Clutha Strategy that it is prepared to promote economic growth, where the market is unwilling or incapable, by developing industrial, residential and potentially commercial property. Plantation Heights and Rosebank Industrial Park are examples of developments in the first two categories. When Council acts as a Developer there is no long term aim to retain property, but rather the objective is to stimulate the market and encourage development. Council expects to undertake developments on a rates neutral basis, although in doing so Council does intend to use funds from the sale of surplus Corporate Property if necessary to support this. The Rosebank Industrial Park development is an example where sales of surplus property are supporting a potential deficit in the cost of development compared to the return from sales of the development because the economic opportunity cost to the district of not proceeding with the development is significant.

PROPOSED CHANGES TO LEVELS OF SERVICE

DURING THE NEXT TEN YEARS THE FOLLOWING ARE THE CHANGES IN LEVELS OF SERVICE OF NOTE:

Sealing Roads (Estimated cost: $2M)

Of the district's network of just under 3,000km of local roads, 28% are sealed and 2,091 (72%) are unsealed. Based on a number of factors, including the number of houses, volume of traffic including heavy traffic and maintenance costs from forestry operations, some unsealed roads within the urban 50km/hr speed environment were identified as a high priority for sealing. Council confirmed the budget of $2M in the LTP, with final decisions about the priority sites to be made before sealing begins.

Milton Main Street Improvements (Estimated cost: $2M)

In the last 2015 Long Term Plan Council set a direction to promote living and working in the Clutha District. What this meant for Milton was the focus of recent Our Place Milton consultation. Improvements to Milton's main street was one of the key aspects considered, receiving extensive feedback.

The feedback was about a number of options to consider for improving Milton's main street including undergrounding the power, upgrading Stewart Reserve, upgrading the public toilets, upgrading three main pedestrian crossings, and improving the southern entrance. Council considered options that ranged from no upgrade, spending $1.5M, or spending $2M on the upgrade the 2018 LTP. The decision was to include a budget for spending $2M.

Mt Cooee Resource Recovery Park (Estimated cost: $0.7M)

This proposal looks to increase the level of service provided at the district's landfill facility Mt Cooee. A range of options were looked at, including:

1. A basic resource recovery set up that would see some items that could be sold or reused being diverted from Mt Cooee e.g. small household items, white ware, books, sporting equipment. This has an estimated cost of $100-300K.

2. Larger purpose-built recoveries centre and transfer station that would be able to take a much broader range of items e.g. furniture, IT equipment. This has an estimated cost of $500-700K.

3. Option 2 plus a waste minimisation education centre facility along with a recycling hub with on-site compaction facilities. This has an estimated cost of $750K-1M.

Following consultation Council chose Option 2 for inclusion in the final LTP.

Bridge Upgrades (Estimated cost: $12.5M)

Bridges are an important part of our roading infrastructure and strategic assets for our district. Trucks are becoming both longer and heavier with 50 tonne loads becoming the norm. This has led Council to consider whether we should be upgrading some of our 50 Max weight restricted bridges more quickly so these heavier trucks can use them. Our existing bridge upgrade programme spans 30 years, but we are looking to speed this up so we achieve a higher level of service over 10 years instead. The upgrades would be more efficient from a transportation point of view, as more freight could be moved with less trucks. Less trucks also mean safer roads and the upgrades would help future-proof our roading network. The cost of accelerating the upgrades would be met from bridge depreciation reserves and the funding assistance from NZTA, so there would be no rates impact. Doing the work over 10 years instead of 30 would mean spending an additional $500k per annum during 2018 to 2028.

Stormwater Improvements (Estimated cost: $4.9M)

How we collect and dispose of stormwater run-off affects our communities and these networks are some of our key strategic assets. During the last Long Term Plan we identified a number of issues in some of our smaller communities. Now we are proposing a programme that prioritises 21 upgrade projects during the next 10 years. These projects are in Milton, Owaka, Lawrence, Tapanui, Heriot, Clinton, Waihola and Pounawea. The proposed projects will mean a higher level of protection for communities during wet weather events.

Earthquake Strengthening (Estimated cost: $2.4M)

Earthquake-prone building requirements underwent significant changes following the Canterbury and Kaikoura earthquakes. Changes to the Building Act 2004 means there will be requirements to strengthen buildings to at least 33% of the Building Code, or to demolish them. As a consequence, Council has carried out detailed seismic assessments of our main buildings and community halls. The cost estimate to complete the strengthening work to bring the buildings up to standard is $2.4M. Our approach is to programme this work in conjunction with other planned and community-driven upgrades and renewals at these facilities. We've factored the cost of it into our budgets for the next 10 years and legally we have 25-35 years to complete the strengthening work. While this issue is mirrored in our infrastructure strategy we have programmed to address this work during the next ten years and term of our financial strategy. Level of investment in community facilities will always be an ongoing consideration and theme for Council.

Clutha Gold Trail Extension (Estimated cost: $1M)

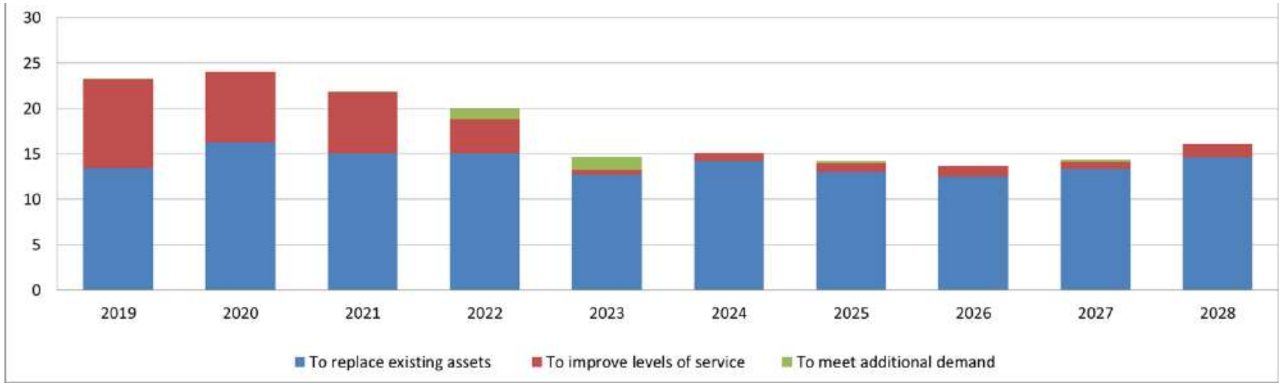
Council has agreed to consider contributing towards the development of the Clutha Gold Trail extension, which would see this walking and cycling trail extend on from Lawrence to Milton and then Lake Waihola. It would provide recreational and visitor opportunities with direct benefits to the Lawrence-Tuapeka and Bruce wards. Council approved a $1M loan funded grant towards the extension, which is estimated to cost $7M in total.

Destination Toilets (Estimated cost: $1.1M)

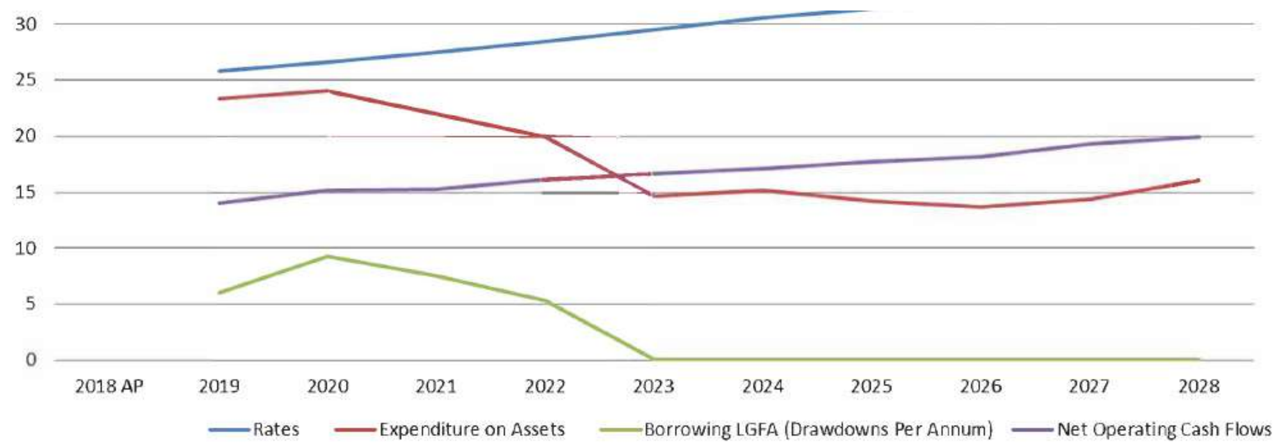
Council has agreed to upgrade or construct new destination toilets in Balclutha and Milton. Milton's toilet is provided for within the Main Street upgrade. Balclutha's destination toilet is a new project, identified within Balclutha's Community Plan.

