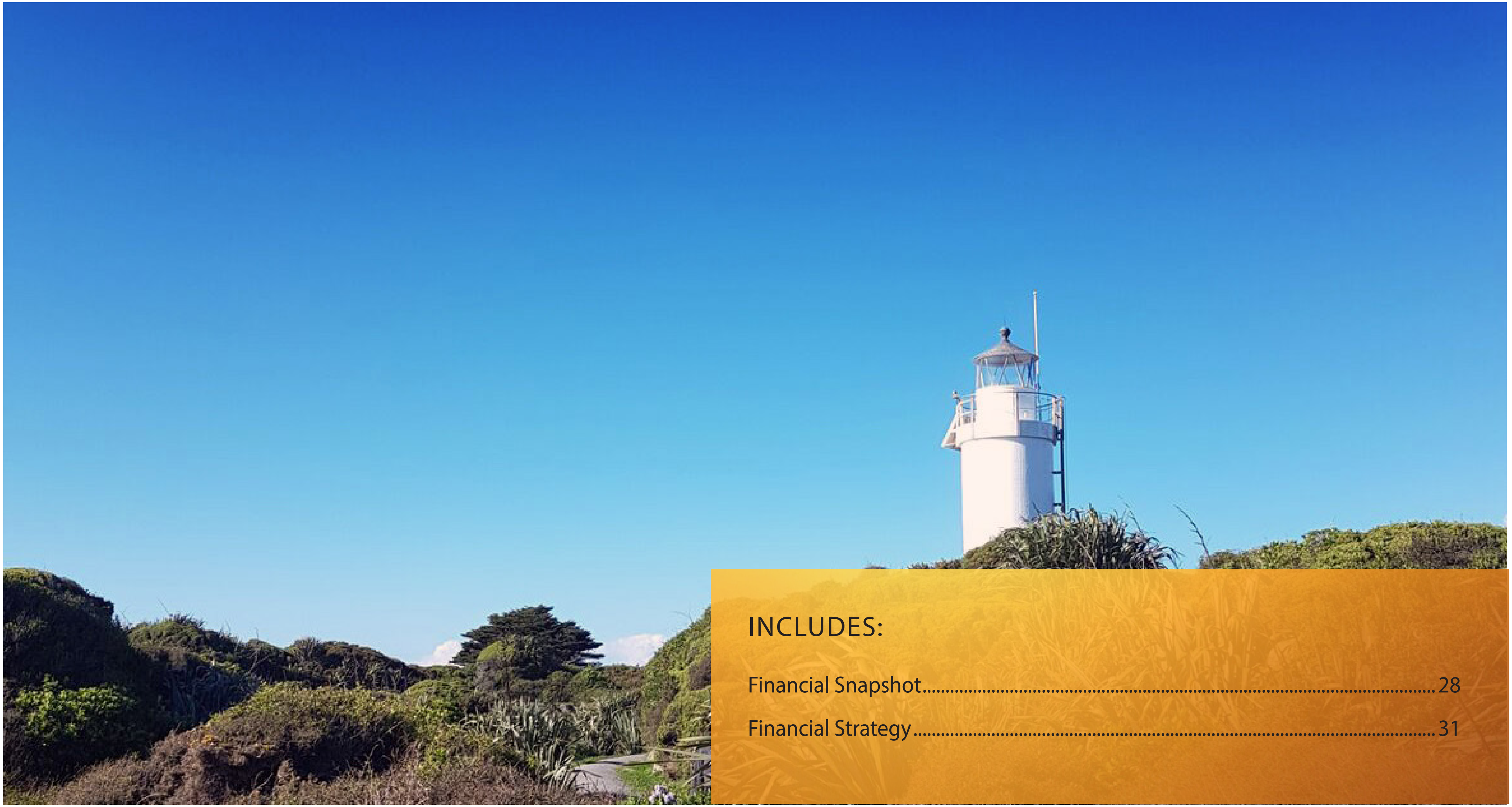
FINANCIAL OVERVIEW AND STRATEGY



INCLUDES:

FINANCIAL SNAPSHOT

FINANCIAL REPORT CARD FOR THE LONG TERM PLAN

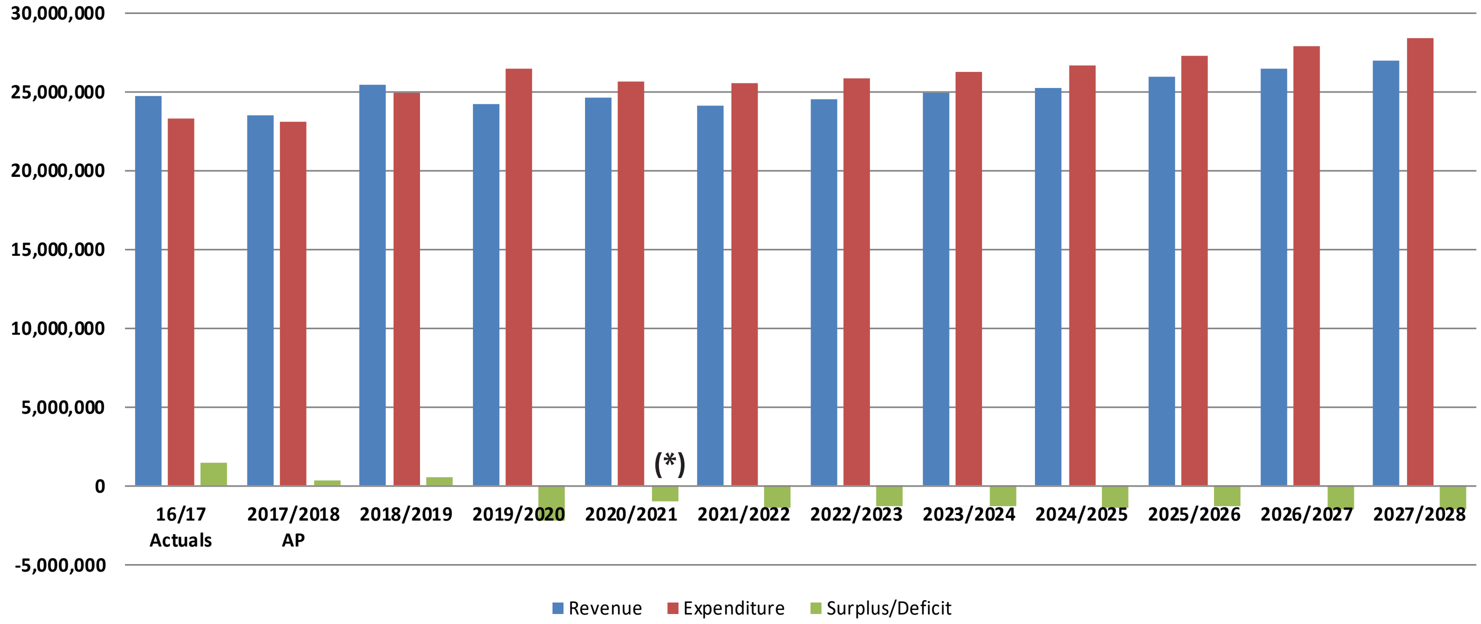
Council has managed to keep total rates increases low over the last 3 years since the 2015-2025 Long Term Plan. There are a number of factors which are driving rates moving forward. Transfer of the Westport harbour to Council has added around $230,000 to rates proposed in 2018/2019. In addition there are increases planned in the renewal programme for Westport water and Westport sewerage which increases targeted rates for these schemes. Collectively this increases total rates by 3.0% for 2018/2019.

