As at ~~16~~15 ~~February~~March 2021

Financial strategy

Council's Long-term plan aims to deliver the following:

- Achieving the Vision 2030 in a financially prudent and sustainable way
- Maintaining existing infrastructure so it is fit for purpose now and into the future
- Providing infrastructure to accommodate a growing district
- Investing in the future of the district
- Keeping rates affordable and managing debt

The financial strategy is underpinned by the following key elements:

- Maintain affordable rates levels
- Utilise debt to fund key projects that improve the district
- Maintain debt below 250% of revenue

The financial strategy is a cornerstone of the council achieving the goal of living within its means, and ensuring sufficient funding is available for key projects over the coming ten years.

The financial strategy outlines key financial parameters and limits which the council will operate within. It provides insight into Council's current financial health and provides clarity on how this will be managed over the next 10 years.

A short summary is provided below, however, each of the core individual components that make up the complete financial strategy is explained further in more detail.

Summary

This LTP is built around Council ensuring we finish the projects that we started e.g Museum, Lakefront, SHMPAC and investing in developing our communities and district by creating conditions for safe, thriving communities and housing development. To enable this, there will need to be an approx. 9.2% rates increase in the first year which will fund the required level of investigation and planning into ensuring we can develop both greenfield and brownfield opportunities, retain and attract the best talent for pursuing and delivering our goals, financing our debt and covering depreciation, maintenance and renewal costs; invest in transforming legacy technological systems to ensure a modern and fit for purpose operating platform as well as invest in our core essential services such as Roading, Waste and 3 Waters.

There will also be some level of early operational investment required to enable the reopening of the Museum and SHMPAC facilities such as advertising and personnel hires although once these assets are fully operational it is expected that these will adhere to the revenue and funding policy targets.

Debt will be increasing from a 2021 forecast year end position of $261million to over $440million in ten years. This increase does not breach any of Councils legislated covenants e.g. 2.50x revenue, and is expected to be below 2.25x by 2031. The increase in debt will be monitored closely and is considered financially viable not only due to the population growth expected in the district with an increase of close to 4,000 properties but also due to the current and expected long term suppression of financing costs.

We are not investing just on our own, other government agencies e.g MBIE, MFE and private funders attracted by our aspirational vision and goals are willing to partner with us. By partnering with external funders who see the long term benefit that these investments will bring to our community we are able to provide a greater level of delivery and total investment than if simply only applying council funds.

Although it would be impossible and naïve to try insulate ourselves from future economic impacts e.g. COVID-19 or natural disasters, the financial strategy does allow for a significant investment into Rotorua. This investment is expected to drive and cater for population growth and subsequent employment opportunities, infrastructure requirements to mitigate climate change effects and maintain a level of borrowing buffer should we need to fund emergencies or decreases in user charges over the short term. Should the consensus be that any detrimental impact is going to be over the longer term then this will necessitate a review of the financial strategy at that time.

Fees and charges

Revenue from fees and charges comes from things such as admission and hiring rates for venues and facilities, liquor licenses, dog registration, building and resource consents and parking management etc.

For a number of years revenue from fees and charges has been declining as a proportion of income. In 2015 rates provided 70% of revenue whereas by 2018 this proportion was 80%. At this point, Council is reliant on rates revenue to pay operating costs and this reliance on rates is high compared to some other councils. However, recent catastrophic global events such as COVID-19 have proven the prudency in this approach by establishing a stable revenue base with which to maintain essential services without requiring debt funding.

As a result of the recent lessons from COVID-19 a target has been set over the course of the Long-term Plan to limit rates revenue to not more than 85%. This will however, necessitate an increase in fees and charges for some activities e.g. Animal Control~~ and Parking~~. In addition, with the closure of SHMPAC and the Museum there has been a higher reliance on rates to fund these facilities which will be part of the higher rates income %, however, ~~W~~when the Museum and Sir Howard Morrison Performing Arts Centre facilities recommence generating revenue this target will be reassessed.

Any increase to fees and charges is to ensure that those who directly generate a need for, and gain the highest benefit from a service will pay for that service and associated benefit.

Rates

The council intends to provide certainty to ratepayers over their rates bills.

Rate increases will be at a rate that matches the increase to our cost base. Changes to Council's cost base are mainly driven by new or increased service levels, inflation and changes to interest expenses and depreciation resulting from the investment into capital expenditure over the 10 year plan.
Overall rates proposed rates increases (after allowing for growth in the rating base) and the limits will be:

~~-~~	~~2022~~	~~2023~~	~~2024~~	~~2025~~	~~2026~~	~~2027~~	~~2028~~	~~2029~~	~~2030~~	~~2031~~
~~Proposed Rates increases (%)~~	~~9.15~~	~~5.30~~	~~4.13~~	~~4.29~~	~~3.38~~	~~1.68~~	~~2.97~~	~~4.63~~	~~4.86~~	~~2.51~~
~~Quantified Limit on Rates increases (%)~~	~~9.15~~	~~5.40~~	~~4.50~~	~~4.90~~	~~3.90~~	~~2.00~~	~~3.60~~	~~5.50~~	~~5.80~~	~~3.00~~

