FINANCIAL AND INFRASTRUCTURE ASSET MANAGEMENT STRATEGIES

QUEENSTOWN LAKES DISTRICT COUNCIL

Adopted 28 June 2018

Key to this Ten Year Plan are the Financial Strategy and the Infrastructure Asset Management Strategy. These strategies are aligned to provide the strategic direction and context for this Ten Year Plan. They lay the foundations that support prudent financial management and efficient asset management over the long-term.

Both strategies contribute to a broad range of community outcomes, as they are integral to the way we work. However, they are most closely associated with:

Demonstrates leadership

An organisation that consults effectively and makes sound decisions

Effective and efficient Infrastructure

Financial Strategy

The Financial Strategy describes the challenges that will impact the district over the next ten years, and how the Council will respond in a responsible and affordable way.

Infrastructure Asset Management Strategy

The infrastructure asset management strategy details the challenges that will impact the district over the next 30 years, as they relate to transport, water, wastewater, stormwater and solid waste. By covering 30 years the strategy aims to accommodate both the needs of current and future generations by providing good quality, cost effective infrastructure.

FINANCIAL STRATEGY

Strategic Destination

The Council's Financial Strategy is aimed at responding to the needs of our district today and into the future in a responsible and affordable way.

It is important that the costs of providing facilities with long lives are shared between today's ratepayers and those in the future. It is also critical that an alternative funding mechanism to support the continued investment in tourism-related infrastructure is agreed with central government. It is unreasonable to expect local ratepayers to fund tourism-related infrastructure where it can be demonstrated that the main beneficiaries are visitors to the district, the wider region and New Zealand as a whole.

If this aim is successfully realised, the following outcomes should be achieved:

> a prioritised capital programme, delivering the 'right' projects ahead of growth so that development is supported in the appropriate areas;

> rates increases (subject to changes in growth forecasts) are set at maximum of 10.8% gross (7% net) per annum for the first three years and 9.0% gross (5.5% net) per annum for years four to ten;

> debt levels maintained at affordable levels (i.e. within borrowing limits);

> debt levels at the end of the ten year period have stabilised and sufficient headroom exists to provide financing flexibility for future councils; and

> excellent service continued to be provided within financial constraints.

Purpose

The financial strategy is a requirement for the Ten Year Plan as per section 101A of the Local Government Act 2002.

The purpose of the financial strategy is to:

1. facilitate prudent financial management by the local authority by providing a guide for the local authority against which to consider proposals for funding and expenditure; and
2. provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt and investments.

The financial strategy is also required to provide additional information to allow ratepayers to understand the Council's overall financial position and the main issues or factors that have a significant impact in this area.

Many of the elements of the Council's financial strategy are included in the various funding and financial policies required under Section 102 of the Local Government Act 2002. As such this financial strategy will not attempt to replicate the detail contained within these policies, but rather will summarise the important principles.

Significant Factors

There are several factors that are expected to have a significant impact on the district for the 2018 to 2028 period. Each of the factors is discussed in more detail in the following sections:

> **Growth and changes in land use** – the district is expected to continue to show both strong population and visitor growth which significantly impacts capital expenditure and creates funding challenges.

> **Capital expenditure to maintain levels of service** – a large proportion of the capital programme is required for core infrastructure: roading; water supply; wastewater and stormwater.

> **Capital expenditure to improve current levels of service** – there are several large programmes which are driven by community desire for service improvements (Queenstown town centre arterials; Queenstown parking improvements; public transport; water treatment plants; Wanaka lakefront development; Coronet forest revegetation).

Capital expenditure over the next ten years is much higher than previously forecast. It amounts to $990m (2015: $380m) which represents an increase of $610m or 161% more than the 2015 Ten Year Plan. The capital expenditure programs reflect a major change of approach for infrastructure delivery; moving from a reactive "just in time" provision to a more proactive and planned approach. The 2018-28 capital programmes have been derived from revised asset management plans that include the latest growth projections and which incorporate the Integrated Transport Masterplans for Queenstown.

CAPITAL EXPENDITURE ($000)

DESCRIPTION	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	TOTAL
Significant Projects - Gross Cost (inflation adjusted)											
Community Services and Facilities											
Coronet Forest revegetation	70	664	675	1,183	3,543	2,290	454	386	395	404	10,064
Wanaka lakefront development plan	2,529	1,992	993	243	247	253					6,257
Queenstown Events Centre two new courts	920	3,508	3,805								8,233
Wakatipu library service update	250	1,002	3,815								5,067
Balance of projects less than $5m	8,923	8,925	9,025	6,802	5,708	4,233	3,044	4,194	2,884	3,439	57,177
Water Supply											
Kingston new water scheme, housing infrastructure funding	1,630	5,507	707								7,844
Ladies Mile and Lake Hayes new reservoir	200		1,188	2,222	3,363						6,973
New Two Mile water treatment plant	500		500	1,527	6,509	6,663					15,699
Queenstown renewals	1,148	1,149	1,176	1,205	1,232	1,261	1,292	1,325	1,358	1,394	12,540
New Shotover Country water treatment plant	1,790							505	1,457	6,266	10,018
Design and construct new Beacon Point water treatment plant	660	2,026	8,659	8,875							20,220
Design and construction new (second) Beacon Point reservoir	3,110	4,734									7,844
Wanaka renewals	702	714	731	750	767	785	804	824	845	866	7,788
Wanaka transmission pipeline, stage one		977	2,834	1,709							5,520
Balance of projects less than $5m	12,446	15,357	10,546	10,470	4,539	2,195	2,505	5,309	4,437	5,559	73,363
Wastewater											
Kingston treatment plant and reticulation, design and construction, housing infrastructure funding	1,583	6,108	6,252	2,136	370	8,144	1,274				25,867
Queenstown reticulation, central business district to Frankton				820	4,659	4,770					10,249
Queenstown renewals	377	428	526	629	735	760	786	814	844	875	6,774
Rata Street, construction of new pump station		863	1,626	2,999	668						6,156
Project Pure treatment upgrade	416	540	2,485	2,547							5,988
Balance of projects less than $5m	14,309	13,791	6,995	1,934	5,488	2,016	962	1,376	1,475	1,542	49,888
Stormwater											
Kingston new development (housing infrastructure funding)	3,402	261			1,244	1,791	309				7,007
North East Frankton Flats, new stormwater system	7,000										7,000
Wakatipu renewals	376	417	471	518	529	542	555	577	599	623	5,207
Balance of projects less than $5m	2,971	2,929	2,961	5,049	3,076	4,932	713	1,675	4,025	8,816	37,147