Council has controlled its expenditure on its 'business as usual' costs well. Overall the total increases in rates, after taking into account inflation, is close to the total movement in the Local Government cost index (a Council benchmark) over the Plan which is a satisfactory result. Council exceeds its debt affordability and rates affordability increase benchmarks in this plan. Council believes that this is appropriate given the benefits of the investment in the future that is proposed over the next 10-years of this plan.

Council runs accounting deficits over the life of this LTP. This is mainly because it is not fully funding the depreciation expense for all activities where we have assumed assets will not be replaced or will be funded from external sources. In addition Council is funding renewals for roading rather than depreciation. The effect of this is significant. The difference between funded renewals and depreciation in the Roading activity is $1.4m in 2018/19 increasing with inflation projections to $1.5m in 2028/2029. When this is taken into account Councils has sufficient cash income to cover cash expenses over the life of this LTP.

For this Plan Council has set its revenue to cover all the actual money needed to be spent to provide the levels of service as detailed throughout the plan.

Operating Revenue and Expenditure



(*) Note: Excludes the one-off disposal of Karamea Highway to NZTA (2021/22: $21.5m loss).

INFLATION - AN IMPORTANT INPUT TO THE PLAN

There is an important point to take into account when considering the financial elements of the 2018-2028 Buller District Long Term Plan. All Councils are required to include the forecast cost of inflation in their Long Term Plans. This is not discretionary and it can be very confusing.

Inflation (being the rise in the general level of prices of goods and services over time) must be specified by cost type for each year of this Plan. For detail on the inflation rates and cost types used in this plan please refer to the table on page 140.

Buller, like most other Councils in New Zealand, uses inflation forecasts provided specifically for the long term planning process by Business and Economic Research Limited (BERL), which is an independent economic research company. BERL is commissioned on behalf of Local Government in New Zealand to provide sector specific inflation parameters.

The inflation figures provided by BERL would cumulatively amount to an increase in costs of around 28% over the life of this Plan if the costs of services remained the same as they do in the current financial year. Put another way, ignoring the potential for efficiencies, costs are predicted to increase by this margin in the planning period without adding any new functions, building any new assets or increasing the current levels of service.

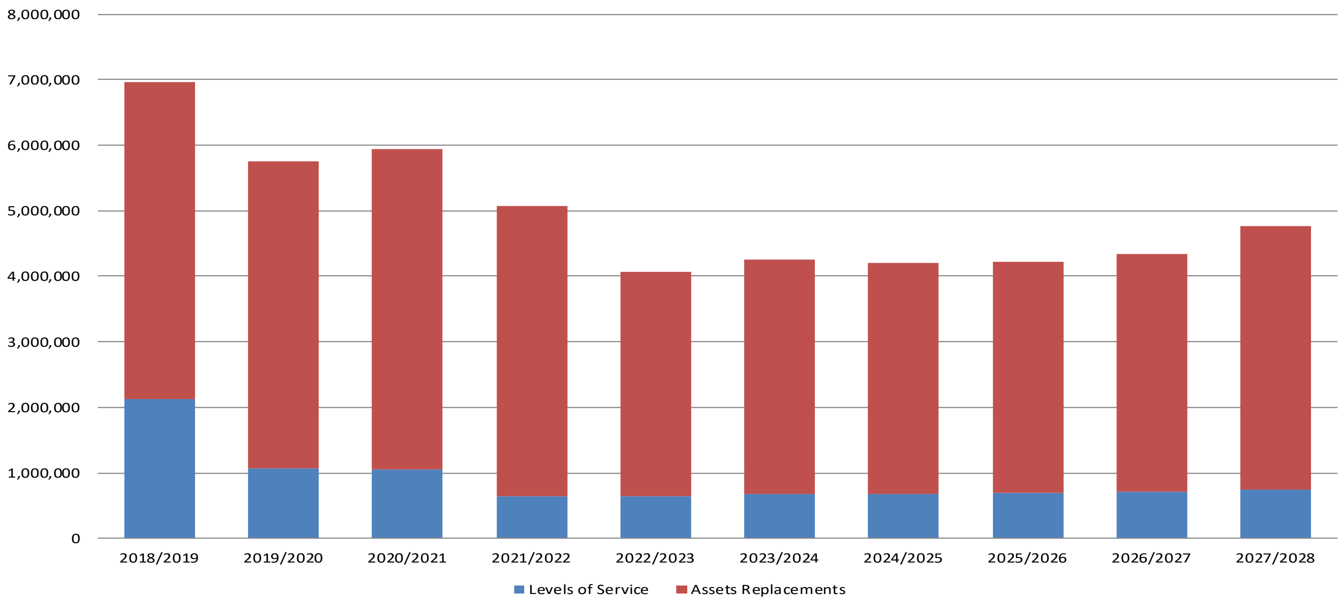
Another important aspect of inflation is that there are many different measures of inflation depending on the sector involved. Most commonly referred to and understood is the Consumer Price Index (CPI). This largely relates to domestic costs. Inflation included in this Plan is not the same as CPI inflation. It does include similar items but the Council's inflation forecasts are required to include additional inputs specific to inputs Councils use. The basket of inputs used by Local Government in New Zealand is referred to as the Local Government Cost Index (LGCI). The LGCI is traditionally higher than the CPI due to the higher weighting of oil-based products used in roading.

Buller District Council focuses on affordability of rates for its communities. Over the life of the plan Council has attempted to keep operating expenses, to provide the level of service that the community requires, to a prudent level. Inflation increases the cost of the goods over time. Council has tried to keep rates increases close to the level of inflation that is predicted for the type of goods and services that it needs. This is one of the key measures of Councils performance relating to rates increases in this plan.

