

FINANCIAL STRATEGY



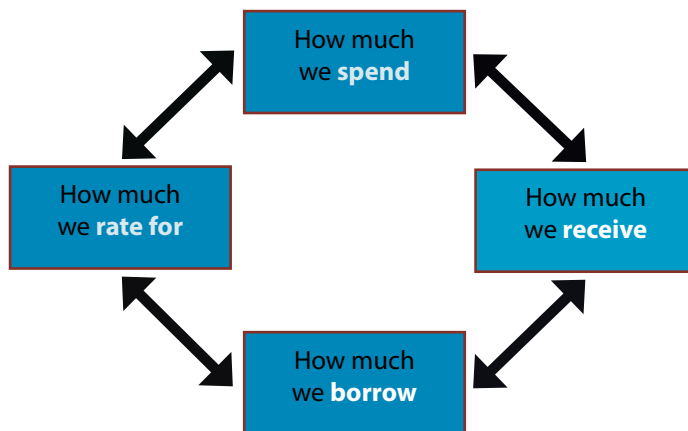
MANAGING OUR FINANCES

We're continuing our focus on promoting growth and opportunities in the Clutha District.

This financial strategy outlines the financial mix we're proposing to support the Clutha District as a great place to live, work and play, now and into the future.

Overall, our district is in good shape, poised to make the most of our circumstances and opportunities. In recent years we've supported initiatives to promote growth in the District and it's great to see progress on this. Our district has begun growing and our overall outlook is positive despite the unprecedented challenges that have come our way in recent times. A variety of factors put us in a good position to move forward, continuing the momentum in recent years, with our focus on continuing towards making Clutha a great place to live, work and play. We're also open for business in terms of visiting and investing here. Council is intending to use what it has available to fully support our residents and ratepayers now, and into the future.

WHAT'S IN THE FINANCIAL MIX?



From a financial point of view there are four key parts in the mix, and they are closely linked – what happens with one influences the others. Council can decide how much we spend, how much we rate for and how much we borrow. How much we receive is outside of our direct control, but it is an important part of the mix. Find out more about these key parts, and the mix we're proposing, in this strategy.

OUR FINANCIAL STRATEGY AIMS TO ENSURE:

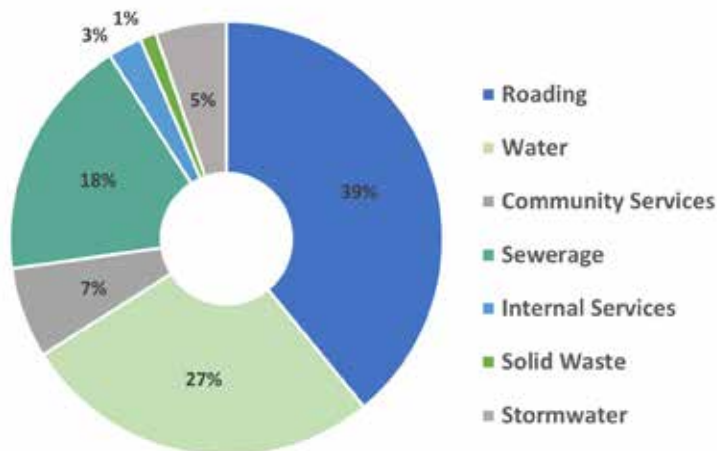
- We plan for and be adaptive to growth and enable infrastructure investment where it will get the best outcomes for our community's well-being.
- We have the funds needed to replace the infrastructure we have when it wears out (renew assets at the end of their economic life).
- We prioritise investment in infrastructure that balances cost, risk, and service levels.
- We work with our funding partners for the best outcomes for our district.
- Everyday costs for services are met from everyday revenues.
- We aim for rates to be affordable, fair and equitable, with increases set to provide certainty to ratepayers.
- Future ratepayers using services created today pay their share, with the appropriate (prudent) use of debt.
- We manage our investment funds and other investments by taking a prudent approach to risk and return.
- We maintain financial resilience by having funds, debt capacity and insurances to cover our assessed maximum probability losses.

WHAT WE'RE PROPOSING TO SPEND

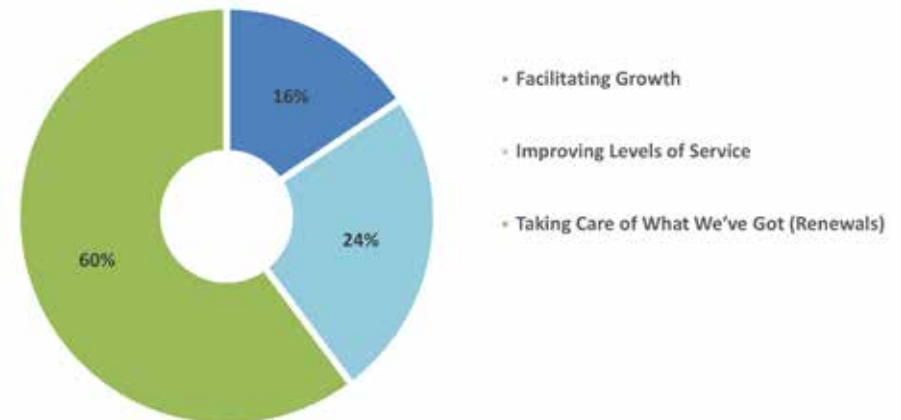
TABLE: OVERALL ASSET BUILD PROGRAMME 2021/31 (\$M)

| ACTIVITY AREA | FACILITATING GROWTH | IMPROVING LEVELS OF SERVICE | RENEWALS | TOTALS |
|--------------------|---------------------|-----------------------------|------------|------------|
| Transportation | 0 | 8 | 98 | 106 |
| Water | 16 | 32 | 28 | 76 |
| Community Services | 0 | 4 | 15 | 19 |
| Wastewater | 28 | 15 | 8 | 51 |
| Internal Services | 0 | 4 | 3 | 7 |
| Solid Waste | 0 | 1 | 3 | 4 |
| Stormwater | 0 | 4 | 11 | 15 |
| TOTALS | 44 | 68 | 166 | 278 |

GRAPH: OUR PROPOSED MIX OF CAPITAL EXPENDITURE BY ACTIVITY 2021/31 (\$M)



GRAPH: OUR PROPOSED MIX OF CAPITAL EXPENDITURE BY TYPE 2021/31 (\$M)



PRIORITIES TO FACILITATE GROWTH

Our Approach: We plan for and be adaptive to growth and enable private infrastructure investment where it will benefit our community's well-being.