CAPITAL EXPENDITURE ($000)

DESCRIPTION	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	TOTAL
Transport, including roading, parking and footpaths											
Queenstown town centre arterial	250	19,044	35,822	25,560	35,483	32,643					148,802
Queenstown town centre pedestrianisation	4,940		9,559	1,001	12,258	1,803	16,650	3,248			49,459
Queenstown parking improvements	10,249	11,870	24,187	544	690	454					47,994
Public transport improvements, Stage 2, public transport hubs		5,324		1,474	18,652						25,450
Ladies Mile development (Housing infrastructure funding)	500	1,427	4,368								6,295
Public realm upgrades			797	5,427							6,224
Water taxi/ferry network infrastructure	359	1,003	317	1,837	272	1,338	988				6,114
Civic heart development	500	2,792	7,634								10,926
Lakeview development, road and public realm	391	2,178	2,223	1,136							5,928
Travel management Queenstown	1,931	1,808	703	352	360	368					5,522
Wakatipu sealed road resurfacing	952	999	1,065	1,089	1,112	1,138	1,165	1,193	1,223	1,256	11,192
Wakatipu unsealed road metaling	748	785	837	856	874	894	915	938	961	987	8,795
Wakatipu minor improvements	787	828	899	478	509	542	576	613	651	692	6,575
Wakatipu sealed road pavement rehabilitation	464	487	519	530	542	554	567	581	596	611	5,451
Wakatipu walking and cycling improvements	1,242	7,803	1,325	2,584	3,800	9,248					26,002
Wanaka parking improvements		102	208	532	4,887	5,555					11,284
Wanaka minor improvements	937	1,949	1,783	807	787	433	461	490	521	554	8,722
Wanaka sealed road resurfacing	634	666	710	726	742	759	776	796	815	837	7,461
Wanaka unsealed road metaling	499	523	558	570	583	596	610	625	641	658	5,863
Balance of projects less than $5m	10,942	13,851	15,049	12,033	3,644	3,726	4,168	4,057	5,756	9,463	82,689
Waste Management											
Wakatipu transfer station upgrades	500	2,545		3,285	3,358						9,688
Balance of projects less than $5m	1,871	3,267	3,893	1,816	3,547	892	855	864	474	487	17,966
Economy											
Projects less than $5m	2,921	2,761	63	64	66	67	69	70	71	74	6,226
Regulatory Functions and Services											
Projects less than $5m	61	20	42	61	544	32	5	43		5	813
Local Democracy											
Projects less than $5m	4	1	1	4	1	1	4	1	1	2	20
Finance and Support Services											
Queenstown one office (Project Connect)	5,729	21,798	14,775								42,302
Balance of projects less than $5m	1,877	1,645	1,460	743	549	633	733	803	769	788	10,000
TOTAL	**114,600**	**177,368**	**194,767**	**115,127**	**135,937**	**102,311**	**41,240**	**31,307**	**30,798**	**46,198**	**989,653**

A. GROWTH AND CHANGES IN LAND USE

The Council has completed detailed population projections for the district as part of the long term planning process. This information is updated annually and considers growth in ratepayers (usually resident), as well as visitors which contribute to peak day figures. The district-wide results are summarised below:

Usually Resident – increase of 29.5% from 38,048 (2018) to 49,277 (2028)

Average Day – increase of 28.4% from 62,909 (2018) to 80,765 (2028)

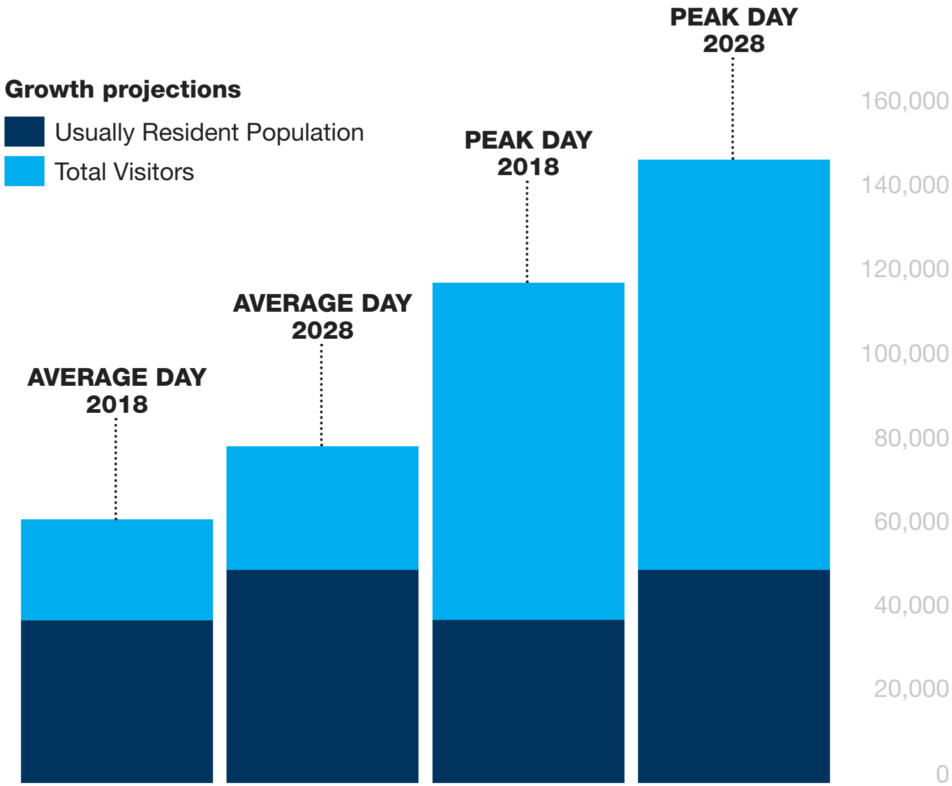
Peak Day – increase of 27.0% from 117,349 (2018) to 149,024 (2028)