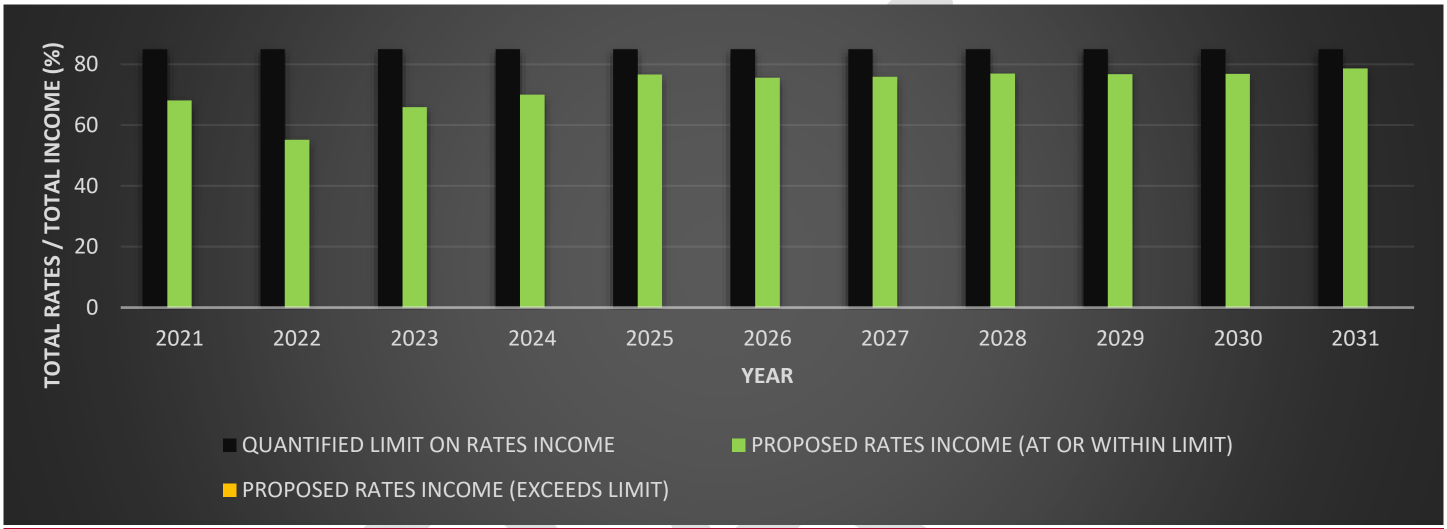
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Proposed Rates increases (%)*	9.15	5.23	4.21	4.85	3.47	1.85	2.95	4.56	4.80	2.48
Quantified Limit on Rates increases (%)*	9.15	5.50	4.40	5.10	3.80	2.00	3.20	5.20	5.50	2.80
**Excluding Tarawera*										
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Proposed Rates increases (%)**	9.15	5.23	5.98	8.94	2.71	-2.90	2.95	4.56	4.80	2.48
Quantified Limit on Rates increases (%)**	9.15	5.46	6.30	9.35	2.97	-2.90	3.20	5.20	5.50	2.80
***Including Tarawera*										

As at ~~16~~15 ~~February~~March 2021

The rate limits are the proposed rate increases across existing ratepayers covering both general and targeted rates and reflecting an adjustment for future risk. Increases to individual ratepayers may be impacted by property revaluation changes and the introduction of new targeted rates such as those for new sewerage schemes.

Council will limit total rates as a proportion of total revenue to less than 85%. Council has had to maintain this limit of 85% for three reasons. Firstly, to reflect the revenues lost due to temporary closure of the Museum and Performing Arts Centre. Secondly, Council's increased expenditure in community facilities and infrastructure will increase the finance and depreciation costs for activities which are funded predominately from general or targeted rates and thirdly, the lessons from COVID-19 have shown the benefits in a lower reliance on fees and charges during a crisis.

The below graph demonstrates the level that rates income will be over the period of the LTP and does not exceed our limit of 85%.



For additional context, the table below serves to highlight how Councils source of revenue is comprised over the LTP period.

Income Sources *(inflated $'m)*	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Fees & Charges	18	20	22	22	23	23	24	25	26	27
Rates	112	118	125	136	140	137	140	145	152	156
Subsidies (Operational and Capital)	72	39	28	14	15	15	15	16	17	13
Development Contributions	0	2	3	5	7	5	3	2	3	2
Other	1	1	1	1	0	0	0	0	0	0
	203	**179**	**179**	**178**	**185**	**180**	**182**	**189**	**197**	**198**

Borrowing

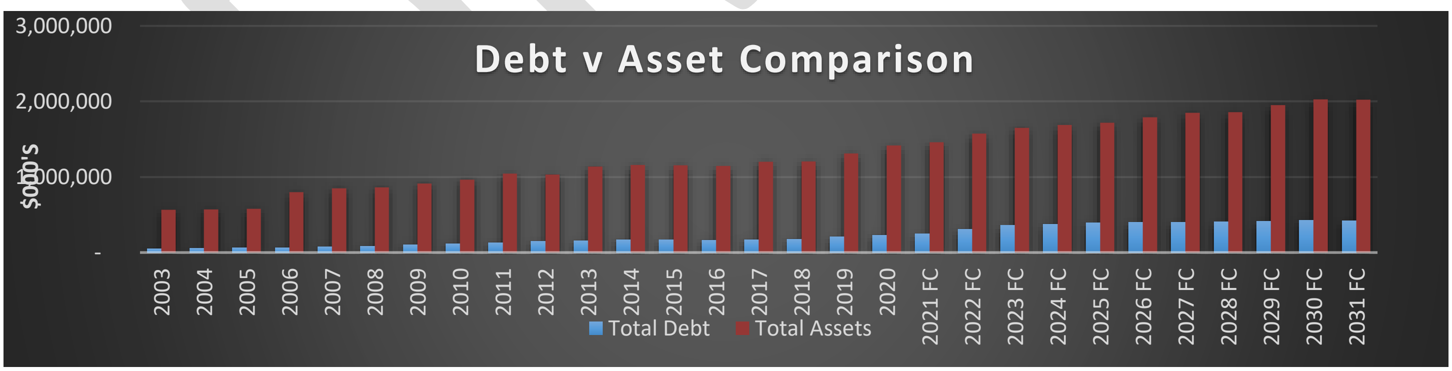
Council does not borrow to renew existing facilities and infrastructure. Borrowings are only used to grow and improve on existing facilities and infrastructure.

Unlike residential and business borrowing which is secured against assets, the Council's borrowings are secured against its revenues, in particular its ability to rate.