Key priorities include:

- Enabling growth in the Milton-Milburn-Waihola Corridor.
- Managing demand in our rural and urban water schemes, and where viable, supplying more capacity.
- We're also prioritising a number of sewerage and water projects in other areas to help them expand. This includes in Balclutha, Kaitangata, Kaka Point and Tapanui.

PRIORITIES FOR IMPROVING LEVELS OF SERVICE

Our Approach: We prioritise investment in infrastructure that balances cost, risk, and service levels.

Key proposals include:

- Upgrading rural and urban water schemes to comply with NZ Drinking Water Standards.
- Upgrading wastewater infrastructure to improve the quality of discharges to the environment.
- Increasing the capacity of stormwater infrastructure to reduce the risk of localised flooding.
- Investing in the Milton main street improvements.
- Strengthening our bridges to carry high productive motor vehicles.

TAKING CARE OF WHAT WE'VE GOT (RENEWALS)

Our Approach: We're aiming to have the funds needed to replace infrastructure when it wears out (renew assets at the end of their economic life).

Key priorities include:

- Minimising the costs and impacts of our ageing infrastructure.
- Efficient road maintenance.
- Continuing with our 'fast-tracked' bridge replacement programme.
- Securing the future for Mt Cooe Landfill.



HOW MUCH WE'RE PROPOSING TO BORROW

OUR APPROACH: FUTURE RATEPAYERS USING SERVICES CREATED TODAY PAY THEIR SHARE, WITH THE APPROPRIATE (PRUDENT) USE OF DEBT.

Until recently we have not had any debt¹, and used our various reserve funds built up over time when we have needed funding for infrastructure projects. We refer to this as internal borrowing, and like when you borrow from a bank, we apply market interest rates to this lending to different areas of Council.

In recent times we have moved towards using our reserves to build our investment portfolio and put them to better use earning more for us in investment returns. Part of the returns we receive are used to keep rates down (see the Rates section for more information).

Going forward we're proposing to continue to keep our investment portfolio intact and borrow more to fund our proposed extensive asset build programme.

We feel this is the best use of our investments and the approach is fairer, as:

1. It means that future ratepayers also pay their share for assets and services created today (known as intergenerational equity), and
2. Our asset build programme should cost us less in the longer term.

The alternative approach would be breaking the investment portfolio and earning less in returns, internally borrowing from ourselves (at higher interest rates as we must use market value for these) and paying more in rates (both in the shorter and longer term).

But it is important to get the balance right and we need to have clear limits. We are expecting to stay well within a debt limit we have set ourselves, where what we borrow will not exceed more than 175% of how much we're expecting to receive.

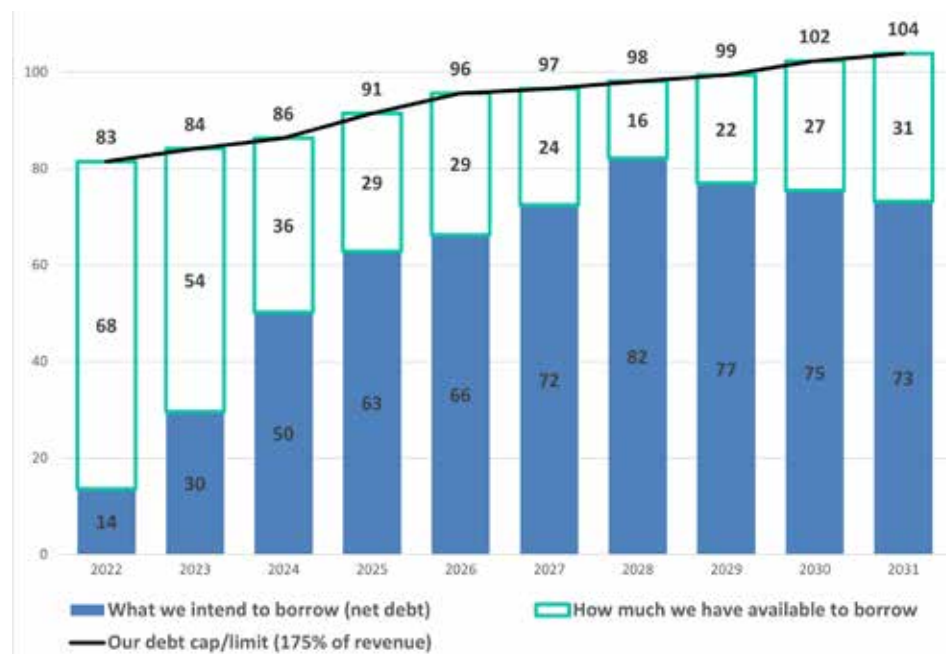
Even though we're borrowing more than we ever have in the past, we will still have substantial 'headroom' if something unexpected happens.

¹Debt refers to net debt which equals borrowings less investment and cash in the bank.

Limit on Debt

We have set ourselves a limit that net debt will not exceed more than 175% of annual revenue.

GRAPH: OUR STRATEGY FOR BORROWING 2021/31 (\$M)



HOW MUCH WE ARE EXPECTING TO RECEIVE

OUR APPROACH: TO MANAGE OUR INVESTMENT FUNDS AND OTHER INVESTMENTS BY TAKING A PRUDENT APPROACH TO RISK AND RETURN.

Council maintains investments to:

1. Use some of the income to help reduce rates.
2. Help fund the development and growth outcomes of the district i.e. support our community's well-being through the priorities in our Living & Working in Clutha Strategy and Our Place community plans.
3. Make sure we have money set aside to cover our share of replacing assets destroyed or damaged in a natural disaster. This includes what we call our emergency fund, and also our self-insurance fund (refer to the Financial Resilience section for more information).
4. Invest amounts held in restricted and Council created reserve funds, including amounts held for future expenditure (depreciation reserves).