The growth in the usually resident population is assumed to occur in areas which can provide additional capacity based on proposed district plan zoning rules. The Council's dwelling capacity model and historic growth rates have been used to apportion the expected growth into each census area unit.

The cost impacts of growth in population have been assessed for the next ten years. Just under 33% or $326m (2015: 35%) of the total capital expenditure is required to provide infrastructure to meet the demands of future growth.

A large proportion of this growth is associated with an increase in visitors to the district. The Council is engaging with central government to explore an alternative funding mechanism to support the continued investment in tourism-related infrastructure. It is unreasonable to expect local ratepayers to fund tourism-related infrastructure where it can be demonstrated that visitors to the district benefit the wider region and New Zealand as a whole. The Council has prepared a business case for consideration by Central Government which seeks additional funding for tourism-related infrastructure investment in order to maintain visitor experience and sustain tourism growth.

The 2018-28 capital programme is large but fundable and deliverable with the continued assistance of our investment partners, particularly NZTA. Over the ten years we have assumed $242m of capital subsidies to be available primarily through NZTA for improvements to transport infrastructure.



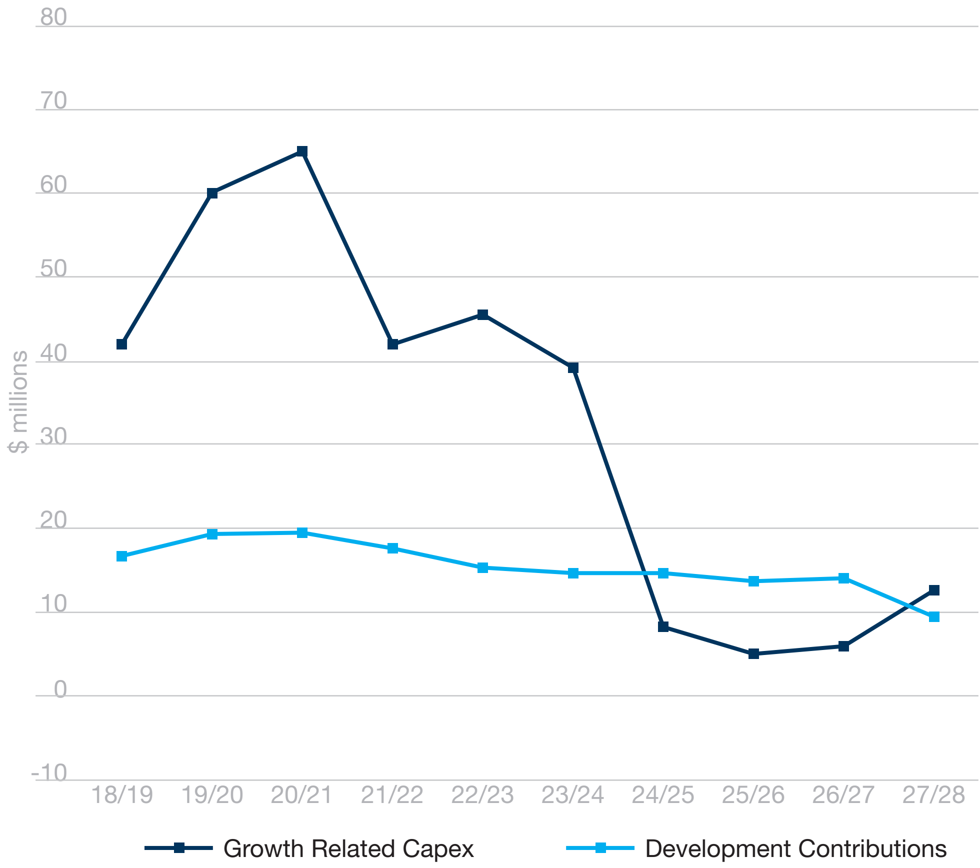
SOURCE: RATIONALE 2017

The Council was successful with three applications to the Housing Infrastructure Fund (HIF) which is a central government initiative to provide interest free funding to support housing development in local authorities that are experiencing high growth. This HIF funding of $50m is repayable after ten years and will be repaid via development contributions and/or targeted rates.