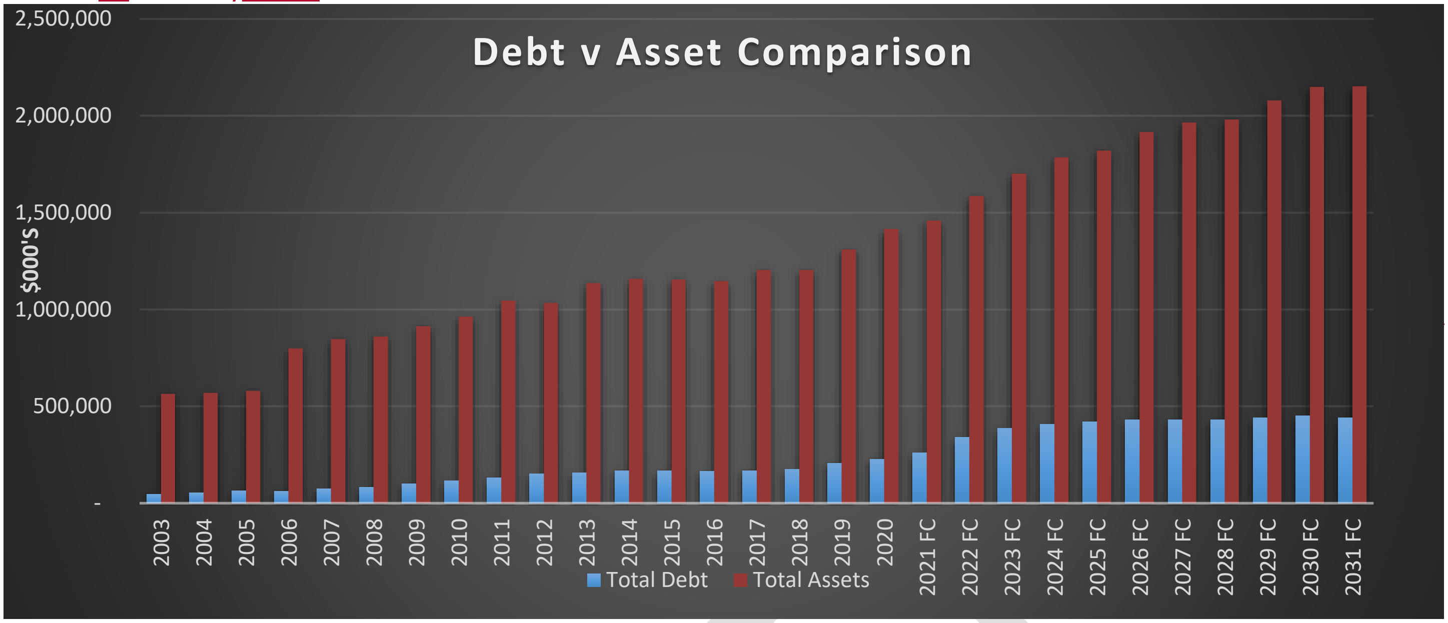
As shown by the graph below, across the profile of the LTP, debt does not exceed our limit of 250%. Debt is expected to increase from the 2021 forecasted year end position of $261million to over $440million as we invest in both essential and strategic capital programmes. The graph demonstrates that debt will be paid down towards the back end of the LTP. With the wider macro-economic challenges posed by economies needing to recover post COVID_19 stimulus packages, it is widely expected that this will keep a lid on inflation and subsequently minimise interest rate increases. As a result of this, council has taken the prudent step of using these historic low levels of financing to invest in our community.

As at ~~16~~15 ~~February~~March 2021

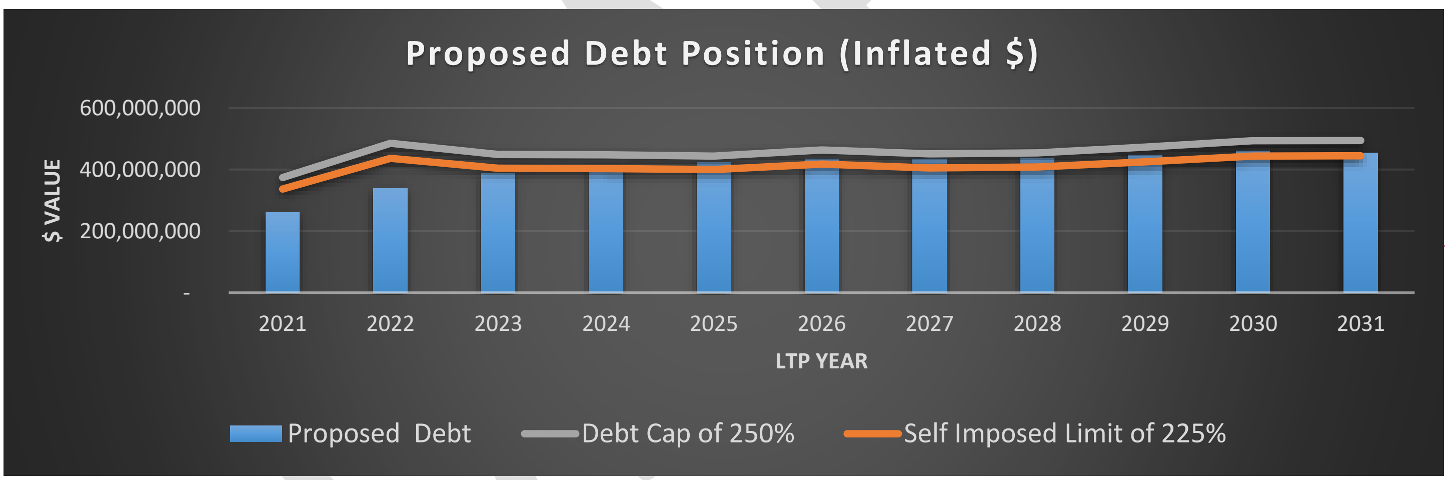
In line with the above, ~~T~~the graph below shows that over the course of the ten years we will have increased our assets by $ ~~568~~693 million to $2.~~0~~1 billion. During the same period our debt will increase by $ 1~~93~~81 million. Despite the increase in debt we will still maintain on average 8~~1~~2% equity in our asset base during this time.

