FINANCIAL STRATEGY

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INTRODUCTION

Matamata-Piako – The Place of Choice. Lifestyle. Opportunities. Home. To deliver on this vision for our district, it's our role to make decisions on the services and resources required to get us there. The Financial Strategy is a tool to help guide these decisions – to ensure they are prudent, and to ensure that we and the community, fully understand the effect of these decisions on our services, our rates and our debt.

Our key Financial Strategy goals that will ensure we can deliver on our vision are set out, along with the key actions in the Long Term Plan 2018-28 that are required to achieve these goals.

Our Financial Strategy provides an understanding of our current financial health – where we are now. We then look at where we are going, and discuss the key things that are driving our direction – the challenges and opportunities we expect will have a significant impact over the 10 years of this Long Term Plan and our responses to address these.

Our Financial Strategy has been prepared based on the Assumptions described in Section 4 of the Long Term Plan, and should be read in conjunction with the Infrastructure Strategy in Section 3. At the end of each financial year we will report on our performance against the key financial strategy goals in our Annual Report, and in the Pre-Election Report in the run up to the local government elections.

OUR FINANCIAL STRATEGY GOALS

The key goals we have set ourselves in this Financial Strategy in order to achieve Council's vision are:

- To maintain the current levels of service we provide.
- To improve some levels of service where this complements our vision.
- To keep our rates at an affordable level.
- To ensure our debt is manageable and that we allow ourselves some headroom to respond to emergencies or opportunities that may arise.

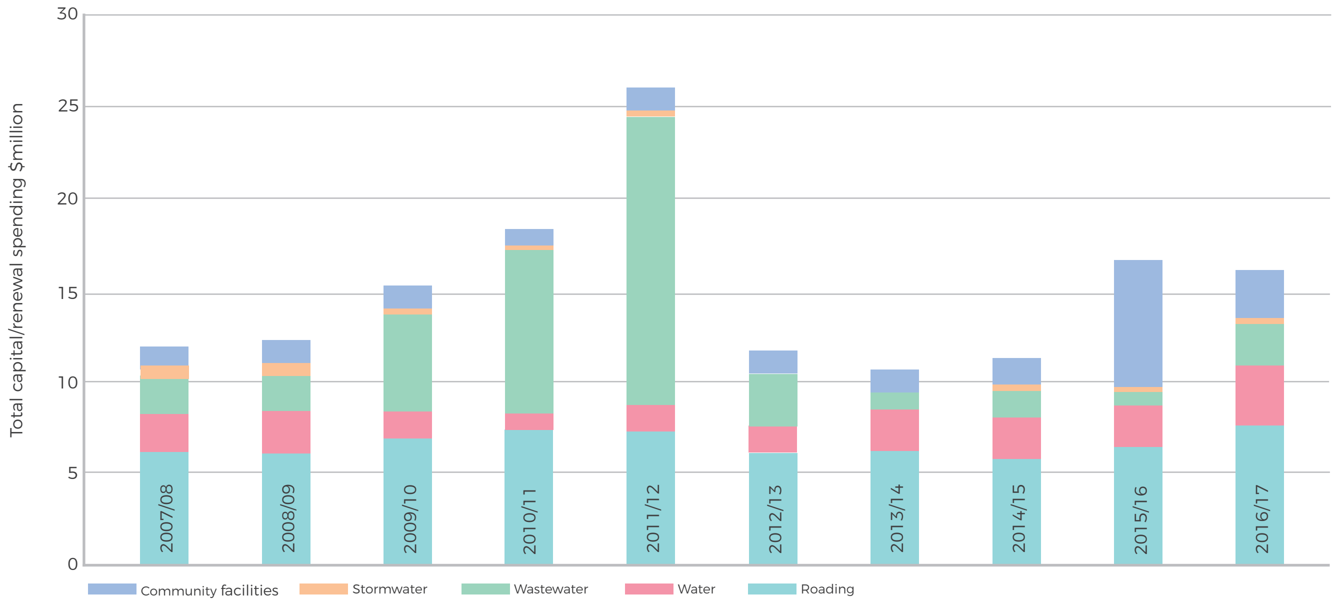
HOW WE WILL ACHIEVE OUR GOALS

STRATEGIC GOALS	KEY ACTIONS
Maintain the levels of service we currently provide.	• Optimised planning and asset management – improve our understanding of the condition of our assets so that our future costs of maintenance and renewal can be planned, and actively minimised. • Allocate $141 million over 2018-2028 to renew existing assets. • Smooth our costs and any anticipated drops in revenue where possible, to minimise the impact on ratepayers. • When the time is right, extend services to provide to new areas of growth at a forecast cost of $11.8 million over 2018-2028.
Improve some levels of service where this complements our vision.	• Give priority to service level improvements that align with Council's vision • Allocate $77.5 million over 2018-2028 to improve levels of service.
Set prudent limits on rates and rate increases.	• Annual rates will not increase by more than 4%. • Leverage other funding opportunities where possible.
Set prudent limits on debt.	• Limit debt to 150% of annual revenue.

MATAMATA-PIAKO TODAY - WHERE ARE WE NOW?

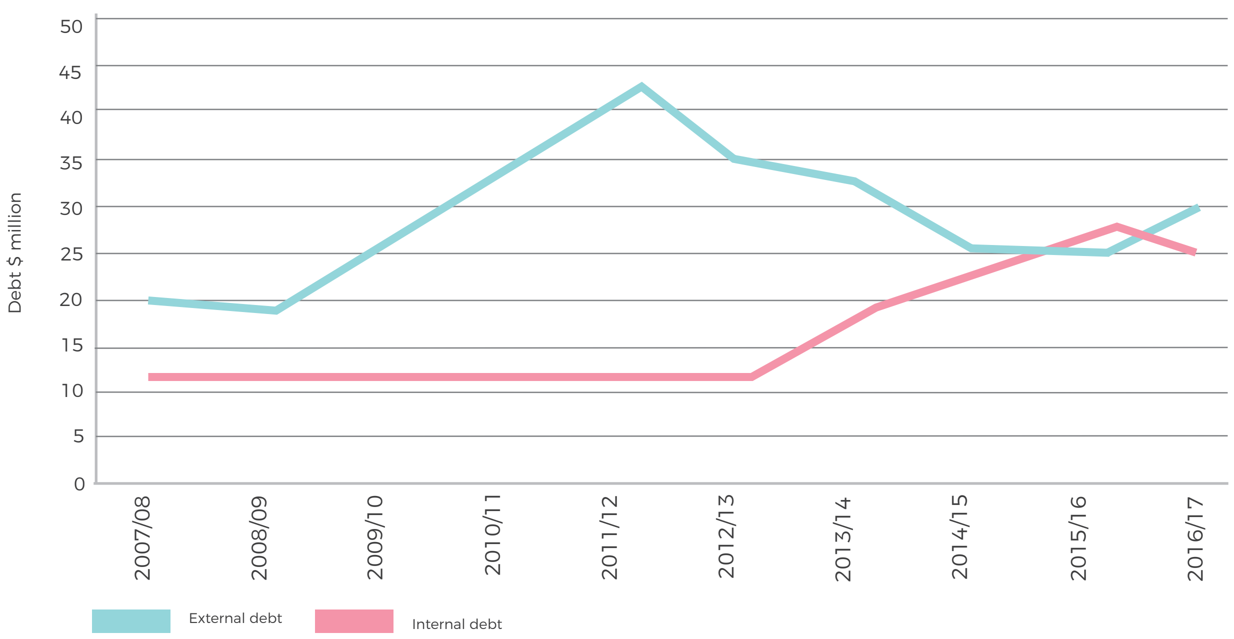
Our finances are in very good shape. Our district does not have some of the significant financial pressures that other districts are grappling with like rapid growth or population decline. We maintain over half a billion dollars worth of infrastructure assets. Overall these assets are in reasonable to good condition and are delivering the expected levels of service required. As the graph below shows, in recent years we have completed significant upgrades to our utility systems (water and wastewater), as well as our aquatic facilities (pools) and new recreational facilities (the Silver Fern Farms Events Centre and the Matamata-Piako Civic and Memorial Centre). We don't have any huge renewal or upgrade projects on the near horizon. Again, this sets us apart from many other districts that have these large expenditure commitments looming.

