

## Introduction

The Financial Strategy is a new requirement for the Ten Year Plan. The purpose of the financial strategy is to facilitate:

- ▶ Prudent financial management by the Council by providing a guide for the Council to consider proposals for funding and expenditure against; and
- ▶ consultation on Council's proposals for funding and expenditure by making transparent the overall effects of those proposals on the Council's services, rates, debt and investments.

In addition, information has been incorporated into the strategy to enable the reader to understand the proposals and provide feedback to the Council. Factors that will have a significant impact on work programmes and rating levels within the Ten Year Plan are provided below.

An overview of key issues relating to each group of activities is contained within the Ten Year Plan that includes a more detailed and in depth description of the issues that are affecting that particular activity and influencing work programmes, costs and revenue streams.

## Summary of Council's Financial Performance

Council has produced a plan which demonstrates sustainable external debt levels. Net debt (being gross external debt) starts at \$13.2 million at the end of 2012/2013 and ends at \$7 million in 2021/2022. Council at the same time is committed to a major capital expenditure program totalling \$57.7 million, which it is to be funded from a mix of depreciation reserves, external and internal borrowings.

Council has a balanced budget for the first three years of the Long Term Plan with minor deficits occurring thereafter. These deficits are largely driven by decreases in Financial Assistance and the impairment of the investment in Buller Holdings Ltd (caused by Buller Recreation Ltd's operating issues).

Gross rates have increased from \$12 million \* in 2012/2013 to \$15.3 million \* in 2021/2022 but are increasing at a rate that is lower than the predicted rate of increase in the BERL Local Government Cost Index. The average rate per capita is slightly above the median according to the recently published figures from the Department of Internal Affairs. If Council achieves the forecasted financial performance, there is no reason why the Buller average per capita rate should not fall back to the National median figure, or lower.

Council believes that it is proposing a Ten Year Plan that is sustainable, affordable and fiscally prudent.

## Factors that are expected to have a significant impact to the Ten Year Plan

### Economic Growth within the District

In prior Long Term Plans, the Council accepted the predictions from Statistics New Zealand. However these predictions are based on historical data and take limited cognisance of future economic development within the District. It is our firm belief that Buller is set for growth with the impending growth in mining activities, and consent permitting.

In the 2010 annual regional performance indicators report by Business and Economic Research Limited (BERL), Buller District gained a fifth placing of all the 72 territorial authorities in New Zealand. Growth in employment over the last five years has increased by 5.9% which equates to around 221 jobs per year. Buller was rated at 7.2% GDP growth for the 2010 year which the report suggests is a direct impact from the increase in activities in the construction, coal mining and metal ore mining industries.

In the 2011 report from BERL, Buller District was the top performing Local Authority. Buller District topped four of the nine ranking indicators. Buller had the highest employment and business unit growth in 2011; and the best employment and GDP growth over the past five years of all districts.

Buller's ranking improved mainly due to employment growth and population growth. BERL indicated that they expect the District to forge ahead in strength as increasing demand for mineral resources grows.

### Mining activity within the Buller District

During the December quarter 2010 Bathurst signed an agreement with L&M Coal Holdings to acquire the Buller project, through the acquisition of 100% of L&M Coal Limited. The Buller project area comprises two permits that cover over 10,000 hectares of the Buller Coalfield. The permits largely surround state-owned, Solid Energy's Stockton open cut mining operation. The majority of this resource is considered to be high quality hard coking coal used largely in the manufacture of steel. The Company is currently producing from the Cascade mine at an annual rate of approximately 100,000 tonnes per annum. Approximately 50% of this will be sold domestically with the balance being exported. In early 2012 it expects to commence development of the fully permitted Coal Brookdale underground. This will be at an initial rate of 150,000 tonnes per annum, lifting to a rate of approximately 250,000 per annum by the end of 2012. Once the Escarpment block has received all relevant permits, development of this block will lift the company's production profile to around 1.2 million tonnes per annum.

The Escarpment Mine will extract 4 million tonnes of coking coal and will become the country's second largest opencast mine, after Solid Energy's nearby Stockton mine. Bathurst has indicated that the mine will generate 224 direct jobs.

Subject to resource consents, Whareatea West is likely to be the next block developed in the South Buller project lifting production to just over 2 million tonnes per annum. The North Buller region is currently the subject of a scoping study. It is the Company's long term plan to develop this area to a similar production rate as that in the South Buller area to lift total coal production to over 4 million tonnes per annum.

Mining activities are set to expand in Reefton, both in coal and gold mining. Oceana Gold has increased production and the Reddale Mine has been re-opened by Solid Energy NZ Ltd.