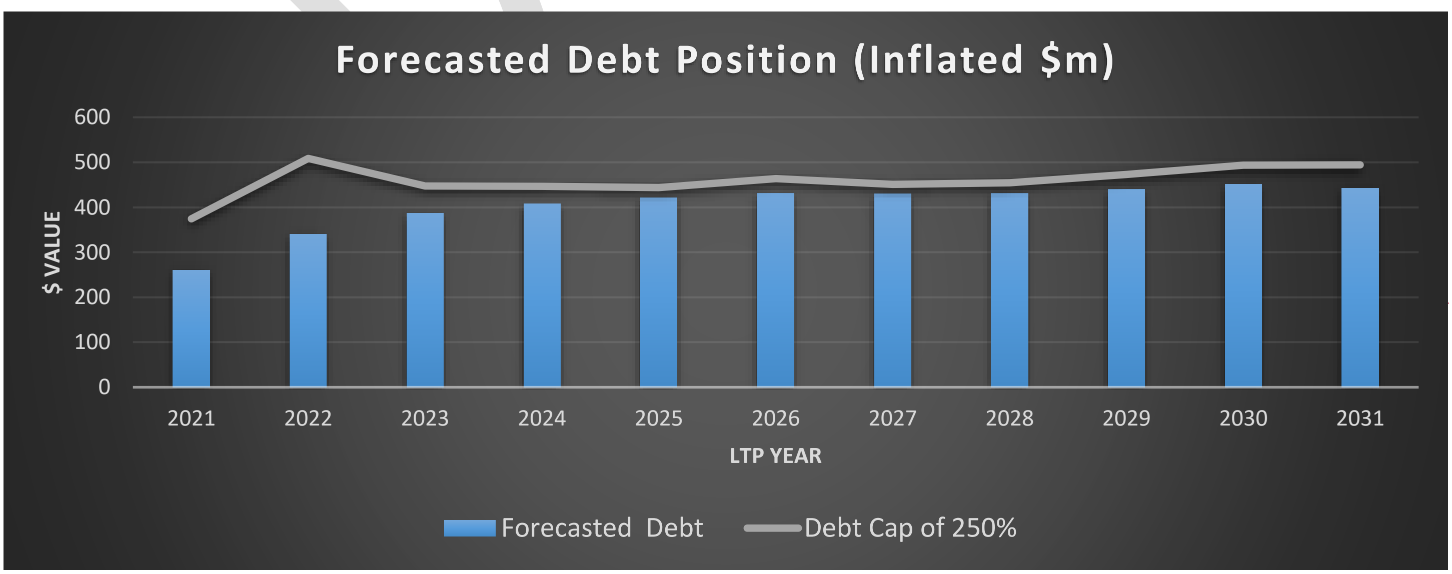


As at ~~16~~15 ~~February~~March 2021



During the course of the ten years the increased borrowing will result in a debt profile that will peak at $4~~6~~51 million.





As at ~~16~~15 ~~February~~March 2021

This remains within our debt limits

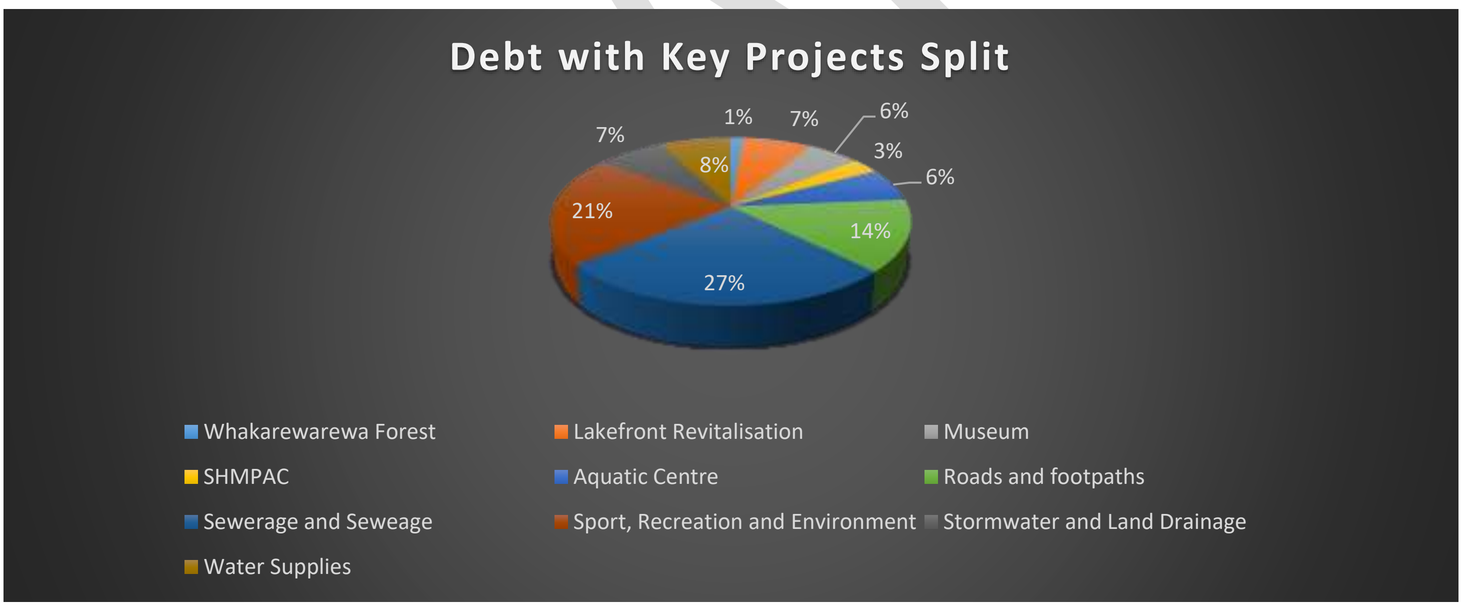
- Net debt to Total Revenue 2~~41~~38% against a limit of 250%
- Net interest to total revenue ~~9.1~~8.9% against a limit of 20%
- Net interest to Annual Rates Income 11.~~8~~50% against a limit of 25%

Council's debt level is determined by deciding on a prudent level of borrowing that can be serviced without putting pressure on Council's finances. Council has determined a prudent level based on a multiplier of not more than 2.5x (250%) revenue~~ with the overall aim to stay below 225% where, and as when, possible~~.

Council's debt forecast to revenue ratio as at 30 June 2021 is approximately 174% and whilst this will rise to around 238% through years 2025-2028 is forecast to be 224%, ~~at 230%~~ in 10 years' time.

The increased debt is driven in part by completing a number of large projects identified as contributing to the Vision 2030 goals and growth aspirations and as part of Councils investment in homes and thriving communities.

The pie graph below shows the projects and how much those projects are predicted to increase the debt by within the next 10 years.