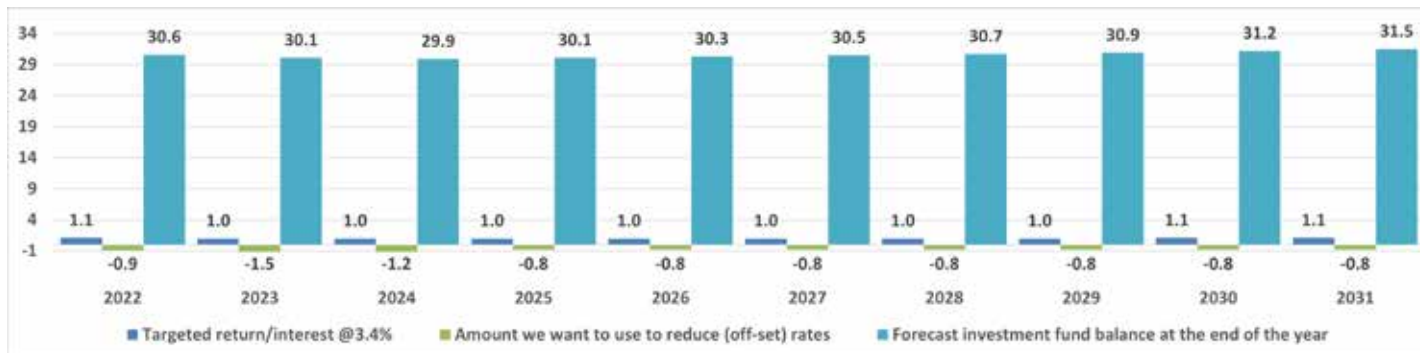
Targets on Investments

Overall, we want to maximise investment returns while preserving ratepayer funds. We're targeting to earn an average of 3.4% for returns on our investment portfolio during the next ten years through to 2031. We're proposing to use some of it (\$9.2M) to reduce rates. We're forecasting the value of the fund will grow by from \$30.6 M to \$31.5M. But what we receive is dictated by many factors outside our control. If we receive better returns, we will decide the best way to use them, in keeping with the reasons Council maintains investments. These main reasons are outlined (left).

Types of Investments

For our size, we have a large investment portfolio. To ensure we get the best return we can, Council has outsourced the management of its investment portfolio, with an instruction to split the portfolio 50% in growth assets and 50% in income assets. Within these broader categories certain investment allocation ranges have been agreed to manage risk and returns. Council has a minor shareholding in Civic Assurance equity shares and borrower notes in the Local Government Funding Agency which increase as debt increases.

GRAPH: OUR STRATEGY FOR INVESTMENTS 2021/31 (\$M)



HOW MUCH WE'RE PROPOSING TO RATE

OUR APPROACH: WE'RE AIMING FOR RATES TO BE AFFORDABLE, FAIR AND EQUITABLE, WITH INCREASES SET TO PROVIDE CERTAINTY TO RATEPAYERS.

Rates are one of the most important sources Council uses to fund the cost of its services. We expect 57% of Council's overall costs will be funded by rates during the 2021/31 period. We have unavoidable cost drivers particularly for water, sewerage and stormwater, that will affect ratepayers who receive these services. But we're proposing to keep our overall rates down in a number of different ways.

Our proposed mix for keeping rates down

This strategy is planning to:

1. Use debt and borrowing to our advantage to spread the costs across generations for our asset build programme.
2. Subsidise rates using income from investment returns.

Note:

This would improve the mix from an overall rates perspective in the short-term through to 2024, but not in the longer term from 2025 and beyond. This would impact roading rates, particularly for those in the rural area who pay a bigger proportion of this type of rate. But it wouldn't avoid imminent water, sewerage and stormwater for ratepayers who receive these services.

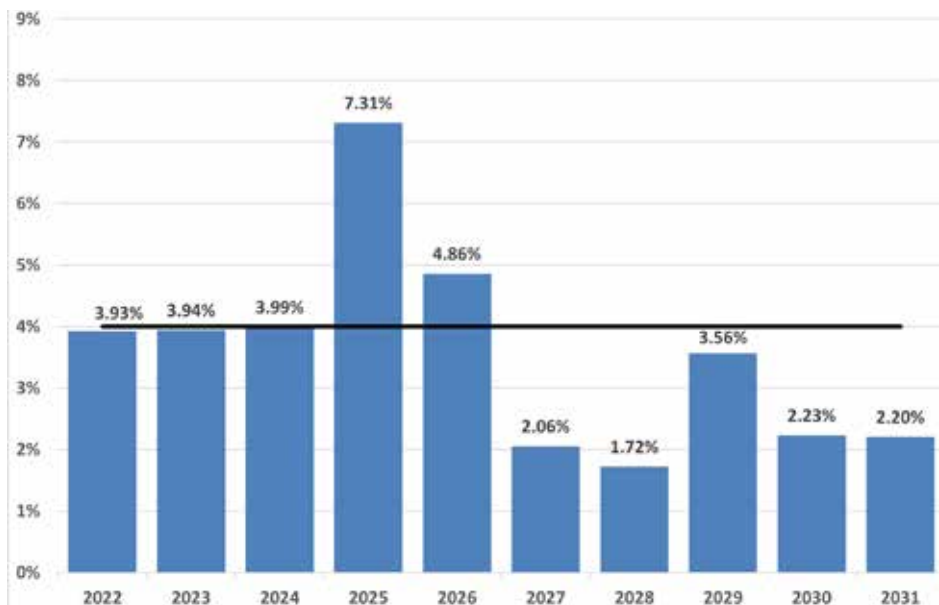
Smoothing rates

Council applies 'smoothing' of its funding profile and year on year rates changes. This has been achieved by changing the timing of rates funding of primarily bridge depreciation and adjusting transfers from depreciation reserves. This means that the overall amount of funding of depreciation remains the same during the period of this plan, but there is less variability from year to year for overall rates.

Limits on rates increases

We expect our overall rates to increase around 3.58% on average during the next 10 years. We have self-imposed limit not to increase overall rates by more than 4% per annum. Our forecast at the moment is that this limit may be in jeopardy in some years of this strategy. There is a lot of uncertainty and factors outside our control. We're proposing to be flexible and adaptive where part of this approach will involve reviewing overall rates when we update our financials on an annual basis and look at our mix to ensure we keep our overall rates increase below 4%.