From the above, it is clear that the coal mining and economic activity is set to expand considerably. Buller District is poised for a period of growth. This growth will place pressure on maintaining and creating infrastructure at an affordable rate. As highlighted in the overview to the plan, Buller is now at the crossroads and the assumption made within this plan is that the population and rateable properties will increase.

## Cement Production

Holcim New Zealand operates a cement manufacturing plant at Cape Foulwind, Westport, which produces approximately 500,000 tonnes of cement each year. Today the Westport plant employs around 130 staff. It operates 24 hours a day, seven days a week. Holcim (New Zealand) Ltd proposes to build a new cement manufacturing plant at Weston near Oamaru, and is currently seeking approval to proceed from its parent company, Holcim Ltd. In October 2011, in the light of the uncertainty created by the current global economic environment Holcim announced that further consideration of the Weston Plant Project is now not expected before late 2012. We have assumed Holcim will continue its operation for the duration of the plan.

## Dairy Industry

Both within Westport and Reefton economic growth has occurred within the dairy industry.

## Population Projections

We have made the following assumptions in terms of population growth – a detailed explanation of this population model is provided in the Key Assumptions section (pages 231-237).

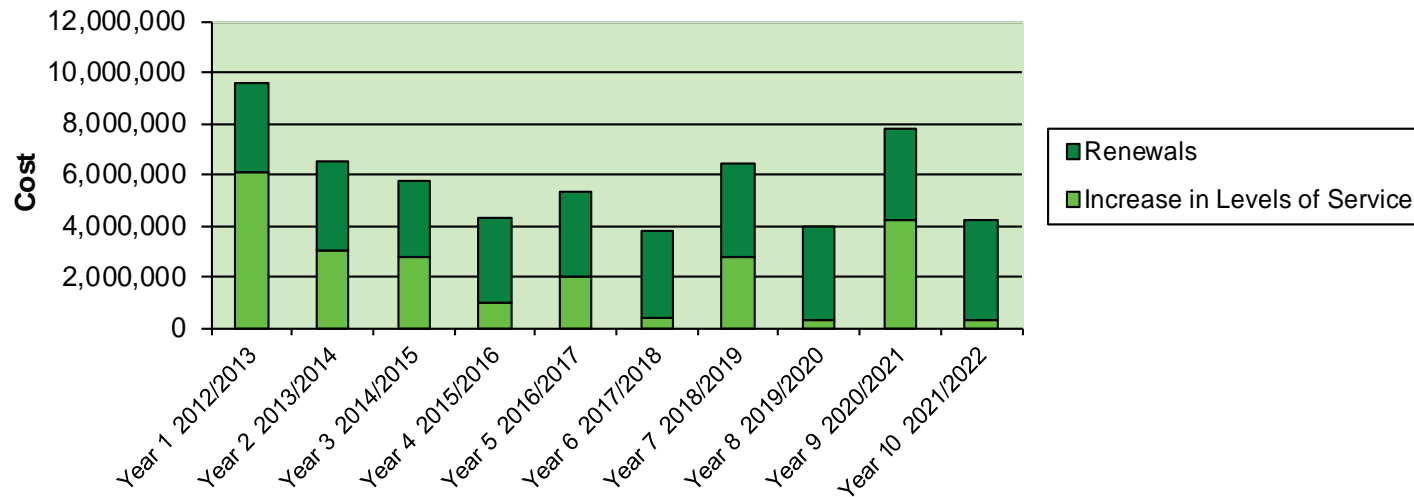
The growth in the population has been based on the high growth population trend from Statistics New Zealand and has been adjusted to take account of the growth of mining and ancillary industries within Buller. This growth in mining is dependent on Resource Consents being granted.

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
<b>Population</b>	10,400	10,450	10,755	10,999	11,049	11,099	11,149	11,169	11,189	11,209	11,229
<b>Rateable Properties</b>	7,240	7,265	7,392	7,515	7,540	7,565	7,590	7,600	7,610	7,620	7,630

As permanent resident ratepayers grow and there is a growth in the number of rateable properties, this would spread the cost of Council services potentially resulting in a reduction in the cost each ratepayer would have to contribute.

## A substantial capital programme to improve infrastructure

### Capital Expenditure



The replacement costs of assets signalled through the asset management plans aggregate to a total capital works programme of \$57.7 million over the ten years. Capital expenditure totalling \$22.9 million (40%) is targeted at improving levels of services and \$34.8 million (60%) is used to fund asset renewals.