Quantified limits on borrowing

Consistent with Councils treasury policy in managing debt, Council will adhere to the following limits:

- Net interest expense on external debt as a percentage of operating revenue will not exceed 20%; and
- Net interest on external debt as a percentage of annual rates revenue will not exceed 25%; and
- Net external debt as a percentage of annual operating revenue will not exceed 250%.

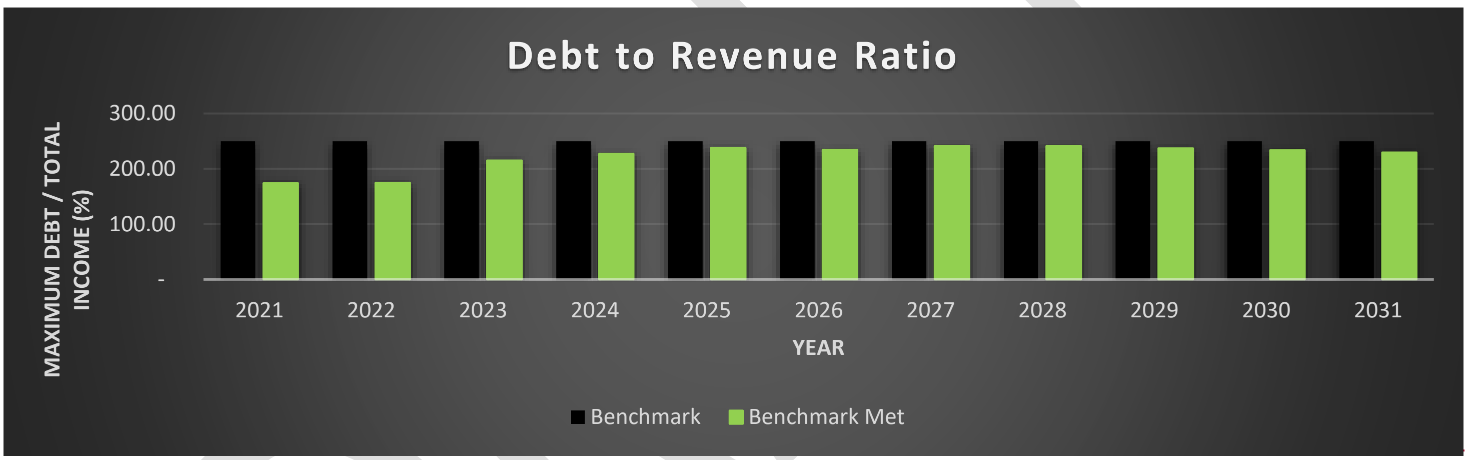
As at ~~16~~15 ~~February~~March 2021

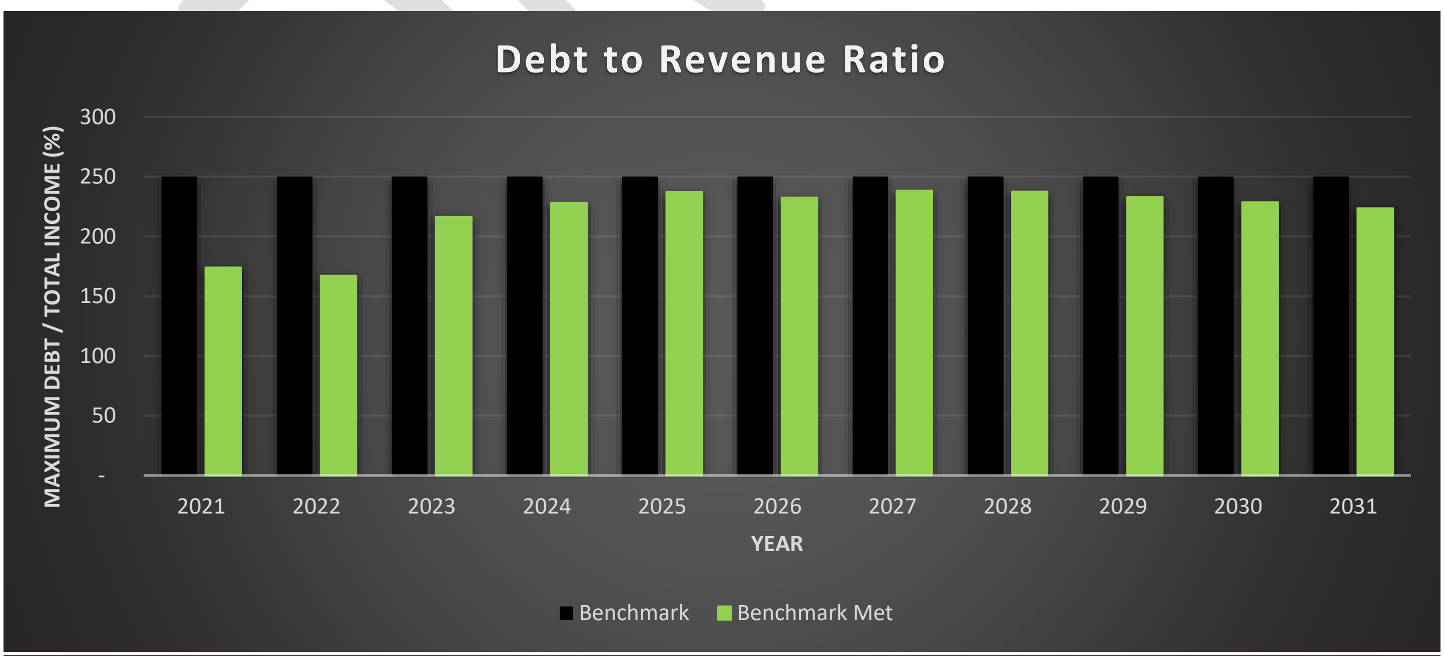
As part of Councils financial strategy, to maintain debt at acceptable levels, the ratio set for this limit within this financial strategy is 250%. This is to ensure Council has adequate borrowing capacity in the future to fund unforeseen projects or be able to respond to an emergency. Council will~~, where possible, aim to~~ stay below ~~the self-imposed threshold of 225% but may need to, and will likely, go above this threshold~~ this threshold and although the debt ratio increases for periods of time to ensure sufficient investment in our community is maintained ~~but~~ we remain ~~remains~~ within the 250x limit. In the current climate of record low interest rates this is deemed a prudent use of long term funding to keep rates low but provide inter-generational benefit such as the placemaking projects e.g. Lakefront revitalisation project or the upgrade to the districts Sewerage plants or stormwater capability~~.~~