GRAPH: OVERALL RATES 2021/31 (ANNUAL % CHANGE)



FINANCIAL RESILIENCE

OUR APPROACH: TO MAINTAIN FINANCIAL RESILIENCE BY HAVING FUNDS, DEBT CAPACITY AND INSURANCE SUFFICIENT TO FUND OUR ASSESSED MAXIMUM PROBABILITY LOSSES.

Our Resilience for Unplanned Events and the Unknown

This strategy provides for the everyday maintenance of assets and the renewal of assets at the end of their economic life. Unplanned events would require earlier than planned investment. These events, if they occur, could result in significant unplanned operating and capital costs.

The risk is reduced in the Clutha District because of its size and the number of widespread communities, reducing the likelihood of extensive damage throughout all critical infrastructure at the same time.

But any major event would impact on Council through the need for immediate funding, and depending on the scale, duration and location of the event, there could be unforeseen costs in terms of damage to Council assets.

To make sure we are prepared for unplanned or unexpected events, we have the following mix we can call on:

1. Insurance cover for above ground assets, a self-insurance fund for underground assets, and an emergency fund to draw against should it be needed.
2. The debt capacity our strong balance sheet provides us.

Our Approach to the Impacts of Covid-19

In mid 2020 Council put in place a number of measures including a \$100,000 fund to assist ratepayers in financial hardship, primarily through the remission and postponement of rates. Introducing trade waste charges were also deferred until 1 July 2021, and other business support actions were explored. This fund and the measures haven't been called upon significantly. Council's own finances have not been significantly impacted.

Although investment returns initially dropped (and have recovered), countering this are the lowest interest rates in a generation. Currently we are seeing high investment returns and low cost of finance but over the term of the plan we're predicting our mix of investments and borrowing effectively cancel each other out and reduce our financial risk if there are substantial movements in them.

Our district has a high proportion of employment in agriculture, and an economy that has low reliance on the industries hardest hit by the 2020 Covid response, such as tourism and retail.

Mitigating and Adapting to the Impacts of Climate Change

Council is committed to better understanding and preparing for changes to our local climate.

Investigative research we commissioned during 2020 revealed that overall the district is expected to get warmer and wetter, with more water likely flowing through the Clutha River.

These changes may bring opportunities, such as overall warmer weather conditions and improved winter pasture growth. But they are also expected to bring challenges, such as heavier and more frequent flooding. Sea level rises are also expected to affect some of our coastal settlements in the longer (80-100 year) term.

The modelling done specifically for our region gives us the opportunity to plan changes to our infrastructure over time.

Several adaptation efforts are already underway, such as the Milton Sewer Treatment Plant that has already been raised to accommodate flood events. The Greenfield combined rural water scheme proposal takes into account flood and water quality issues on the Waitahuna and Tuapeka rivers with the view to source water and place water treatment plant infrastructure on the Clutha River.

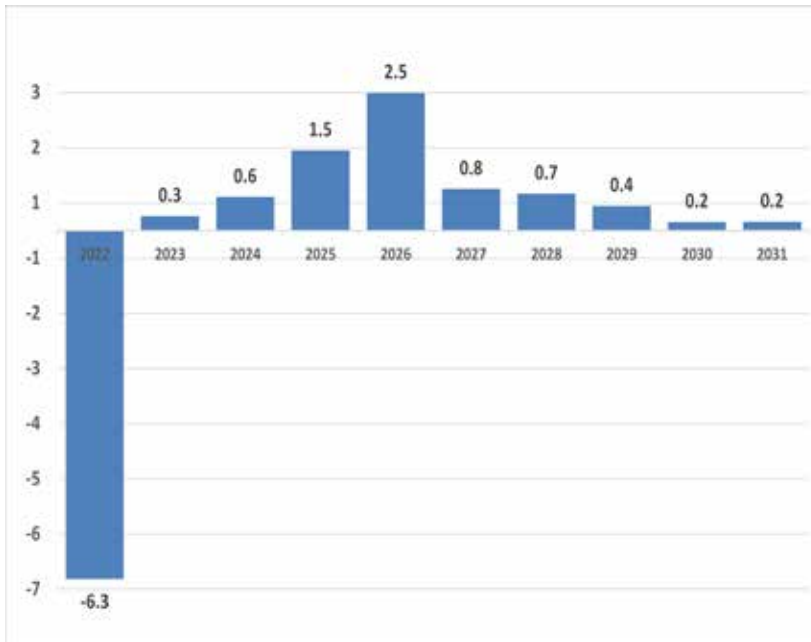
More work is underway to establish our biggest infrastructural risks and what we will do in response to these.

BALANCING THE BOOKS

OUR APPROACH: EVERYDAY COSTS FOR SERVICES ARE MET BY EVERYDAY REVENUES

Council intends to have a balanced budget, where we ensure our everyday costs (operating expenditure) cover our everyday revenues (operating revenue). To be as transparent as possible our measure excludes capital items and extraordinary operating items that would not be considered by ratepayers as appropriate everyday costs or revenues of running the district.

GRAPH: EVERYDAY COSTS & REVENUE 2021/31 (\$M)



Council has an exception to a balanced budget in the first year of the strategy. This relates to grant funding that has been committed for the Clutha Community Hub project for the redevelopment of the Balclutha Memorial Hall. The ownership of the hall will transfer from Council to Clutha Community Hub Trust Inc in 2021/22 and normally this would be an asset addition instead of an expense. The grant will be funded through rates in a similar way to intergenerational projects for assets directly owned by Council.

TABLE: OVERALL FORECAST SPENDING & FUNDING 2021/31 (\$M)

| | Operating Spend 2021/31 | Capital Spend 2021/31 | Funding of capital and operating spend |
|----------------------------------|-------------------------|-----------------------|--|
| Rooding | \$103m | \$107m | Rates 39% Other 61% |
| Water | \$71m | \$76m | Rates 57% Other 43% |
| Community Services | \$74m | \$19m | Rates 60% Other 40% |
| Sewerage | \$22m | \$51m | Rates 57% Other 43% |
| Economic & Community Development | \$14m | \$0m | Rates 94% Other 6% |
| Community Leadership | \$15m | \$0m | Rates 99% Other 1% |
| Regulatory | \$29m | \$0m | Rates 41% Other 59% |
| Solid Waste | \$25m | \$4m | Rates 41% Other 59% |
| Stormwater | \$6m | \$15m | Rates 48% Other 52% |

