RAUTAKI Ā-PŪTEA

FINANCIAL STRATEGY

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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. Our 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 LTP that are required to achieve these goals.

Our Financial Strategy provides an understanding of our current financial health – where we are now, where we want to be, and what are 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 LTP and our responses to address these.

Our Financial Strategy has been prepared based on the Assumptions described in Section 4 of the LTP, 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 - What's changed this time round?

We have some unavoidable cost pressures ahead

- We've had to prioritise our spending, potentially accepting some risk in service delivery
- We've had to be realistic about what we can deliver with the resources that we have
- At the same time, we don't want our District to get left behind – we want to offer more, but we can't do everything.
- We've kept rate increases low in the past, but this is not sustainable
- We're planning to increase debt, but very conservatively

In our Financial Strategy of three years ago, we set the following financial goals for the next 10 years:

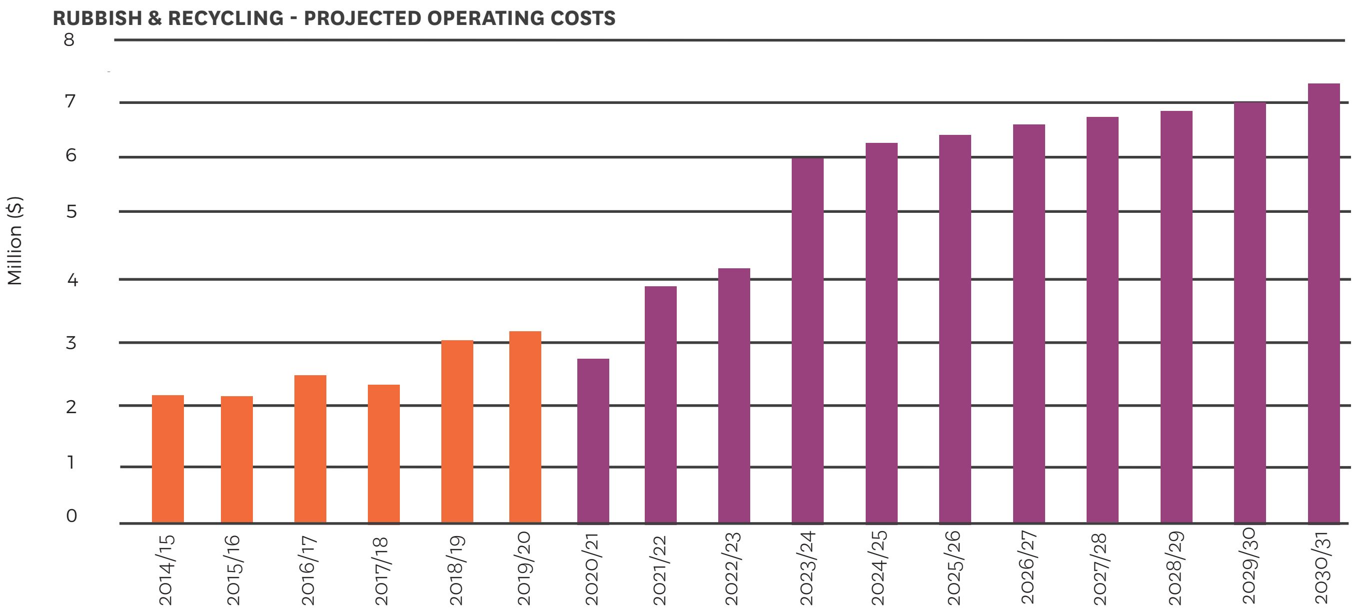
- To maintain the current levels of service we provide
- To improve levels of service where this complements our vision
- To keep our rates at an affordable level
- To ensure our debt is manageable and that we allow ourselves some headroom to respond to emergencies or opportunities that may arise.

Three years on, while some aspects of the environment we operate within have changed dramatically, our financial goals for the next ten years remain the same.

We have some unavoidable cost pressures ahead

We are facing some significant areas of growing cost pressure, particularly;

- For our Water, Wastewater and Stormwater services, the cost to provide a network that complies with increasing legislative and environmental standards is growing significantly, requiring on-going capital investment and increased operating costs in order to meet minimum standards. Over the next 10 years, we're expecting additional capital spending of $28.3 million to meet increasing compliance requirements, and an average of around $1.1 million each year in related increased operating costs. As well as growing compliance costs, the major growth from subdivisions and development in our District in the past and future leads to the need to build larger networks (these are funded by Development contributions), but thereafter these networks need to be maintained and eventually replaced (we rate for depreciation each year to fund their eventual replacement). Additional capital spending of $16.1 million is projected for projects to cater for growth, and ongoing related operating costs over the 10 years averaging at $922,000 per annum.
- Solid waste management is becoming increasingly complex and costly. Worldwide solid waste is a huge issue. Across New Zealand it is an issue too. And here in the Matamata-Piako - we are not unique. Markets for our waste products have changed and many countries have found they are unable to export recyclables to traditional markets. China has closed their doors completely and many other countries have followed suit, or have signalled they will do so. Council, including many others around NZ, have already stopped collecting 3-7 plastics and now only collect plastic grades coded 1 and 2 (mostly bottles). Plastics 1, 2, and 5 can be recycled within New Zealand and the Government is continuing to invest in infrastructure to recycle more materials onshore. This may provide opportunities for us in the future. Many of our neighbours in the Waikato Region are reviewing their services or implementing changes. Council wants to provide its urban community with an efficient, consistent and safe kerbside service that encourages people to minimise the rubbish that ends up in landfill and maximise the material diverted away from landfill; while keeping cost to users and ratepayers affordable. We also want to support our rural community with good recycling and waste management options. We have budgeted $6.9 million over the next 10 years to upgrade our transfer station facilities. Our current contract for waste services (kerbside collections of rubbish and recycling, and transfer station operation) ends in 2023 and we anticipate that the contract rates that we have been paying for the collection service in the past will not be sustainable – we've projected a significant increase in costs from 2023 onwards. These combined are projected to increase funding requirements as follows:



We've had to prioritise our spending and we've had to be realistic about what we can deliver with the resources that we have

On top of these cost pressures, our District has a growing population of people on fixed incomes, so affordability is a key consideration in our decision making. Overall our District seems to have rebounded well from the initial shock of the Covid-19 lockdowns, however there are pockets within the community that have been hit harder than others. We plan ahead knowing that the risk of future lockdowns and further financial pressure is real. As part of our emergency preparedness planning, we have ear-marked $700,000 of our Reserve funding to Covid-19 relief.

