

Financial Strategy

Summarised below is the overall Financial Strategy of the Council, which was published in full in the 2009-19 LTCCP.

The Council organisation is owned by the ratepayers of Masterton District and all of our planning and policies are intended to deliver quality management of assets and services for ratepayers. We have kept some key principles in mind as we prepared this plan:

- to look after our finances carefully for today and tomorrow
- to have an affordable budget over the ten years
- to prepare a balanced budget
- to look after our assets and infrastructure
- to spread across users today and into the future (intergenerational equity)
- to spread the costs of assets across their useful life
- to apply rates in a fair and equitable way.

Looking after our Funds

We have policies that control how much we can borrow, how we invest our funds, how we fund our services and how we divide up the rates.

Financial Planning

We prepare detailed plans every year and a ten year plan and policies every three years. We produce summary versions of those plans for all ratepayers and we consult with our residents about what we plan to do. We report against those plans every year and our Annual Report is audited by Audit NZ.

Reserve Funds

The Council has modest reserve funds built up from asset sales and depreciation on assets. The funds are invested externally and internally and the interest is used to offset costs for specific projects. In the first few years of this Plan reserve funds will be drawn down more than the inflow of funds from depreciation. The draw is largely for the renewal of sewerage assets. When the cash reserves funds are used for internal borrowing we charge internal interest at market rates.

Balancing the Books

The Local Government Act requires the Council to run a balanced budget. This Plan achieves that requirement, principally because of one-off revenue for Riversdale sewerage, however the LTCCP shows increasing surpluses and cash reserves in future years. Future councils may use the surpluses to repay debt early or commit more funding to renewals expenditure. The cash reserves generate interest income which helps to offset rates required.

In 2010/11 the Council has again decided not to increase rates enough to fund all of the depreciation which is recognised on assets, particularly infrastructural assets. Also, our planned use of reserves for some operating costs means we risk not achieving the balanced budget.

Over the ten years of the LTCCP we intend to increase the funding of depreciation, except on assets we do not expect to replace, allowing us to consistently achieve a balanced budget and remain financially sustainable. See the next page for details of which assets this applies to.

Looking after our Assets

Our 10 Year Plan provides funding to make sure our assets are well-maintained and are replaced at the right time. Our depreciation reserves will be combined with new borrowing to do all the work that has been identified in our asset management plans.

Borrowing to pay for new Assets

The Urban Wastewater Upgrade project is a huge investment by the Council on behalf of the community. It will be funded by new loans and will take the level of debt from \$18 million to \$43 million in the next year. We anticipate spreading the loan repayments over 25 years so that the cost of assets is carried by future ratepayers. We have set prudent policy limits on our borrowing to ensure our community is not over-indebted. See LTCCP Amendment at the end this Annual Plan.

Growing our Assets

Capital expenditure required to service growth of the district will be funded by loans and from development contributions which are charged to developers through the Wairarapa Combined District Plan.

Levels of Service

We are planning to provide the same services at the same standard in **most** of our activities, but there are some areas (such as sewerage and stormwater) where we will be improving the service. Improved services will mean higher costs and more rates funding required over the period of the Plan. Cost savings could be achieved, but services would be cut and the Council has decided not to make those cuts.

Spreading the Cost

We try to match the costs of a service with those who use it or benefit from it. Keeping services affordable is a key focus of the Council. The operating costs of services can be funded by rates, user charges, subsidies or reserve funds. The subsidy for most roading work is 55% which the Government collects from road user charges and petrol taxes.

User charges are applied in full or part, where the user can be identified and at a level that will not restrict access to the service.

Rating Policy

The Council recognises that most of the rates are a property tax, as they are payable whether or not you use or benefit from a service.

Rating valuations, that were last updated as at September 2008, will be used to set rates for 2011/12 and the rating mix will apply as follows:

Rating Type	Urban	Rural
Uniform charges	15%	40%
Service charges	16.5%	4.5%
Land value rates	13%	35.5%
Capital value rates	55.5%	20%

There is a differential on urban non-residential properties (commercial) of 2 times on the land and capital value rates.

Uniform charges and service charges are levied on the basis of each separately used or inhabited part of a rating unit.

Riversdale Sewerage Scheme

The Riversdale Sewerage Scheme has attracted a government subsidy of \$1.92 million with some \$5.2 million to be funded by the Riversdale property owners. The Council has levied targeted rates on each 'residential equivalent' property that is required to connect to the new scheme, to recover their capital contributions. (See 2010/11 LTCCP Amendment and Capital Project Funding Plan). In 2011/12 the remainder of the capital contributions will be levied and a targeted charge for operation of the new scheme will be applied, differentiated between connected and serviceable properties.