The debt to revenue ratio and external debt levels for the Long-term plan are:

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Forecasted Debt Level	260,566	339,550	386,830	408,038	422,817	434,201	434,614	438,108	448,452	461,376	454,214
Actual Debt %	174.04	174.76	215.22	227.39	237.89	234.00	241.05	241.27	237.20	233.63	229.63
Quantified Limit on Debt %	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00	250.00

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Forecasted Debt Level	260,566	339,550	386,776	407,499	421,110	431,126	429,868	431,604	440,147	451,182	442,046
Proposed Debt %	174	167	216	228	237	232	238	238	233	229	224
Quantified Limit on Debt %	250	250	250	250	250	250	250	250	250	250	250





As at ~~16~~15 ~~February~~March 2021

Asset Sales

The Council is investigating selling some assets in order to reduce pressure on levels of debt. Council has budgeted for sales of approximately $11 million over the next ten years. These assets will only be sold if the Council gets a fair price. Council is prepared to wait until it can get a fair return.

Growth

Managing growth over the period of this plan and beyond is challenging. Rotorua is currently experiencing solid growth. In the three years to June 2020 our population grew at a compound annual growth rate of 1.6% (compared to 0.8% for the preceding 18 years). Growth is positive for Rotorua because it means people want to live here and we are attracting businesses and investment into our district.

With growth comes the need to invest in infrastructure. It is very expensive to not only put in new infrastructure but also, to renew and replace existing infrastructure. Managing the demands for growth and balancing the opportunities for future ratepayers against affordable rates and debt levels for current ratepayers is a significant challenge for our district.

Rotorua Councils growth assumption for LTP 2021-31 projects our population to grow from approx. 77,000 in 2020 (based on latest StatsNZ figures) to 85,000 in 2031. This increase is based on the growth projections from Infometrics and is an underlying driver for the significant investment into development over the LTP period. The Infometrics population projections have been used to help prepare demand forecasts for Councils Infrastructure Strategy and the related capital expenditure programme for the 10 year plan. The financial strategy has assumed a realistic view of the proposed population growth projections over the 10 year period. The achievability of the longer term population growth projections will require Council to ensure that land does become and is available for development. This achievability of population growth and or development is not deemed high risk given the level of funding and planning that is already taking place and will continue to take place over the short to medium term.

In the short term, infrastructure can accommodate the growth we are experiencing as we have capacity in our existing networks and the way growth is expected to be geographically distributed.