In planning for the LTP, our community, staff and Council have put forward a wealth of great ideas for new assets and projects that could really add to our District.

In the initial cut of the LTP budget we made the assumption we'd deliver all growth projects based on growth projections, that we'd do all the projects that would substantially eliminate or reduce risk, and would be fully compliant with all environmental standards and regulations. This culminated in a capital spend averaging $35 million in each of the five years.

This initial cut of the LTP budget confirmed the reality that our District can neither afford to fund this level of investment, nor do we have the resources available to deliver to this level. Historically, we have achieved an average capital spend of $18.7 million per year (in today's dollars) at maximum capacity. Planning to achieve anything significantly more than this level would be unrealistic, especially in the current climate where resources, particularly people on the ground to design, manage and build these assets, are in huge demand across the country.

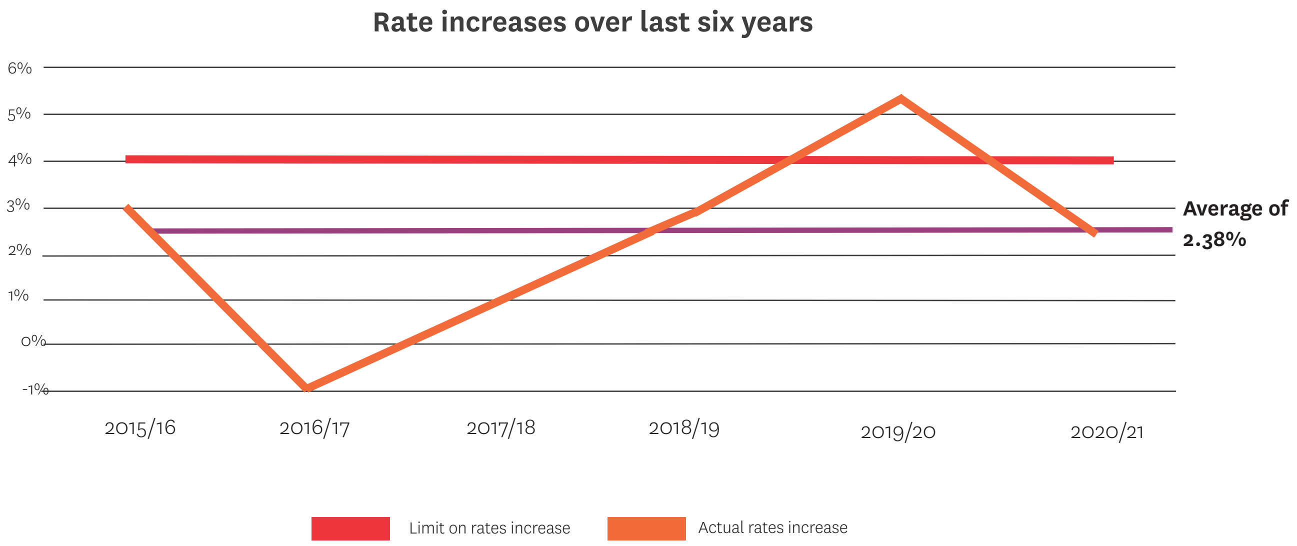
So in the development of our LTP, we've had to make some tough decisions. We needed a more realistic project delivery forecast, and we needed to smooth out the delivery so to avoid peaks in our borrowing, and the consequential increases in operating costs. To achieve this, we've reflected on the timing of priority projects and where this did not cause an unacceptable level of risk, we have moved them to later years. We've broken projects into various components and looked to progress them over time. And we've taken out projects that were not considered essential or highly beneficial for the District at this time. These decisions made on the projects are discussed further in the infrastructure strategy.

At the same time, we don't want our District to get left behind - we want to offer more, but we can't do everything

We have a clear vision for our District, and to deliver on this we need do more. Decisions on improving the services or facilities we offer need to be balanced with affordability. Because of other the cost pressures we are facing with our core infrastructure, we've planned to focus on just a handful of other projects. These projects have been prioritised based on their potential to improve the economic or social aspects of our District, or where potential co-funding arrangements may make them more affordable. They include the Te Aroha Spa development, revitalising our main town centres, Te Aroha Tui Park redevelopment, improving walking and cycling connections and increasing the stock of Elderly Person's Housing.

We've kept rate increases low in the past, but this is not sustainable

Over the last two LTP's (or six years), Council's average rate increase has been 2.38%, well below our self-imposed limit of 4%. Noticeably over the last two years however, our cost pressures due to compliance and growth in the Water, Wastewater and Stormwater activities and the Rubbish and Recycling activity have left these areas underfunded. In 2018/19 we incurred a deficit of $1.46 million in our Water, Wastewater and Stormwater activities, and a deficit of $2.1 million in 2019/20. Similarly for Rubbish and Recycling, we saw a deficit of $1.09 million in 2018/19, and $1.18 million the year after. Both activities received additional funding from rates for the 2020/21 financial year, but not to the level required to cover the on-going cost pressures. And all other rates for 2020/21 were held at their 2019/20 level in response to the Covid-19 situation that unfolded as the budgets were being set.