OUR OVERALL FINANCIAL PICTURE

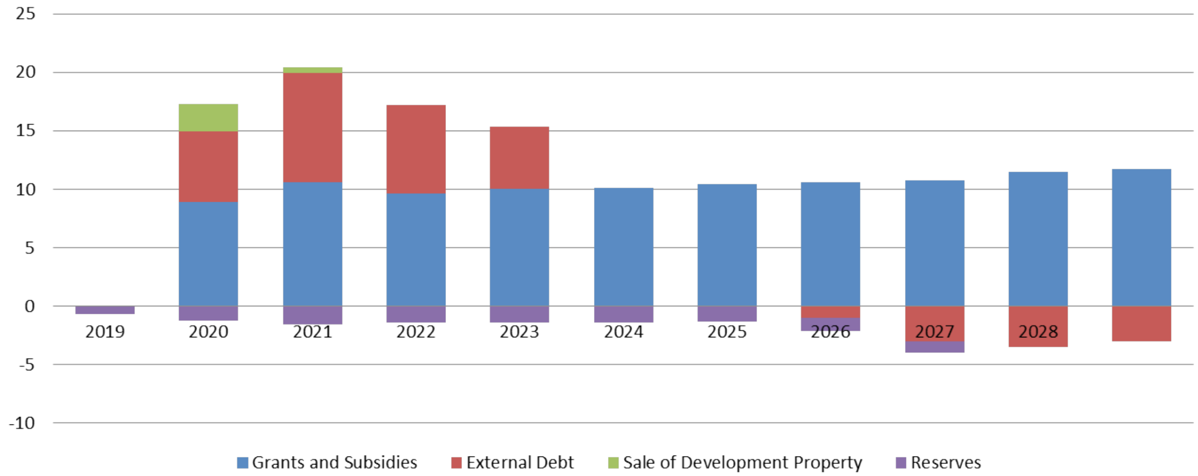
Capital Expenditure by Asset Category - $M



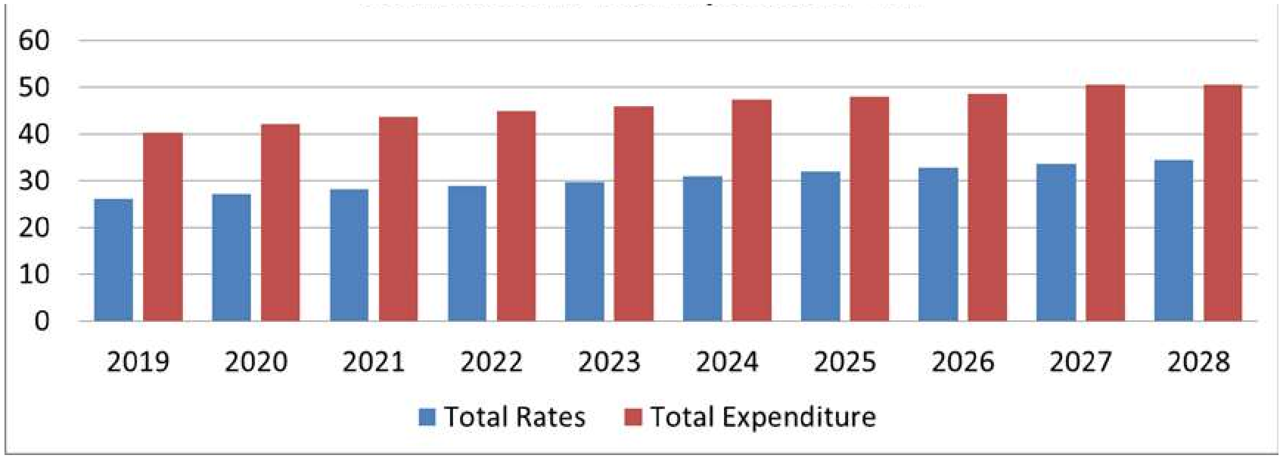
Overall Financial Trends - Rates, Borrowing and Capital Expenditure - $M



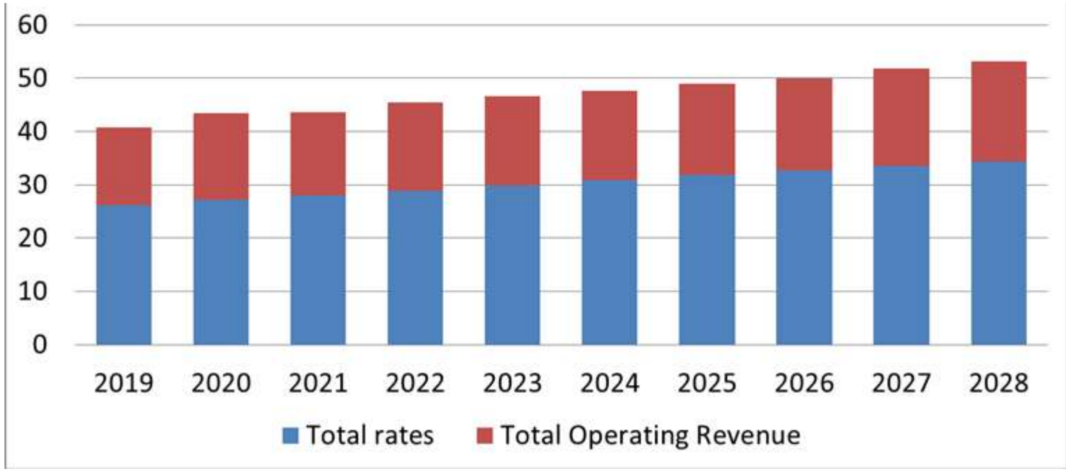
Capital Funding Sources - $M



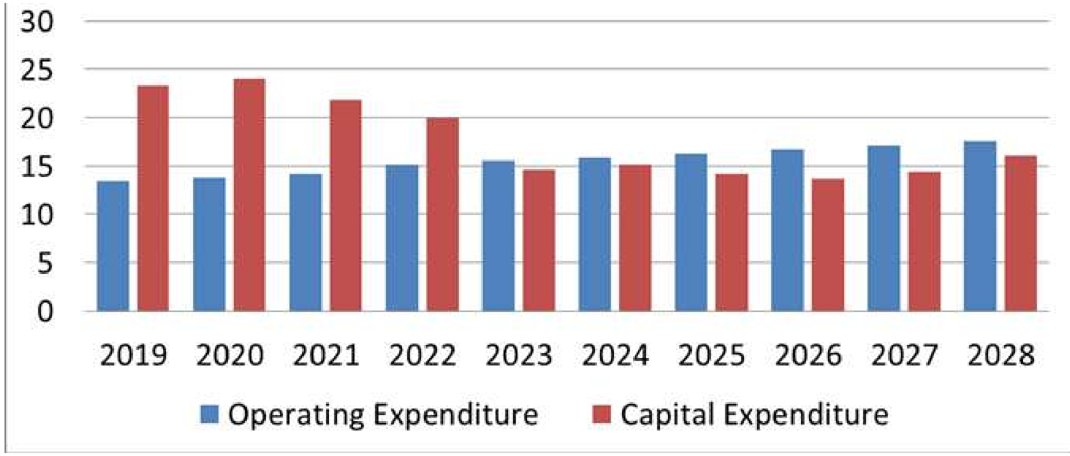
Total Rates and Total Expenditure - $M



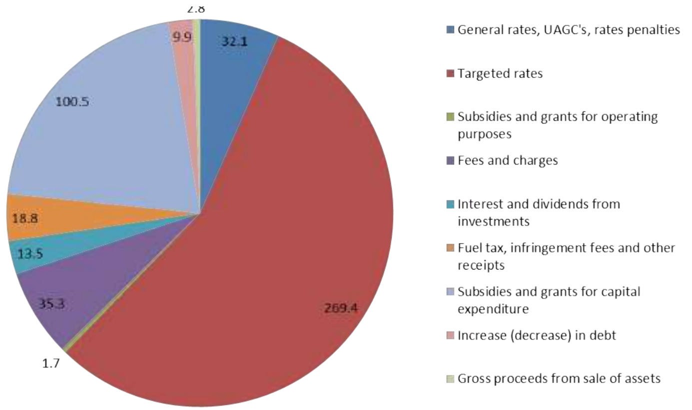
Total Rates and Total Operating Revenues - $M