OVERALL CAPITAL EXPENDITURE

The replacement costs of assets signalled through the asset management plans aggregate to a total capital works programme of $50m over the 10 years. Capital expenditure totalling $9m (18%) is targeted at improving levels of services and $41m (82%) is used to fund asset replacements.

Capital Expenditure: 2018 to 2028



Significant Capital Expenditure across the 10 years of the plan (a full capital expenditure schedule can be found on page 120)

Details	Total Cost
Water	
Mains upgrades over the 10 years of the plan.	Westport - $4.7m Reefton - $1.1m
Waimangaroa Drinking Water Standards Upgrade deferred to 2018/2019. Expected subsidy $ 0.4m.	$0.5m
Roading	
Local Road renewals for the 10 years of the plan .	$12.3m
Karamea Highway for the first 3 years of the plan.	$1.1m
Rough River Bridge contribution to Grey District Council 2019/20 (BDC contribution to capital costs)	$1.1m
Footpaths	
Footpath renewals over the 10 years of the plan	$2.2m
Sewerage	
Sewerage asset replacements and upgrades for the 10 years of the plan.	Westport - $7.8m Reefton - $2.0m Little Wanganui - $0.2m
Stormwater	
Stormwater asset replacements and upgrades for the 10 years of the plan.	$2.4m
Property	
District wide volunteer based projects over the 10 years of the plan.	$0.9m
District wide revitalisation: 2018/2019 $200,000, 2019/2020 $255,000, 2020/2021 $260,000.	$0.7m
Westport current Civic Building upgrades: Brougham House to be completed 2020/21 ($1.9m) and Victoria Square EOC/Grandstand to be completed 2020/21 ($0.3m)	$2.2m
Airport	
Rock Wall extension 2018/2019.	$0.8m
Runway re-surfacing 2018/2019.	$0.2m
Runway replacement 2027/2028.	$0.6m
Support Services	
Core enterprise software system replacement 2021/2022.	$0.8m

FINANCIAL STRATEGY

THE FINANCIAL STRATEGY CAN BE SUMMARISED AS FOLLOWS:

1. Expenditure to be adequate to maintain existing services and to maintain the quality and avoid deterioration of assets and capacity. Additional expenditure will be considered if it improves resilience and reliability of Councils services delivery and meets the current and future needs of the community. This includes providing financial support to community led development opportunities that meet Councils overall strategy.
2. Manage debt and finance costs in a financially prudent manner. Council have set a net debt ceiling benchmark at $20 million.
3. Allowing for Rates increases for improvements in service delivery, core infrastructure and initiatives that may attract new economic activity in the district. Rates affordability is a strong consideration for our communities. Council has set a benchmark to keep rates increases within the long range Local Government Cost index which is 2.4% per annum.
4. Minimise Council reliance on rates income by considering external investment opportunities and external funding options. Borrowing to facilitate these initiatives will be considered if this is consistent with Councils overall strategy.

GROWTH IN RATEABLE PROPERTY NUMBERS

Years	Properties
2018/2019	7,460
2019/2020	7,470
2020/2021	7,480
2021/2022	7,490
2022/2023	7,500
2023/2024	7,510
2024/2025	7,520
2025/2026	7,530
2026/2027	7,540
2027/2028	7,550

The growth rate in rateable properties is mainly due to subdivisions of land. Council has taken into account the effect of land and coastal erosion on the number of rateable properties.

MAJOR FACTORS AFFECTING THE BULLER DISTRICT AND THE FINANCIAL STRATEGY

- The district is susceptible to cyclical fluctuations in primary industry, including mining and dairy farming.
- Rates affordability is important given the district has an aging population. Council has a high reliance on rates income and should explore external income opportunities to offset this.
- Council advocacy for regional development is important. This includes high speed broadband and extended mobile coverage. Modern services offer potential for economic development opportunities.
- The closure of some industries such as cement manufacturing near Westport, a gold mining operation in Reefton and the rationalisation of a number of coal mines has resulted in a short term decline in the district population. Population is expected to remain stable in the medium term.
- Domestic and international tourism remains the most likely industry to achieve growth. The district abounds in natural attractions, historical features, ecological wonders and walking, climbing and mountain biking opportunities.
- Council is focused on tight cost control and will work with other West Coast Councils wherever it can to bring about service enhancement or savings through shared services.
- Council will continue to invest in core infrastructure for our communities. Infrastructure capital projects and upgrades provide the major proportion of capital expenditure proposed over this plan. This includes completing water projects to provide clean safe drinking water and the impact of any government legislation regarding water supplies. Councils infrastructure strategy has been developed in conjunction with the key aspects of this financial strategy.

FINANCIAL OVERVIEW

We have to do more than just limit spending. Council also needs to look for opportunities to increase its income. Along the way we still need to make sure that our infrastructure assets are meeting community needs and that they also meet the various legal requirements they operate under.

This is always a balancing act. On one hand we need to make sure our assets, such as pipes, roads, and treatment plants, meet environmental and health standards (such as the water quality standards). On the other hand, asset renewals and replacements are expensive and we need to make sure that any increases in Council's income (which primarily comes from rates and fees and charges) are affordable for our Community, all the while meeting our overall goal of 'a balanced budget' as stipulated in the Local Government Act.

	AP 2017/18 $000	LTP 2018/19 $000	LTP 2019/20 $000	LTP 2020/21 $000	LTP 2021/22 $000	LTP 2022/23 $000	LTP 2023/24 $000	LTP 2024/25 $000	LTP 2025/26 $000	LTP 2026/27 $000	LTP 2027/28 $000
Operating Revenue	23,469	25,456	24,219	24,635	24,137	24,544	24,968	25,274	25,950	26,404	26,929
Operating Expenditure	23,084	24,943	26,416	25,656	46,807	25,880	26,280	26,633	27,276	27,853	28,409
Surplus/(Deficit)	385	513	(2,197)	(1,021)	(22,670)	(1,336)	(1,312)	(1,359)	(1,327)	(1,449)	(1,480)

(*) Note: Includes the one-off disposal of Karamea Highway to NZTA ($21.5m loss).