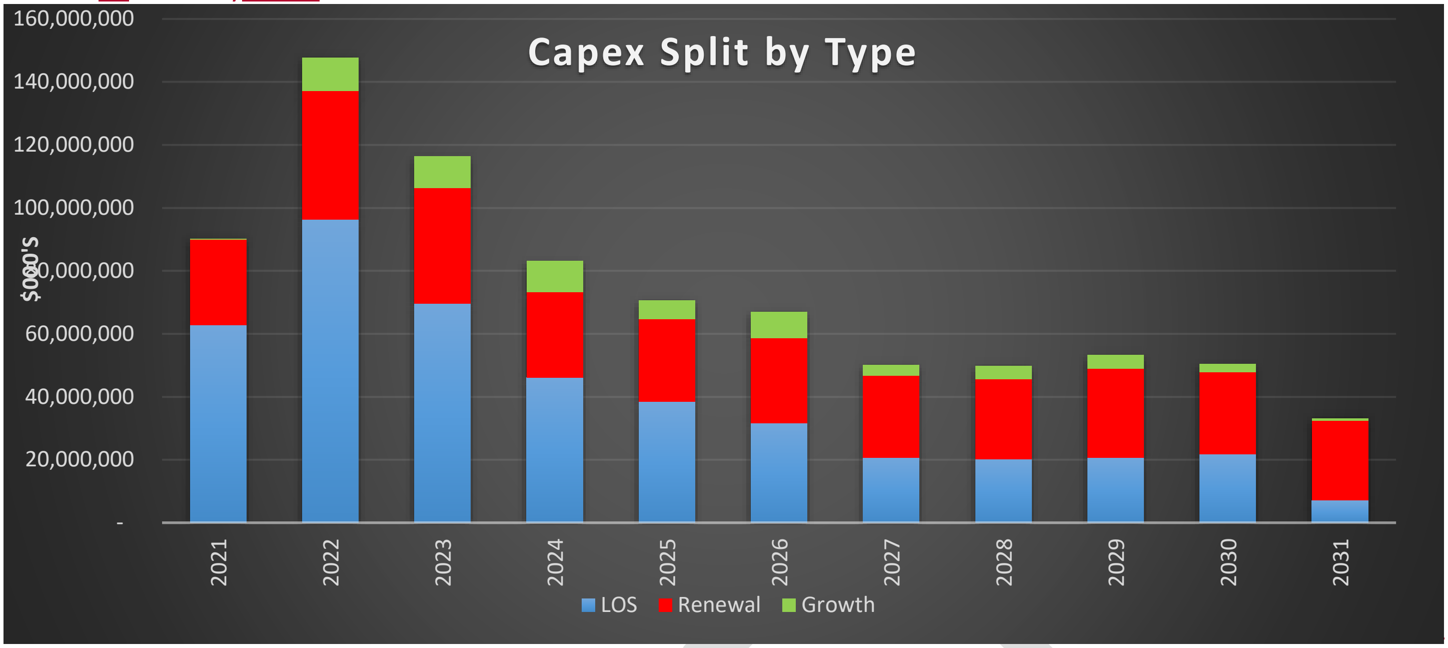
Funding of capital expenditure

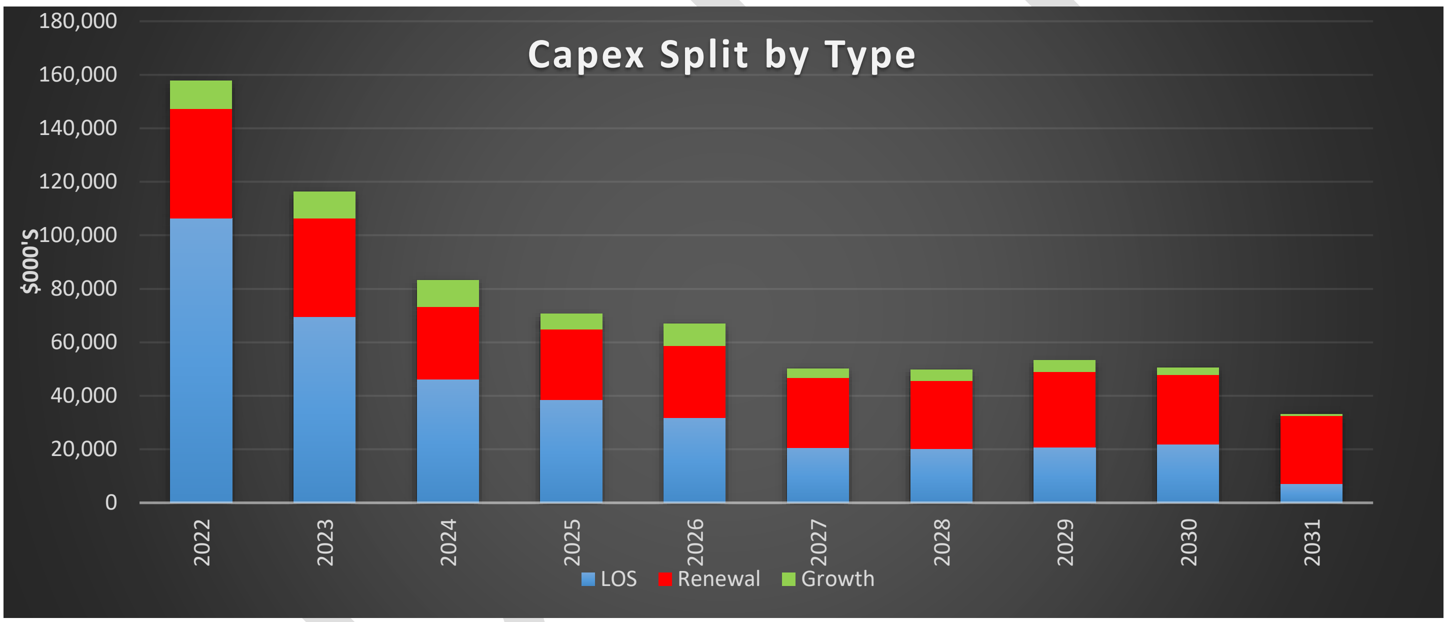
Prevailing interest rates are at record lows and are expected to remain suppressed for an extended period however, we aim to continue to use debt prudently whilst investing strongly into the district to pay for asset spending benefitting multi-generations e.g Lakefront revitilisation and Sewerage plant upgrades rather than from rates. ~~However,~~ Council believes it is prudent to utilise operating surpluses to fund capital expenditure where possible in the future to ensure debt levels are controlled. Rates and other revenues are set to fund capital expenditure relating to the replacement of existing infrastructure, with external subsidies and borrowing used to fund capital expenditure relating to improving levels of service and growth that will have an intergenerational benefit.

Capital Expenditure

The Long-Term Plan provides for $ 7~~2~~31 million of funding for the replacement of existing assets that are near the end of their economic lives, and new assets required to improve existing levels of service. This spend is based on information developed in consultation with in-house and external experts and held in our asset management systems which groups assets, holds condition assessments, applies assumptions and averages. These in turn are used to determine estimated useful lives and expected replacement dates and values. This forms the basis of our capital expenditure program for the next 10 years.

As at ~~16~~15 ~~February~~March 2021





Not inflated

2021-2031 10 Year Plan ($'000)			
Activity by Group	**Levels of Service**	**Growth**	**Renewals**
Sewerage	101,670	5,720	55,498
StormWater	5,000	40,000	30,000
Roading	43,106	7,300	74,570
Water	13,940	7,010	30,500
Other	208,663	0	98,744
Total	**372,379**	**60,030**	**289,312**

As at ~~16~~15 ~~February~~March 2021

2021-2031 10 Year Plan ($'000)			
Activity by Group	**Levels of Service**	**Growth**	**Renewals**
Sewerage	111,670	5,720	55,498
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Roading	43,106	7,300	74,570
Water	13,940	7,010	30,500
Other	208,663	0	98,744
Total	**382,379**	**60,030**	**289,312**

Not inflated

The above table shows the total cost of projects over the period of the 10 year plan categorised by type of expenditure. Growth expenditure provides new or improved assets enabling more residents to live in our city; capital expenditure to improve service levels is where we create new assets to service the existing population; and renewals restore our existing assets to their original function or capacity.

Council is contributing a moderate amount to growth infrastructure and is looking to introduce development contributions in the coming years, currently anticipated from year 2 of the Long Term Plan. Development contributions will provide third party funding to Council from residents and businesses that create growth demand on our infrastructure.

Council is contributing a significant amount to improve the levels of service of existing facilities and infrastructure. Of the $382million proposed above that is going towards Level of Service projects just under $170million will be to complete the key placemaking projects that we started in the previous LTP, namely the Museum, SHMPAC, Whakawarewa Forest, Lakefront and the Waste Water Upgrade. The investment into the Museum is to enable the reopening of our iconic landmark that will also be strengthened for seismic risk. Other improvements into the building such as the redesign of the air conditioning systems will mean that Rotorua will be able to attract a greater variety of cultural and international treasures than was previously possible. This investment will therefore continue to ensure we attract visitors and locals alike to share in our history.

The expenditure into the Sir Howard Morrison Performing Arts Centre is taking the current building and turning into a world class venue with a new seating arena, capable of hosting approx. 1000 patrons, enhanced acoustic ability to allow a wider variety of performances to be shown and an improved foyer and open space facilities with the flexibility to be reset for other functions such as conferences or weddings to further act as a magnet and attraction for locals and tourists alike.