Keeping our rates at this lower level, at a time when our costs have continued to increase, is no longer sustainable

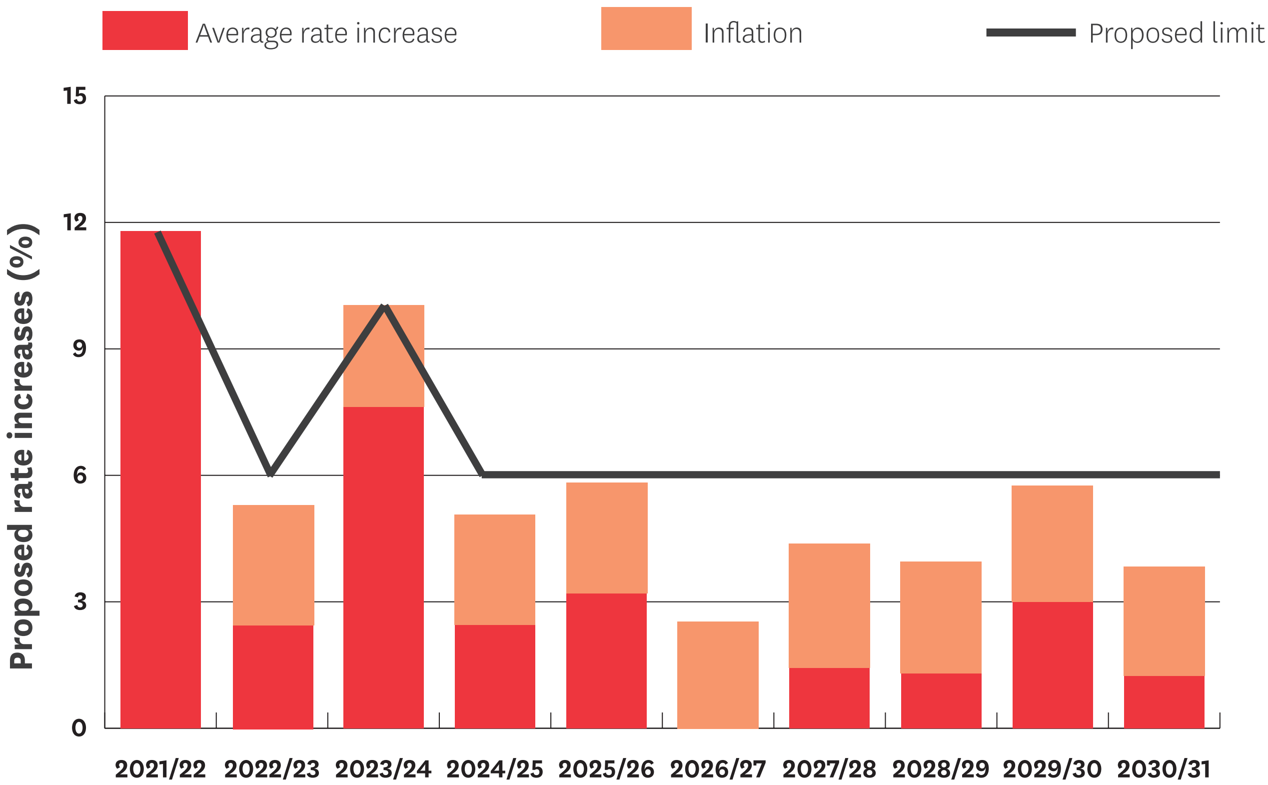
There is a large catch-up required to get our rates to the level that is required just to keep us ticking. This catch-up will result in a proposed increase in total rates of 11.85% for next year. For the other years of the plan, we propose to set a limit on rate increases at 6%, with the exception of 2023/24, when the increase is proposed at 10.20%.

We also want to achieve more for our District – this requires funding beyond just the business as usual, but it still has to be affordable. This is what Council will seek the Community's feedback on during the consultation on the LTP. These are the projects that Council proposed to focus on, that are expected to drive improvements in the social, cultural and economic outcomes for our District over the term of this 10 year plan. On balance, Council believes it can deliver these projects of focus, on top of the 'business as usual' projects, and at the same time maintain average rate increases of less than 6% each year. There are 2 unavoidable exceptions however – the initial 'catch-up' phase in year 1 (due to underfunding in prior years and continuing costs pressures, and , in year 3, we will have to face the full impact of our rising costs to collect and dispose of our rubbish and recycling.

The 6% increase is in relation to the total rates collected by Council – how this impacts on individual property rates may vary with some paying more than 6% and some paying less depending on the services you receive. As we continue to experience strong growth in our District, there will gradually be more ratepayers to split the increasing costs across. For 2021/22, we've assumed a 1.5% growth in the rating base, and 0.5% per year after that.

Projected rates increases for the next ten years

Annual rate increases will not be more than 6%, except for years one and three. The proposed rates limit for year one is 11.85% and year three is 10.20%. The average increase over the next ten years is proposed to be 5.93% per year.



Whats driving the 11.85% increase?

In 2021/22 we are proposing to collect an additional 11.85% in rates compared to the current year. 1.5% of that should be covered by new ratepayers as our district continues to grow. This is the largest single increase in rates our Council has had in many years.

You may see a similar level of increase at other councils around New Zealand, especially where they have maintained lower rate increases in recent years, and had low/zero increases last year due to COVID-19 as we did. That is because a significant portion of the increased costs is being driven by external factors affecting the very core areas of our business – it's the escalating cost of collecting and disposing of our rubbish and recycling, and the cost of complying with increasing standards for the supply of drinking water (both of which have been underfunded in the past few years).

It's also the costs of complying with increased environmental standards for the discharge of storm and wastewater, and increasing contract costs to maintain our roads. We are also committing to some new staff positions to improve engagement with community and Iwi, and continue to progress our digital strategy.

What's causing the spike in rates in year 2023/24?