Projects improving levels of services include :

- ▶ Upgrade to the Westport Water Supply (\$10.6 million)
- ▶ Drinking Water Upgrades (Little Wanganui, Inangahua Junction and South Granity Water Supply) (\$0.8 million)
- ▶ Relocation of the Coaltown Museum and Westport i-site into the Cultural Hub (\$ 4 million)
- ▶ Construction of Pensioner Housing in Karamea (2 units) in 2012/2013, Reefton in 2015/2016, Westport (2 units) in 2018/2019 (\$1.5 million)
- ▶ Mitigate soil erosion at the airport (\$ 0.37 million - Council's share of the cost is \$0.350 million)
- ▶ Capital funding for Vision 2010 projects in Inangahua, Karamea and Westport (\$0.75)
- ▶ Road Upgrades (\$2 million) - including construction of the Rough River Bridge (\$0.2 million)

The funding of the capital costs to upgrading to Water Supplies to comply with Drinking Water Standards will result in increased targeted rates. This is due to increases in depreciation and interest costs.

## Significant Changes in Land Use

The increase in activity in the coal mining and metal ore mining industries has led to an increased need for land for service industries related to mining in and around Westport. In order to be in close proximity to both the township and the mines they are servicing, some of these activities are looking to establish in areas which are zoned Rural and which have previously been used for rural or residential activities.

The increase in population has led to increased demand for a range of residential accommodation opportunities. While there is still a desire for 'lifestyle block' types of development there is also an increasing trend for smaller sections and 'infill' types of development in the townships, particularly in Westport. The increased population should lead to more ratepayers.

As coal mining is set to expand considerably, the increased production is beyond the ability of the present rail tunnels to Lyttelton and as an alternative it is intended to ship much of the additional production from the Westport harbour to Port Taranaki from where it will be sent overseas. To enable this to happen the existing Westport port facilities will be upgraded. Buller District Council is not proposing to fund this upgrade, instead it will be funded by the Holding Group.

The review of the District Plan and the Vision 2050 project will need to consider the impact of this growth on the District. Over the forthcoming year extensive time will be devoted to developing strategic and development plans for the District. Closely aligned with this strategic planning is the District Plan Review.

## Other significant factors affecting the Ten Year Plan

### New Zealand Transport Agency (NZTA)

The New Zealand Transport Agency advise Council on a three yearly basis what the rate of financial assistance will be for the next three years. The 'financial assistance' is the amount of government subsidy provided to pay for both road renewals and improvements or extensions. However three years ago no adjustments were made. The financial assistance rate is based on a formula that takes into consideration the size of the roading programme, land value and a constant that once all the financial assistance rates are aligned will mean that the average rate of all Councils is 50%. The minimum assistance rate regardless of the formula is 43%.

The formula has been used for a number of years and while over time there have been reviews of how the rate is calculated the reviews have generally kept the basis of the formula. The use of land value in the formula provides a means of showing the ability of Councils to meet their share.

The Councils roading programme over the last five years has remained pretty much the same with some fluctuations for inflation.

The current formula shows that the financial assistance rate for the Buller District should be 57%. The New Zealand Transport Agency has however advised that the rate will drop from the current 60% to 59% for 2012/2013 and to 58% for the remaining two years of this current cycle. The net impact of this change is that general ratepayers will be facing an increase in roading costs to maintain the current level of service, which Council is proposing to fund.

NZTA has indicated to Council that its base funding for the roading programme has been reduced for years 2012/2013 to years 2014/2015, as well as having no escalation for inflation paid for these three financial years. This has been applied for the full ten years of the plan, and results in a total reduction in NZTA funding of \$4.4 million over the plan.

What this means is that Council has agreed to a lower level of expenditure to match NZTA funding. This has resulted in a lower level of service such as higher road roughness levels, lower maintenance levels on lower volume rural roads, less resealing and less roadside mowing. This may be offset by potential efficiencies by working closely with the roading contractor to identify service delivery savings.

### Price adjustments

Council is required to provide a Ten Year Plan adjusted for inflation. The figures within the plan have been adjusted for price movements. The price adjustors have been derived from those recommended to Local Government from Business and Economic Research (BERL).

## Balancing the budget

The Council is required under the Local Government Act 2002 to ensure that each year's projected operating revenues are set at a level to meet each year's operating cost.

The Council is further required to manage its revenues, expenses, assets, liabilities and general dealings prudently and in a manner that promotes the current and future interests of our community.