Growth Related Capex (excluding Vested Assets) vs Development Contributions

The Council is subject to debt constraints based on a proportion of revenue. This results in funding issues particularly when the timing of growth is uncertain. In time, most of this expenditure will be recovered from developers through the charging of development contributions, however in the interim a large proportion of this cost must be borrowed. This is illustrated in the graph below:

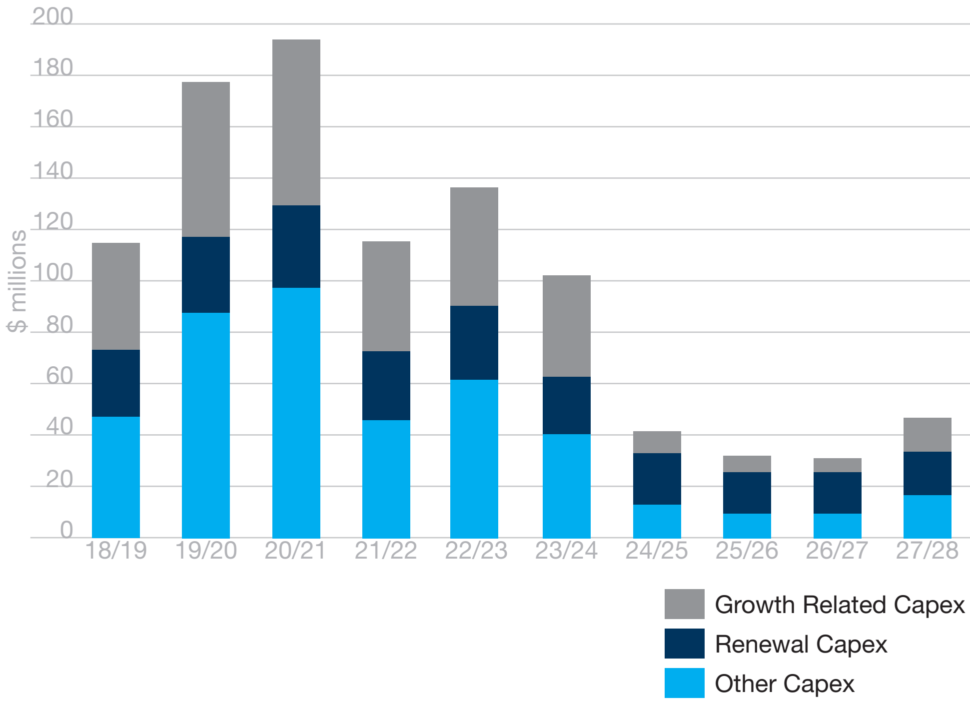
Ten Year Financial Analysis
Growth Related Capex vs Development Contributions



Of the total capital cost of $990m for the period, $326m (33%) is required due to expected growth. Not included in this figure is $114m of vested assets (infrastructural assets transferred to the Council through the subdivision approval process). Around 24% of the total capital expenditure is required to renew or replace existing assets and around 43% is required to provide increased levels of service.

In terms of operating expenditure, growth does have a direct impact on many expenses. As the population grows and more land is developed to accommodate the new arrivals, costs increase as there are more roads and footpaths to maintain or reserves to mow. It is estimated that growth accounts for approximately 10% of the increase in operating costs over the period. The total increase in operating costs is $70.0m or 51% over the ten years.

Capital Expenditure by Cost Driver Whole Council (Physical Works only)



In periods of slow growth or where growth is less than forecast, it is recognised that development contribution income will not be sufficient to fund the full cost of servicing 'growth' loans. In these circumstances, the Council will fund the shortfall by a combination of:

> Additional internal loans (repayments funded by general rates);

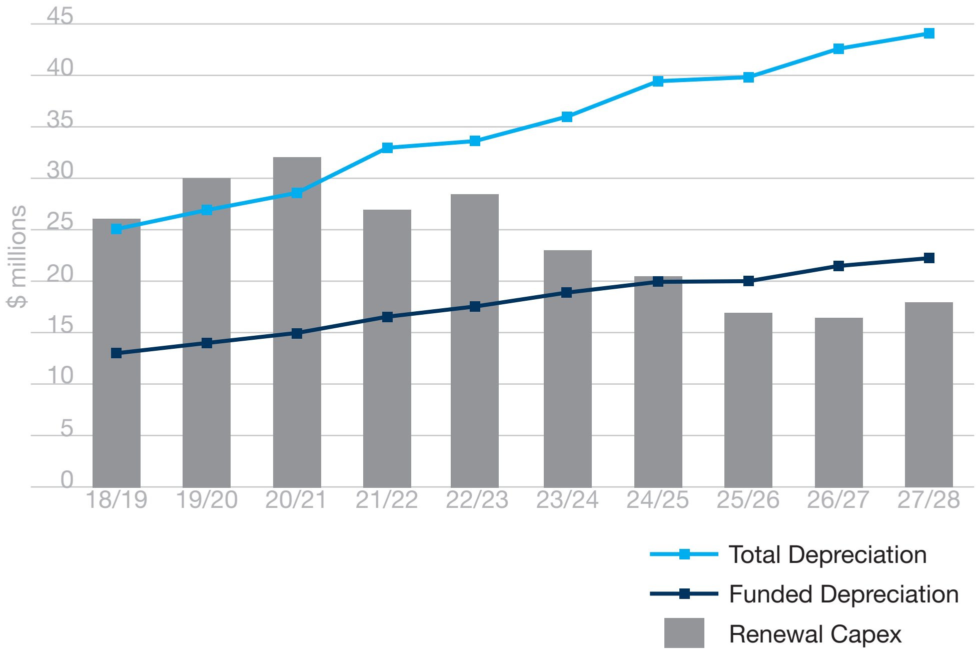
> Utilising the Housing Infrastructure Fund available via the central government; and

> Utilising 'excess' depreciation funds (especially roading).

B. CAPITAL EXPENDITURE TO MAINTAIN EXISTING LEVELS OF SERVICE

The cost impacts of renewing or replacing existing assets have been assessed for the next ten years. Of the total capital cost of $990m for the period, $239m (24%) is required due to renewals.