SPENDING ON COMMUNITY INFRASTRUCTURE AND FACILITIES OVER THE LAST 10 YEARS



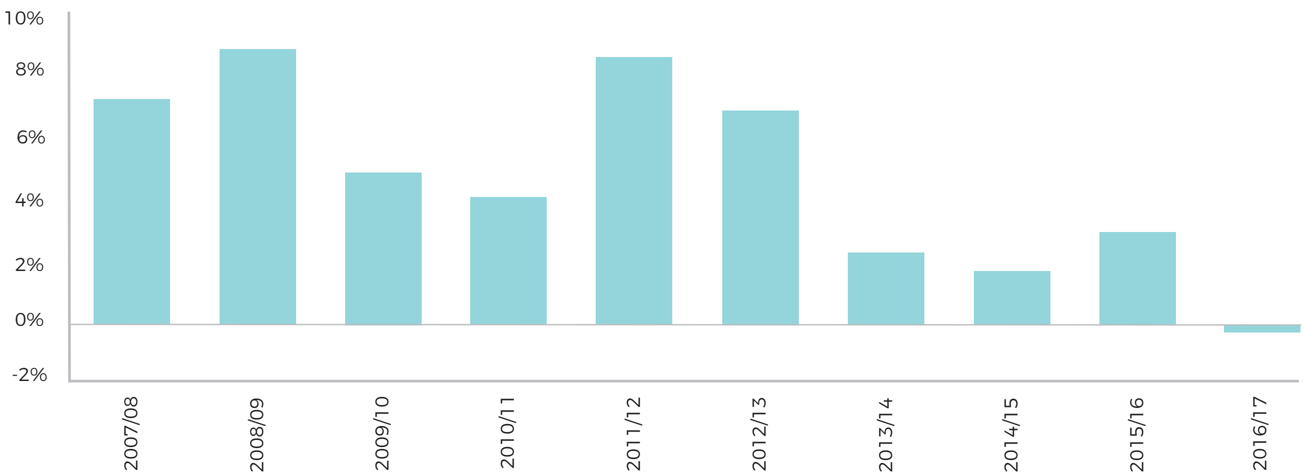
We do not have a significant amount of external debt. Independent experts have advised that debt of a level up to 150% of our total revenue would be prudent for a council of our size. Our current Annual Plan puts our external debt at 30 June 2018 at $40.5 million. Our net debt (taking into account cash and other assets) would be 75% of our total revenue. So we have plenty of headroom. Our district has benefited significantly from a $24 million windfall back in 1998 in the form of dividends received on the wind-up of the former Thames Valley Power Board. Most of this fund was utilised to internally fund investments in our assets. If not for that windfall, our external debt would be at least $18 million higher than it is today. The $5.4 million remaining is invested, with the interest used to subsidise general rates. It also acts as a self-insurance policy which could be accessed in an emergency situation, like in the event of a natural disaster.

MOVEMENT IN EXTERNAL AND INTERNAL DEBT OVER THE PAST 10 YEARS



Overall our rates compare favourably to our neighbouring councils. In recent years, economic conditions including the global financial crisis and the down-turn in the dairy industry have meant that we have strived to keep total rate increases to a minimum in order to avoid the extra pressure on our community. Over the last 10 years, total rates increased by an average of 4.67% per annum, particularly in relation to the significant water and wastewater upgrade projects in the earlier years. The average increase over the last four years was just 1.36%. While this was practical at the time and given the economic conditions, in some ways it also limited our ability to move forward.

TOTAL RATE INCREASES (EXCLUDING METERED WATER REVENUE) OVER THE PAST 10 YEARS



MATAMATA-PIAKO TOMORROW - WHERE ARE WE GOING?

We believe that our community is currently getting a good level of services, and that ratepayers are getting good value for their money. One of our financial strategy goals is to maintain our current level of services, and to continue to maintain and renew the assets that we already have. But, we feel there are areas where we could be doing more. We have a clear vision for our district, and to deliver on this we need do more. Decisions on improving service levels need to be balanced with affordability. Our vision for the district will guide where these service level improvements are required. This is the second goal of our Financial Strategy. The third and fourth goals relate to good financial management – our rates must continue to be affordable and our debt manageable, well into the future.

KEY DRIVERS AND RESPONSES

Looking forward, there are some challenges and opportunities ahead of us which may affect where we are going and how we get there. The main drivers that have influenced the decision-making in the development of our Financial Strategy are:

AFFORDABILITY

GROWTH AND DEMAND

RESILIENCE

COMPLIANCE

A discussion and our response to these drivers are outlined on the next pages.

AFFORDABILITY

The population of our district is getting older meaning that there will be an increasingly higher proportion of fixed incomes (e.g. more and more people earning a pension rather than a salary or wages). Statistics show that the average household income in our district is slightly below the national average, and there are pockets of deprivation in our district. The local economy is buoyed by the dairy industry and more recently tourism and horticulture, all of which are susceptible to economic ups and downs that flow throughout the district, as well as weather events.

ISSUES AND OPPORTUNITIES

In developing our Financial Strategy we have been very concerned with keeping our infrastructure, services and rates affordable. Our strategy is underpinned by an assumption that affordability will be maintained throughout the 10 years of this plan, and beyond.

Our response is to maintain affordability by:

- Budgeting, prioritising and setting annual work programmes with the goal of remaining within the limits set on rates, rates increases and debt. Where our Long Term Planning may indicate forecasts outside of our desired limits, our annual budget setting process will look to correct this. This could potentially result in a reduction in some non-essential services in some years if there are no alternative sources of funding without increasing rates beyond the set limits.

- Optimised planning and asset management – improving our understanding of the condition of our assets so that our future costs of maintenance and renewal can be planned, and actively minimised (refer to the Infrastructure Strategy for more information on this).

- Smoothing our costs and any anticipated drops in revenue where possible, to minimise the annual impact on ratepayers. Our operating and infrastructure renewal costs can vary widely from one year to the next as our assets have different lifecycles and need to be replaced at different times. Also operating revenue streams can be affected by external factors. Additional costs of compliance, the timing of which is often set by deadline, also add volatility to the funding requirements. Where possible, we've smoothed peaks in our reticulation and roading renewals, and we have considered the affordability and timing of other projects alongside compliance related spending.

- With metered water revenue, we anticipate that the demands of two of our significant industry consumers could be volatile particularly over the first three years of our Long Term Plan. We've looked to smooth the impact of these significant anticipated changes in revenue. The objective for smoothing costs is to give ratepayers more certainty and time to plan for this in their budgets. This effectively means that we may be collecting funding in advance or in arrears of when the costs will actually be incurred. The risks associated with this approach are that the actual timing, costs or revenue may not align with planned work programmes and budgets.