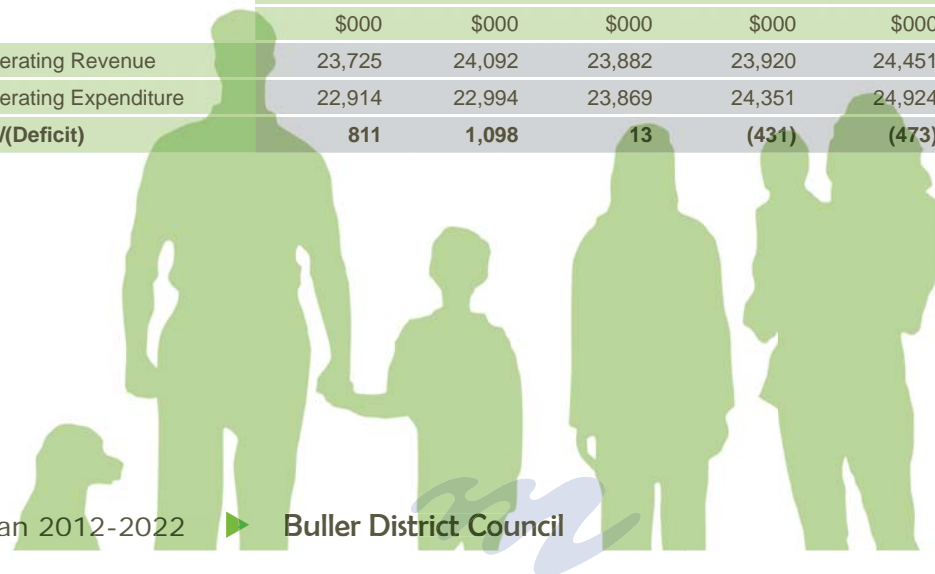
This requires a more holistic view of the costs and services that Council provides:

In assessing a financially prudent budget, consideration must be given to :

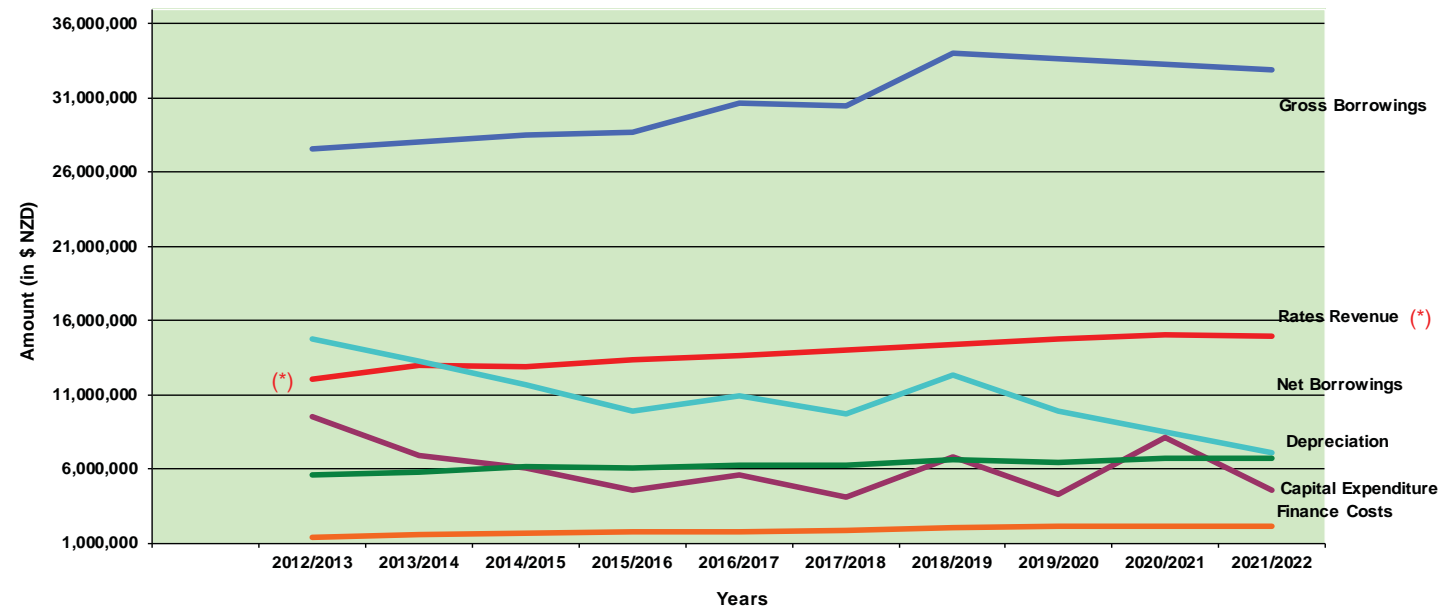
- ▶ Estimated expenses of achieving and maintaining the predicted levels of service contained in the 10 year plan, including the estimated expenses associated with maintaining the service capacity and integrity of the assets throughout their useful life.
- ▶ The projected revenue available to fund the estimated expenses associated with delivering services and maintaining the service capacity of assets throughout their useful life.
- ▶ The equitable allocation of responsibility for funding the provision and maintenance of assets throughout their useful life.
- ▶ The Councils funding and finance policies