LOOKING FORWARD TEN YEARS TO 2031

WE BELIEVE THIS FINANCIAL STRATEGY WILL ENSURE THE FOLLOWING ON BEHALF OF THE DISTRICT:

- **Provide funding to meet the costs of taking care of what we have, improve what we've got, and facilitate growth where there are opportunities for this to happen.**
- **Everyday costs for services are met from everyday revenues.**
- **Provide certainty to ratepayers about rates and how we are planning to keep rates down.**
- **Use borrowing and debt to our advantage.**
- **Make sure we have the financial resilience and means available to manage the unexpected.**

Giving of security on borrowings

Council from time to time borrows externally to meet short to medium term funding shortfalls. This includes a committed bank facility (Multi Option Credit Line or bank overdraft facility) and borrowing from the LGFA by way of a Debenture Trust Deed. Council has entered into a "negative pledge" including future general rates as security for these lending facilities. A negative pledge essentially is borrowing without security that involves a promise by Council that it will not grant security over any assets to any other lender or creditor. A negative pledge is granted on the basis that Council's unsecured promise to pay should of itself be adequate comfort to the lender and that none of Councils other lenders/creditors would be put in a preferred position in the event of a default.

LOCAL GOVERNMENT (FINANCIAL REPORTING AND PRUDENCE) REGULATIONS

Long Term Plan disclosure statement for the period commencing 1 July 2021

The purpose of this statement is to disclose the Council's planned financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings. The Council is required to include this statement in its long term plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some terms used in this statement.

RATES AFFORDABILITY BENCHMARK

The Council meets the rates affordability benchmark if:

- its planned rates is equal to or is less than each quantified limit on rates.
- Its planned rates increases equal or are less than each quantified limit on rates increase.

The following graph compares the council's planned rates with a quantified limit on rates contained in the financial strategy included in this long-term plan. The quantified limit is 4% of budgeted rates for the previous year.

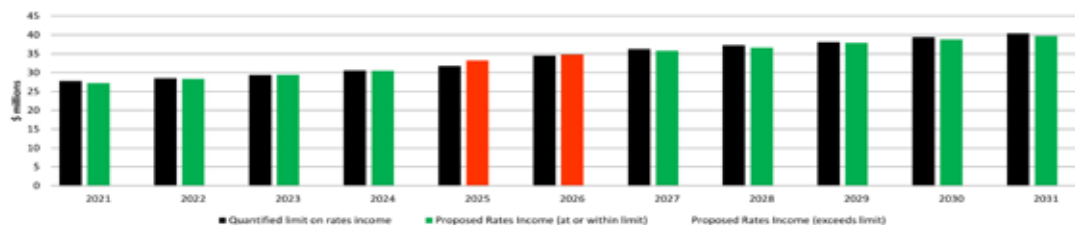
Rates (Increases) Affordability

The following graph compares the Council's actual rates increases with a quantified limit on rates increases included in the financial strategy included in the council's long-term plan. The quantified limit is 4% of budgeted rates for the previous year.

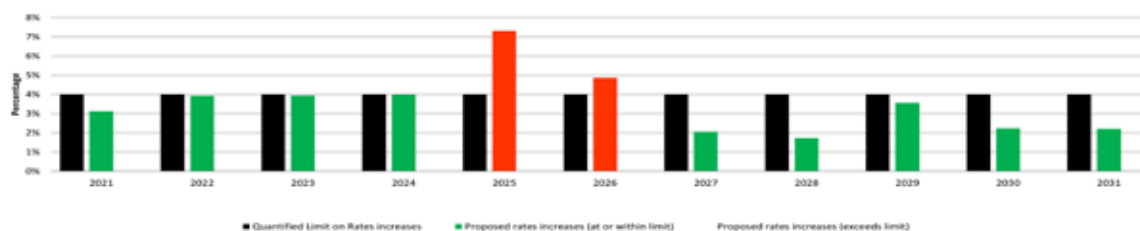
Debt Affordability Benchmark

The Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing. The following graph would compare the councils' planned debt with a quantified limit on borrowing stated in the financial strategy included in this long term plan.

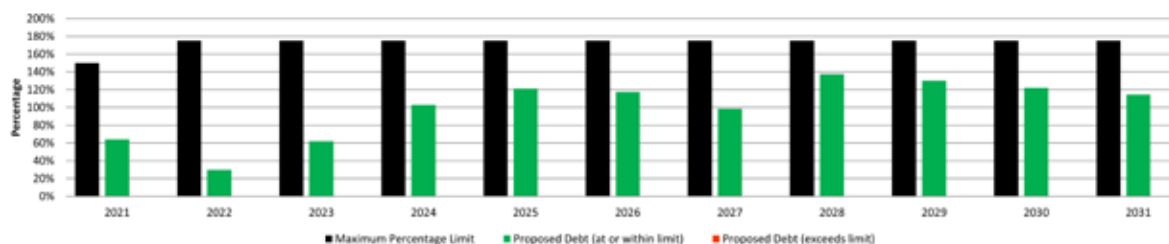
Rates Affordability Benchmark 2021/31 - \$M



Rates (Increases) Affordability Benchmark 2021/31 - %



Debt Affordability Benchmark 2021/31 - %

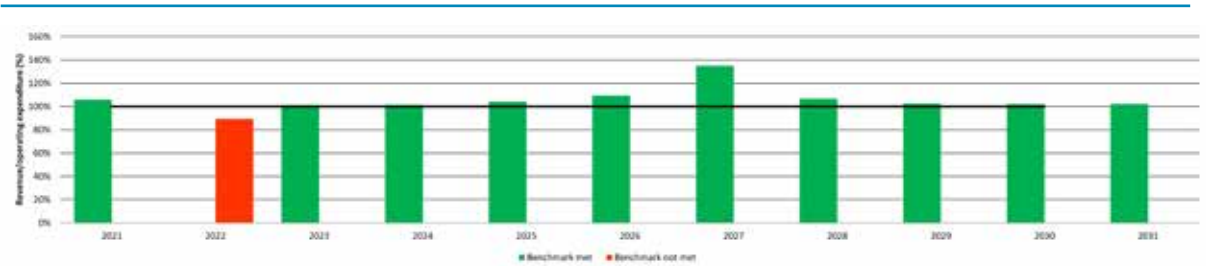


Balanced Budget Benchmark 2021/31

This graph displays the Councils' planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant or equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment). The Council meets the balanced budget benchmark if its planned revenue equals or is greater than its planned operating expenses.