- Continuing to partner with or seek funding from industry, community groups, other district and regional council and Central Government agencies to deliver shared outcomes that benefit our district. The Silver Fern Farms Events Centre in Te Aroha is one example, and we will consider other proposals as they arise – such as the potential for a new Matamata Indoor Events Centre. External funding and partnerships may also be available to extend the Hauraki Rail Trail cycleway beyond Matamata to Piarere to provide a link with the Waikato River Trails. These are all examples of where external funding may be available to deliver shared outcomes that benefit our district.

- Taking a "whole of life" approach to decision making on investments with view to realising cost savings provided by new technology.

- Reviewing the provision and sustainability of our buildings and facilities – are they fit for purpose?

- Following a strategic procurement policy to ensure we are getting value for money.

- Regular reviews (in conjunction with the Long Term Plan) of the decisions on how to fund Council activities (set out in the Revenue and Financing Policy) in light of the policy considerations including the outcomes of the activity, who benefits and over what time, who is an exacerbator, how transparent the funding source is and whether the funding will promote accountability.

- Continuing to provide rates remissions to sports clubs, religious organisations etc., and also to promote to our ratepayers facing hardship, the Central Government funded rates rebate scheme.

GROWTH AND DEMAND

We continue to experience moderate population growth, with the majority of growth occurring in our main urban towns of Matamata, Morrinsville and Te Aroha. This population growth and land intensification increases demand for infrastructure and other services in our urban areas. People aged 60 years and above (particularly those in their 80's) are the fastest growing age group in the district - this will impact on household sizes and dwelling/rating units demands in the future, and increases demand for accessibility within our infrastructure (e.g. footpaths) and our facilities. Continued growth in the tourism sector also increases demands on our facilities. There are capital and operating costs involved in providing for growth and changes in population and the use of land in our district.

ISSUES AND OPPORTUNITIES

We have projected moderate future growth in population, dwellings and rating units and you can read more about this in Section 4 of this plan. We have also considered what changes in land use we are likely to see over the next 10 years, and based on the Town Strategies we developed in 2013, we are not expecting any major changes. You can read more about the Town Strategies at mpdc.govt.nz.

The Town Strategies have informed changes to our district Plan. Council has nearly completed district Plan Change 47 to revise the planning rules and zoning for each of our three towns and the areas around them. Through this plan change Council anticipates some changes to the residential zoned land around our three main towns. The Plan Change is currently Operative in Part with further parts due to become operative in June 2018. The remaining part is subject to a minor Environment Court appeal which we anticipate being resolved later in 2018.

Also informing our planning for growth is the National Policy Statement on Urban Development Capacity 2016 (NPS-UDC). This sets out the objectives and policies for providing development capacity under the Resource Management Act 1991. The NPS-UDC sets requirements for councils when making planning decisions that affect an urban environment, for example making sure there are sufficient opportunities for the development of housing and business land to meet demand. It takes a tiered approach to the application of its policies, so councils that have lower growth area (as per Statistics New Zealand projections) have lesser requirements than medium and high growth urban areas.

Matamata-Piako District does not currently have any 'urban environments' (essentially urban centres with more than 10,000 people) and does not qualify as a medium or high growth urban area under the NPS-UDC meaning we are not affected by the NPS-UDC requirements. Based on our own population projections we don't expect this to change over the next 10 years. Despite this, we have taken into account the NPS-UDC through Plan Change 47 and consider our District Plan is in line with it. We consider we have sufficient zoned land and sufficient capacity within our existing infrastructure to cater for the growth we have projected over the next 10 years.

Growth and changes in demand and land use bring many benefits to the district including economic and employment opportunities. Growth requires investment in infrastructure to extend networks to new areas of development, which results in on-going costs to maintain and renew. The key to successfully providing for growth comes down to the timing of getting the assets in the ground – too soon, and there is a risk that the growth will not eventuate, leaving ratepayers to carry the costs. Too late, and opportunities for growth could be missed. Our Revenue and Financing Policy sees that those who create the need for or benefit most from the investment pay for it rather than existing ratepayers. Growth in rating units expands the rating base upon which to share the on-going maintenance and renewal costs.

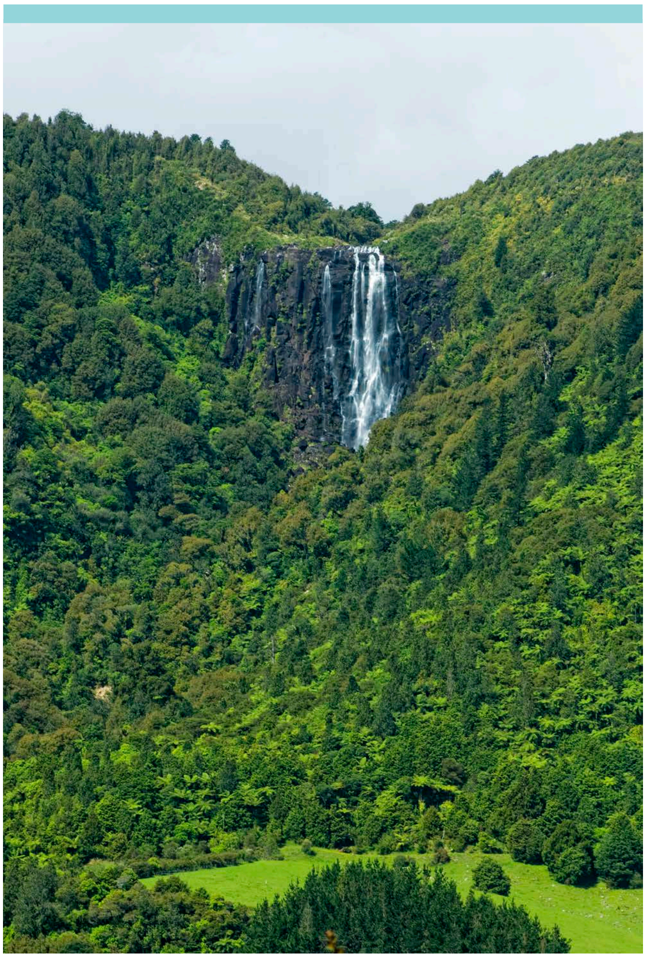
Our response is to support growth and changes in demand by:

- When the time is right, extending services to new areas of growth. Our Infrastructure Strategy sets out the planned investment in growth for the next 30 years. Over the next 10 years of this Long Term Plan, we expect to invest $11.8 million as a result of growth and there will be an on-going cost to then maintain these assets.

- Continuing to fund investments in growth through contributions from developers. Our Revenue and Financing and Development Contributions Policies set out the guidelines for this funding approach.

- More information about development contributions can be found in Council's Development Contributions Policy at mpdc.govt.nz. Growth is supported by setting the contributions levels that are not seen to limit growth. Over the period of this 10 year plan, we expect to receive $6.2 million in contributions from developers to fund the investment.

- Our policy approach is to limit rural subdivision development and not to extend services to rural areas beyond the currently serviced properties. As a result, we are not anticipating any further major changes in land use



over the next 10 years.

- Continuing to partner with industry to provide infrastructure required to supply their increased demand and growth. We have successfully partnered with large industries (e.g. Fonterra, Greenlea and Inghams) to provide increased capacity to allow these industries to grow and expand, further cementing their commitment in the district. The benefits to the district are significant in terms of employment and economic returns.

- Investing in infrastructure and facilities that enhance and increase the amenity and appeal of our district, potentially attracting further growth. The Infrastructure Strategy provides for various projects including CBD upgrades, cycleway extensions and connecting walkways.