The Statement of Comprehensive Income reflects a small deficit in 2012/2013 and in years 2015/2016, 2016/2017, 2017/2018, 2018/2019 and 2019/2020. The deficit is attributable to the impairment of the investment in Buller Holdings Limited caused by Buller Recreation Limited's operating losses. In addition, the financial assistance received from 2015/2016 onwards is lower as it is envisaged all Drinking Water Standard capital upgrades would be completed and therefore there are no subsidies from Central Government. Council is required under Section 100 of the Local Government Act 2002 to pass a resolution accepting the deficits as reflected below

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Total Operating Revenue	23,725	24,092	23,882	23,920	24,451	25,169	26,019	26,706	27,532	27,992
Total Operating Expenditure	22,914	22,994	23,869	24,351	24,924	25,547	26,489	27,137	28,039	28,531
<b>Surplus/(Deficit)</b>	<b>811</b>	<b>1,098</b>	<b>13</b>	<b>(431)</b>	<b>(473)</b>	<b>(378)</b>	<b>(470)</b>	<b>(431)</b>	<b>(507)</b>	<b>(539)</b>



The graph below shows the trend for rates, borrowings and asset development expenditure which are the key financial aspects of the plan.

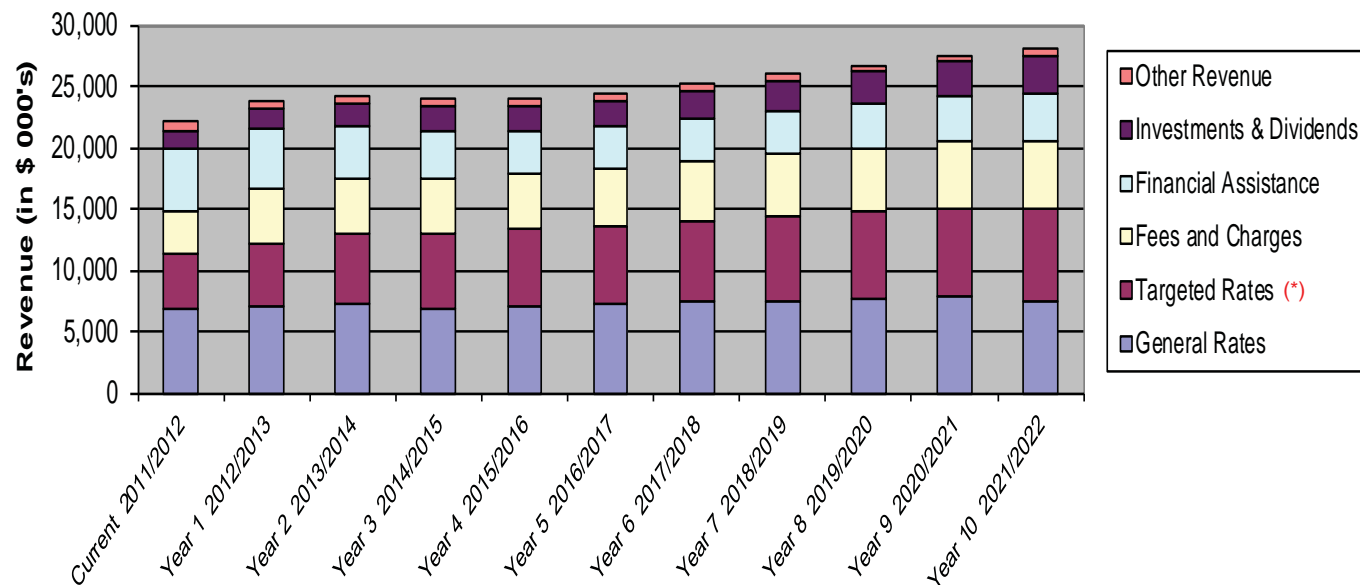


It is important to note that capital expenditure totalling \$57.7 million has been forecasted for this plan. This is funded from depreciation reserves, external borrowings and internal borrowings. Gross external borrowings have remained fairly static over the plan. Term deposits are, however, increasing from a forecast \$12.8 million in 2012/2013 to \$25.8 million in 2021/2022 due to the repayment of internal debt.

Financing projects with a mix of internal and external debt lowers the cost for the ratepayer. Repayment of internal loans to investments and ensures that investment funds are maintained to fund future projects. Building investment reserves are also considered prudent to fund any emergency expenditure that may arise from natural disasters.

(\*) Rates exclude water meter rate.