Council does not expect to meet this benchmark in Year 1 (2022) of the 10 reported years, as its revenue is budgeted to be greater than its expenses.

Balanced Budget Benchmark 2021/31 -%

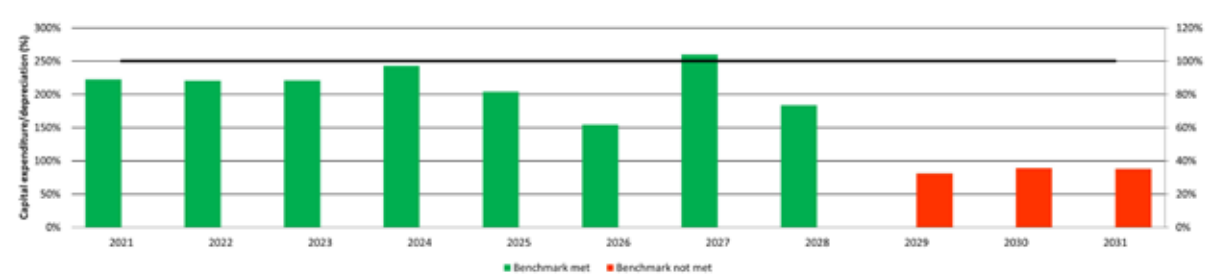


Essential Services Benchmark

This graphic displays the Council's planned capital expenditure on network services as a proportion of depreciation on network services. The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services. Network services means infrastructure related to water services and roading.

Council has not met this benchmark in all 10 years of the Long Term Plan 2021/31 due to budgeted capital expenditure not being as great as our budgeted depreciation expense.

Essential Services Benchmark 2021/31 -%

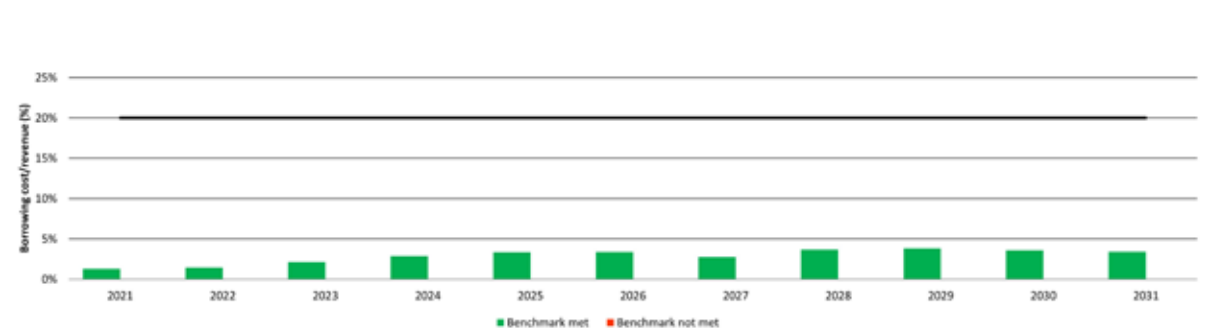


Debt servicing benchmark

The following graph displays the Council's planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations or property, plant or equipment). Council meets the debt servicing benchmark if its planned borrowing costs equal or are less than 10% of its planned revenue.

Council expects to meet this benchmark in all of the 10 reported years.

Debt Servicing Benchmark 2021/31 -%



KEY ASSUMPTIONS

These assumptions provide underlying information for the Draft Financial Strategy 2021/31 and Draft Infrastructure Strategy 2021/51. They include the significant assumptions and the risks associated with those assumptions which have been made by the Council

in its forecasting for the 10 and 30 year period. The assumptions are based on the information available to Council in January 2021. While every effort has been made to ensure the forecasts are the Council's best estimate for the future, the actual results for the

reporting period are likely to vary from the information presented, and the variations may be material. Our approach will be to be flexible and adaptive to changes that will impact on the Clutha District and the Council.

WHAT WE HAVE ASSUMED

Residents

Usually resident population

| 2021 | 2031 | 2051 |
|--------|--------|--------|
| 18,391 | 18,959 | 18,926 |

Clutha's population is forecast to remain relatively static during the life of this plan increasing from a forecast of 18,391 in 2021 to 18,959 in 2031. The longer term outlook is for 18,926 by 2051. The annual average growth rate of 0.3% is forecast during 2021 to 2031. The longer term growth rate from 2021 to 2051 is 0.1%. Impacts of Covid-19 on Clutha has been taken into account for these projections.

Age Demographics

The average age of the population of the district will continue to increase over the long-term and expected to impact on the way Council delivers its services. In 2021 people aged 65 and over is expected to make up around 19% of the District's population. This is expected to increase to 32% in 2051. A major increase in older people is likely to change the type of services and ability to pay for those services. This is unlikely to result in new activities, rather types of services and how they are delivered. The specifications of services such as footpaths and library services may need to be adapted but overall it is unlikely to result in significantly higher costs.

LEVEL OF UNCERTAINTY (RISK)



REASON FOR UNCERTAINTY, IMPACT OF RISK:

Most of Council's current infrastructure and facilities have an element of available capacity which means they are able to handle increases in demand. Significant increases in population might place greater demands on services such as water, sewerage, solid waste and regulatory functions. If demand changes unexpectedly due to societal or demographic changes then capital and operating expenditure forecasts could be insufficient and Council would need to reassess budgets subject to urgency. Council's strategic approach to promote growth in the rating base and promote living and working in Clutha has been incorporated into this plan and is expected to facilitate growth in key areas e.g. in the Milton-Waihola area.

The range of services utilised by older people is different from younger people. While the need for active team sports may decline there will still be demand for parks, reserves, pools, halls etc. There is expected to be increased demand for community facilities and activities such as walking and cycling. Meeting the needs of our residents is being updated through the Living & Working Strategy implementation through the Our Place Community Plans. Future demand and services are being explored and planned for as part of these updates. These include updates to services and facilities. Focus on rates and affordability is an ongoing focus for Council and this is included in the Financial Strategy.