Ten Year Financial Analysis Renewals vs Depreciation



Most of the renewal expenditure is funded from rates or debt. The graph demonstrates that around 48% of the depreciation expense is provided for in the rates levied on properties in the district. This is discussed further in the following section, Balancing the Budget.

The largest portion of renewal expenditure is providing for certain core infrastructure totalling $184m. This is spread across the relevant core activities as follows:

> Roading $120m

> Water supply $44m

> Wastewater $20m

This amounts to 77% of the total renewal expenditure over the ten year period ($239m).

C. CAPITAL EXPENDITURE TO IMPROVE EXISTING LEVELS OF SERVICE

The cost impacts of capital expenditure to improve existing levels of service have been assessed for the next ten years. Of the total capital cost of $990m for the period, $425m (43%) is required for this purpose. It is not uncommon for a capital project to have a mixture of reasons for construction (known as cost drivers). A large project like Queenstown town centre arterials ($148.8m) (new Queenstown bypass) is a good example. The project provides additional capacity for the future; so is partly required to be funded from growth sources (loans and development contributions). There is also a large component which clearly provides an enhanced level of service. The new road will provide for reduced congestion and faster trips and as such around 45% of the cost of the project has been attributed to increased level of service.

The largest portion of capital expenditure due to increased levels of service totals $340.3m and relates to the following activities in the Ten Year Plan:

- Roading $203.2m
- Community $41.9m
- Water supply $58.0m
- Wastewater $37.2m

This amounts to 80% of the total of $424.8m for this category over the ten year period. The main projects in Community which are providing increased levels of service are the Coronet Forest revegetation ($10.1m); Wanaka Recreation Centre extensions ($3.7m) and the Queenstown Events Centre extensions ($8.2m).

The water supply projects include proposals to provide improved treatment facilities in various schemes as well as a new scheme in Kingston. The wastewater projects include upgrades to both Wanaka and Queenstown wastewater disposal plants, as well as a new scheme in Kingston. The roading projects total includes the Integrated Transport Masterplans for Queenstown (Queenstown town centre arterials; Queenstown parking improvements; public transport) and also represents the portion of overall capital expenditure not attributable to growth or renewal. Often this reflects an improvement made to enhance the road or footpath, for example widening or improved surface.

Balancing the Budget

The Local Government Act 2002 (the Act) contains a requirement to balance the budget. Section 100 states:

1. A local authority must ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses.
2. Despite subsection (1), a local authority may set projected operating revenues at a different level from that required by that subsection if the local authority resolves that it is financially prudent to do so, having regard to:

    a. The estimated expenses of achieving and maintaining the predicted levels of service provision set out in the long term Council community plan, including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life.
    b. The projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity to assets throughout their useful life.
    c. The equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life.
    d. The funding and financial policies adopted under section 102.

The Council meets these requirements over the timeframe of the plan based on key assumptions around external funding sources. The forecast Statement of Financial Performance over the next ten years shows consistent operating surpluses, which demonstrates the Council is balancing its budget requirements.

FUNDING OF DEPRECIATION

The funding of depreciation is an implied requirement of the "balanced budget" provision. It requires that the Council fully fund all operating costs, including reductions in the useful life or quality of assets. The requirement arises from Government concern that some local authorities were not adequately maintaining infrastructural assets. In instances where this occurred, current ratepayers were paying too little and leaving a major financial burden for future generations. The Council has provided adequately for asset renewal in recent years. A major effort has been made over the past decade or so to address deferred maintenance and the budgets have provided appropriately for the renewal of infrastructure.

The Council now has far more reliable asset information and a much better understanding of the life cycle of its assets. The Act provides a more flexible approach in the requirement to fully fund depreciation. This has allowed some flexibility which the Council has taken advantage of in four key areas in preparing the Ten Year Plan:

i The Council needs to fund depreciation only on its share of roading expenditure. The component attributable to NZTA should not be funded as the NZTA subsidy funds this. Allowing for all subsidisable costs 53% of roading depreciation will be funded in 2018/19 (2015/16 - 54%). There is no impact on current levels of service from this approach.

ii Depreciation on community facilities may not need to be funded as they are often funded by non-Council sources and are not expected to be replaced in the same form at the end of their useful life. Depreciation on buildings such as halls, libraries, and other facilities (including the Queenstown Events Centre and Wanaka Recreation Centre) will therefore not be funded.

iii The Council accepts that it is unreasonable to fund depreciation where a community has funded a water or sewerage scheme by lump sum contributions or loan charges as that community ends up paying twice – for loan charges and depreciation.

iv As we have generally maintained the value of our infrastructure, the Council will use funded depreciation to finance renewal projects and repay loans. It will not be used to fund new assets or asset improvements.

The impact of the above approach has led to the following depreciation amounts not being funded:

	Total Depreciation 2018/19 $ 000's	Depreciation not funded 2018/19 $ 000's
Roading	9,271	4,365
Wastewater	5,209	2,448
Water Supply	3,340	1,357
Stormwater	2,369	897
Community/Other	4,959	3,145
Total	**25,148**	**12,212**

Revenue and Financing

Section 103 of the Act outlines that the revenue and financing policy must state the Council's policies in respect of the funding of both operating expenses and capital expenditure.

FUNDING SOURCES – OPERATIONAL EXPENDITURE

The 'revenue' part of the title 'revenue and financing policy' relates to funding of operating expenditure. The following sources of income are recognised by the Council:

Rates

A number of the Council activities are funded by a combination of revenue types. The Council practice is to initially account for income from fees and charges, grants and subsidies or other income sources. If the activity still requires additional funding, the remaining balance is usually funded by way of a rate which is applied to relevant properties within the district.