Council has accounting operating deficits over the life of the plan. This is primarily because Council funds renewals rather than depreciation for one of its biggest capital spends which is on roading. NZTA in its latest audit of our roading network has determined that the network as a whole is in very good condition. The roading programme is set with NZTA based on this premise and not on the level of depreciation for network which is higher. Hence there will always be an accounting deficit when taking this into account. In addition there are capital subsidies for sponsorship that cease from 2019/20 which add to the deficit. On a cash basis Council is operating prudently and income is at a sufficient level to cover its expenses. Council will continue to monitor long term sustainability to ensure that adequate resources are available to maintain the current level of service for the roading network.

STATEMENT CONCERNING BALANCING THE BUDGET

Council's budget over the life of this Plan does not balance (a balanced budget is considered one where each year's projected operating revenues are set at a level sufficient to meet that year's project operating expenses). Council is not fully funding the depreciation expense for all activities where we have assumed assets will not be replaced or will be funded from external sources. In addition as highlighted earlier Council is funding renewals for roading rather than depreciation. The effect of this is significant. The difference between funded renewals and depreciation in roading is $1.4m in 2018/19 increasing with inflation projections to $1.5m in 2028/29. When this is taken into account Council would run a balanced budget for the majority of the years in the LTP.

For this Plan Council has set its revenue to cover all the actual money needed to be spent to provide the levels of service as detailed throughout the plan. This includes the replacement and renewal of assets where required.

CAPITAL EXPENDITURE

When considering its capital works schedule Council took into account the current economic climate and the debt levels forecast over the next 10 years. Council decided it was prudent to give priority to critical projects affecting drinking water in the last LTP this philosophy has continued into the current LTP. Other projects such as the rationalisation and of Council property and revitalisation of town and community hubs have been deferred until the drinking water projects are complete.

SPENDING ON ASSETS

It is important that asset condition is maintained to avoid a reduction in service delivery to our communities and also to avoid deterioration of these assets. Maintaining service levels and avoiding deterioration of assets is important because our communities expect a certain level of service and there is a cost in the long run of deferring maintenance and replacement of assets. The risk is that if we do not spend this money now then it is likely that we would end up spending more later on and we also run the risk of infrastructure failing.

There is a key link between our Infrastructure Strategy (on pages150-169) and this Financial Strategy. Affordability, adequate service levels and maintaining the quality of our assets are all important. Some of our assets are getting old, and need to have repairs or replacements in the near future. Some are new or in good condition and require less to be spent on them. The spending on assets is considered necessary to maintain our current levels of service. But there is a cost in doing this. Therefore this is a delicate balancing act to ensure that we get the formula right and don't expose our communities to undue risk or cost!

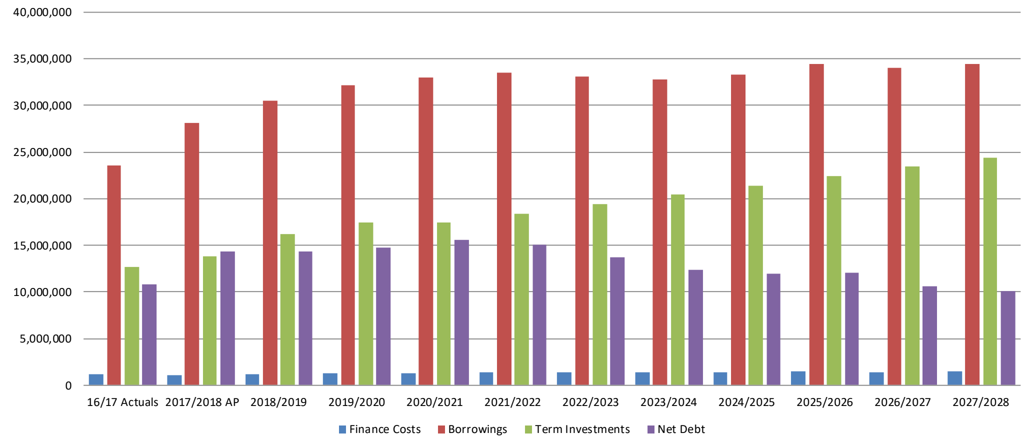
COUNCIL'S DEBT

It is crucial that debt levels are within affordable and sustainable levels. Council set its net debt cap at $20m within the 10 Year Plan. We only borrow to invest in long term assets or opportunities that can increase income for Council. Council does not borrow for operating purposes.

Page 30 explains what we plan to spend on community assets for the next 10 years. We will also outline what impact this would have on our debt levels and overall income requirements from rates, user fees and charges, and other sources of income.

Council has produced a plan which demonstrates sustainable external debt levels. Net debt (being gross external debt less term deposit investments) is anticipated to be at $14.3m in 2018/19 and is projected to be at $10m in 2027/28. Council at the same time is committed to a significant capital expenditure program totalling $50m over this plan. This is to be funded from a mix of depreciation reserves, external and internal borrowings.

Debt, investment, net debt: 2018/2019 to 2027/2028



Gross debt is predicted to increase over the 10 years of the plan from $30.5m in 2018/19 to $34.5m. Term investments are expected to grow from $16m to $24m at end of plan. Net debt which is a key measure for Council is expected to reduce to $10m at the end of the 10 years of the Plan.

FORECASTED TOTAL RATE INCREASES ACROSS THE 10-YEAR PLAN

Total rates expected to be collected by Council increases from $14.2m to $17m over the life of this Long Term Plan. This is mainly due to inflationary increases that are accounted for in this plan as well as the effect of major projects proposed such as the District revitalisation. The sum of the proposed rates increases over the Plan is slightly less than the sum of the long run Local Government cost index that Council uses as its rates inflationary benchmark.

The years where rates are expected to be higher than the long run Local Government cost index are 2018/19, 2019/20, 2021/22, 2022/23 and 2025/26.

The increase in 2018/19 is higher mainly due to costs associated with taking over the Westport port and increases in the renewal programmes for Westport water and wastewater and the loan associated with the Westport raw water supply project.

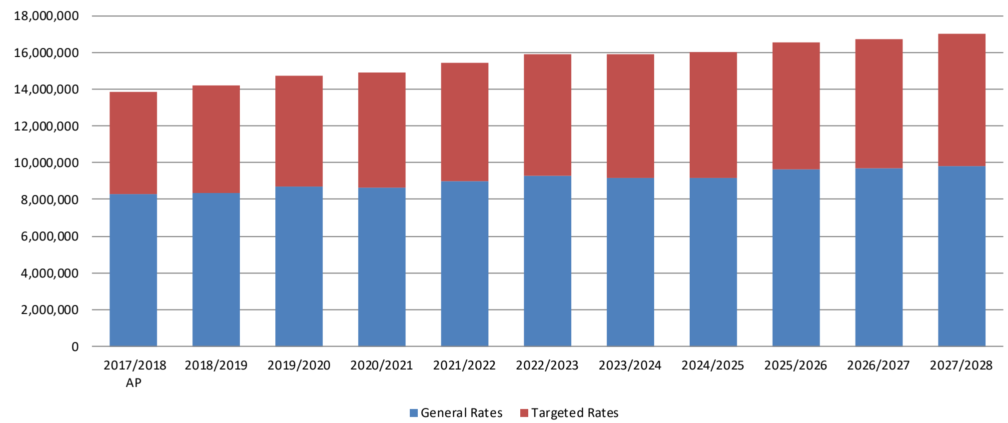
The increase in 2019/20 is mainly related a reduction in planned distribution from the holding company and additional civic building repairs and maintenance.