SIGNIFICANT FORECASTING ASSUMPTIONS

WHAT WE HAVE ASSUMED

Visitor growth

| District visitor numbers | 2021 | 2031 | 2051 |
|------------------------------|-------|--------|-------|
| Total visitors (average day) | 1,799 | 4,063 | 5,278 |
| Total visitors (peak day) | 6,291 | 10,225 | |

Visitor population on both the average and peak day is projected to increase annually by 1.7% during the term of this strategy.

LEVEL OF UNCERTAINTY (RISK)



REASON FOR UNCERTAINTY, IMPACT OF RISK:

Visitor numbers may increase demand on infrastructure and services such as water supply, sewerage, solid waste, parking, public toilets and roading. The Clutha Destination Strategy is focusing on growth in visitor revenue rather than specifically on visitor numbers. The majority of Clutha's visitor market is domestic and growth is anticipated to continue.

Housing growth

| Total houses | 2021 | 2031 | 2051 |
|--------------|-------|-------|--------|
| | 8,794 | 9,355 | 10,034 |

This plan assumes that the number of dwellings will increase at an annual average growth rate of 0.6%. The Benhar, Bruce, Waiholo and Taieri Mouth are expected to experience the higher growth subject to the availability of residential development and services such as proposed water service improvements.



Economic conditions and the changing nature of the housing market could cause variations from year to year. Projections for townships are more sensitive to variation where individual developments can influence overall forecasts, as has been shown in recent times with Council-facilitated developments e.g. in Balclutha, and Kaitangata, as part of Council's Living and Working Strategy.

Rating base

| Total Rating Units | 2021 | 2031 | 2051 |
|--------------------|--------|--------|--------|
| Rating Unit | 11,266 | 11,914 | 12,711 |

Council's rating units are expected to increase incrementally on an average of 0.6% in the ten years to 2031, and 0.4% in the 30 years to 2051.

Note: Historic rating base numbers actually reduced as a result of rural amalgamations but not in a physical sense.



Increases or decreases to the rating base may affect the distribution and amount of rates to be paid. Council's strategic approach to promote growth in the rating base and promote living and working in Clutha aims to facilitate growth in the rating base over and above the 0.4% in the medium to longer term. The impacts are too difficult to forecast in detail at this point. Note that changes to the rating base are re-forecast on an annual basis through annual plan updates.

SIGNIFICANT FORECASTING ASSUMPTIONS

WHAT WE HAVE ASSUMED

Land use change

No major shifts in land use are expected for the Clutha District. We are anticipating growth in some areas of the district and are facilitating this through the District Plan. Recent District Plan changes for in Balclutha, Stirling, and Milton means areas of land in and around these towns can be rezoned to Urban, Transitional or Industrial Resource Areas. Most of this can be serviced by extending the existing infrastructure network, which is normally done at the developer's cost. This opens up more residential choices whilst sustainably managing the rural environment

LEVEL OF UNCERTAINTY



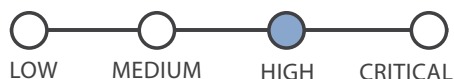
REASON FOR UNCERTAINTY, IMPACT OF RISK:

A low risk due to the planning and lead in time managed via the District Plan process.

Resource consents

It is assumed that Council will meet consent conditions and that conditions of resource consents currently held will not be significantly altered. It is assumed that updates to attain consent renewals will progress as programmed and that they can be achieved within allocated budgets.

It is anticipated that there will be heightened level of controls on stormwater discharges relating to national standards and regional plan changes. No additional capital budgets have been included at this stage until more is known, so that Council is in a position to assess potential financial impact in the 2024/34 Long Term Plan.



When there is information about what will be required, Council has indicated it will then be in a position to assess the financial impact. If requirements increase and additional work is required for consent conditions Council will need to provide rate funding to meet the requirements or request a change of consent conditions. As external agencies' plans are developed, we expect to be in a position to provide further information. Council aims to work with other agencies to understand and stay up to date with changing standards

GENERAL ASSUMPTIONS

WHAT WE HAVE ASSUMED

Climate change

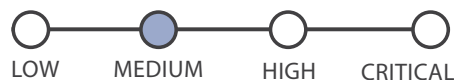
Our changing climate is an area of focus for both our communities and the Council. Council has an important role to play, particularly as the provider of critical infrastructure that underpins the daily lives of our communities.

Council commissioned investigative research during 2020 to understand the likely impacts for our district, which indicates our district will become warmer and wetter with more water flowing in the Clutha River. This brings opportunities for improved winter pasture growth and possible challenges with the potential for increase flood frequency and severity.

Modelling done specifically for our region gives us the opportunity to make changes to our infrastructure over time. Council has begun working on its response to climate change, a key project is the Greenfield water scheme which was consulted on in the lead up to this plan.

Our infrastructure strategy assumes the effects of climate change will be felt gradually, allowing Council time to plan and prepare its response and options around services and infrastructure.

LEVEL OF UNCERTAINTY



REASON FOR UNCERTAINTY, IMPACT OF RISK:

If the impacts of climate change are felt sooner than expected there may be demands on Council's budgets.

Council's ability to deliver the same level of service to the community may be impacted if climate change occurs faster than expected or to a greater extent. If this occurs it may require unbudgeted emergency work to be carried out and/ or create additional costs to mitigate impacts, such as improving protection of critical infrastructure or increasing maintenance.

In addition, Council's low level of debt allows us greater flexibility to respond to any unexpected climate movements through borrowing for emergency works if required. In addition, Council self-insures for underground assets to help provide for emergency work if required.

In the short term, Council will ensure that future assets are of sufficient standard to cater for predicted climate change, including rainfall and sea level rise.

Council is currently undertaking more detailed modelling of climate change risks and will continue to monitor climate change science and the response of central government and adapt its response where required.

As part of the ongoing body of work relating to climate change, Council will also review and bring back more information in the 2024/34 Long Term Plan on our approach towards Zero Emissions and related requirements.

GENERAL ASSUMPTIONS

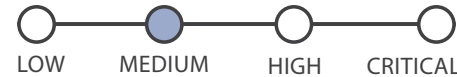
WHAT WE HAVE ASSUMED

Natural disasters

The plan assumes that Council and the community will be prepared to respond to any natural hazards including floods, storm and earthquakes that might occur during the life of this plan.

It is assumed that there will be no natural disasters requiring emergency work that cannot be funded from existing budgets, reserves, Council's insurance policies or via central government assistance.