The Council uses a capital value rating system across the district. Capital value is preferred to land value as the Council believes that it generally provides a better method for the fair allocation of cost for the Council services. Rates are generally used where it is economically impractical to use fees and charges.

There are two classification types for rates:

> General rates - include uniform annual general charge (UAGC) and capital valued based rate.

> Targeted rates - include capital valued based roading rate, tourism promotion rate, governance rate, recreation and events rate, regulatory rate, water supply rate and stormwater rate; fixed annual charges for sewerage, water supply, waste management, recreation and events, governance and regulatory, Queenstown aquatic centre, Wanaka aquatic centre and sports, halls and libraries; and proposed capital value based transport improvements rate.

Generally, the policy indicates that where a private benefit exists, the cost of this should be recovered by user fees or a targeted rate. The cost of public benefits is usually general rate funded, with the capital value rate used to fund 'property' related activities and the UAGC used to fund 'people' related activities.

Fees and Charges

There is a wide range of revenue in this category. Generally, the Council will look to user fees and charges to recover the 'private benefit' costs of a particular activity if it is economically viable to do so.

Grants and Subsidies

Some of the Council activities qualify for a grant or subsidy from the Crown. In particular, the Council receives a subsidy from NZTA for qualifying roading expenditure. Other smaller grants are also received from the Crown, e.g. Creative NZ.

Interest and Dividends from Investments

Interest income is recognised from all investment sources but is very minor. The majority of investment income is used to offset rates.

The Council receives a regular dividend from Queenstown Airport Corporation (QAC) via its 75.01% ownership stake. It is proposed to continue to utilise forecast dividends from QAC to repay generally funded debt.

Other Sources of Income

Other sources of income include parking infringement fines, petrol tax, rates penalties and concession income. This is a catch-all classification and the income is treated in the same way as fees and charges.

FUNDING SOURCES - CAPITAL EXPENDITURE

Funding to pay for new assets will come from a mix of borrowing, development contributions, grants and subsidies, capital revenue, reserves and asset sales. Generally the costs of new assets will not be met from rates; however a portion of the costs of servicing loans will be funded by rates.

Funding for new capital works will depend on the nature of the work, in particular the reasons (cost drivers) which have made the work necessary. There are three main cost drivers recognised by the Council:

- Growth
- Level of service shift
- Renewal

Capital Expenditure Due to Growth

The Queenstown Lakes District has experienced significant growth in its resident population, visitors, housing and commercial development and the local economy. This growth generates high levels of subdivision and development activity which places increasing pressure on the assets and services provided by the Council. Significant investment in additional assets and services is therefore required to meet the demands of growth. The Council intends to fund the portion of capital expenditure that is attributable to growth from development contributions wherever it is reasonable to do so.

The Council considers that development contributions are the best mechanism available to ensure the cost of growth (net of any external funding) is funded by those who have created the need for that cost. The Council considers it inappropriate to burden the community as a whole, by way of rating or other payment means, to meet the cost of growth. The Council has adopted a Policy on Development Contributions (DC Policy) as part of the Ten Year Plan since 2004. This is updated on an annual basis.

Types of assets included in the DC Policy are:

- Network infrastructure for water supplies, wastewater, stormwater and roading; and
- Community infrastructure including the development and acquisition of reserve land to use as reserve and facilities needed on that reserve and other public amenities such as halls, libraries, public toilets, parking facilities and the like.

Funding sources for growth capital expenditure in order of priority:

i Vested assets

ii Development contributions

iii Capital grants and subsidies attributable to growth portion

iv Borrowing

Capital Expenditure Due to Renewals

Renewal works are those capital expenditure costs that are incurred in restoring an asset to previous service levels, usually reflected in the amount that an asset has depreciated. Therefore, by using depreciation funds, the Council will be maintaining infrastructural networks to at least their existing service level. The funding of depreciation is an implied requirement of the 'balanced budget' provision of the Act (see above). It requires that the Council fully fund all operating costs.

Funding sources for renewal capital expenditure in order of priority:

> Depreciation reserves

> Borrowing

> Rates

Capital Expenditure Due to Shifts in Levels of Service, Statutory Requirements or Other Reasons, but not including Growth or Renewals

The cost driver for some of the capital works within the Queenstown Lakes District relates to increasing levels of service for the community. Sometimes these improvements to levels of service are required because of changes to legislation or resource consent conditions, which means that there is often little discretion with regard to the decision. An example of this would be the requirement to provide additional water treatment facilities as a result of the introduction of new Water Treatment Standards.

In other cases, the increase in level of service is a community driven decision. An example of this would be the construction of Aquatic Centres. The Council's approach to funding for this type of capital expenditure is to apply for grants from national and local funding organisations initially and to apply the proceeds of land sales from the Commonage in Queenstown or Scurr Heights in Wanaka.

Funding from the Commonage in Queenstown is restricted by statute to be applied for the benefit of the Old Queenstown Borough for the purposes of water and sewerage upgrades. Proceeds from Scurr Heights land in Wanaka is restricted for use to the Wanaka ward and can be applied to a variety of infrastructure purposes including water, wastewater, roading or community (recreational) purposes.

Funding sources for other capital expenditure in order of priority:

> Capital grants and subsidies

> Capital revenues and asset sale proceeds

> Capital reserves

> Borrowing

> Rates

Quantified Limits On Borrowing

In order to deliver the substantial capital programme included in this plan, the Council will need to rely on borrowing. The amount of borrowing required is significantly above the amount anticipated in the 2015 plan. The Council has obtained a credit rating of AA- which will facilitate a higher borrowing limit and has spent a considerable amount of time and effort working through the capital programme to ensure that it is affordable, necessary and deliverable.