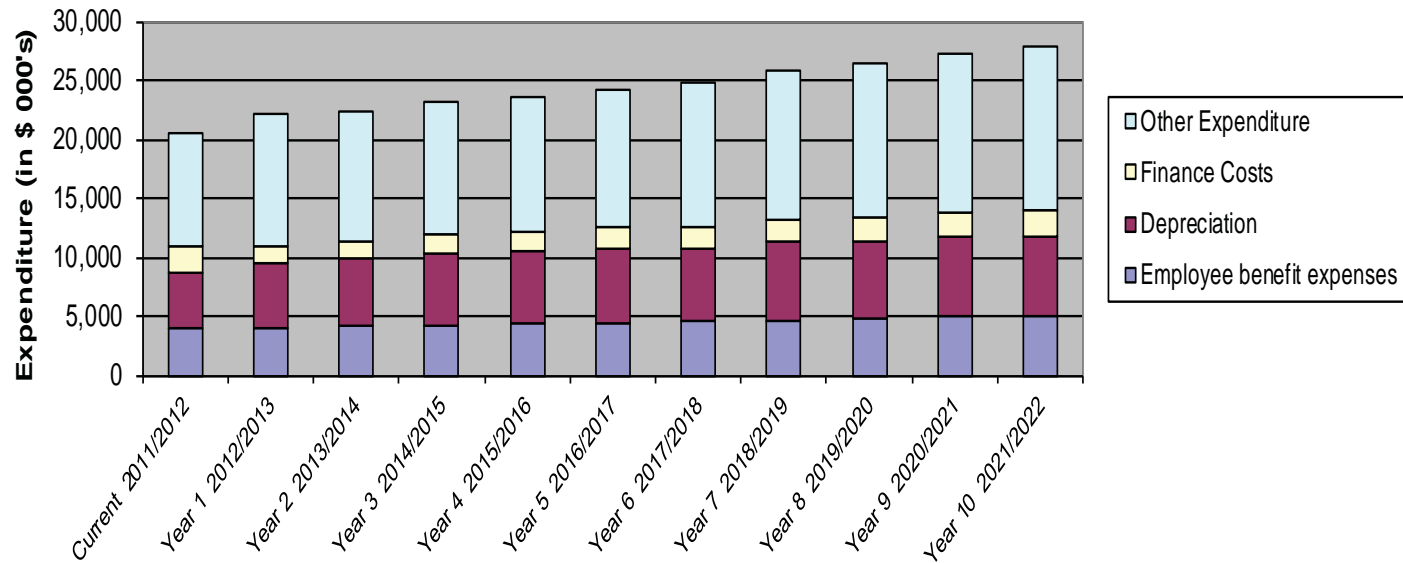
### Operating Revenue: 2012 to 2022



Total Operating Revenue will increase by 6.9% from 2011/2012. Revenue will rise from \$23.7 million in 2011/2012 to \$28 million in 2021/2022 (18%) over the plan.

(\*) Rates exclude water meter rate.

### Operating Expenditure : 2012 to 2022



Total Operating expenditure will increase by 11.2% from 2011/2012 to 2012/2013. In total dollars operating expenditure will rise from \$22.9 million in 2012/2013 to \$28.5 million (24.5%).

**These increases are as a result of:**

- ▶ Growth – there are or will be more households in Buller based on the population growth assumptions.
- ▶ Price increases – the price adjustors used for Local Government are higher than predicted inflation and this means that it will cost more to provide services
- ▶ Service level changes. Water is the major activity where Council will be increasing their level of service by improving the quality of the water through capital upgrades to enable current water supplies to meet the latest Drinking Water Standards.
- ▶ Depreciation and Interest payments – the increased capital expenditure programme means corresponding increases in costs in these areas, depreciation is also affected by inflation.



## What is a reasonable rates level?

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

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

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

The preliminary increase in general rates was 7.7% in 2012/2013, however we do not have to absorb all of the rate increase in one year In the interests of affordability for the general ratepayer, Council is proposing to smooth the increase in General Rates across two financial years being 2012/2013 and 2013/2014. This means the increase in General Rates in 2012/2013 will be 3.3% instead of 7.7% and 2.6% instead of (5.7%) in 2013/2014. Council considers smoothing to be financially prudent as it is an effective mechanism to ensure that rate movements are contained to within acceptable limits.

## Forecasted General Rate Increases across the Ten Year Plan

2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
3.3%	2.6%	(3.5%)	5.1%	1.0%	3.3%	1.2%	1.3%	3.3%	(1.4%)

## What are the quantified limits on rates, rates increases and borrowings?

Council will endeavour to keep the income required from rates steady as well as creating predictability in the level of rates required. This will include taking a multi-pronged approach of managing the cost to the ratepayer (through efficiency gains and/or service reductions), increasing other revenue sources (to reduce dependency on rates revenue) and/or disposing of surplus assets. The Council is required by legislation to include a statement on quantified limits on rates. The Local Government Rates Inquiry suggested that around 50% of a council's operating revenue should be taken from rates. Currently, the Council draws about 50-55% from Rates because it does not have alternative revenue streams for example, significant financial investment funds or investments in corporate enterprises, and has taken a fairly low risk approach to borrowing.