The increase in 2021/22 is due to the increased spend on the district revitalisation project and the increased ratepayers share of roading costs.

The increase in 2022/23 is related to cyclical repairs and maintenance on property and roading/urban development expenditure.

In 2025/26 increases in roading expenditure is the main driver of the rate increase.

Total rates: 2018 to 2028



THESE INCREASES ARE AS A RESULT OF:

Price increases – the price adjustors used for Local Government are higher than predicted inflation and this means that it will cost more to provide services.

Service level changes - water is the major activity where Council will be increasing their level of service by improving the quality of the water through capital upgrades to enable current water supplies to meet the latest Drinking Water Standards.

Depreciation and Interest payments – the increased capital expenditure programme means corresponding increases in costs in these areas, depreciation is also affected by inflation.

WHAT IS A REASONABLE RATES LEVEL?

In setting rates at the appropriate level, Council must balance what is affordable for both the Council and the community. This is a balancing act which needs to take into account the services that Council delivers and whether the current or future ratepayers should pay for them. This is sometimes referred to as intergenerational equity. This is important for the Council given that many of its assets have long service lives and the benefits that these assets provide are over a long period of time. The main tool is the use of debt and then rating ratepayers to service that debt.

In assessing the right funding level Council has to consider the following:

- Have we set revenues at a level to cover all of our expenses?
- Have we set revenue at a level so that we can afford an ongoing asset renewal and replacement programme?
- Is the number of projects and the total cost of the asset development programme affordable?
- Have we considered the needs of current and future ratepayers?

Forecasted total rate increases across the 10-year plan

	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028
General Rates	8,378,945	8,694,078	8,637,631	8,988,990	9,278,037	9,179,222	9,193,102	9,607,042	9,668,021	9,784,674
Targeted Rates	5,865,764	6,032,172	6,252,540	6,464,811	6,629,085	6,746,482	6,849,860	6,943,850	7,040,789	7,207,150
Total Rates	14,244,709	14,726,250	14,890,171	15,453,801	15,907,122	15,925,704	16,042,961	16,550,892	16,708,810	16,991,824
Increase %	3.0%	3.4%	1.1%	3.8%	2.9%	0.1%	0.7%	3.2%	1.0%	1.7%

WHAT ARE THE QUANTIFIED LIMITS ON RATES AND RATE INCREASES?

Council will endeavour to keep the income required from rates steady as well as creating predictability in the level of rates required. This will include taking a multi-pronged approach of managing the cost to the ratepayer (through efficiency gains and/or service reductions), increasing other revenue sources (to reduce dependency on rates revenue) and/or disposing of surplus assets. The Council is required by legislation to include a statement on quantified limits on rates. Currently Council draws about 55% of its income from Rates because it has limited alternative revenue streams. It does not have significant financial investment funds or investments in corporate enterprises that can generate large income streams. Consequently Council has taken a fairly low risk approach to borrowing.

LIMITS ON RATES COLLECTED

While the Council will continue its approach of allocating rates as a funding proportion based on who causes and benefits from its activities, it plans to limit the rates collected each year to a maximum of 65% of total Council revenue. We believe this would represent an equitable and prudent upper limit.

Council's Revenue and Financing Policy sets out the sources of funding to be used, and how they will be applied to each activity - with a view to achieving this objective:

	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026	2026/2027	2027/2028
General Rates	8,313,828	8,378,945	8,694,078	8,637,631	8,988,990	9,278,037	9,179,222	9,193,102	9,607,042	9,668,021	9,784,674
Targeted Rates	5,517,159	5,865,764	6,032,172	6,252,540	6,464,811	6,629,085	6,746,482	6,849,860	6,943,850	7,040,789	7,207,150
Total Rates	13,830,987	14,244,709	14,726,250	14,890,171	15,453,801	15,907,122	15,925,704	16,042,961	16,550,892	16,708,810	16,991,824
Total Revenue	23,468,639	25,456,196	24,219,004	24,635,120	24,136,912	24,544,298	24,967,825	25,273,800	25,949,665	26,403,779	26,929,066
Rates as % of Total Revenue	58.9%	56.0%	60.8%	60.4%	64.0%	64.8%	63.8%	63.5%	63.8%	63.3%	63.1%

(*) Rates exclude water meter rate

LIMITS ON RATE INCREASES

While the Council will continue to consider affordability issues when setting rate levels each year, Council is required by legislation to include a statement on quantified limits on rates increases. Limiting the increase to the Rates forecasted in the Long Term Plan reflects the realities of higher local government costs, ie, the cost of doing Council business. It also recognises that from time to time Council will need to increase the level of service that it is providing to meet, for example, community needs and new resource consent requirements. Individual properties may experience smaller or larger increases depending on movements in property values, the services that they receive and their location. Council would like to set the quantified limits on rates at the 20 year average of the Local Government Cost Index (between 2007 and 2028), which is 2.4%. This index is based on the current range of services provided under a local government context.

CAPITAL EXPENDITURE AND DEPRECIATION FUNDING

The Council currently has infrastructural assets worth close to $438m and during the next 10 years Council is planning to undertake additional capital works of close to $50m. Asset development expenditure is for purchasing, building, replacing or developing Buller District assets (eg, roads, water supplies, properties etc). For each asset category asset management plans are in place which are the key planning tool for the maintenance, future renewal and additional assets required to meet the demand and levels of service in the district. These are prepared on the basis of a 30 year outlook which is required by legislation but is also prudent asset management practice to take a long term view of asset renewals particularly in a local government. These asset management plans also inform how the planned expenditure will be paid for.

'Renewals' are the replacement programme for the existing assets. 'Level of service improvements' relate to where Council believes the current assets do not provide an adequate level of service. Renewals of assets are generally funded from depreciation as over the Long Term Plan the level of renewals should be in line with depreciation. Improvements in Level of Service are generally funded from external borrowings, capital subsidy or from capital contributions.