- Maintaining our healthy financial position so that we are able to take advantage of opportunities as they may arise in the future, without compromising affordability or sustainability. This relates back to the limits set on debt and rates increases.

RESILIENCE

Resilience is our ability to bounce back and carry on when things change or disaster strikes. Environmental and economic changes and shocks have the potential to prevent us being able to deliver on our vision and to meet the goals of our Financial Strategy. Forward planning is key to minimising any impact.

ISSUES AND OPPORTUNITIES

- The district is heavily dominated by agriculture and agri-related industry. Severe weather events and sudden or sustained changes in economic conditions affecting these industries can impact significantly on the whole community. The needs of the community and their ability to pay can shift as a result. As a Council, we must be in a position to respond to these shifts.

- We must also be able to respond to environmental and economic changes that directly affect the operations of Council. The Infrastructure Strategy discusses our response to environmental changes in terms of our network of assets and services. There are a range of ways we can manage and mitigate the financial impact of environmental and economic changes on our Council and community.

Our response is to safeguard our resilience by:

- Maintaining a healthy financial position so that we have headroom and are able to cope with issues that may arise unexpectedly in the future, without compromising affordability or sustainability. This relates back to the limits set on debt and rates and rate increases.

- Smoothing our costs and any anticipated drops in revenue where possible, to minimise the annual impact on ratepayers.

- Continuing to fully fund depreciation on assets that we will be required to renew when they reach the end of their useful life. This is needed so we can pay for the replacement of these assets in the future.

- Insuring our most critical infrastructure. Council is part of a regional wide collaborative insurance scheme to ensure that we get the best possible cover in the most cost effective manner.

- Having a $5.4 million fund invested that could be accessed in an emergency situation, like in the event of a natural disaster. We also maintain credit facilities that currently allow us to access $6 million as required.

- Managing our interest rate risk though the use of interest rate forward swap agreements. These agreements give us greater confidence in our future financing costs, with which we can more accurately budget funding requirements.

- Putting in place a rate remission for natural disasters and emergencies – in the event of a natural disaster or other type of emergency affecting the capacity of one or more rating units to be used for an extended period of time.

- Annually reviewing the available tools within our Revenue and Financing Policy that would allow Council to shift the incidence of rates, where this may provide some relief to affected ratepayers (e.g. shifting the Uniform Annual General charge between 25% and the maximum of 30%).

COMPLIANCE

Many of our activities and services are subject to national and regional compliance, regulatory and legislative controls. At a high level we have seen an increasing level of control/regional government direction in particular in the areas of managing public and environmental health and optimised investment.

ISSUES AND OPPORTUNITIES

The common overall objectives of these changes to legislation and consent conditions are the improvement in the health of our communities and environmental sustainability. These general objectives are consistent with the vision and outcomes that we seek for our district. Another commonality of these legislative changes however are that they will come at a cost and they will put pressure on the affordability of the services we provide.

Our Infrastructure Strategy sets out the planned spend attributable to compliance for the next thirty years, (as far as we are able to foresee the changes and impact thereof at this point). Over the next 10 years of this plan, we expect to spend $9.1 million to ensure our compliance with the new legislation and consent conditions.

Our response is to minimise the impact of the cost of compliance by:

- Taking a “whole of life” approach to decision making on investments with view to realising cost savings provided by new technology (refer to the Infrastructure Strategy for more information on this).

- Continuing to recognise that some users exacerbate the need for this spending, particularly in relation to water and wastewater activities. Our Revenue and Financing Policy provides avenues for a greater proportion of costs to be recovered from these users through the use of water meters, trade waste agreements and pan charges.

STRATEGIC ACTIONS FOR 2018-28

We previously identified the key goals in this Financial Strategy in order to achieve Council's vision:

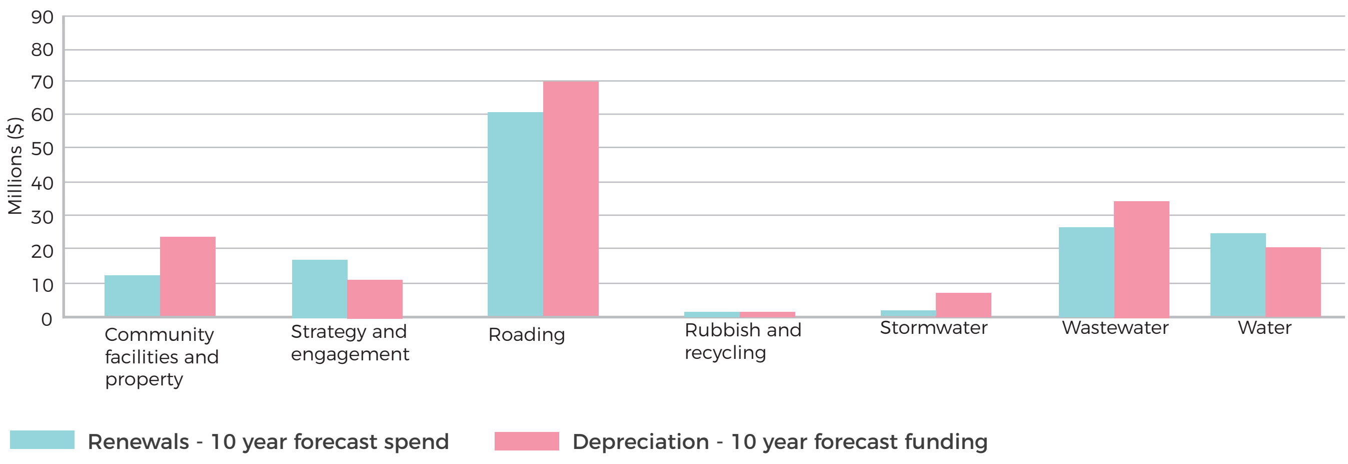
- To maintain the current levels of service we provide.
- To improve some levels of service where this complements our vision.
- To keep our rates at an affordable level.
- To ensure our debt is manageable and that we allow ourselves some headroom to respond to emergencies or opportunities arising.

Further information on the key actions for the Long Term Plan 2018-28 are discussed in more detail below:

ACTION 1: TO MAINTAIN THE CURRENT LEVELS OF SERVICE WE PROVIDE.

In order to maintain our current levels of service, we will continue to maintain and renew our existing network assets of over $500 million and other assets of $74 million. Robust asset management planning is critical in ensuring that this is done in the most cost effective and sustainable manner. Our asset management plans (AMPs) set out the plans and timing for the renewal of our assets over the term of the Long Term Plan and beyond. Refer to the Infrastructure Strategy for more discussion on Council's approach to asset management planning. The planned renewal costs over the 10 years of the 2018-28 Long Term Plan and the funding from depreciation is shown below:

FORECAST RENEWAL COSTS AND DEPRECIATION FUNDING FOR NEXT 10 YEARS

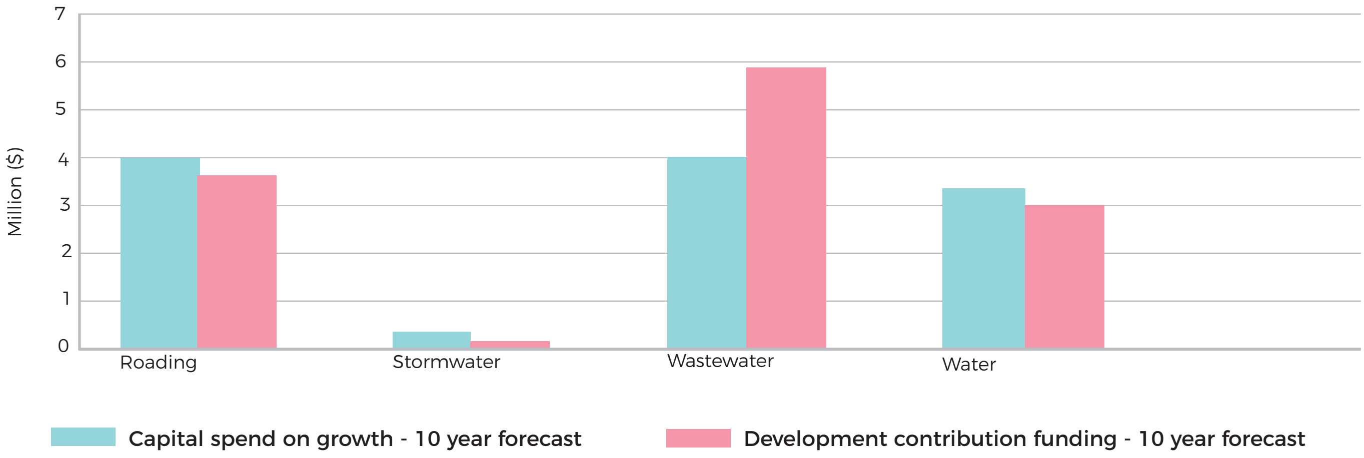


For activities where the depreciation funding collected over 10 years is less than what is forecast to be spent on renewing assets, we will look to fund the shortfall by borrowing from other activities where the funding collected over this 10 year period is more than required for the planned spend.

Our infrastructure renewal costs can vary widely from one year to the next as our assets have different lifecycles and need to be replaced at different times. Where possible, we've smoothed peaks in our reticulation and roading renewals, and we have considered the affordability and timing of other projects alongside compliance related spending.

Our AMPs also set out, based on the assumptions developed around population and development growth (see Section 5), the level of investment required to provide the required infrastructure at the right time. This infrastructure will extend the provision of services currently provided to new areas of development. That investment over the next10 years, along with the funding expected from development contributions over this same time is shown on the following page:

FORECAST GROWTH CAPITAL COSTS AND DEVELOPMENT CONTRIBUTION FUNDING OVER THE NEXT 10 YEARS



The development contributions collected over the 10 years will be used to reduce the amount borrowed to fund the capital works undertaken to meet the demands of growth in the district.

ACTION 2: TO IMPROVE SOME LEVELS OF SERVICE WHERE THIS COMPLEMENTS OUR VISION.

We have a clear vision for our district, and to deliver on this we must do more. Our vision for the district should continue to guide where these service level improvements are required. At this point, we have identified several areas where we propose to do more – and have included resources in our Long Term Plan budget to achieve this. These service improvements are set out in each of the activity sections of this Long Term Plan, and including:

CONNECTED INFRASTRUCTURE

Planning for growth – to accommodate the projected growth for our towns, we will:

- Undertake road widening and upgrades in key growth areas - $3.9 million over 10 years;
- Increase capacity of the urban storm water network in Matamata and Morrinsville by installing soakage systems and increasing capacity of the Tawari Street retention pond - $0.4 million over 10 years;
- Increase the capacity of our wastewater network - $4.0 million over 10 years;
- Increase the capacity of the district's water network - $1.7 million over 10 years;
- Establish a new water supply in Morrinsville -$1.7 million over 10 years.

We have also included funding to start land purchases and planning for the Matamata bypass. Within our Long Term Plan we are proposing to fund $1.1 million for the net-purchase of land; fund $150,000 to undertake further needs analysis and feasibility studies; and fund $1.85 million for the design to extend the designation. We have indicated a budget commitment to build the bypass in the 30 year timeframe of the Infrastructure Strategy.

ECONOMIC OPPORTUNITIES

Increasing support for economic development by way of additional grants to town business associations by $20,000, new funding for Waikato Means Business of $30,000, and an additional $50,000 economic development initiatives.

HEALTHY COMMUNITIES

Up to $1.5 million has been allocated for the completion of renewal and maintenance work on Headon Stadium in 2018/19, and a further $2 million has been allocated towards an additional indoor stadium for Matamata. We will invest a further $320,000 each year to improve the look and feel of our town centres. We have also increased funding by $1.75 million over the first three years of the plan so that CBD revitalisation and streetscapes projects can be undertaken when required. $500,000 has been allocated for the Te Aroha Domain redevelopment. $1.9 million will be invested to extend our walkways and $250,000 for developing off-shoots from the cycleway and $1.5 million for the Hinuera to Piarere cycleway extension