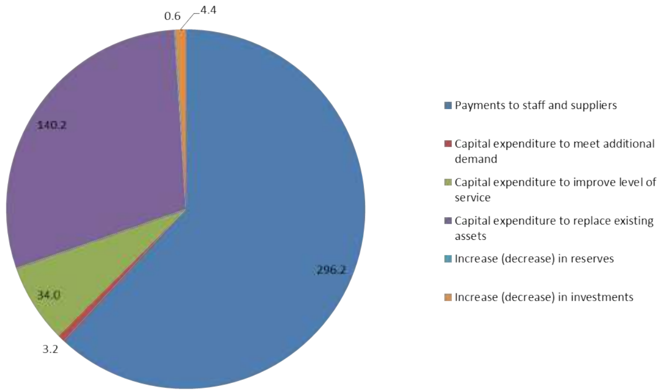
Operating and Capital Expenditure - $M



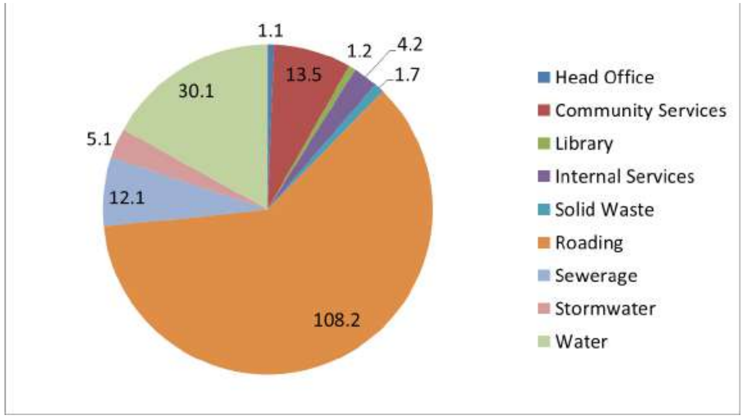
Sources of Funding 2018/28 $M



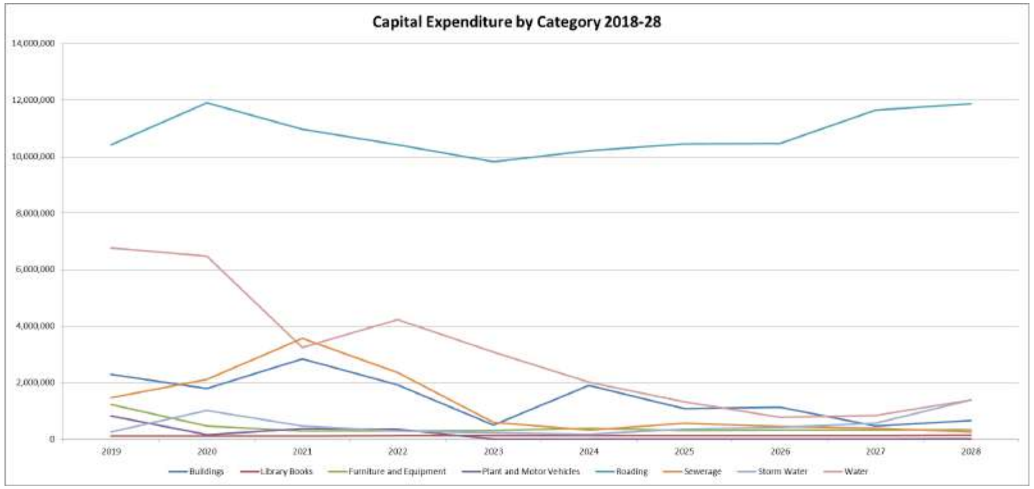
Application of Funding 2018/28 $M



Capital Expenditure by Activity 2018/28 -$M



Capital Expenditure by Category 2018/28 -$M



BALANCING THE BOOKS

COUNCIL INTENDS TO FUND ALL ITS EXPENDITURE AND IS FORECASTING A BALANCED BUDGET IN ALL YEARS OF THE 2018/28 LONG TERM PLAN

Council is required to ensure that each year's projected operating revenues (including rates) are set at a level sufficient to meet that year's projected operating expenses. The only time that a council can deviate from this is when it is financially prudent to do so. When considering setting revenue at less than operating costs Council must take into account the cost of achieving and maintaining service levels over the ten years of the long term plan. Council must also take into account its ability to meet the costs of maintaining the service capacity and integrity of assets over their useful life whilst, ensuring the equitable distribution of those costs during that lifetime. Council has balanced the budget in the context of Section 100 of the Local Government Act 2002. As a prudent asset manager, Council treats depreciation (decline in value) as an operating cost. To balance the operating account, money must be raised from rates each year to reflect the value of the service consumed annually, reflected by the reduction in the value of the assets. This depreciation charge is a substantial item in the rates-funded operating budgets (approximately 33%). Council places depreciation funds in interest-earning reserves and uses them to fund future costs of renewing the asset or to repay principal on existing loans. Council has budgeted to fund depreciation in full for water, sewerage and stormwater for the ten years of this plan. While we fund for depreciation for bridges, which have a periodic renewal cycle, other roading depreciation is funded by annual renewal works matching or exceeding the annual depreciation amount.

Funded Depreciation

Council has made a comparison between depreciation and renewals below, which has produced some anomalies that warrant explanation:

- Stormwater – Council has deliberately focused on level of service upgrades in the first five years of the plan which has affected the renewals timing.
- Sewerage – a lot of our network was put in during a concise period when government subsidies were available. This means the renewal profile is not spread over a number of years and the timing of most will be outside this 10 year forecast.
- Water – a lot of our network was put in during a concise period when government subsidies were available. This means the renewal profile is not spread over a number of years and the timing of most will be outside this 10 year forecast but not to the same extent as with sewerage

FUNDED DEPRECIATION 2018/28

($M)	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Depreciation	12.6	13.0	14.3	14.7	15.1	15.8	16.4	16.9	18.1	18.6
Renewals	13.5	16.4	15.3	15.4	12.8	14.3	13.1	12.6	13.4	14.8
Variance	0.9	3.4	1.0	0.7	(2.3)	(1.5)	(3.3)	(4.3)	(4.7)	(3.8)

RATES

RATES ARE ONE OF THE MOST IMPORTANT SOURCES COUNCIL USES TO FUND THE COST OF ITS SERVICES.

We expect 62% of Council's overall costs will be funded by rates during the 2018-28 period. The level of rates increases set out below is considered sustainable and required to enable Council to fund the proposed levels of service. The overall funding required from rates in 2018/19 year, as shown in the table is $25.8M. Council is forecasting that funding required from rates will increase to $33.9M by 2027/28. This increase includes price adjustments for inflation.

Off-setting rates

We're proposing to increase the amount we off-set the rate that everyone pays, the Uniform General Charge (UAGC), using the interest we expect to earn from our portfolio of investments. This is forecast to amount to an average of $900K per annum, equivalent to a discount of $86 per ratepayer. This will be subject to the amount of returns that Council earns, which may be higher or lower than the forecast. This will be reviewed on an annual basis and updated via the annual plan.

Limits on rates and rates increases

We expect our overall rates to increase around 2.83% on average during the next ten years. This is below the 4% cap we have set ourselves. But as you may have read in other sections, we want to work to improve on this and have a number of proposals to continue working towards keeping rates down.

Changes to how we rate

Weighing up who pays, and how much is affordable heavily influences Council's decisions. In our widespread rural district we have the added challenge of a relatively small population, a number of smaller rural towns with services throughout these towns. Council has the important balancing act of providing services to the standards that residents expect, at a price they can afford. In developing the 2018/28 financial strategy, Council has been carefully considering the current rating system and how to improve it. An important responsibility that Council has when it comes to rating is to also take into account what's known as 'affordability' and 'ability to pay'. Council is changing the way it rates for community facilities by introducing a fixed charge for ratepayers within a greater community of interest, and moving away from using land value for community facilities. A component of rating (for district-wide toilet facilities) will now be rated by a mix of fixed charge (UAGC) and a capital value targeted rate.

Smoothing rates

Council applies 'smoothing' of its funding profile and year on year rates changes. This has been achieved by changing the timing of rates funding of primarily bridge depreciation and adjusting transfers from depreciation reserves. This means that the overall amount of funding of depreciation remains the same during the period of this plan, but there is less variability from year to year for overall rates.

FORECAST RATES CHANGES, RATES LIMITS AND INFLATION 2018/28

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Forecast rates ($M)	25.8	26.6	27.5	28.5	29.5	30.6	31.4	32.2	33.1	33.9
Forecast rates change (%)	1.69%	3.12%	3.31%	3.42%	3.69%	3.73%	2.65%	2.53%	2.89%	2.36%
Rates limit at 4% ($M)	26.4	26.9	27.7	28.6	29.6	30.7	31.8	32.7	33.5	34.5

INVESTMENTS

COUNCIL EXPECTS AN INCREASE IN INVESTMENTS DURING THE NEXT TEN YEARS.