Council's policy is to mainly fund increases in service levels through borrowings, normally over 20 years, but shorter or longer terms may be used for some assets depending on how long they are expected to last before being replaced.

Council funds, or in other words rates for depreciation for all activities except roading and stormwater, and uses depreciation reserves to fund asset renewals and to replace assets as they wear out.

There are exceptions where depreciation is not funded and these are where Council has received financial assistance in the past and expects finance assistance to be available in the future to fund asset replacements (eg, pensioner housing upgrades, rural fire vehicles).

This method provides for intergenerational equity and means that those people that receive the benefit of the asset generally pay for their share of the asset.

Council has agreed to fund capital expenditure for Buller Recreation Ltd (Pulse Energy Recreation Centre) over the term of the Plan, in exchange for shares in Buller Holdings Ltd.

When the recreation centre was constructed and transferred into a Council controlled organisation it was agreed by Council that depreciation would not be funded for this asset but instead and capital replacements that were required would be funded by debt at the ratepayer level in exchange for additional shares in the holding company. In this Long Term Plan this means that there will be an increase in debt and investment in the holding company in Councils balance sheet and there are also associated debt servicing costs that are passed onto the ratepayer subsequent to this transaction. Major capital funding requirements for the recreation centre and the years that they are proposed are shown below.

Breakdown of major Council funding for Buller Recreation's capital expenditure over the term of this plan:

2024/2025 $1.0m - Administration area fit out and electrical fit-out. Aquatic Centre fit out and pool surround resurface.

2025/2026 $1.6m - Hockey turf and Aquatic centre fit out and plumbing replacements. Administration area mechanical replacements.

2027/2028 $0.9m - Fit-out and plumbing for the Aquatic centre

DEBT AND INTEREST BORROWINGS TABLE

Under section 100 of the Local Government Act 2002, Council considered its financial management responsibilities, where it must manage its revenues, expenses, assets, liabilities, investments and general financial dealings prudently and in a manner that promotes the current and future interests of the community. The Council has also considered whether it is sustainable to undertake the level of capital works planned in the 10 Year Plan together with the increased debt servicing costs associated with the higher debt level. If the Council has too much debt then future ratepayers will subsidise current ratepayers. Conversely, too little and the reverse situation applies. The Council has considered the timing of this programme and the associated borrowings required to ensure that this best meets the needs of current and future generations. In doing so the Council noted the following information from the Local Government Rating Inquiry 2007 (Shand Report):

Impact of additional borrowing on rates:

"Greater use of borrowing for long-life assets can enable rates to be held at a lower level over a considerable period of time, even allowing for interest costs. There is some aversion amongst ratepayers to the taking on of debt, which is seen by some as financially unsound. Reflecting this, some Council's perceive being debt-free as a virtue. This ignores the benefits of being able to undertake expenditures earlier than would otherwise be the case. It also ignores the interest cost that ratepayers bear by paying the rates earlier to fund the capital expenditures than would otherwise have been the case."

Overview of debt, investments and net debt over the 10-year plan

	2018/2019 $000	2019/2020 $000	2020/2021 $000	2021/2022 $000	2022/2023 $000	2023/2024 $000	2024/2025 $000	2025/2026 $000	2026/2027 $000	2027/2028 $000
Borrowings	30,522	32,205	32,954	33,462	33,121	32,764	33,335	34,459	34,048	34,458
Term Investments	16,204	17,404	17,404	18,404	19,404	20,404	21,404	22,404	23,404	24,404
Net Debt	14,318	14,801	15,550	15,058	13,717	12,360	11,931	12,055	10,644	10,054

Council's gross debt is predicted to be $34m at the end of the 10 years – when offset against Council's investments of $24m. While the gross debt has increased, it is the net debt being $10m which is the most relevant particularly from a risk point of view.

The Treasury Management Policy has been developed to incorporate Council's Banking Covenant which states that finance costs as a percentage of total operating revenue must not exceed 15%. Council expects to operate well under this limit over the life of the plan. In addition Council is in compliance with all other limits specified in the Treasury Management Policy.

The increase in gross debt is to fund the asset development programme and building upgrades planned within this Long Term Plan. Note that gross term debt is off-set by term deposits. The true net debt is the difference between the two.

Interest rates are historically very low. Council has taken external advice and has assumed that the average interest rate paid on its loans will increase over the 10 years of the Long Term Plan. The range of interest rates used in this plan is expected to be in the range of 4% to 6%.

Policy on giving securities for borrowings

Council plans to continue to secure its borrowings and interest rate risk management instruments against rates and rates revenue.

Limits on borrowings

The limits for gross borrowings are based on debt servicing costs remaining below 10% of Total Operating Revenue. Gross debt is $30.5m in 2018/19 and increases to $34.5m in 2027/28. Council is in compliance with all limits specified in the Treasury Management Policy and Financial Prudence Benchmarks.

The Treasury Management Policy has been aligned with external banking covenants. Council is comfortable that debt levels are prudent and that debt servicing costs remain affordable in the Long Term Plan. Council expects its liquid investments grow considerably over the duration of the Long Term Plan therefore net debt is a more relevant measure. The net debt (defined as external borrowings less term deposits). Council has set its benchmark for net debt limit at $20m. Council's net debt at the beginning of this Long Term Plan is $14.3m and at the end of the plan it is expected to be $10m.

Investments

Council currently has term deposit investments of $16m and over the term of the Plan these term deposits are planned to increase to $24m. This situation is kept under constant review and the balance of the gross debt to investment could change if relative interest rates change. It is also considered prudent to grow the term deposits to cater for any natural disasters.

Council will continue to monitor gross debt and the level of term deposits looking to minimise interest costs while maintaining prudent reserves. Bearing in mind there is a core amount of debt related to the acquisition of shares in Buller Recreation Limited where it is tax effective to not repay this debt.

Council has a portfolio of other investments comprising:

- Term investments - as explained, short term investments are expected to increase due to receipts from internal loans and sale of investment properties
- Equity investments - investments in Buller Holdings Limited are expected to increase over the duration of the Long Term Plan. In 2018/2019 investments total $20.1m and increase to $24.5m in 2027/2028 reflecting operating losses in Buller Recreation Limited and shares issued to Council in exchange for the funding of capital expenditure for Buller Recreation Limited which will increase the investment accordingly
- Asset investments
- Associated organisations- comprising of mainly community loans, which are not significant.
- Investment property - investment properties are forecast to be $8.2m in 2018/2019 and are planned to increase to $9.5m in 2027/2028 as a result of revaluation gains offset by sales of investment properties.