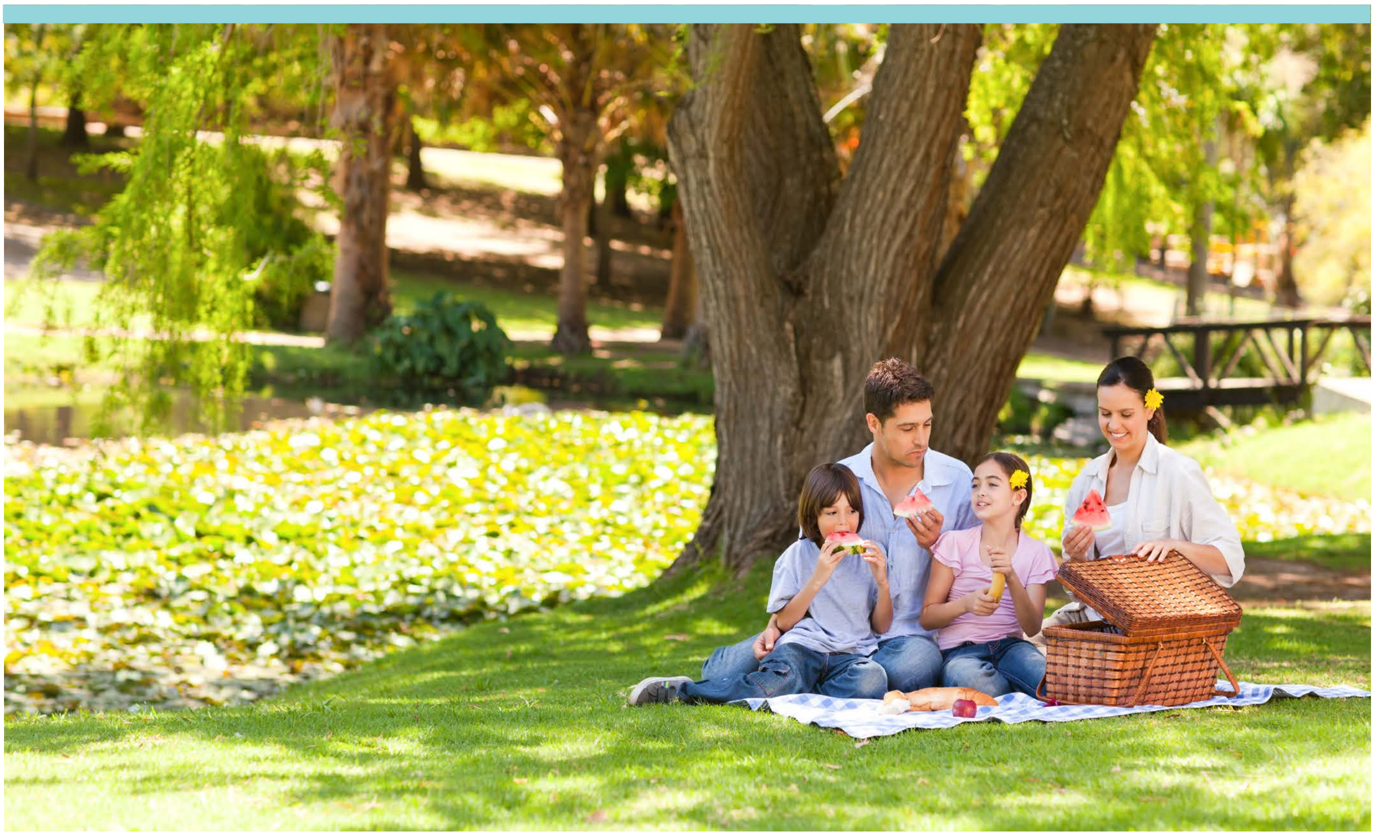
ENVIRONMENTAL SUSTAINABILITY

Planned wastewater and water resource consent projects will improve environmental outcomes for our district, promoting the protection of our natural resources, Planned improvements and upgrades of each of the three refuse transfer stations (at $600,000 each) has been identified in the first three years of the plan. We are also committing to increasing our involvement in reducing waste to landfill, at this stage using existing budgets.

VIBRANT CULTURAL VALUES

Increasing funding by around $40,000 each year to $230,000 for community groups including community patrols and our local museums. We are also increasing contestable grant funding by $20,000 to $77,500 and including new funding of $10,000 in our budgets for youth initiatives.

Decisions on improving service levels need to be balanced with affordability, and the benefits that any investment may bring to the district and the community.



ACTION 3: SET PRUDENT LIMITS ON RATES AND RATE INCREASES

RATES AND RATES INCREASES:

ANNUAL RATES REVENUE[1] WILL NOT INCREASE BY MORE THAN **4%**

1. For the purposes of this calculation, rates revenue excludes penalties (which are not budgeted for), and rate revenue from metered water supplies (the majority of which come from a few large industrial users). These items are excluded as the level of revenue received is not within Council's direct control.

Forecast rates and increases in total rates revenue are shown in the following table.

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Forecast rates	$32.9m	$33.9m	**$35.5m**	**$37.0m**	**$39.1m**	$40.5m	$41.3.m	$42.2m	$42.7m	$44.1m
Forecast increase in rates	3.07%	3.01%	**4.70%**	**4.25%**	**5.64%**	3.59%	1.91%	2.28%	1.17%	3.42%

We are forecasting (at this stage) that our rates will exceed our 4% limit in years 2020/21, 2021/22 and 2022/23. We've made this call, as difficult as it is, because we feel the time is right to invest in our district. We have kept our belt tight over the last few years with very minor rates increases, but now in 2018/19, 2019/20 and 2020/21, we are planning to do a lot early on to improve our district for the future, to make it an even more attractive proposition to live, invest and visit. These improvement projects are outlined under Action 2 (previously).

If these projects are all completed in the early years outlined, then the full impact of any on-going, operational, depreciation and interest costs associated with these projects will start to be felt in the following years of the plan, increasing more significantly in years 2020/21 to 2022/23. If the timing of the projects are delayed at all, then the forecast increases to rates will be smaller and spread over a longer period than indicated.

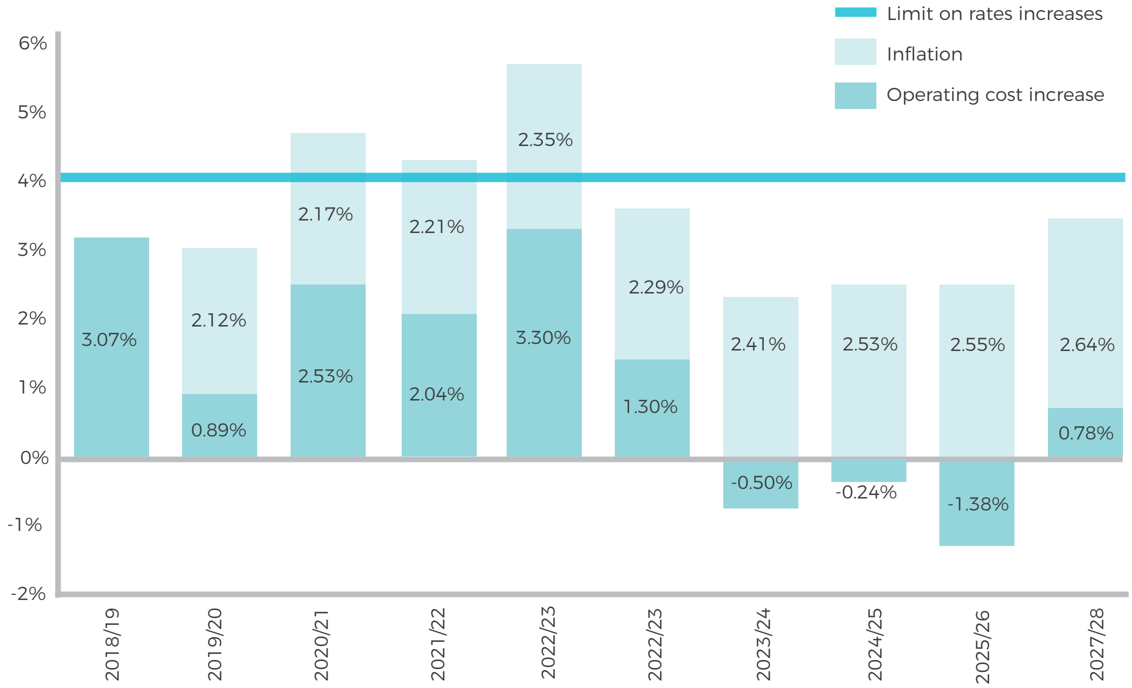
We have a chance to review our budgets on an annual basis, so we will reassess our progress, and actively seek to live within our 4% limit where this is achievable, and yet will still enable us to make progress.

HOW THESE LIMITS WERE SET

We've taken into account forecast inflationary pressures on our costs, forecast movements in interest rates, growth in our rating base, and the increased levels of service outlined, (refer to the full range of assumptions in Section 4). These assumptions are significant in the development of our forecasts. We set our limit at 4% because we believe that this a level that strikes the right balance between affordability, continuing to comply with increasing environmental and legislative requirements, planning for additional growth and changes in demand, and ensuring our resilience. Overarching all of this though, is our desire to achieve our vision for the district.

We could have set a limit higher than 4% that aligned with our forecasts, but we determined at the start of our planning process, that that's not where we want our rates to go. As already said, we will in our annual budget setting process, aim to keep within the 4% level. This could potentially result in a reduction in some non-essential services in some years, or a deferral of projects if there are no alternative sources of funding without increasing rates beyond the set limits. The 4% limit is a limit – not a target. The graph below shows how our forecast total rate increases compare to the 4% limit. While we are forecasting to exceed the limit in some years as discussed, in other years the increase is forecast to be substantially less.

TOTAL FORECAST RATES INCREASE OVER THE NEXT 10 YEARS



It is important to note that the 4% limit relates to the total revenue collected by Council from rates revenue. How changes in rates affect individual properties will depend on a number of factors including the value of your property and the services you receive (e.g., water, wastewater, rubbish collection services, etc.). Section 7 sets out a range of different property types in our district, and an example of the effect on rates for those properties.