This has meant that a number of projects have been deferred or omitted because of funding and financing constraints. It is expected that by the end of year six, external debt will have risen to $441m (2015: $169m) and by the end of the ten year period it will have declined to $323m (2015: $134m).

The growth portion of the capital programme (some $326m) will be largely funded by development contributions in the long run, but must be funded primarily by debt in the first instance. Some of this debt will be via the Housing Infrastructure Fund to allow the Council to prepare for anticipated growth and to direct development activities in specific areas. This allows for the Council to spread the cost of large infrastructural projects over the expected life of the asset.

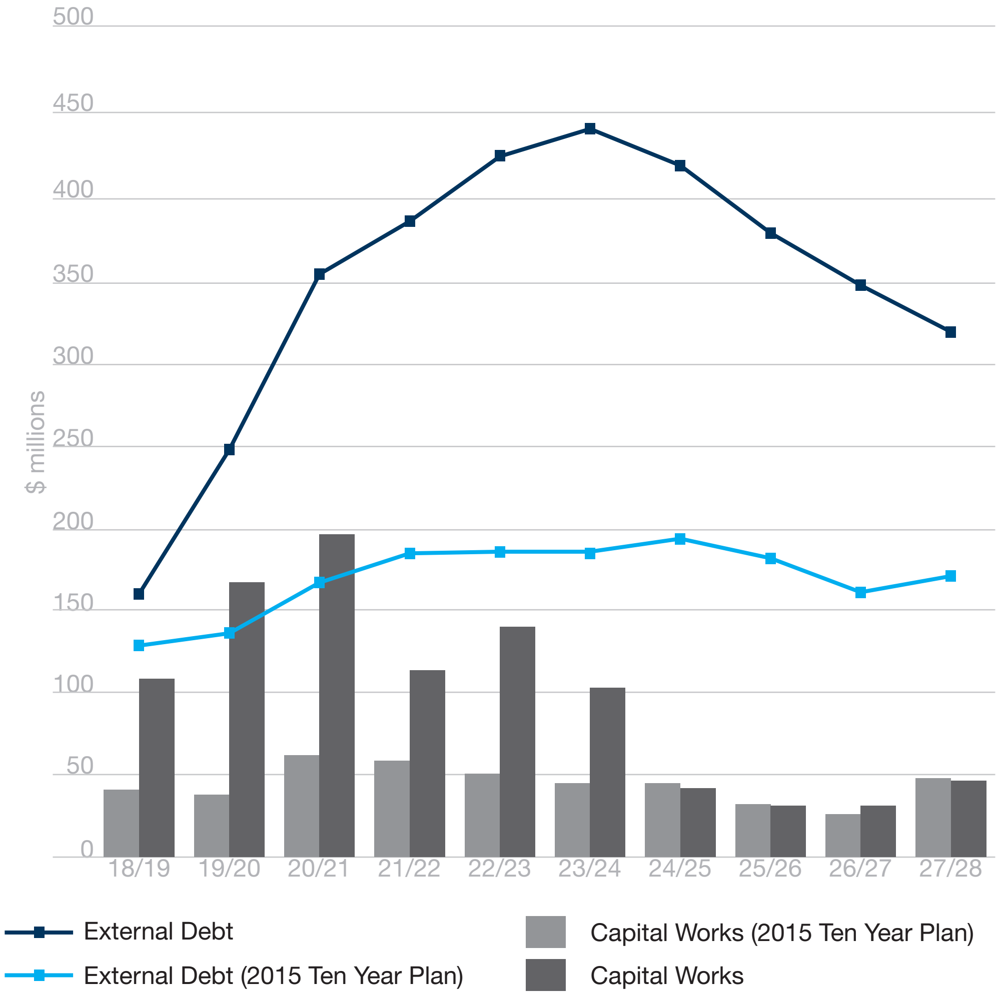
Using debt in this way means that future residents and ratepayers contribute a fair share to the use they make of a facility. The proposed level of borrowing is within the debt parameters in the Council's Liability Management Policy. The borrowing limits have increased as a result of the successful credit rating process.

Borrowing Limit	30 June 2019	30 June 2020	30 June 2021	30 June 2028
Interest expense / rates <30%	9.1%	12.6%	16.9%	13.5%
Interest expense / total revenue <20%	4.0%	5.7%	7.5%	7.5%
Net debt / total revenue <250%	94.8%	137.3%	180.6%	145.4%

The Council is within all of the debt parameters, which means that the affordability of the Ten Year Plan can be demonstrated. The Council is within all of the debt limits provided by the LGFA for the full ten years; this is important because compliance with these limits is an important requirement for continued financing. The debt ratios show that the headroom provided in the 2015 Ten Year Plan has reduced due to the significant investment required in the district over the ten year period.

The following graph shows a comparison of the 2018 Ten Year Plan to the 2015 Ten Year Plan for capital works and external debt over the ten years. The increase in the debt position at the end of the period is over $165m.

Ten Year Financial Analysis External Debt vs Capital Works



Security for Borrowing

The Council generally does not offer assets other than a charge over rates or rate revenue as security for general borrowing. This is achieved through a debenture trust deed which is a legal mechanism that provides assurance to lenders and is administered by an independent trustee.

Quantified Limits on Rates

Operating expenditure (excluding interest and depreciation) is shown to increase over the ten year period by an average of 4.9% (2015: 5.1%) per annum. The forecasts do include a provision for inflation after the first year as well as increases as a result of projected growth within the district. Operating revenue for the same period increases by an average of 2.7% (2015: 3.5%) per annum. With the significant increase in capital expenditure and debt, forecast rates increases are also higher. The average net annual increase over the ten years (after allowing for growth) is now 3.4% up from 2.8% (2015).