Rotorua is and will continue to be a mecca for mountain bike, trail walking/running and outdoor enthusiasts. This attraction supports the wider Rotorua GDP by creating employment opportunities. To ensure we maintain this competitive advantage the Whakawarewa forest development has a number of initiatives to improve services to leverage off recreation and wellness opportunities. In partnership with MBIE funding and iwi landowners, new family friendly trails and a proposed Great Ride loop around the forest are being created to accompany the new Te Pūtake o Tawa car park and commercial hub on the eastern side of the forest. The popular access point on the northern side, Titokorangi Drive, has been upgraded and a new Visitor Centre will be developed to widen the attraction to the forest experience.

As at ~~16~~15 ~~February~~March 2021

The Lakefront is one of Rotorua's natural environment drawcards and the $20million that council is putting into this project is match funded by a further $20million of government funding. There are other investment multiplier effects as a result of this expenditure as further commercial opportunities are developed and established. The Lakefront project will provide for improved user facilities and cultural storytelling, walking and cycling access links and destination playgrounds in a family friendly environment.

We need to keep both our community and by extension our environment safe. The investment into the main Rotorua Waste Water Treatment Plant will ensure that we build the additional capacity for full containment of the current and future waste water demand and will have the capability to treat waste water at a much higher level that protects our lakes, addresses cultural concerns, protects bathing water standards and reduces the risk of unconsented overflows. The upgraded plant will allow Rotorua's population growth to be facilitated in a manner that meets the highest possible waste water quality and safety discharge standards and respects the essence of the Te Arawa settlement agreement. There is also additional funding included in the level of service expenditure that will be required to complete the Rotoiti/Rotoma sewerage scheme. This is so that the communities in these areas are connected with efficient and safe reticulation and processing capabilities eliminating the adverse effects of septic tanks leachate on the water quality of the lakes and the health of those communities and visitors.

To provide the appropriate level of sporting facilities which can cater for both current and future demand, provide sustainable sports club facilities and improve utilisation of the Rotorua Stadium we are exploring the creation of the Westbrook sport and recreation precinct. This will see a number of widely spread sub-standard playing field areas replaced with higher quality fields catering for local users across a wider range of sports codes. It will also provide a tournament event venue to support high visitation events that have multiplier benefits for the district.

The remaining levels of service spend are spread across a number of other projects with over $40million going into our Roading network, more than $20million to support economic recovery projects aimed at developing both commercial possibilities as well as used where needed to fund and drive residential land development to support improving the prosperity of the district. Council will be collaborating with investment partners to ensure that where possible there is economic return to Council for this expenditure which is aimed at developing Rotorua's commercial appeal and capability. ~~Council is contributing a significant amount to improve the levels of service of existing facilities and infrastructure.~~ .

It is also seeking almost $180 million (inflation adjusted) of external funding to enhance key assets and complete new projects e.g. Museum, Lakefront and SHMPAC with funding coming mainly from key government agencies. This external funding and the risks around the security of the funding and projects are contained within Council's significant forecasting assumptions.

There are additional operating costs associated with adding new assets including depreciation. These costs will be funded by increases to rates.

Policy on Securities

As at ~~16~~15 ~~February~~March 2021

In order to borrow money the Council has to offer our lenders some security, just like residents do with their mortgages. Like most councils, we secure our debt against our rates income. The council borrows all its debt requirements from the Local Government Funding Agency which provides long term borrowing at favourable rates compared to commercial banks or private lenders. Rates will continue to be used as security for all borrowing. Lenders accept this as security and it helps keep our interest rates low.

In some circumstances Council may offer other security, however, physical assets will only be pledged in certain circumstances. The council currently has no loans secured by way of mortgage over properties but may do so if the situation arises. The full policy on securities can be found in our Treasury Policy on the council's website.

Investments

The council holds investments in companies and cash.

Investments in Companies

The council is an equity holder in eight companies. The reason for holding equity interest in the companies is principally to achieve efficiency and community outcomes, rather than to receive a financial return on investment. The council holds shares in the following companies:

Council's Shareholdings Company	Shareholding	Principal reason for Investment	Budgeted return
Rotorua Economic Development Limited	100%	Economic Development	Nil
Rotorua Regional Airport Limited	100%	Economic Development	Nil
Infracore Limited	100%	Efficient Government	Nil
Waikato Local Authority Shared Services Limited	6.14%	Efficient Government	Nil
BOP LASS Limited	16.13%	Efficient Government	Nil
Civic Financial Services Limited	<1%	Risk management	Nil
Mountain Bike Events Limited	49%	Economic Development	Nil

Cash Investments

From time-to-time the council has surplus cash. Surplus cash is invested for short periods to maximise returns. The council aims to meet the average 90 day bank bill rate.

Generally the council's cash management practice is to use surplus cash to minimise external debt. The long-term plan includes an assumption that Council holds no less than approx. $1 million in cash at any one time.

As at ~~16~~15 ~~February~~March 2021

Council's Treasury

Council considers it prudent to hold cash at a level that supports the balance of restricted reserves (this amount of cash is not available to offset external debt). Any cash held above the level of restricted reserves is to ensure strong lines of liquidity and access to cash remain available to Council.

Cash is supplemented by the use of committed banking facilities. The $35 million of facilities available is based on the level of cash that Council currently holds and a further amount to ensure liquidity of funding. In present financial markets, holding cash is a cheaper option than is available through the use of committed facilities.

Other Investments

As part of borrowing from the Local Government Funding Agency, the council is required to invest in financial bonds with the agency. The council will receive interest on these bonds equivalent to the cost of borrowing.

Insurance

Council fully insures water and wastewater treatment plants, along with its buildings, plant and equipment, and vehicles.

Underground infrastructure (primarily water reticulation, waste water, and storm water networks) are insured for significant natural disasters. A key assumption is that the government will provide 60% of the funding to meet reinstatement costs following a significant natural disaster. Aon has conducted a risk assessment on the likelihood of significant natural disasters, and these were assessed as being low.

Council has tested insurance cover for infrastructural assets. This cover is currently obtained by direct placements into the London insurance markets and is based on "maximum probable loss" approach rather than reinstatement value for all assets. Maximum probably loss is the anticipate value of the biggest monetary loss that might result from a catastrophe, whether natural or otherwise. External expertise is used to complete scenario modelling and provide recommendations on the level of cover.