Council manages its investment funds in a way that ensures there is an availability of operating and capital funds when needed and an investment return competitive with comparable funds and financial market indices. Council has outsourced the management of its investment portfolio to managers who are under instruction to split the portfolio 50% in growth assets and 50% in income assets. Within these broader categories certain investment allocation ranges have been agreed to manage risk and returns. For the period of this LTP investments returns have been based on the following calculation:

Investment Return Calculation

Nikko AM Wholesale NZ Bond Fund	3.50%
Nikko AM Wholesale NZ Cash Fund	2.75%
Nikko AM Wholesale Core Equity Fund	8.00%
Nikko AM Wholesale Global Bond Fund	3.00%
Nikko AM Wholesale Global Equity Unhedged Fund	7.50%
Nikko AM Wholesale Global Equity Hedged Fund	8.50%
Nikko AM Wholesale Property Fund	6.00%
Calculated WACC	**5.50%**
Adjustment for median forecast return	**0.50%**
Investment Return used for LTP	**5.00%**

Based on investment returns on special and reserve funds per the Treasury Policy Council has used a 3.27% rates offset against the 5% earned per the table below:

FORECAST EXTERNAL INVESTMENTS 2018/28

($M)	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	ten years
Closing balance	25.2	25.7	26.2	26.6	27.0	27.4	27.9	28.4	28.9	29.4	
Interest earned	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4	13.4
Amount to offset rates	1.2	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	9.1

Council maintains investments to:

- Provide cash in the event of a natural disaster. Council currently has set aside a special fund of $4.2 million to meet costs resulting from a natural disaster.
- Council also established a separate self-insurance fund in 2013/14 for the costs associated with replacing underground assets destroyed or damaged in a natural disaster. The fund currently stands at $176,000 as at 20 June 2017.
- Invest amounts allocated to special funds and reserves.
- Invest amounts allocated for future expenditure (depreciation reserves), to implement strategic initiatives, or to support intergenerational allocations. Because we fund depreciation, these amounts are set aside in reserve funds to meet the costs of future asset renewal purchases.
- Invest the proceeds from the sale of assets.
- Invest surplus cash. Cash flow surpluses often arise from day-to-day operations. These surpluses are invested in a bank money market account. The interest from these surpluses is used to offset rates or provide a return on reserves.
- Investments are forecast to grow from $25 million to $29 million over the ten year period.

Targets on investments

The makeup of Council's external investment portfolio has certain agreed parameters which are reflected in the table below:

INVESTMENT ALLOCATION			
	Planned Portfolio Make-up	Range Limit	Range Limit
	%	+/-	
Wholesale NZ Bond Fund	14.50%	5.00%	-5.00%
Wholesale NZ Cash Fund	7.50%	5.00%	-5.00%
Wholesale Core Equity Fund	12.50%	5.00%	-5.00%
Wholesale Global Bond Fund	28.00%	6.00%	-6.00%
Wholesale Global Equity Unhedged Fund	20.17%	6.00%	-6.00%
Wholesale Global Equity Hedged Fund	11.33%	5.00%	-5.00%
Wholesale Property Fund	6.00%	4.00%	-4.00%

Internal Investments

Council borrows internally where reserves held for investment purposes are invested in specific Council activities which would otherwise require external borrowing. It is acknowledged that where Council borrows internally, only ratepayers who receive the benefit of those activities pay the cost of that borrowing through targeted rates and charges. The primary objective in funding internally is to use Council reserves effectively. This creates operational efficiencies as savings are created by eliminating the marginal cost through Council separately investing and borrowing externally. The following specific reserves are used for internal borrowing purposes:

- General Funds
- Special Funds
- Depreciation Funds

Interest is charged by the finance function to the activity centre on quarterly loan balances at an agreed rate, which is fixed for a 12-month period and reviewed annually. Interest is paid quarterly. Interest received is disbursed according to the Treasury Policy. The internal borrowing rate is referenced to a three-year borrowing rate comprising; the three-year borrower swap bid rate as quoted by Council's principal bank and three year borrowing margin as determined by the Council's principal bank. The all-up rate is set at the beginning of each financial year. For the value of internal investments, refer to the section on debt. We have used 3.98% as the internal borrowing rate for the forecast 10-year period.

FORECAST INTERNAL INVESTMENTS 2018/28 -$M

($M)	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	TOTAL
Closing balance	32.0	38.3	41.8	44.3	44.1	43.3	42.4	41.3	40.1	39.6	
Interest earned	1.1	1.2	1.3	1.4	1.5	1.5	1.4	1.4	1.3	1.3	13.4

EQUITY INVESTMENTS

Council does not actively invest in equity investments. The only equity investments Council holds are shares in Civic Assurance Corporation. Council is in the position where it can borrow from its own reserves to finance capital expenditure, i.e. one part of Council lends to another. Council will have a reasonable level of internal debt over the life of the plan. This debt is not allowed to appear in Council's balance sheet under current accounting rules. Nonetheless it is a commitment that impacts on non-targeted rates, as there are interest costs and principal repayments for the internal borrowing. Overall internal debt is budgeted to move from $32.0M in year 1 of this plan, peaking at $44.3M in year 4, then reducing to $39.6M at the end point of the ten year period covered by this plan.

INTERNAL DEBT (BORROWING)

Council has externally invested $25.1M (see the investments section). Instead of breaking these investments and reducing the amount it proposes to discount rates by, Council will consider externally funding some projects. The amount of additional funding we forecast will be needed if we carry out our proposed capital programme is set out in the table below. To allow for us to plan ahead, Council has approved participating as a 'Non-Guaranteeing Borrower' in the New Zealand Local Government Funding Agency Limited (LGFA) scheme.

INTERNAL DEBT (BORROWING) 2018-2028

$M	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Total Internal borrowing ($M)	32.0	38.3	41.8	44.3	44.1	43.3	42.4	41.3	40.1	39.6

LIMITS ON DEBT

The Council is planning to participate as a "Guaranteeing Borrower" in the New Zealand Local Government Funding Agency Limited ("LGFA") Scheme. Council are forecasting to become a "Non-Guaranteeing Borrower" during the 2018/19 year and to become a "Guaranteeing Borrower" during the 2020/21 financial year when borrowings surpass the $20mil threshold. We have set ourselves the limts for external debt, i.e. that it is less than 150% of annual revenue. This is shown in $M terms in the table below.

Giving of security on borrowings

Council is forecasting we will borrow externally to meet short to medium term funding shortfalls. Council has entered into a 'negative pledge' as security for overdraft lending facilities. A negative pledge essentially is borrowing without security that involves a promise by Council that it will not grant security over any assets to any other lender or creditor.

A negative pledge is granted on the basis that Council's unsecured promise to pay should of itself be adequate comfort to the lender and that none of Council's other lenders/creditors would be put in a preferred position in the event of a default. As Council plans to join the LGFA, it will cede rates collection and may have a contingent liability due to cross guarantees.

STAYING WITHIN OUR DEBT LIMITS

$M	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
External debt ($M)	6.0	15.0	21.8	26.0	25.0	23.9	21.8	17.9	13.6	9.9
External interest costs as a % of rates*	0.0%	1.1%	1.6%	1.8%	1.7%	1.6%	1.5%	1.2%	0.9%	0.6%
Debt Limit ($M)**	61.0	65.0	65.2	68.1	70.1	71.7	73.4	75.1	77.8	79.7

*On external funding only. ** On internal debt and additional external funding

WHERE WE EXPECT TO BE IN TEN YEARS TIME

COUNCIL BELIEVES THAT THIS FINANCIAL STRATEGY WILL ACHIEVE THE FOLLOWING FINANCIAL END POINTS ON BEHALF OF THE DISTRICT.

- **A projected increase in Council's investment funds from $25.1M at 1 July 2018, to $29.4M at 30 June 2028.**
- **Off-setting rates with interest earned on investments to give a discount in rates to all ratepayers amounting to $9.1M during the ten years.**
- **The responsible use of debt to spread capital costs across the future ratepayers who will benefit from the capital expenditure on infrastructure. Council's level of external debt is forecast to be $9.9M by 2027/28.**
- **A level of rates and rate increases that are within ratepayers' ability to pay. Increases for most years of the plan are in keeping with inflationary factors. This is an area for ongoing work.**

LOCAL GOVERNMENT (FINANCIAL REPORTING AND PRUDENCE) REGULATIONS

Long Term Plan disclosure statement for the period commencing 1 July 2018

WHAT IS THE PURPOSE OF THIS STATEMENT

The purpose of this statement is to disclose the Council's planned financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings.

The Council is required to include this statement in its long term plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some terms used in this statement.

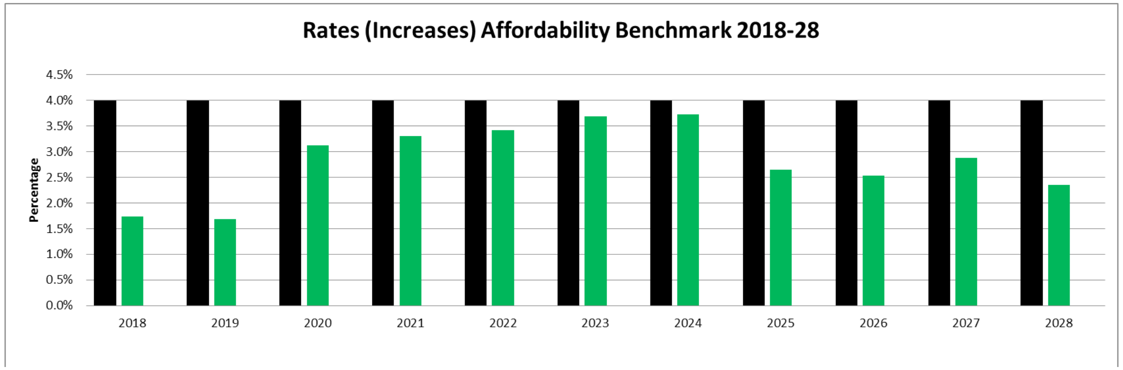
Rates Affordability Benchmark

The Council meets the rates affordability benchmark if

- its planned rates is equal to or is less than each quantified limit on rates.
- Its planned rates increases equal or are less than each quantified limit on rates increase.