Our current contract for waste services (kerbside collections of rubbish and recycling, and transfer station operation) ends in 2023 and we anticipate that the contract rates that we have been paying for the collection service in the past will not be sustainable – we've projected a significant increase in costs from 2023 onwards. We are also proposing a move away from rubbish bags, to using a wheelie bin instead. So while targeted rates would increase to pay for the wheelie bin collection, you would no longer have the cost of purchasing rubbish bags.

Why not smooth out these large spike s in rates?

In year one and three of this plan, the jump in costs is considerable, and to try and smooth these costs over the following years would be "kicking the can down the road" - we feel we need to face these head on and catch up. Smoothing is part of our strategy once we are back on an even keel.

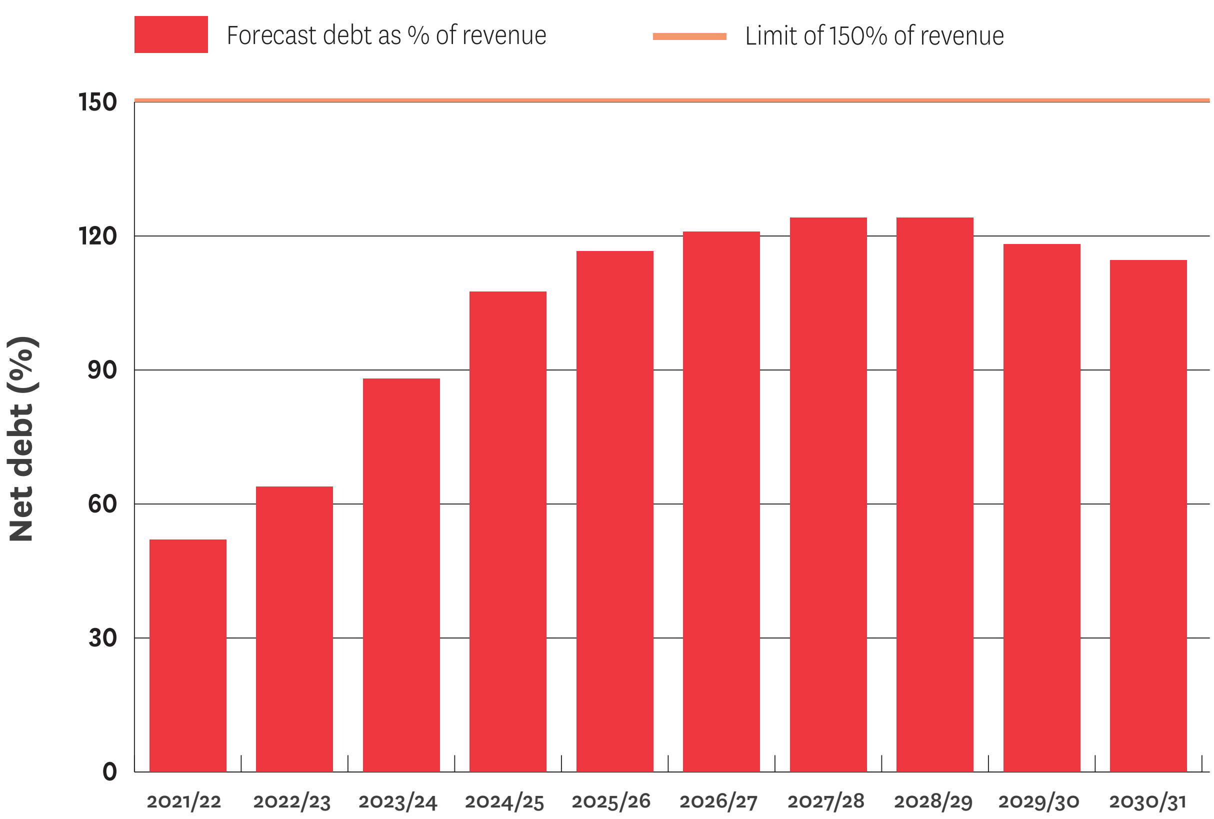
Annual rate increases will not be more than 6%, except for years 1 and 3. Rates will average at 5.93% per year over this ten year plan.

We're planning to increase debt, but very conservativley

We currently borrow money to pay for assets – for water, wastewater, roads and community buildings and facilities that will service the community over a long period of time. Using loans to pay for these kinds of assets means we can recover the costs over time, so that both current and future ratepayers pay their fair share.

In 2020 we asked the community about their appetite to potentially take on more external debt in order to get some projects underway sooner than we may otherwise be able to. The clear consensus however was that the community preferred the existing more conservative approach to debt – that we should only borrow money to fund capital spending on our core assets. So we're planning to stick with this approach and maintain our current limit on net debt at 150% of revenue. We expect our net debt to average around 102% over the next 10 years. Our projections show that we can comfortably service this level of debt, and this will leave us plenty of headroom.

Forecast net debt as a percentage of revenue for the next ten years



What's the plan to achieve our financial goals?