Council will continue to review any investment opportunities that may continue to generate long term benefits for the community.

Council is currently in breach of the current Investment Policy with regard to investments in building societies. The policy only allows a maximum of $1m investment. Currently Council has exceeded this by resolution. The reason for this breach is that the respective Building Society has provided sponsorship towards the Performing Arts Theatre. This will be re-assessed by Council when the sponsorship agreement ends in 2019.

The full Treasury Management policy is included in this LTP and includes the rationale for holding these investments.

Council has a conservative approach to investments with surplus funds generally being used for debt repayment where appropriate rather than investment in financial assets. It does not intend to undertake investments in riskier financial assets such as equity investments, for the purpose of generating significant returns, now or in the future.

Generally equity investments are held for strategic purposes such as investments in council controlled organisations which enable councils to provide services more efficiently. Council's main investment is its shareholding in Buller Holdings. The main performance targets for Buller Holdings subsidiaries which are WestReef Services Limited and Buller Recreation Limited, are set out below:

Investment	Target Return
WestReef Services Ltd	To achieve a pre-tax operating profit of at least 12% on gross revenues, before any subvention payments.
Buller Recreation Ltd	Achieve budget and expenditure targets.
Buller Holdings Ltd	Financial performance of the Group will be measured against the forecasts and KPI's in the approved Statements of Intent.

FINANCIAL PRUDENCE BENCHMARKS

On 1 May 2014 the Local Government (Financial Reporting and Prudence) Regulations 2014 were introduced. These regulations seeks to:

- assist in identifying local authorities where further enquiry is warranted in relation to their financial management; and
- promote prudent financial management by local authorities.

The regulations prescribe how Councils must report these benchmarks and indicators in their Annual Plans, Annual Reports and Long Term Plans.

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 of the terms used in this statement.

The following benchmarks were introduced:

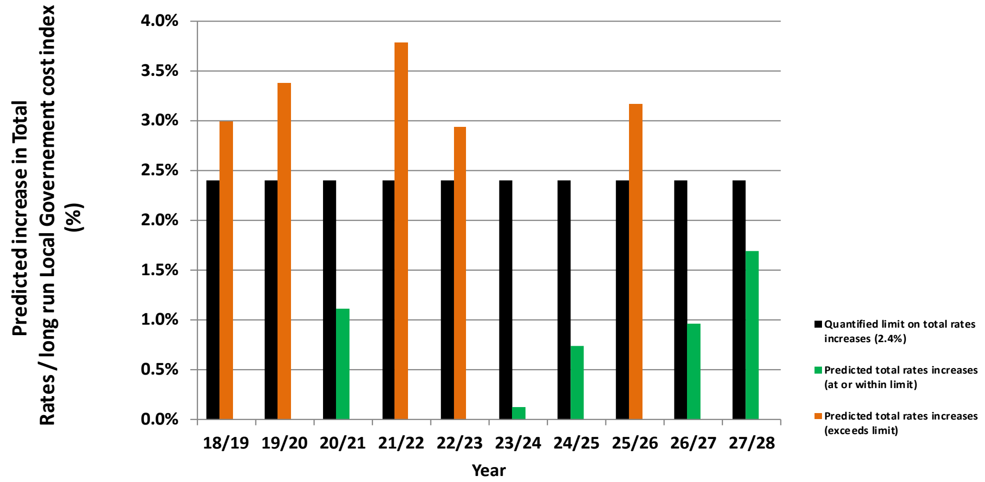
Affordability benchmarks	Rates affordability and rates increases benchmark	Rates revenue and rates increases complies with the limits set in Council's financial strategy.
	Debt affordability benchmark	Debt complies with the limits set in Council's financial strategy.
Sustainability benchmarks	Balanced budget benchmark	Operating revenue, excluding development and financial contributions and revenue from revaluations, exceeds operating expenditure.
	Essential services benchmark	Capital expenditure on the five network infrastructure services exceeds depreciation on those five services.
	Debt servicing benchmark	Interest expense is less than 10% of operating revenue, as defined in the balanced budget benchmark.

Rate increases affordability benchmark

Council meets the rates affordability benchmark if:

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

The following graph compares 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 the predicted increase in total rates does not exceed the predicted long-run Local Government cost index, which is 2.4%.

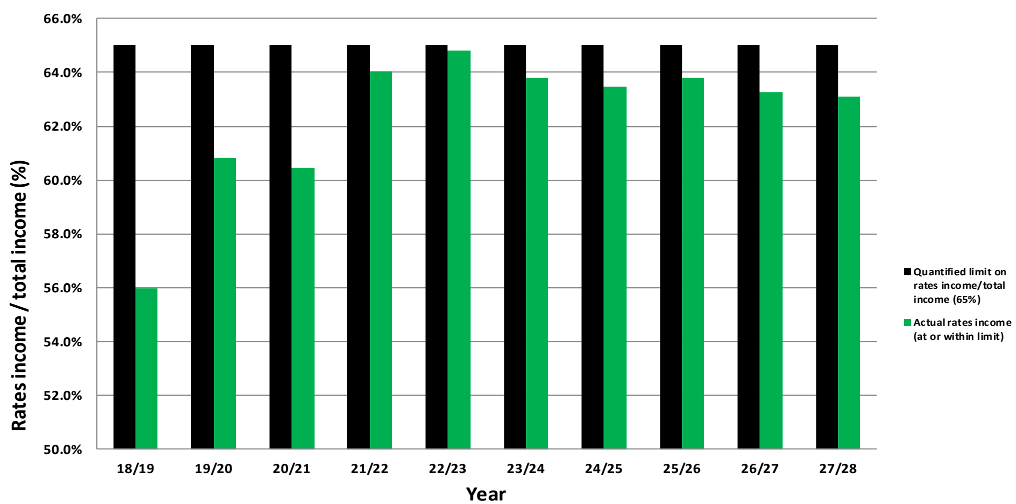


The total rates increases over the benchmark set in the Long Term Plan are explained below:

Year	Main driver why benchmark is not met
2018/19	Impact of Westport Water tunnel upgrades & transfer of Westport Harbour
2019/20	The increase is mainly related a reducted in planned distribution from the holding company and additional civic building repairs and maintenance.
2021/22	Council incurs debt servicing for building upgrades , additonal grants, Karamea Highway divested to NZTA reduces weighted average of FAR and the effect of an increase in Westport Sewer Target rates
2022/23	The increase is related to cyclical repairs and maintenance on property and roading/urban development expenditure.
2025/26	Expected additional roading maintenance, general inspection costs and resource management costs indicate the benchmark will not be met.