The following graph compares the council's planned rates with a quantified limit on rates contained in the financial strategy included in this long-term plan. The quantified limit is 4% of budgeted rates for the previous year.

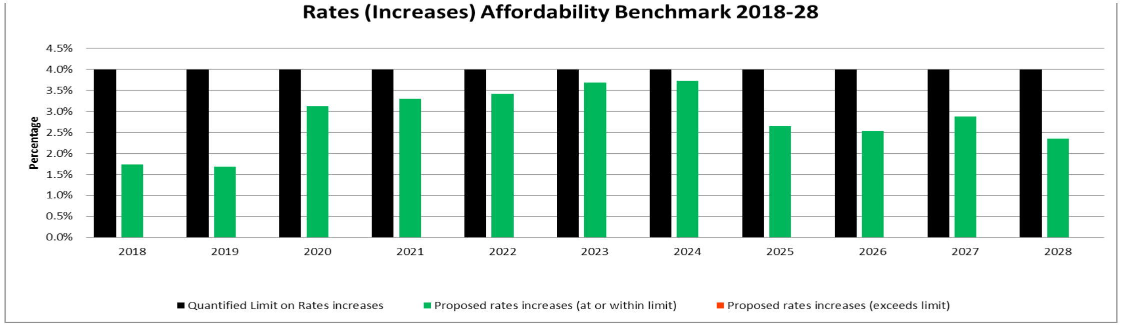
Rates Affordability Benchmark 2018/28 - $M



Rates (Increases) Affordability

The following graph compares the Council's actual rates increases with a quantified limit on rates increases included in the financial strategy included in the council's long-term plan. The quantified limit is 4% of budgeted rates for the previous year.

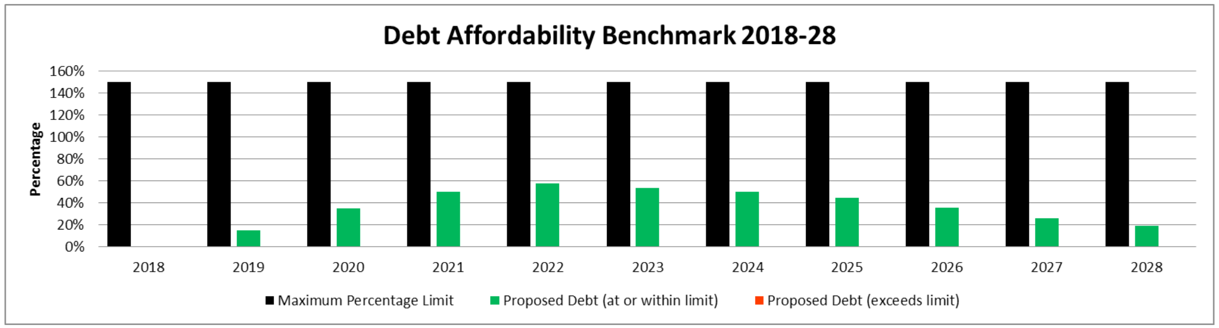
Rates (Increases) Affordability Benchmark 2018/28 - %



Debt Affordability Benchmark

The Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing. The following graph would compare the councils' planned debt with a quantified limit on borrowing stated in the financial strategy included in this long term plan.

Debt Affordability Benchmark 2018/28 - %



Balanced Budget Benchmark 2018/28

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

Council expects to meet this benchmark in all of the 10 reported years, as its revenue is budgeted to be greater than its expenses.

Essential Services Benchmark

This graphic displays the Council's planned capital expenditure on network services as a proportion of depreciation on network services. The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services. Network services means infrastructure related to water services and roading.

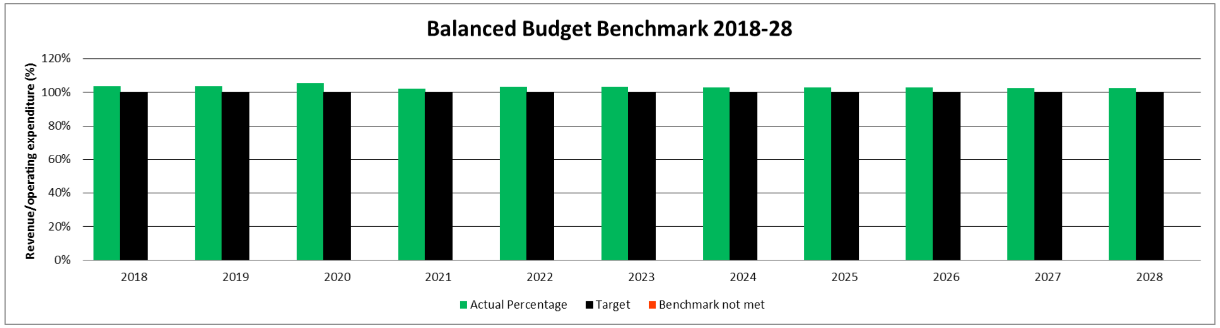
Council has not met this benchmark in all 10 years of the Long Term Plan 2018/28 due to budgeted capital expenditure not being as great as our budgeted depreciation expense.

Debt servicing benchmark

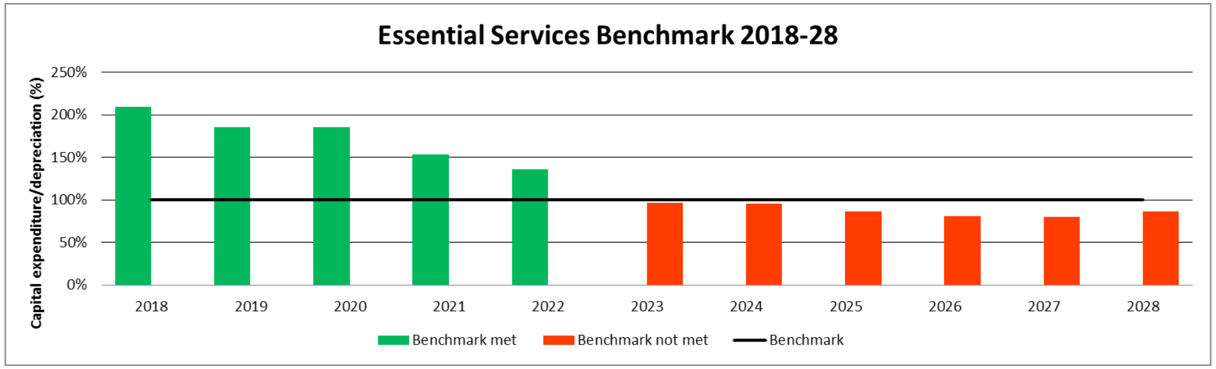
The following graph displays the Council's planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations or property, plant or equipment). Council meets the debt servicing benchmark if its planned borrowing costs equal or are less than 10% of its planned revenue.

Council expects to meet this benchmark in all of the 10 reported years.

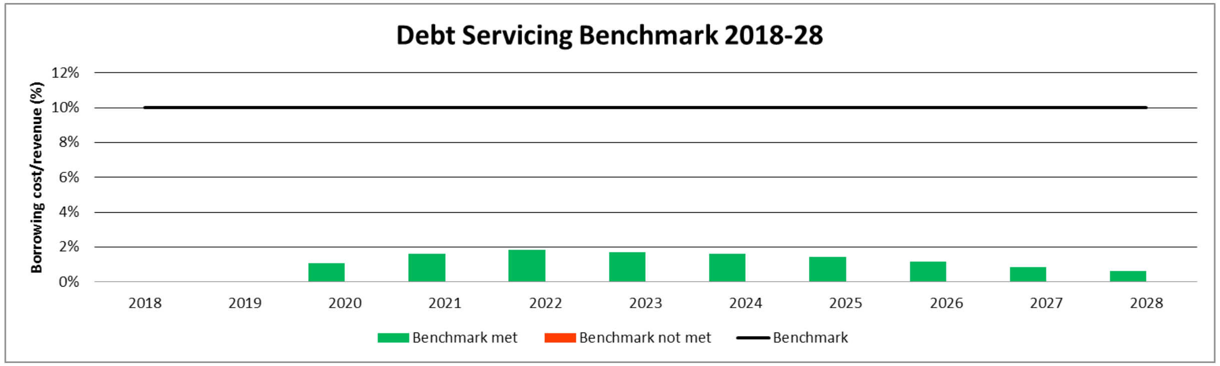
Balanced Budget Benchmark 2018/28 -%



Essential Services Benchmark 2018/28 -%



Debt Servicing Benchmark 2018/28 -%



SIGNIFICANT FORECASTING ASSUMPTIONS

This section explains the significant assumptions and the risks associated with those assumptions which have been made by the Council in its forecasting for the 10 year period. The assumptions are based on the information available to Council in November 2017. While every effort has been made to ensure the forecasts are the Council's best estimate for the future, the actual results for the reporting period are likely to vary from the information presented, and the variations may be material. These assumptions are universal and relate to all our activities. Some activities have specific assumptions that are detailed in the relevant activity plan.