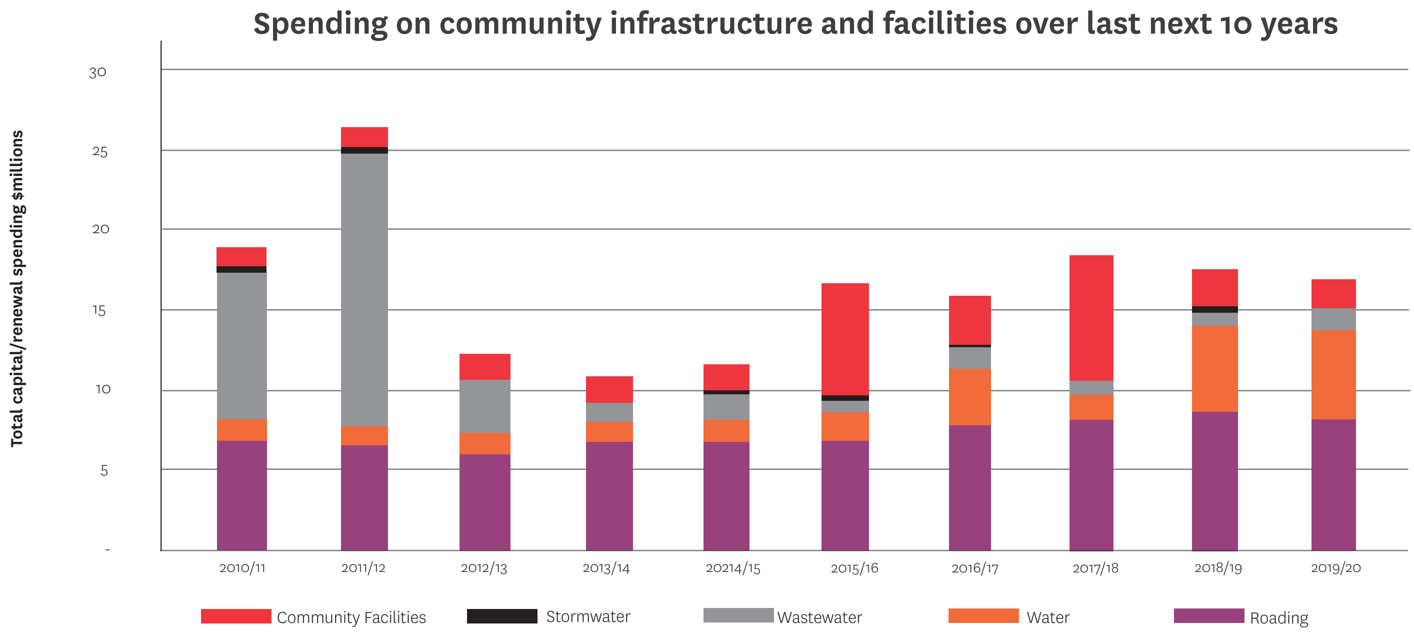
Financial goals	Key actions
Maintain the levels of service we currently provide.	• Optimised planning and asset management – improve our understanding of the condition of our assets so that our future costs of maintenance and renewal can be planned, and actively minimised. • Allocate $149 million over 2021-2031 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 $16.1 million over 2021-2031.
Improve some levels of service where this complements our vision.	• Give priority to service level improvements that align with Council's vision • Allocate $119 million over 2021-2031 to improve levels of service.
Set prudent limits on rates and rate increases.	• Annual rates will not increase by more than 6%, except for unavoidable increases beyond this level in years 1 and 3. • Leverage other funding opportunities where possible
Set prudent limits on debt.	• Limit debt to 150% of annual revenue.

Matamata-Piako - Where are we today?

Our finances are in very good shape. We are fortunate that our District does not have some of the significant financial pressures that other districts are grappling with like rapid growth or population decline. But we are still facing some big challenges.

Our Assets

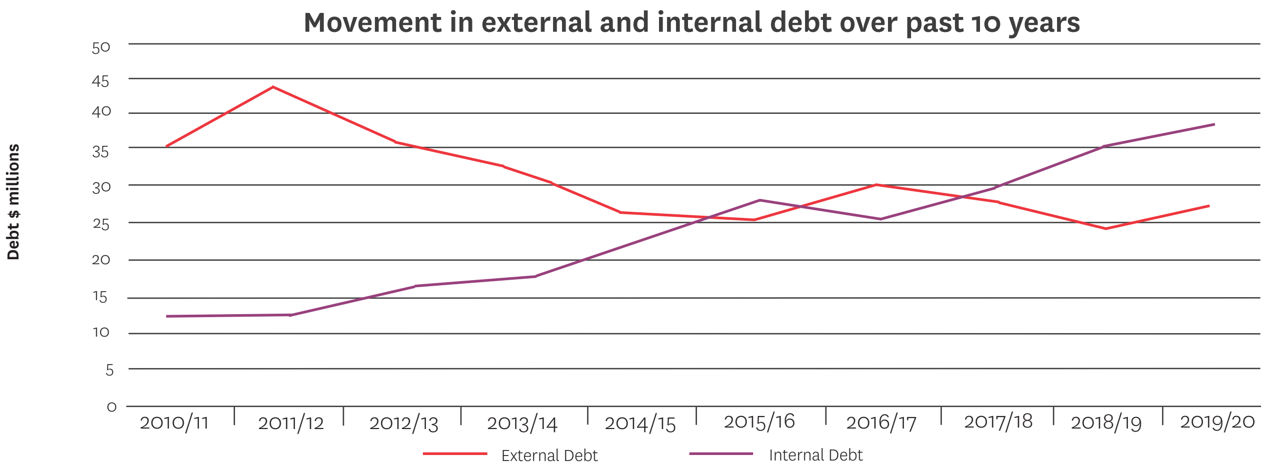
We maintain over half a billion dollars worth of infrastructure assets. Overall these assets are in reasonable to good condition and are delivering the expected levels of service required. As the graph below shows, in recent years we have completed significant upgrades to our utility systems (water and 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 significant spikes in renewal projects in the near horizon, which sets us apart from many other Districts that have these large expenditure commitments looming. Like other districts however, we do have some upgrade work required to meet increasing standards of compliance, which have been included in our forecasts or are represented in our 30 year infrastructure strategy.