Depreciation 'Unfunded'

The Council has achieved a 'balanced budget' as per the statutory requirement. However, a number of factors that influenced this result need clarification. Full depreciation on Council assets has been recognised as an expense, but the Council has decided not to fully allow for revenue to match the expense on a number of specific assets.

There are also several large external income items which will fund capital which influence the accounting surplus position.

In the roading activity the renewals programme is designed to maintain the road network in a constant state. Depreciation expense is recognised and renewals are capitalised. The value of the renewals capital programme is funded by way of subsidies from the NZ Transport Agency (NZTA) and rates income. The programme has usually been a similar value to the depreciation expense. Those assets in the roading activity which are not renewed on an annual rolling basis (eg bridges, street furniture) do have some depreciation funded into a replacement reserve, to the extent of the Council's share after the NZTA subsidy.

Other assets where the depreciation expense is not fully funded and the reasoning for each are as follows:

- Housing for the Elderly – not all depreciation is covered by rental income in order to hold rents low and have no rates input. Renewals work is covered but full replacement will require external income assistance (eg government subsidies).

- Rural Halls – no intention of replacing at least half of these buildings.
- Security cameras – originally partly funded with external contributions, we have assumed when these are replaced there will be a similar level of external funding contributed.
- Genesis Energy Recreation Centre – the redevelopment of this facility in 2002 to 2004 was half funded with external contributions of approximately \$3.5 million.
- We are allowing funding of sufficient depreciation to cover replacement of plant and equipment and regular building renewals (eg painting etc). Not all depreciation is funded as we have assumed the future replacement of the facility will again attract external funding when it is required.
- Water, sewerage and stormwater assets – the increase in depreciation expense that resulted from the 2008 asset revaluation was not able to be fully built into the budgets in Year 2, as the Council wishes to hold the rates increase at an affordable level. Subsequent years in the LTCCP have allowed for the catch-up in depreciation funding of these assets.

Significant Assumptions

Basis of Preparation

The financial information in this plan has been prepared following the provisions of Financial Reporting Standard 42 (FRS 42) Prospective Financial Statements. The purpose of the financial forecasts in this long term plan is to provide “best-endeavours” costing of Masterton District Council’s plans to enable it to achieve its Community Outcomes, in collaboration with other stakeholders, over the 10 year period 2009-2019.

Basis of Assumptions

Prospective information is based on a number of assumptions. Risks and uncertainties surround these assumptions. The basis of the assumptions surrounding the information is found in Planning Assumptions in the LTCCP.

The information should therefore be used carefully, with this best-endeavours purpose in mind. The Local Government Act 2002 Schedule 10 (1)(e) requires that information relating to levels of service, estimated expenses and revenue be provided in detail for three financial years, and indicative for the subsequent seven financial years. Over time, information becomes increasingly indicative from the time it was first prepared.

The approach taken to budget development has been that of preparing ‘forecasts’ on a best estimate basis. In this case, a forecast refers to financial information based on assumptions on future events the Council expects to occur and on the basis of Council’s expected response to these events. The Council has not taken an approach where hypothetical (“what-if”) projections are used.

The figures presented are budgeted. However, the opening balance of the 2011/12 year is based on the estimated actual result, with this estimation having been made in March 2011.

The major limitation of the forecasting approach, as with any approach, is that events may change over time and undermine the accuracy of assumptions made. The actual financial results achieved for the period are likely to vary from the information presented and the variations may be material.

The review of assumptions underlying the financial information was undertaken in preparation of the Long Term Council Community Plan (LTCCP), between September 2008 and March 2009. However, the assumptions themselves were adopted by Council resolution to approve the Draft LTCCP for public consultation in March 2009.

Assumptions and Risk Assessments

A number of assumptions were made in preparing the Draft Shaping Our Future 2009-2019 Long Term Council Community Plan (LTCCP). These assumptions are necessary as the planning term is for 10 years and the stating of assumptions ensures that all estimates and forecasts are made on the same basis.

There are four categories of planning assumptions in this document:

- 1 Demand Assumptions
 - resident population
 - district growth
- 2 Political Environment
 - policies
 - governance
- 3 Operating Environment
 - resource consents
 - natural disasters
 - external factors
 - human resources
- 4 Financial Assumptions

Please see the full LTCCP document for the assumptions detail.