WHAT WE HAVE ASSUMED

Population

Usually resident population

2013	2018	2028
17,250	17,575	17,490

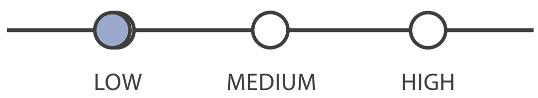
Clutha's population is forecast to remain relatively static during the life of this plan. It is assumed that there are no additional pressures or changes on services at this time. This will be reassessed on an ongoing basis.

Council has adopted a medium growth scenario that projects usually resident population to change from 17,250 to 17,490 to 2048.

Growth is not expected to occur evenly throughout the district. Bruce, Clutha Valley and Kaitangata-Matau are projected to experience positive population growth. The population in the Clutha, Catlins, West Otago, Lawrence-Tuapeka and Clinton wards are forecast to decline slightly, however dwelling and rating unit growth is still positive. At settlement level Benhar, Waihola and Taieri Mouth. Kaka Point and Stirling are expected to have slight population increases.

Refer to the appended Rationale Ltd report with Detailed Projection tables and Residential Population Growth graph for further detail.

LEVEL OF UNCERTAINTY (RISK)



REASON FOR UNCERTAINTY, IMPACT OF RISK:

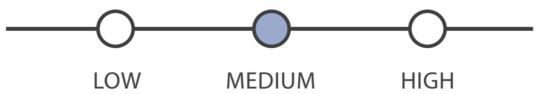
Most of Council's current infrastructure and facilities have an element of available capacity which means they are able to handle small increases in demand.

Significant increases in population might place greater demands on services such as water, sewerage, solid waste and regulatory functions.

If demand changes unexpectedly due to societal or demographic changes then capital and operating expenditure forecasts could be insufficient and Council would need to reassess budgets subject to urgency.

Council's strategic approach to promote growth in the rating base and promote living and working in Clutha has been incorporated into this plan and is expected to facilitate growth in key areas e.g. Milton-Waihola water extension.

SIGNIFICANT FORECASTING ASSUMPTIONS

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Age Demographics The average age of the population of the district will continue to increase over the long-term and expected to impact on the way Council delivers its services. In 2013 people aged 65 and over made up around 16%. This is expected to increase to 33% in 2048. A major increase in older people is likely to change the type of services and ability to pay for those services. This is unlikely to result in new activities, rather types of services and how they are delivered. The specifications of services such as footpaths and library services may need to be adapted but overall it is unlikely to result in significantly higher costs.		The range of services utilised by older people is not significantly different from younger people. While the need for active team sports may decline there will still be demand for parks, reserves, pools, halls etc. There is expected to be increased demand for activities such as walking and cycling, as identified through the development of community plans for the district's main towns, where further investment in walking and cycling has been identified. Initiatives such as attracting residents relating to the Living & Working in Clutha strategy may mean the proportion of residents over 65 might not grow as quickly as forecast.
Volunteer community Several activities (such as cemeteries, halls, parks, and governance) rely on volunteers. It is assumed that volunteers will continue to make themselves available to support these activities as they have done in the past.		Clutha communities because of their geographical spread and local nature, tend to have a strong volunteer ethic. If volunteers were reduced or not available, Council would need to provide rate funding to undertake activities that local volunteers have provided.

SIGNIFICANT FORECASTING ASSUMPTIONS

WHAT WE HAVE ASSUMED | **LEVEL OF UNCERTAINTY (RISK)** | **REASON FOR UNCERTAINTY, IMPACT OF RISK:**

Tourist and visitor growth

District visitor numbers	2013	2018	2028
Total visitors (average day)	2,358	3,366	4,267
Total visitors (peak day)	6,616	8,148	9,793

Visitor population on both the average and peak day is projected to increase annually by 2.4% and 1.7% respectively during the term of this plan. Visitors to all eight wards are expected to increase. Average visitors per day are expected to increase from 2,358 in 2013 to 4,267 by 2028. Peak visitors are expected to increase from 6,616 to 9,793 over the same period.
Balclutha, Milton, Lawrence, Owaka and Kaka Point have the highest number of visitors in the district and this is expected to continue.

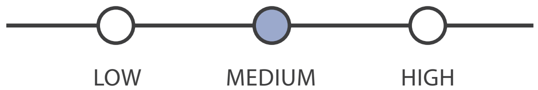
Visitor numbers may increase demand on infrastructure and services such as water supply, sewerage, solid waste, parking, public toilets and roading. Improvements to the level for public is budgeted in this plan for Balclutha and Milton. Recognition of road safety measures for visiting drivers has also been identified for roading. Further work is required in this area to fully assess what additional levels of service are needed and how this can be funded with the least cost to ratepayers. Balclutha, Milton, Lawrence, Owaka and Kaka Point have the highest number of visitors in the district and this is expected to continue. Refer to the appended Rationale Ltd report with Medium Growth Scenario table and Visitor Population by type and day graph.

Dwelling growth

Total residential dwellings

2013	2018	2028
8,341	8,941	9,782

This plan assumes that the number of dwellings will increase as per Rationale Ltd projections. The Benhar, Bruce, Waihola and Taieri Mouth are projected to experience the higher dwelling growth of around 1% per year. Most other settlements are projected to grow at between 0.1% and 0.7% per year. The exceptions are Clinton, Lawrence and Tapanui where dwelling numbers are not expected to increase.



Economic conditions and the changing nature of the housing market could cause variations from year to year. Projections for townships are more sensitive to variation where individual developments can influence overall forecasts, as has been shown in recent times with Council-facilitated developments in Balclutha, Tapanui and Kaitangata as part of Council's growth strategy.
If some areas increase higher or lower than forecast this may impact on the demand on infrastructure in these areas.

SIGNIFICANT FORECASTING ASSUMPTIONS

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Rating base Council's rating base is expected to increase incrementally from 11,124 to 11,348 during the life of this plan. Note: historic rating base numbers actually reduced as a result of rural amalgamations but not in a physical sense. Real change in rating units is expected to increase by 0.2% per annum.	LOW MEDIUM HIGH	Increases or decreases to the rating base may affect the distribution and amount of rates to be paid. Council's strategic approach to promote growth in the rating base and promote living and working in Clutha aims to facilitate growth in the rating base over and above the 0.2% in the medium to longer term. The impacts are too difficult to forecast in detail at this point. Note that changes to the rating base are re-forecast on an annual basis through annual plan updates.
Land use change No major shifts in land use are expected during the life of this strategy that will majorly impact on Council's finances.	LOW MEDIUM HIGH	There is a long lead in time for changes in the District Plan.

SIGNIFICANT FORECASTING ASSUMPTIONS
GENERAL ASSUMPTIONS

WHAT WE HAVE ASSUMED | **REASON FOR UNCERTAINTY, IMPACT OF RISK:**

Climate change

The plan assumes that there will be no significant climate impacts occurring within the period of the plan and that the rate of climate change will be gradual; allowing Council time to plan and prepare its response and options around services and infrastructure.

Medium to long term predictions indicate that climate change will affect Clutha with increases in temperature being 0.9˚C warmer by 2040 and 2.8˚C warmer by 2090. By 2090 Otago is projected to have about 4–25 extra days per year where maximum temperatures exceed 25˚C, with around 13–45 fewer days with frost per year and rainfall (between 2% to 7% by 2090), with more extreme rainfall events and sea level rise of between 0.5m to 0.8m by 2090. Clutha may also experience higher snow lines, possible reduced snow coverage, increased wind and intensity and duration of droughts in drought-prone parts of the District.

The climate change impacts expected in Clutha include:

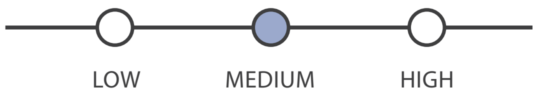
- Flooding - Increases risk of flooding, landslides and erosion. The capacity of stormwater systems may be exceeded more frequently due to heavy rainfall events which could lead to surface flooding, damage to infrastructure and road closures.
- Water availability- Water security is most likely to be an issue. Droughts are likely to increase in both intensity and duration over time

Coastal hazards. There is likely to be increased risk to coastal roads and infrastructure from coastal erosion and inundation, increased storminess and sea-level rise.