Rates income affordability benchmark

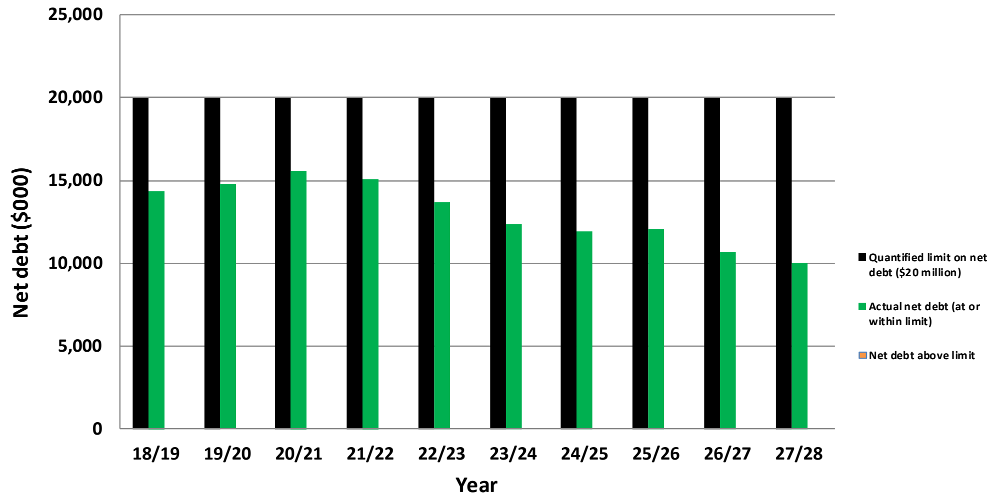
The following graph compares Council's planned rates increases with a quantified limit on rates increases contained in the financial strategy included in this Long Term Plan. The quantified limit is set at 65% of the total income contained in the Long Term Plan's financial strategy.



Debt affordability benchmark

Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing.

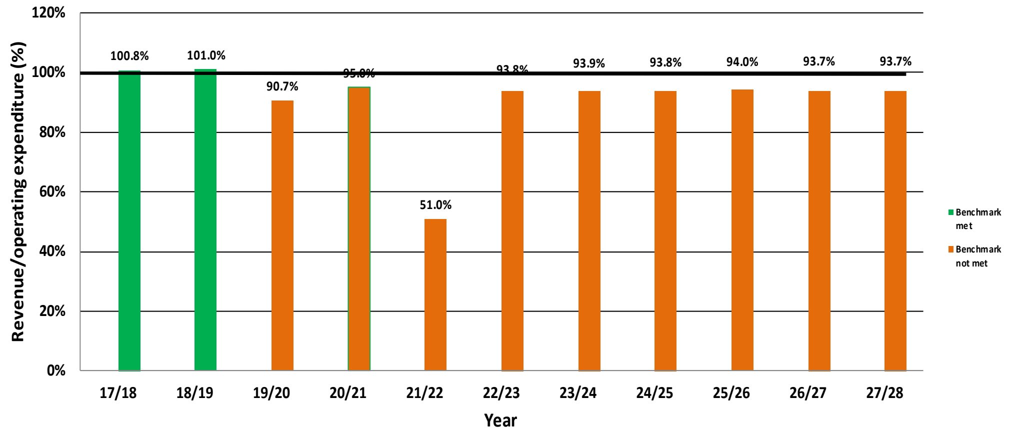
The following graph compares Council's planned debt with a quantified limit on borrowing contained in the financial strategy included in this Long Term Plan. The quantified limit on borrowing has been set at $20m of net debt for each year in the Long Term Plan.



Balanced budget benchmark

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

Council meets the balanced budget benchmark if its planned revenue equals or is greater than its planned operating expenses.

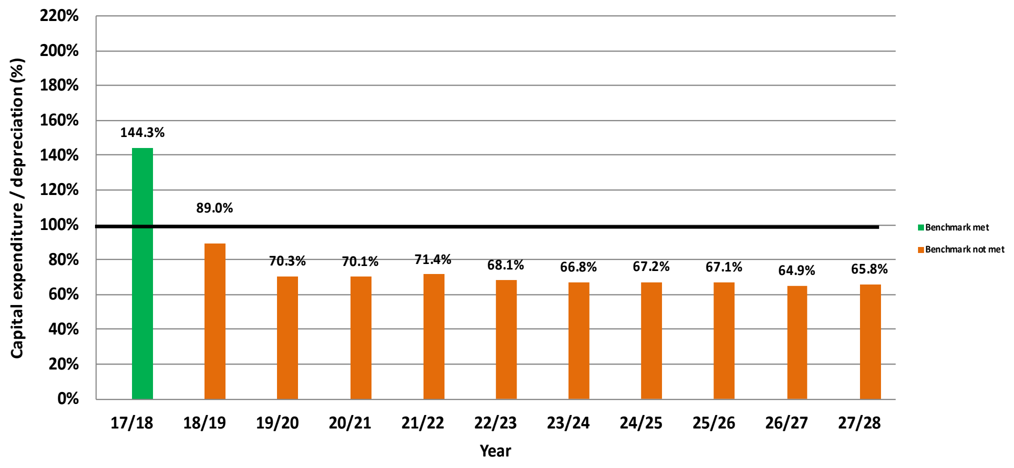


Year	Main driver why benchmark is not met
2019/20 - 2027/28	Council's expenditure is predicted to exceed income over the majority of the life of the Long Term Plan. This is primarily because the depreciation expense for roading exceeds each years' planned capital spend on the roading network.
2021/22	Council has recognised an asset write off totalling $21.5 million in respect to the proposed transfer of the Karamea Highway to NZTA.

Essential services benchmark

The following graph displays Council's planned capital expenditure on network services as a proportion of expected depreciation on network services.

Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.



Year	Main driver why benchmark is not met
2017/18	During 2017/2018 the captial expenditure on the Westport Water Tunnels was budgeted at a level that exceeds the annual depreciation.
2018/19 to 2027/28	Council does not meet this benchmark through the life of the LTP primarily because the roading asset renewals are set in conjuction with NZTA based on our actual roading network condition rather than the level of annual depreciation.

Debt servicing benchmark

The following graph displays 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 of property, plant or equipment).

Because Statistics New Zealand projects Council's population will grow more slowly than the national population is projected to grow, it meets the debt servicing benchmark if its planned borrowing costs equal or are less than 10% of its planned revenue.