LEVERAGING OTHER FUNDING OPPORTUNITIES

Council will continue to partner with or seek funding from industry, community groups, other district and regional council and Central Government agencies to deliver shared outcomes that benefit our district. The Silver Fern Farms Events Centre in Te Aroha is one example, and we will consider other proposals as they occur – such as the potential for a new Matamata Indoor Events Centre. External funding and partnerships may also be available to extend the Hauraki Rail Trail cycleway beyond Matamata to Piarere to provide a link with the Waikato River Trails. These are all examples of where external funding may be available to deliver shared outcomes that benefit our district.

Looking forward, Council has budgeted to receive funding from the New Zealand Transport Agency to support our roading programme, waste minimisation funding from Central Government and many other sources of funding. Council has adopted the Waikato Plan which focuses on the Waikato joining together in one voice to identify and address the issues the region faces and more importantly to take advantage of the opportunities for the Waikato. This includes lobbying Central Government and other agencies for service and infrastructure funding and applying for any funds available. The recent government announcement of a $1 billion 'Regional Development (Provincial Growth) Fund' may also provide opportunities for development within the district.

ACTION 4: SET PRUDENT LIMITS ON DEBT

The water, wastewater, roading and community buildings and facilities that we provide are expected to continue to service the community over a long period of time, some well over 50 years. We need to ensure that future ratepayers pay their fair share of the cost of infrastructure that is developed now that they will benefit from. By using loans to pay for assets with a long life, we can recover the cost from ratepayers over the life of the asset. In this way the cost is more fairly allocated between current and future ratepayers.

DEBT LIMIT:

NET DEBT AS A PERCENTAGE OF TOTAL REVENUE WILL NOT EXCEED 150%

- net debt is calculated as external debt less liquid financial assets and investments. Liquid financial assets and investments are defined as cash, bank deposits and any fixed interest and equity investments that are held for other than strategic purposes.
- total revenue excludes development and financial contributions, vested and found assets and other gains.

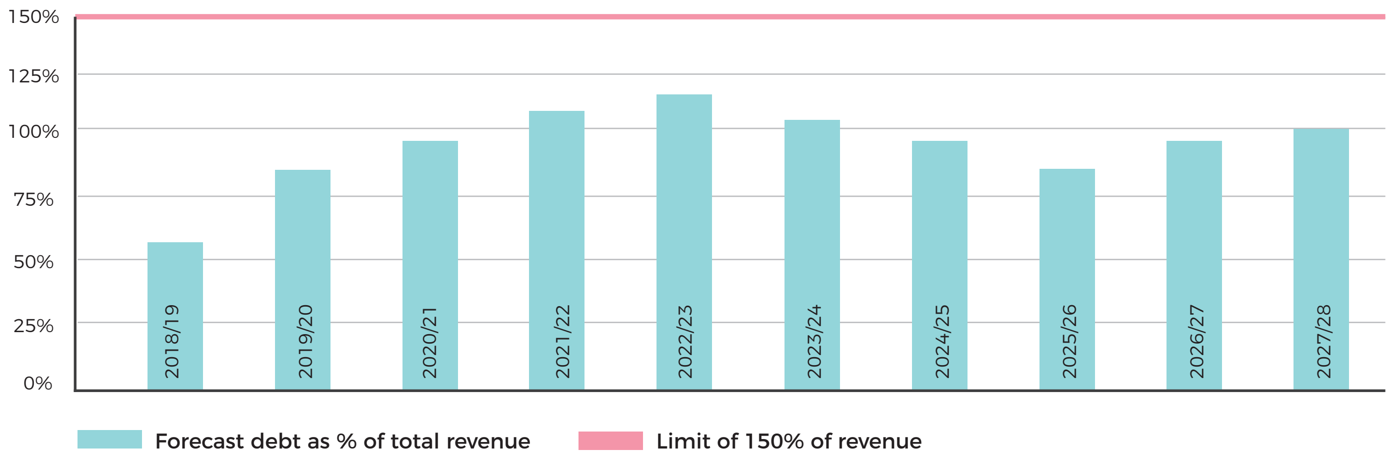
With the capital work programmed in this Long Term Plan, our external debt is expected to change over the next 10 years as follows:

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Forecast external debt	$39.1m	$51.1m	$60.1m	$69.9m	$75.8m	$70.8m	$67.5m	$63.3.m	$70.3m	$76.0m

How actual debt tracks against this forecast will depend significantly on how well we progress with our planned capital programme. Our debt is forecast to peak at $76 million in 2027/28. Our total revenue in the same year is forecast to be $65.8 million. Our net debt is forecast to be 100% of total revenue. If you compare that to a typical household mortgage as a percentage of typical household income, it is fairly conservative.

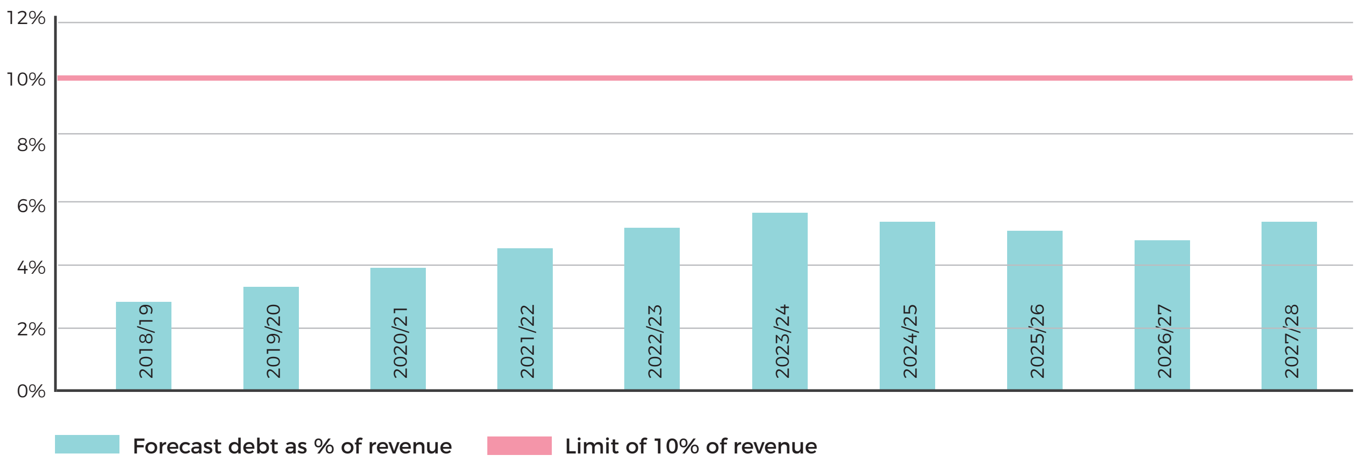
We consider that a limit on net debt of 150% of revenue is prudent for a council of our size and growth potential, and is line with limits that other similar sized councils have adopted.150% is the maximum limit – it is not a target. We expect our debt to be, on average, around 93% of our revenue over the next 10 years.

FORECAST NET DEBT AS A PERCENTAGE OF TOTAL REVENUE FOR THE NEXT 10 YEARS



Our forecasts also show that we can comfortably service our expected level of debt over the next 10 years. The graph below shows that our forecast borrowing costs are expected to peak at around 4.6% of our forecast revenue. Central Government has set a benchmark for councils with low to medium growth, where borrowing costs of less than 10% of revenue are considered to be prudent. Our forecast peak is well within this benchmark.

FORECAST BORROWING COSTS AS A PERCENTAGE OF REVENUE FOR THE NEXT 10 YEARS



Having some debt makes sense, and keeping our debt at a controlled level over the next 10 years means we will have the capacity to take up opportunities as they arise. It also allows us some headroom to recover quickly if disaster was to strike (as we have seen in Christchurch and Kaikoura). Having a lower level of debt makes us more resilient.