Agriculture: Warmer temperatures, a longer growing season and fewer frosts could provide faster growth of pasture and potentially better crop growing conditions. The South Otago area has been identified as an area within Otago/Southland where increases are most likely to be realised. However, these benefits may be limited by negative effects of climate change such as prolonged drought comparable to those experienced during 1997/98 El Nino and the 1998/99 La Nina episode, increased flood risk, and greater frequency and intensity of storms. Higher rainfall during winter is expected to make management of winter conditions more difficult, particularly in dairy farming areas.

Biosecurity: Warmer temperatures, particularly with milder winters, could increase the spread of pests and weeds.

LEVEL OF UNCERTAINTY (RISK)



If the impacts of climate change are felt sooner than expected there may be demands on Council's budgets. Council's ability to deliver the level of service to the community may be impacted if climate change occurs faster than expected or to a greater extent. If this occurs it may require unbudgeted emergency work to be carried out and/ or create additional costs to mitigate impacts, such as improving protection of critical infrastructure or increasing maintenance.

In addition, the Council's low level of debt allows us greater flexibility to respond to any unexpected climate movements through borrowing for emergency works if required. In addition, Council self-insures for underground assets to help provide for emergency work if required.

In the short term, Council will ensure that future assets are of sufficient standard to cater for predicted climate change, including rain fall and sea level rise.

Council is planning to carry out more detailed modelling around climate change impacts over the next three years. Council will continue to monitor climate change science and the response of central government and adapt its response where required.

However the impacts of climate change are expected to be felt over the longer term (50-100 years) and are unlikely to have a significant immediate impact during the period of this plan.

SIGNIFICANT FORECASTING ASSUMPTIONS
GENERAL ASSUMPTIONS

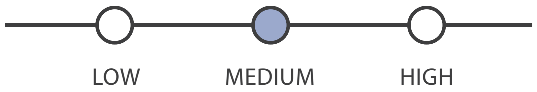
WHAT WE HAVE ASSUMED

Natural disasters

The plan assumes that Council and the community will be prepared to respond to any natural hazards including floods, storm and earthquakes that might occur during the life of this plan.

It is assumed that there will be no natural disasters requiring emergency work that cannot be funded from existing budgets, reserves, Council's insurance policies or via central government assistance.

LEVEL OF UNCERTAINTY



REASON FOR UNCERTAINTY, IMPACT OF RISK:

The timing and scope of natural disasters are unpredictable. There have been an increasing number of disasters including earthquakes and floods in New Zealand during the past decade.

A major event would impact on Council through the need for immediate funding, and depending on the scale, duration and location of the event, there could be unforeseen costs in terms of damage to Council assets.

Depending upon the severity or timing of disasters, Council may not have enough staff to rapidly manage recovery and response. The lives of residents and continuity for businesses could also be affected as key services such as water, sewerage and roads could be disrupted for considerable periods.

The risk is reduced in Clutha because of its size and the number or widespread rural townships, reducing the likelihood of extensive damage throughout all critical infrastructure at the same time.

Any major disaster that results in significant repair costs is likely to be funded largely by insurance and/or central government assistance. Council also has set aside a $4M emergency fund to provide its share towards costs. It is assumed that this would be sufficient to cover Council's share of one major event. A big event will trigger the need for additional insurance cover for the next big event.

SIGNIFICANT FORECASTING ASSUMPTIONS
GENERAL ASSUMPTIONS

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY (RISK)	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Resource consents It is assumed that Council will meet consent conditions and that conditions of resource consents currently held will not be significantly altered. It is assumed that updates to attain consent renewals will progress as programmed and that they can be achieved within allocated budgets. It is anticipated that there will be heightened level of controls on stormwater discharges relating to Otago Regional Plan Change 6B. No additional capital budgets have been included at this stage until more is known, so that Council is in a position to assess potential financial impact in the 2021/31 Long Term Plan. Further information about the impact of major renewals such as for Mt Cooee and sewage consents will be outlined in further detail in activity-specific assumptions.	LOW MEDIUM HIGH	When there is information about what will be required, Council has indicated it will then be in a position to assess the financial impact. If requirements increase and additional work is required for consent conditions Council will need to provide rate funding to meet the requirements or request a change of consent conditions. As external agencies' plans are developed, we expect to be in a position to provide further information. Council aims to work with other agencies to understand and stay up to date with changing standards.
Legislative changes It has been assumed there will be no major legislative changes or changes in government policy that will significantly impact Council. It is assumed any change that is introduced can be accommodated within existing budgets.	LOW MEDIUM HIGH	The role and function of local government is set out by legislation. Council has many responsibilities prescribed by various acts, including the Local Government Act 2002, Reserve Management Act 1991 and Building Act 2004. The recent changes in government increase the likelihood of additional legislative/policy shifts that may have a medium effect on Council's finances and levels of service.

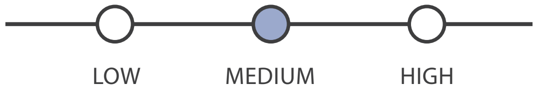
SIGNIFICANT FORECASTING ASSUMPTIONS
GENERAL ASSUMPTIONS

WHAT WE HAVE ASSUMED

Levels of service

This plan assumes that aside from where level of service changes have been specifically outlined and included for consultation to inform the final plan, demand for council services and customer expectations will not significantly change. It is assumed beyond those service levels raised, there will be no significant effect on asset requirements or operating expenditure.

LEVEL OF UNCERTAINTY



REASON FOR UNCERTAINTY, IMPACT OF RISK:

Council has defined levels of service for its planned activities that have been reviewed as part of the LTP process. Resident satisfaction surveys generally support this key assumption and there are currently no areas of the Council's service that require significant modification.

If higher levels of service are to be considered during the life of this plan, levels of expenditure and capital works would need to be reassessed, as would impact on rates.

SIGNIFICANT FORECASTING ASSUMPTIONS
FINANCIAL ASSUMPTIONS

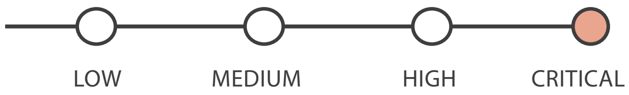
WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY (RISK)	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Contracts This plan assumes there will be no significant variations in the price of re-tending operating and maintenance contracts. Major contracts due for renewal during the term of this plan include Water Services and Solid Waste.	LOW MEDIUM HIGH	If contract prices were to increase significantly, Council would review the work programme and levels of service. It may also look to reduce risk with an extension of the Solid Waste contract to coincide with possible changes related to resource consent renewal for Mt Cooee in 2023. Overall exposure is slightly lower as roading maintenance contracts do not come up for renewal during the term of this plan.
Capital project costs On average, capital project costs will not vary significantly from estimates included in this plan.	LOW MEDIUM HIGH	Council has a higher level of confidence regarding capital project costs in the short term (1-2 years) of this plan but less certainty in the longer term due to possible fluctuations in the economy, consent conditions etc. Any increase in costs may result in higher loan funding requirements and rates. To mitigate this, Council has processes in place that if projects are outside a financial parameter they are reassessed.
Capital project completion That Council will complete capital projects as budgeted.	LOW MEDIUM HIGH	Based on historical completion rates there is a risk that the capital works programme will not be completed fully in any given year of this plan. Council is expecting to increase completion rates due to a number of improvements.

SIGNIFICANT FORECASTING ASSUMPTIONS
FINANCIAL ASSUMPTIONS

WHAT WE HAVE ASSUMED | LEVEL OF UNCERTAINTY | REASON FOR UNCERTAINTY, IMPACT OF RISK:

Useful lives of significant assets

The useful lives off all assets will be in accordance with the depreciation rates set out in the accounting policies of Council. It is assumed remaining life forecasts for significant assets are correct and renewal forecasts are accurate.



Useful lives are used to calculate depreciation. Where useful lives are incorrect the depreciation funded may be funded at the wrong level.

If remaining lives vary from those predicted, renewals and replacement may have to be undertaken more or less frequently, impacting on capital budgets.

There is no certainty that asset components will last exactly for their design lives. Capital projects could be brought forward in the event of early deterioration of assets. This may be partially off-set by other assets lasting longer than estimated.

Revaluation of non-current assets

The roading network and utility assets (water, sewerage, stormwater) are to be revalued in 2019/20, 2022/23 and 2025/26.

Infrastructure revaluations impact on the depreciation calculation. Where price levels change the depreciation funded may be at the wrong level. Revaluations are expected to be positive and not to have a material impact if the assumption is incorrect.

If price level changes are significantly higher or lower, depreciation and the funding of depreciation could be over or under stated.

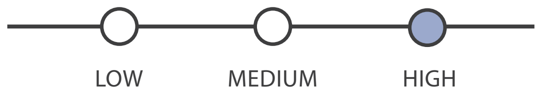
Depending on circumstances the revaluation period maybe shorter or longer.