Our Debt

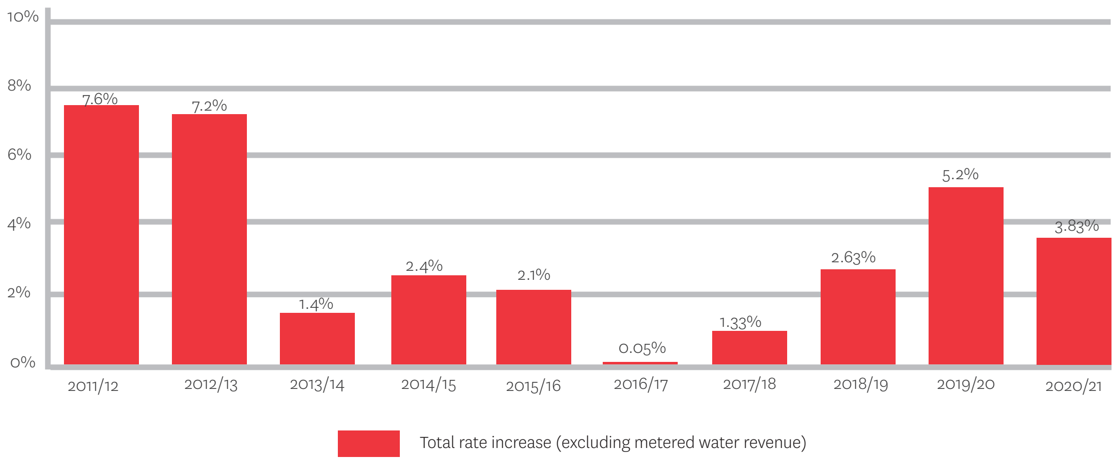
We do not have a significant amount of external debt. Independent experts have advised that net debt of a level up to 150% of our total revenue would be prudent for a council of our size. In our last Annual Report at 30 June 2020, our external debt was $26.5 million. Our net debt (taking into account cash and other assets) was 42% 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. Aside from the Thames Valley Power dividends, the $41 million balance of our internal debt at 30 June 2020, has been funded from various sources, including cash surpluses from the sale of property, and depreciation collected to replace assets in the future.



Our Rates

We previously set a limit on annual rate increases at 4%. Over the last 10 years, total rates increased by an average of 3.37% per annum, particularly in relation to the significant water and wastewater upgrade projects in the earlier years. Over the last two LTP's (or six years), Council's average rate increase has been 2.52% - well below the limit of 4%.

Total rate increases (excluding metered water revenue) over past 10 years



Our rates compare favourably to our neighbouring councils. Over recent years, in economic terms we've had a lot thrown at us – the Global Financial Crisis, ups and downs in the dairy industry, a red-hot property market, and a global pandemic. With all of this going on, we've been conscious and have strived to keep total rate increases to a minimum in order to avoid the extra pressure on our community. While this was practical at the time and given the economic conditions, in some ways it also limited our ability to move forward. And particularly over the last two years, our cost pressures due to compliance and growth – particularly for water and wastewater, roading and rubbish and recycling have left these areas underfunded.

Matamata-Piako - 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

Our communities are ageing, which means more people on fixed incomes, there is also a limit as to what our community in general can afford to pay for. This means that with all of the decisions we make as part of this LTP, we have to ask can we afford to pay for this?

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 continued 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.

- 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 proposed new Matamata Indoor Events Centre is one example we have planned, and we will consider other proposals as they arise. External funding and partnerships may also be available to extend our cycle 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 LTP) 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 (we've projected 0.6% over the next 10 years), 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 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. 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. On April 2020, Plan Change 47 became fully operative. The plan change revised the planning rules and zoning for each of our three towns and the areas around them to ensure there was enough land zoned for future growth. It also provided for intensification of the residential zone, by providing for higher density infill zones, as well as zoning land for future residential development areas.

Council has also commenced Plan Change 53 - Settlements, the aim of this plan change is to recognize the character of the settlements by providing for the historical business and community activities. This plan change will also review the District Plan rules for the rural house sites within the District.

A new zoning mechanism is proposed for the settlements, called Settlement Zone with Residential, Commercial and Industrial precincts. This process is to enable land owners to make better use of their properties, considering the current Rural Zone provisions does not reflect current land uses. The settlements under scope are: Waihou, Waitoa, Tahuna, Mangateparu, Motumaoho, Walton, Hinuera, Te Poi, Manawaru and Te Aroha West.

Plan Change 53 has been publicly notified and was open for submissions until 18 December 2020.

Also informing our planning for growth is the National Policy Statement for Urban Development 2020 (NPS-UD). The NPS-UD replaces 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-UD 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, as well as exclusion of car parking requirements.

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. An interesting feature of the NPS-UD is that if any urban centre is or it is intended to be over 10.000 people the requirements are applied throughout the whole District.

Matamata-Piako District does not currently have any ‘urban environments’ over 10,000 people and therefore, does not qualify within the tiers under the NPS-UD. However, the definition for urban environments also embraces non-contiguous urban environments that share the same housing and labour markets. Consequently, when considering the population growth projections for Waharoa and Matamata and current development trends, that is an assumption that both urban centres will reach the threshold within the near future. Therefore, Council has decided to work towards complying as a tier 3 Council. Despite our urban centres currently do not meet the population threshold requirement under NPS-UDC 2016 and NPS-UD 2020, we have taken into account the NPS-UDC through Plan Change 47 and NPS-UD through Plan Change 53. 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 LTP, we expect to invest $16.1 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 $17.2 million in contributions from developers to fund the investment.
- Our policy approach is to limit rural subdivision development in alignment with the proposed National Policy Statement for Highly Productive Land 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 the Te Aroha Spa development, revitalising town centres, Tui Park redevelopment, and 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

The global Covid-19 pandemic and its impact on the economy is a prime example of why it's important that we plan for emergencies – our strong financial position meant that we were able to keep the general rates increase at zero (net of expected growth) for 2020/21, during a time of uncertainty, while still driving projects forward. We need to make sure that as an organisation we are in the best position we reasonably can be in case the worst does happen. Forward planning is key to minimising any impact.

Issues and Opportunities

The District is heavily dominated by agriculture and agri-related industry. Tourism has also been a growing industry in our District (although impacted over the past year). 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 rate 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. Where an asset was initially funded by way of external subsidy e.g. Waka Kotahai (NZTA subsidy) we have assumed it's future replacement will be funded in the same way unless otherwise stated.
- 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. How we meet those standards and the cost of doing so is a challenge that we have to manage.

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 $28.3 million in capital to ensure our compliance with the new legislation and consent conditions.