## Limit on Rates Collected

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

	2012/2013 \$000	2013/2014 \$000	2014/2015 \$000	2015/2016 \$000	2016/2017 \$000	2017/2018 \$000	2018/2019 \$000	2019/2020 \$000	2020/2021 \$000	2021/2022 \$000
<b>Total rates revenue collected (*)</b>	12,040	13,046	13,077	13,573	13,816	14,233	14,583	14,785	15,246	15,334
<b>Total revenue</b>	23,726	24,092	23,882	23,922	24,452	25,171	26,018	26,706	27,533	27,992
<b>Rates as % of Total Revenue</b>	51%	54%	55%	57%	57%	57%	56%	55%	55%	55%

Ideally Council will seek to reduce the proportion of revenue collected through rates and a revenue Taskforce has been setup as a Council Sub-Committee to investigate alternate revenue streams. The Council's Revenue and Financing Policy sets out the sources of funding to be used, and how they will be applied to each activity - with a view to achieving this objective.

(*)	2011/2012 \$000	2012/2013 \$000	2013/2014 \$000	2014/2015 \$000	2015/2016 \$000	2016/2017 \$000	2017/2018 \$000	2018/2019 \$000	2019/2020 \$000	2020/2021 \$000	2021/2022 \$000
General Rates	6,790	7,013	7,207	6,962	7,299	7,365	7,623	7,710	7,810	8,072	7,949
Targeted Rates (*)	4,538	5,027	5,839	6,115	6,274	6,451	6,609	6,873	6,975	7,174	7,385
Total Rates revenue	11,328	12,040	13,046	13,077	13,573	13,816	14,233	14,583	14,785	15,246	15,334
<b>Targeted Rates as % of Total Rates Revenue</b>	<b>40%</b>	<b>42%</b>	<b>45%</b>	<b>47%</b>	<b>46%</b>	<b>47%</b>	<b>46%</b>	<b>47%</b>	<b>47%</b>	<b>47%</b>	<b>48%</b>
<b>General Rates as a % of Total Rates Revenue</b>	<b>60%</b>	<b>58%</b>	<b>55%</b>	<b>53%</b>	<b>54%</b>	<b>53%</b>	<b>54%</b>	<b>53%</b>	<b>53%</b>	<b>53%</b>	<b>52%</b>

Over the plan general rate as a percentage of total rates revenue decreases from 58% in 2012/2013 to 52% in 2021/2022, and targeted rates as a percentage of total rates revenue increases from 42% in 2012/2013 to 48% in 2021/2022. This indicates a trend to a userpays approach - those that receive the service pay.

(\*) Rates exclude water meter rate.

## Limits on Rate Increases

While the Council will continue to consider affordability issues when setting rate levels each year, Council is required by legislation to include a statement on quantified limits on rates increases. Limiting the increase to the Rates forecasted in the Long term Plan reflects the realities of higher local government costs i.e. the cost of doing Council business. It also recognises that from time to time Council will need to increase the level of service that it is providing to meet, for example, community needs and new resource consent requirements. Individual properties may experience smaller or larger increases depending on movements in property values, the services that they receive and their location.

## Capital Expenditure

The Council currently has assets worth close to \$308 million and during the next 10 years Council is planning to undertake additional capital works of \$57.7 million. Asset development expenditure is for purchasing, building, replacing or developing Buller District assets (e.g. roads, water supplies, libraries etc). For each asset category asset management plans are in place which are the key planning tool for the maintenance, future renewal and additional assets required to meet the demand and levels of service in the district. These are prepared for 10 years. These asset management plans also inform how the planned expenditure will be paid for.

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

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

Council funds depreciation for all activities except roading and stormwater, and uses depreciation reserves to fund asset renewals and so replace assets as they wear out. There are exceptions where depreciation is not funded and these are where Council has received financial assistance and expects finance assistance to be available in the future to fund asset replacements (eg, pensioner housing housing upgrades, rural fire vehicles).

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

While depreciation is accounted for, it is not directly funded for roading and stormwater, and there is no separate account held to accumulate funds during years when renewal expenditure is less than depreciation. As a result the annual rates burden will fluctuate depending on the value of the renewal work undertaken.

Council does not fund depreciation for these activities, as we feel it is more affordable to the ratepayer to fund the actual dollars spent, ie, renewals.