WHAT ARE THE RISKS IN OUR STRATEGY AND HOW DO WE MANAGE THESE?

Our Financial Strategy is based on a number of assumptions that have been made using the best information we have at this point. These include assumptions on the forecast level of inflation for local government costs, interest rates, growth in the population and rating base, the impact on revenue streams related to the entry or exit of large industrial users in the district, etc. Some of these assumptions could have a big impact on our financial situation if they prove to be significantly higher or lower than we anticipated. The assumptions set out in Section 4 explain how shifts in these assumptions may be managed, and the need to manage these will be assessed on an annual basis in the development of the Annual Plan.

OTHER FINANCIAL MATTERS

Our Financial Strategy is required to include information on our objectives for holding financial investments and equity securities and to provide quantified targets for returns on those investments. We must also include our policy on giving securities for our borrowing.

INVESTMENTS

Our Investment Policy (available at mpdc.govt.nz) sets out the detail of the type of investments we can hold, and our objectives and risk management strategies related to holding these investments. Council's commitment is to:

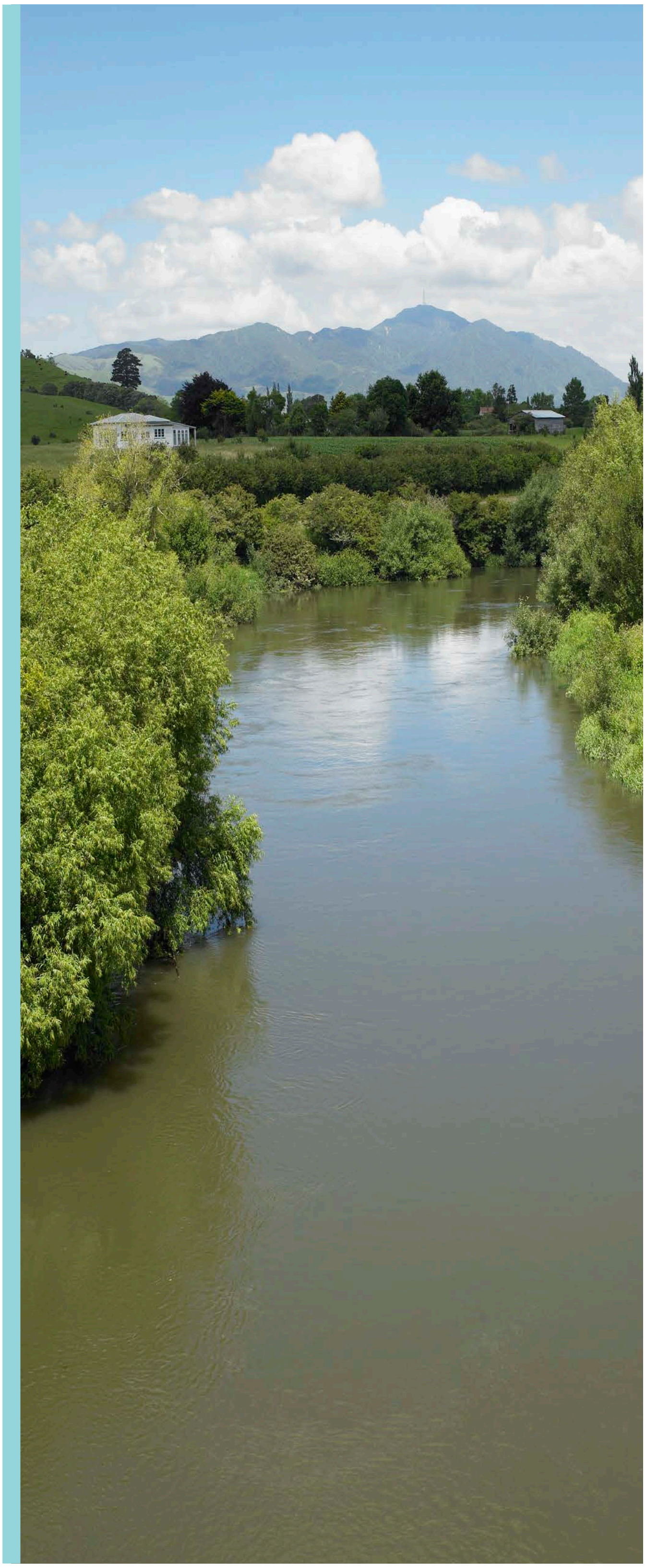
- Prudently manage Council's financial investments, from low risk investments.
- Maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements.
- Invest only in approved investment instruments and securities.
- Seek to optimise investment income.

Cash and treasury investments

We hold cash and treasury investments, such as term deposits, as part of managing our cash flow to finance our day to day operations and capital expenditure programme. Other purposes include:

- To provide cash that could be accessed in an emergency situation, like in the event of a natural disaster. The cash could act as a buffer until normal revenue streams are reinstated following an event. Council has a $5.4 million fund invested that could be utilised for this purpose.
- To invest funds allocated for approved future expenditure.
- To invest funds allocated to restricted reserves.
- To manage debt refinancing risks, by pre-funding maturing debt, and investing any surplus where considered prudent.
- To maintain and manage liquidity risk.

We have targeted an average rate of return on cash and treasury investments of 3.85% over the 10 years of this Long Term Plan.



Strategic Shareholdings

Council holds a range of strategic shareholdings that we have acquired over a number of years. We intend to continue to hold these investments, specifically for the strategic benefit that they create for the district. These investments include:

ENTITY AND HOLDING	OBJECTIVES OF HOLDING EQUITY	TARGET RATE OF RETURN
Waikato Regional Airport Limited – 15.625%	To secure the retention of the airport as a major infrastructural facility, important to the economy of the Waikato. The airport also operates a tourism subsidiary which aims to promote the region to tourists. We contribute separately to this subsidiary by way of an annual grant.	≥0%
Thames Valley Civil Defence Emergency Management Committee – 34%	The purpose of the committee is to jointly plan for civil defence emergencies that may affect our wider district.	≥0%
Waikato Local Authority Shared Services Limited (WLASS) – 3.43%	WLASS was established to provide the councils in the Waikato region with a vehicle to procure shared services. It provides a mechanism to achieve operational efficiencies and contributes to economic wellbeing. It is an investment which aims to reduce the cost of providing generic services.	≥0%
Hauraki Rail Trail Charitable Trust – 33%	The Trust was formed to manage the cycleway which has economic benefits for our district.	≥0%
New Zealand Local Government Funding Agency Limited (LGFA)	We hold borrower notes in the LGFA that are issued at 1.6% of any loans drawn. The LGFA was established to provide secure and lower cost financing option to local government in New Zealand. While we do obtain a return on these investments (on maturity of the debt raised), the investment is more so a requirement of the funding structure of the entity to ensure that it remains viable.	≥0%
New Zealand Local Government Insurance Company (Civic Assurance) – 1.1%	Local Authorities have pooled funds to access cost effective insurance for infrastructural assets and indemnity and public liability cover.	≥0%

There are no current plans to invest in additional equity securities during the term of this plan, other than as a requirement of financing debt through the LGFA.

Security for borrowing

Our Liability Management Policy (available at mpdc.govt.nz) sets out our policy related to giving securities for our borrowing as follows:

Council will:

- Offer security over borrowing by way of a charge over rates and rates revenue through the Debenture Trust Deed.
- From time to time, may offer alternative security over specific assets, with approval by Council and Trustee.