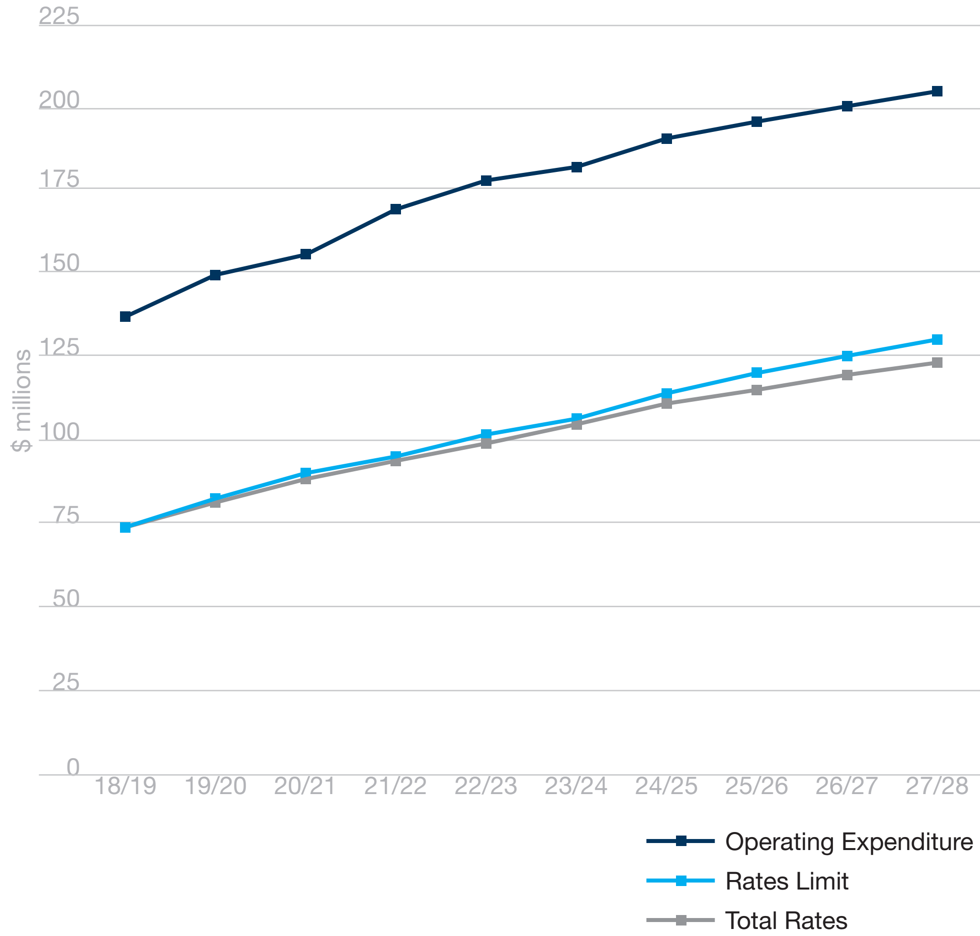
The graph to the right shows that rates are increasing at a lower rate than operating costs over the ten year period. As discussed earlier, rates are influenced by a number of factors including core recurring operating costs; growth in the district; inflation and the capital programme. The capital expenditure in previous years will affect rates through the impact of depreciation and interest costs.

Rates can also be affected if the community demands or central government requires an improvement in levels of service for a particular activity. Where there is a significant rates impact for a proposal of this nature (i.e. water treatment and Queenstown transportation improvements), the Council will disclose the rating impact as part of the consultation process.

In order to determine a sensible quantified limit on rates, it is necessary to take account of the various influences on rating levels. The limit should also be easily understood. The follwing graph shows that rates are increasing by an average of 6.6% (gross) over the ten years. This increase is not even however, as the impact of increased costs associated with new facilities is recognised. The forecast gross rates increases for 2018/19 and 2019/20 are the highest (10.6% and 9.7%) as they reflect the increased costs of increased levels of service.

It is proposed therefore to set a rates increase limit of 10.8% gross (7% net) per annum (subject to changes in growth forecasts) for the first three years and 9.0% gross (5.5% net) for years four to ten. It is also proposed that rates income will not exceed 55% of total revenue. The average growth rate in the district is 2.8% per annum and this will reduce the impact of any rates increase for existing properties.

Operating Expenditure and Rates Revenue



Financial Investments and Equity Securities

The Council holds very few financial investments as we are a net borrower. Surplus cash will be invested for short periods from time to time in line with the Council's Investment Policy.

The Council does hold equity securities (shares) in several controlled entities. These Council Controlled Organisations (CCOs) exist or have been established to perform specific important functions within our community. Shares are held in the following entities:

Name	Ownership Interest
Queenstown Airport Corporation	75.01%
Lakes Combined Forestry Committee	75.00%

The Forestry Committee is an unincorporated entity which jointly owns the forest at Coronet Peak, the value of which was $1.8m at the end of 2017. It is anticipated that this forest will be harvested early with a significant re-planting programmed included in the Ten Year Plan.

The shareholding in Queenstown Airport Corporation is both commercially and community oriented. The Council continues to hold a controlling interest in QAC as the airport is seen as a critical piece of local tourism infrastructure. The airport is the fastest growing in Australasia and it is seen as essential that it remain under community control to ensure that it continues to make decisions in the best interests of the district. Until 2010, the Council was the sole shareholder but with the equity investment from Auckland International Airport Ltd, regular dividends are now being paid.

Over the next ten years, $71m of dividend income is forecast to be received. The Council intends to use this income to repay existing debt.