## Debt and Interest Borrowings Table

Under section 100 of the Local Government Act 2002, Council considered its financial management responsibilities, where it must manage its revenues, expenses, assets, liabilities, investments and general financial dealings prudently and in a manner that promotes the current and future interests of the community. The Council has also considered whether it is sustainable to undertake the level of capital works proposed in the Ten Year Plan together with the increased operating costs associated with the higher debt level. If the Council has too much debt then future ratepayers will subsidise current ratepayers. Conversely, too little and the reverse situation applies. The Council has considered the timing of this programme and the associated borrowings required to ensure that this best meets the needs of current and future generations.

***In doing so the Council noted the following quote from the Local Government Rating Inquiry 2007 (Shand Report):***

### Impact of additional borrowing on rates:

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

Council's gross debt is predicted at the end of the 10 years to be \$32.8 million with a peak in 2018/2019 of \$34 million. While the gross debt has increased, it is still at an affordable level in relation to our income. Our Treasury Management policy is well within our Banking Covenant which states that finance costs as a percentage of total Operating revenue must not exceed 15%. Council is in compliance with all other limits specified in the Treasury Management Policy.

The main increase in gross debt is to fund the asset development and programme proposed within this plan. Note that gross term debt is off-set by term deposits. The true net debt is the difference between the two.

Interest rates are historically very low, Council has taken external advice and has assumed that the average interest rate paid on its loans will increase over the 10 years of the plan from 4.9% to 6.5%.

## Policy on giving Securities for Borrowings

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

## Limits on Gross Borrowings

The limits for gross borrowings are based on debt servicing costs remaining below 15% of Total Operating Revenue. Debt starts in 2011/2012 at \$29.5 million, peaks in 2018/2019 to \$34 million reducing in 2021/2022 to \$32.8 million. Debt servicing costs are below 10%. Council is in compliance with all limits specified in the Treasury Management Policy.

The Treasury Management Policy has been aligned with external banking covenants. We are comfortable that debt levels are prudent and that debt servicing costs remain affordable across the plan. It should be noted that Council's investments grow considerably across the plan, so the net debt (being external borrowings, less term deposits), at the end of the plan will be \$7.0 million. In 2012/2013 the net debt is forecasted to be \$15.0 million.

This approval is considered prudent as the term deposits provide financial flexibility for Council and the repayment of external loans over an extended period facilitates intergenerational equity.

## Investments

Council currently has term deposit investments of \$10.9 million and over the term of the Plan these term deposits are proposed to increase to \$25.7 million. This situation is kept under constant review and the balance of the gross debt to investment could change if relative interest rates change. It is also considered prudent to grow the term deposits to cater for any natural disasters.

Council has considered it the best approach to continue to grow the term deposit investments rather than repay debt. This is due to the fact that there is a core amount of debt related to the acquisition of shares in Buller Recreation Limited where it is tax effective to not repay this debt.

Council has a portfolio of other investments comprising:

- ▶ Term investments - over the duration of the plan, short term investments are set to increase to \$25.7 million due to the receipt from internal loans and sale of investment properties
- ▶ Equity investments - investments in Buller Holdings Limited remain fairly static over the duration of the plan. In 2012/2013 investments total \$19.8 million reduce marginally to \$19.4 million in 2021/2022 reflecting operating losses in Buller Recreation Limited and equity received in exchange for the funding of capital expenditure for Buller Recreation Limited which will increase the investment accordingly
- ▶ Asset investments
- ▶ Associated organisations
- ▶ Investment property - investment properties are forecasted to be \$9.7 million in 2012/2013 reducing to \$7.0 million in 2021/2022 as properties are sold over the duration of the plan

Council has breached its current investment policy which states that no more than \$1 million may be deposited with a Building Society. Currently Council has exceeded this. The reason for this breach is that the respective Building Society has provided sponsorship towards the Performing Arts Theatre. This will be reassessed by Council when the sponsorship agreement ends in 2015.

The full Treasury Management policy is included in Volume 2 and includes the rationale for holding these investments.

## General Policy

Council has a conservative approach to investments with surplus funds generally being used for debt repayment rather than financial investment. It does not intend to undertake financial investments for the purpose of generating significant returns, now or in the future. Equity is held for strategic purposes such as holding equity in subsidiaries which enable councils to provide services more efficiently.

Council's main investment is the shareholding in Buller Holdings. The targets for their subsidiaries (WestReef Services Limited, Westport Harbour Limited and Buller Recreation Limited) are set out below.

Investment	Target Return
<b>WestReef Services Limited</b>	To achieve a pre-tax operating profit of at least 10% on gross revenues, before any subvention payments
<b>Westport Harbour Limited</b>	To achieve a post tax operating profit of 15% on BHL investment, before any subvention payments
<b>Buller Recreation Limited</b>	Achieve budget and expenditure
<b>Buller Holdings Limited</b>	To return the minimum forecasted distribution/dividend to Council
	2012/2013 - \$850,000
	2013/2014 - \$879,750
	2014/2015 - \$910,541