SIGNIFICANT FORECASTING ASSUMPTIONS
FINANCIAL ASSUMPTIONS

WHAT WE HAVE ASSUMED | **LEVEL OF UNCERTAINTY (RISK)** | **REASON FOR UNCERTAINTY, IMPACT OF RISK:**

Price level changes

Price level changes have been calculated using projections prepared by Business & Economic Research Ltd (BERL). The appended Price Level Changes table depicts the annual price level changes as indicated by BERL which are based upon October 2017 values, with the exception of roading where the October 2016 values were the latest available at the time of preparing budgets to be submitted to NZTA. A zero (baseline) budget has been used for the 2018/19 financial year. This has required budget managers and staff to consider all costs included during the budgeting process and apply these accordingly. Inflation percentages applied can be found at the end of this section.



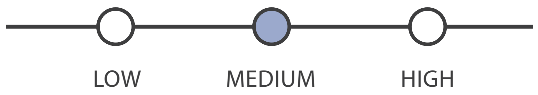
Inflation is affected by external economic factors. The result of any variations up or down will result in higher or lower rates requirements, which may also impact on the levels of service, in particular for roading, water, sewerage and stormwater.

Service levels

Council has approved service level changes in the final 2018/28 LTP for the following areas:

- Sealing Roads
- Milton Main Street improvements
- Mt Cooee Resource Recovery Park
- Bridge upgrades
- Stormwater improvements
- Earthquake strengthening

Outside of these it is assumed service levels are expected to remain unchanged.



If Council has not adequately engaged and consulted on changes to service levels or service levels are perceived to be unaffordable, levels including funding would need to be reassessed.

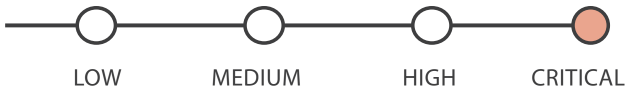
SIGNIFICANT FORECASTING ASSUMPTIONS
FINANCIAL ASSUMPTIONS

WHAT WE HAVE ASSUMED

Forecasted return on investments

A return of 3.98% is budgeted for internal investment and 5.0% for external investments. It is proposed that disbursement of the returns from internal and external investments, in accordance with the Treasury Policy, will include an off-set to the UAGC.

LEVEL OF UNCERTAINTY



REASON FOR UNCERTAINTY, IMPACT OF RISK:

Investments are approximately $25 million so any changes in returns could have a major impact.
Any significant drop of interest rate (greater than 1%) will reduce the rates offset (UAGC), meaning the UAGC will increase.
There is a level of certainty in years 1-2 with increasing uncertainty after that. The risk is partly mitigated by re-forecasting on an annual basis through annual plan updates.

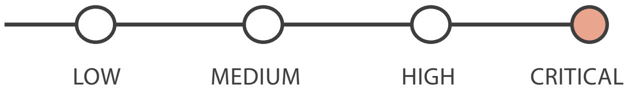
Sensitivity Analysis on Forecasted Return on Investments			
	LTP 0.5% $M	**LTP $M**	**LTP (0.5)% $M**
Rate of Return	5.50%	5.00%	4.50%
Closing Value in 2028	30.3	29.4	29.1
Total Interest Earned Over 10 years	15.0	13.4	12.3
Total Rates Subsidy Over 10 years	9.8	9.1	8.3
	Change $M	**Change $M**	**Change $M**
Closing Value in 2028	0.9		(0.3)
Total Interest Earned Over 10 years	1.6		(1.1)
Total Ratea Subsidy Over 10 years	0.7		(0.8)

SIGNIFICANT FORECASTING ASSUMPTIONS
FINANCIAL ASSUMPTIONS

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY	REASON FOR UNCERTAINTY, IMPACT OF RISK:

Expected interest rates on borrowing

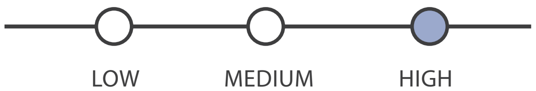
Interest on existing and new internal borrowing is allowed for at 3.98% over the term of the borrowing. It is assumed that any potential external borrowing would be at less than 3.98%.



Minimal impact as impact of internal borrowing is offset by income. If use of external debt increases there would be a positive impact as the cost of borrowing would reduce.
There is a level of certainty in years 1-2 with increasing uncertainty after that. The risk is partly mitigated by re-forecasting on an annual basis through annual plan updates.

Expected level of external borrowing

As a result of an updated focus on maximising investment returns, Council's level of liquidity is expected to change, and external borrowing is forecast during this LTP. Council has agreed to joining LGFA as a non-guaranteeing borrow. Current forecasts in the plan exceed the $20M limit for non-guaranteeing criteria from the 2020/21 to 2024/25 period. A forecast rate of 3.1% has been used as the average cost of borrowing based on advice received from the LGFA.



Given forecasts in this plan Council will need to re-assess it's LGFA membership, external borrowing and external investments should it reach the $20M criteria limit.
The risk is partly mitigated by re-forecasting on an annual basis through annual plan updates.
A change in interest means the rating requirement for the cost of financing as well as the loan repayment would change as illustrated below.

Sensitivity Analysis on Forecasted Rate on External Borrowings

	LTP 0.5% $M	**LTP $M**	**LTP (0.5)% $M**
Rate of Borrowing	3.6%	3.1%	2.6%
Closing External Debt in 2028	10.4	9.9	8.5
Total Interest Paid Over 10 years	6.1	5.7	4.2
	Change $M	**Change $M**	**Change $M**
Closing External Debt in 2028	(0.5)		1.4
Total Interest Paid Over 10 years	(0.4)		1.5

SIGNIFICANT FORECASTING ASSUMPTIONS
FINANCIAL ASSUMPTIONS

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY (RISK)	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Renewability or otherwise of external funding Cash flow deficits managed through Westpac multi-option credit facility can also be used if needed to meet medium-term lending requirements.		Higher cost of short term borrowing and inability to meet liquidity shortfalls.
NZTA Subsidy Rates Based on representation and advice from NZTA the rates by year are presented below: **18/19 19/20 20/21 21/22- 22/23 23/24-27/48** Local roads 59% 59% 59% 59% 59% 59% SPR* maintenance & ops renewal and minor improvements, new & other improvement projects **18/19 19/20 20/21 21/22 22/23 23/24-27/28** 89% 83% 77% 71% 65% 59% NZTA programmes will be signed off post adoption of this Long Term Plan. Council is assuming that funding will be confirmed for all aspects included in the financially-assisted components included in LTP budgets, including for footpath renewals. *Special purpose roads i.e. Southern Scenic Route These rates up until 2021/22 have been confirmed by NZTA.		Reduction in roading programme or increase in rates to meet budgeted programme. If there are changes or reductions, Council will have to reconsider the level of delivery for the financially-assisted programme.
Depreciation rates on planned asset acquisitions If depreciation costs are significantly higher than budgeted, rates would increase to balance the budget.		If depreciation costs are significantly higher than budgeted, rates would increase to balance the budget.

PRICE LEVEL CHANGES

Accounting rules require Council to adjust its forecast financial information to take into account the impact inflation. These price level adjustments have been applied to all budgets and projects at the rates outlined below. They are based on the Local Government Cost Index (LGCI).

PRICE LEVEL ADJUSTORS APPLIED TO 2018/28 LONG TERM PLAN FORECASTS

	2018/19	2019/20	2020/21	2021/22	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Administration	Base year		2.0%	2.0%	2.1%	2.2%	2.3%	2.3%	2.4%	2.5%	2.5%
Three Waters	Base year		2.8%	2.4%	2.5%	2.6%	2.7%	2.8%	2.9%	3.0%	3.2%
Roading	Base year		3.1%	3.1%	3.0%	2.9%	2.8%	2.7%	2.6%	2.5%	2.5%
Salaries	Base year		1.6%	1.7%	1.8%	1.8%	1.9%	1.9%	2.0%	2.0%	2.1%

RATING UNIT CHANGES

Based on historical data and changes to the district's rating base, Council is projecting that the number of rating units in the district will continue to grow at a rate of a minimum of 0.2% per annum.

FORECAST CHANGES IN RATING UNITS 2018/28

YEAR BEGINNING	RATING UNITS	CUMULATIVE CHANGE IN RATING UNITS (%)	ANNUAL CHANGE IN RATING UNITS
1/07/2018	11,146	0.20%	22
1/07/2019	11,169	0.40%	23
1/07/2020	11,191	0.60%	22
1/07/2021	11,213	0.80%	22
1/07/2022	11,236	1.00%	23
1/07/2023	11,258	1.20%	22
1/07/2024	11,281	1.40%	23
1/07/2025	11,303	1.60%	22
1/07/2026	11,326	1.80%	23
1/07/2027	11,348	2.00%	22