Our response is to safeguard our resilience 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.

Financial goals for 2021-31

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

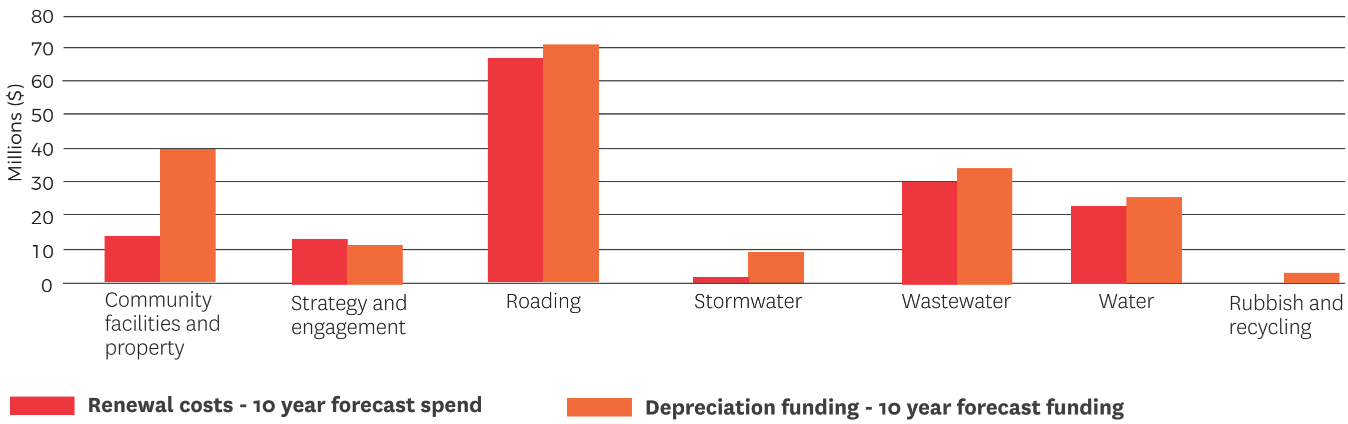
- To maintain the current levels of service we provide.
- To improve levels of service where this complements our vision.
- To keep our rates at an affordable level.
- To ensure our debt is manageable and that we allow ourselves some headroom to respond to emergencies or opportunities arising.

Further information on the key actions for the LTP are discussed in more detail below:

Goal 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 half a billion dollars. 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 LTP 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 LTP and the funding from depreciation is shown below:

Forecast renewal costs and depreciation funding for next 10 years, by Activity Group

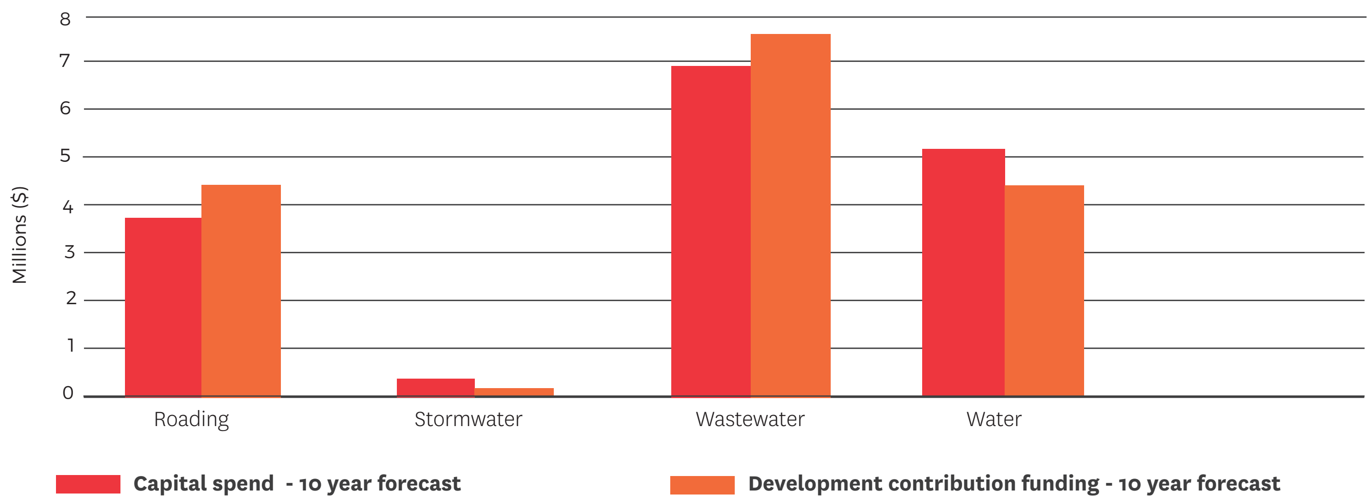


For activities where the depreciation funding collected over 10 years is less than what is forecast to be spent on renewing assets, we will look to fund the shortfall by borrowing from other activities where the funding collected over this 10 year period is more than required for the planned spend.

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 next 10 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.

Goal 2: To improve some levels of service where this complements our vision

We have a clear vision and Community Outcomes 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 LTP budget to achieve this. These service improvements are set out in each of the activity sections of this LTP, key improvements are also highlighted below.

Our community outcomes

	Connected Infrastructure	Economic Opportunities	Healthy Communities	Environmental Sustainability	Vibrant Cultural Values
Town centre revitalisations	✓	✓	✓	✓	✓
Elderly Person Housing			✓		
Morrinsville Recreation Ground development	✓		✓		✓
Destination playgrounds			✓		
Morrinsville Pool development			✓		
Development of Spas		✓	✓		✓
Te Aroha Civic Facilities	✓		✓		
Matamata Indoor Sports Stadium	✓		✓		
Various roading upgrades	✓				
Matamata to Piarere Cycleway	✓	✓	✓		✓
Transfer station resource recovery centres	✓			✓	
Various wastewater treatment plant upgrades and other projects	✓			✓	
Various water treatment plant upgrades and other projects	✓			✓	

Goal 3: Set prudent limits on rates and rate increases

There is a large catch-up required to get our rates to the level that is required just to keep us ticking. This catch-up will result in a proposed increase in total rates of 11.85% for next year. For the other years of the plan, we propose to set a limit on rate increases at 6%, with the exception of 2023/24, when the increase is projected at 10.20%.

We've outlined a large number of projects we plan to undertake over the 10 years of this plan. The timing in which these projects are completed will impact on the associated on-going, operational, depreciation and interest costs in future years. If the proposed 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 6% limit where this is achievable, and yet will still enable us to make progress.

Rates and rates increases

ANNUAL RATES REVENUE[1] WILL NOT INCREASE BY MORE THAN 6% EXCEPT FOR YEARS ONE AND THREE

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.

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Forecast rates[1]	$39.7m	$41.8m	$46.0m	$48.2m	$51.1m	$52.5m	$54.8m	$57.2m	$60.5m	$62.9m
Forecast increase in rates	11.85%	5.23%	10.20%	4.81%	5.87%	2.84%	4.36%	4.38%	5.76%	4.04%

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 6% 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.

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 proposed new Matamata Indoor Events Centre is one example we have planned, and we will consider other proposals as they arise. External funding and partnerships may also be available to extend our cycle trails. Funding received from Government's Provincial Growth Fund has enabled development opportunities to be explored within our District in recent years, and other economic stimulus funding has become available following Covid-19. These are 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 Waka Kotahi (NZTA) 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. Council will also continue to pursue funding opportunities as they arise.

Goal 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.

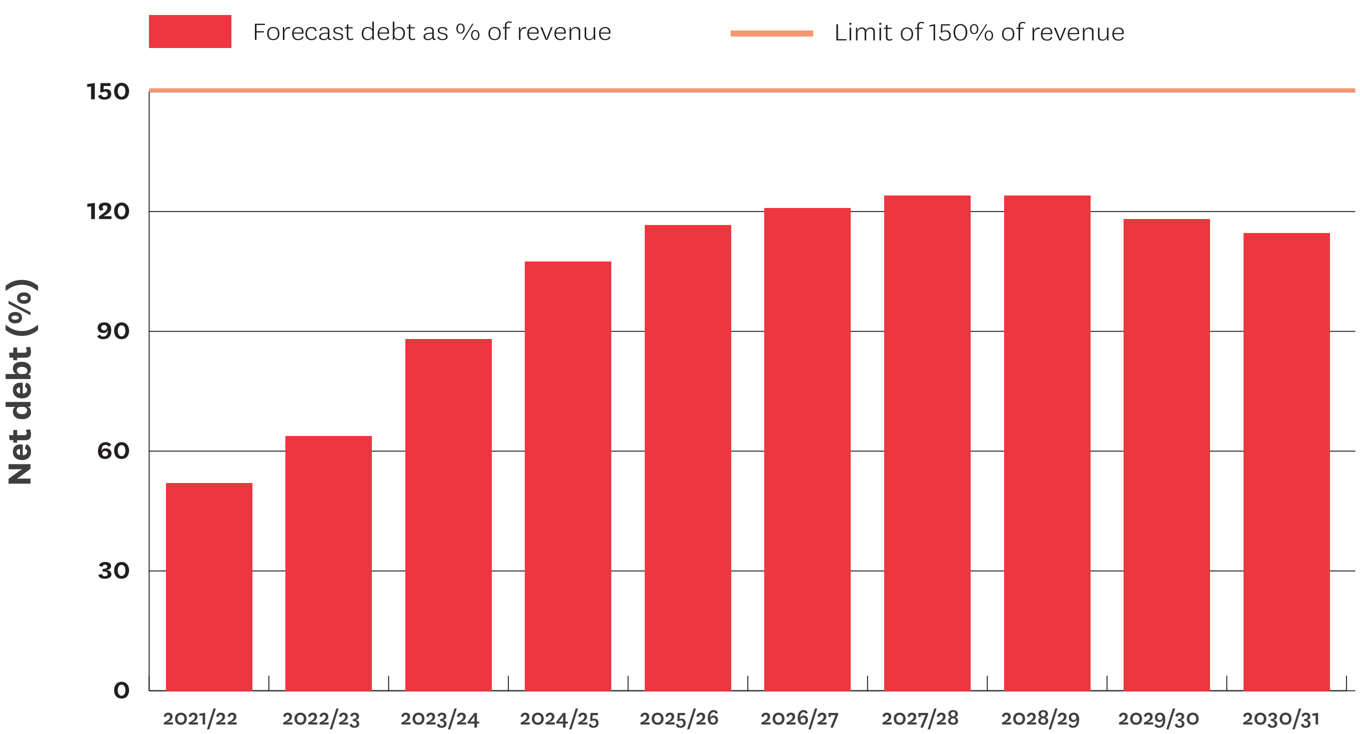
With the capital work programmed in this LTP, our external debt is expected to change over the next 10 years as follows:

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Forecast external debt	$40.4m	$48.9m	$67.1m	$82.8m	$92.8m	$100.1m	$106.6m	$110.0m	$108.9m	$109.0m

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 $110 million in 2028/29. Our total revenue in the same year is forecast to be $79.2 million. Our net debt is forecast to be 125% 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 102% of our revenue over the next 10 years.

Forecast net debt as a percentage of revenue for the next ten years



Our forecasts also show that we can comfortably service our expected level of debt over the next 10 years. Our forecast borrowing costs are expected to peak at around 2.8% 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.

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 - 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.

It is also important to note that at this point we have continued to plan and budget to undertake our , Water, Wastewater and Stormwater activities, but acknowledge that these may transfer to a new dedicated entity in the future (refer to assumptions). 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 1.55% over the 10 years of this LTP.

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%
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:

In brief, 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.