LEVEL OF UNCERTAINTY



REASON FOR UNCERTAINTY, IMPACT OF RISK:

The timing and scope of natural disasters are unpredictable. There have been an increasing number of disasters including earthquakes and floods in New Zealand during the past decade.

A major event would impact on Council through the need for immediate funding, and depending on the scale, duration and location of the event, there could be unforeseen costs in terms of damage to Council assets. Depending upon the severity or timing of disasters, Council may not have enough staff to rapidly manage recovery and response. The lives of residents and continuity for businesses could also be affected as key services such as water, sewerage and roads could be disrupted for considerable periods.

The risk is reduced in Clutha because of its size and the number of widespread rural townships, reducing the likelihood of extensive damage throughout all critical infrastructure at the same time.

Any major disaster that results in significant repair costs is likely to be funded largely by insurance and/or central government assistance. Council also has set aside an emergency fund to provide its share towards costs. It is assumed that this would be sufficient to cover Council's share of one major event. A big event will trigger the need for additional insurance cover for the next big event.

GENERAL ASSUMPTIONS

WHAT WE HAVE ASSUMED

Legislative Changes including Three Waters Reform

In 2019 Cabinet agreed to create a new water services regulator called Taumata Arowai. One of its roles is to enforce drinking water standards nationally. Its premise is that councils have the funding and support to get the balance right.

Council has signed a memorandum of understanding and is taking part in the exploration of future service delivery options for water, sewerage and stormwater. These are crucial services whether or not councils directly deliver them, and this has been at the forefront during the development of our key strategies and long term plan.

The Government expects to make substantive decisions later in 2021. Council will be asked to participate in the new service delivery system in late 2021, in the form of an 'opt-out' approach. This means affected councils would be included in one of the new water service delivery entities by default, but can decide not to participate (in consultation with the their communities). We expect to consult with the community separately to this Long Term Plan on the opt-out decision in late 2021. For councils that participate in the reforms, the transfer of responsibilities and assets is likely to occur 2023/2024 onwards.

LEVEL OF UNCERTAINTY (RISK)



REASON FOR UNCERTAINTY, IMPACT OF RISK:

Our community needs three waters services regardless of whether Council delivers or not. On this basis we have included three waters in our financial and infrastructure strategies, including the Greenfield proposal, to present the community with as a complete and accurate a set of financial information for the medium-term and long-term financial impost.

GENERAL ASSUMPTIONS

WHAT WE HAVE ASSUMED

Levels of service

This plan assumes that aside from where level of service changes have been specifically outlined and included for consultation to inform the final plan, demand for council services and customer expectations will not significantly change. It is assumed beyond those service levels raised, there will be no significant effect on asset requirements or operating expenditure.

LEVEL OF UNCERTAINTY

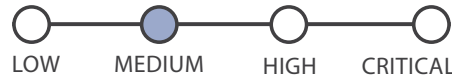


REASON FOR UNCERTAINTY, IMPACT OF RISK:

Council has defined levels of service for its planned activities that have been reviewed as part of the LTP process. Resident satisfaction surveys generally support this key assumption and there are currently no areas of the Council's service that require significant modification. If higher levels of service are to be considered during the life of this plan, levels of expenditure and capital works would need to be reassessed, as would impact on rates.

Useful lives of significant assets

The useful lives of all assets will be in accordance with the depreciation rates set out in the accounting policies of Council. It is assumed remaining life forecasts for significant assets are correct and renewal forecasts are accurate.



Useful lives are used to calculate depreciation. Where useful lives are incorrect the depreciation funded may be funded at the wrong level. If remaining lives vary from those predicted, renewals and replacement may have to be undertaken more or less frequently, impacting on capital budgets. There is no certainty that asset components will last exactly for their design lives. Capital projects could be brought forward in the event of early deterioration of assets. This may be partially off-set by other assets lasting longer than estimated.

Revaluation of non-current assets

The roading network and utility assets (water, sewerage, stormwater) are to be revalued in 2022/23, 2026/27 and 2029/30. Infrastructure revaluations impact on the depreciation calculation. Where price levels change the depreciation funded may be at the wrong level. Revaluations are expected to be positive and not to have a material impact if the assumption is incorrect.



If price level changes are significantly higher or lower, depreciation and the funding of depreciation could be over or under stated. Depending on circumstances the revaluation period maybe shorter or longer.

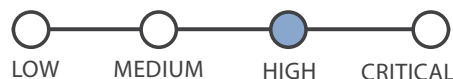
FINANCIAL ASSUMPTIONS

WHAT WE HAVE ASSUMED

Contracts

This plan assumes there will be no significant variations in the price of re-tendering operating and maintenance contracts. Major contracts due for renewal during the term of this plan include Water Services and Solid Waste.

LEVEL OF UNCERTAINTY (RISK)



REASON FOR UNCERTAINTY, IMPACT OF RISK:

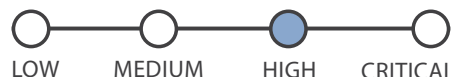
If contract prices were to increase significantly, Council would review the work programme and levels of service.

It may also look to reduce risk with an extension of the Solid Waste contract to coincide with possible changes related to resource consent renewal for Mt Cooe in 2023.

Overall exposure is slightly lower as roading maintenance contracts do not come up for renewal during the term of this plan.

Capital project costs

On average, capital project costs will not vary significantly from estimates included in this plan.



Council has a higher level of confidence regarding capital project costs in the short term (1-2 years) of this plan but less certainty in the longer term due to possible fluctuations in the economy, consent conditions etc. Any increase in costs may result in higher loan funding requirements and rates. To mitigate this, Council has processes in place that if projects are outside a financial parameter they are reassessed.

Capital project completion

That Council will complete capital projects as budgeted.



Based on historical completion rates there is a risk that the capital works programme will not be completed fully in any given year of this plan. Council is expecting to increase completion rates due to a number of improvements including increased resourcing for project management and procurement improvements. Several significant contracts have also been confirmed to enable delivery. Council acknowledges this is a critical risk, that it will negatively impact on timing for delivery of levels of service, and positively impact on levels of borrowing and debt and rates.

FINANCIAL ASSUMPTIONS

WHAT WE HAVE ASSUMED

Price level changes

Price level changes have been calculated using projections prepared by Business & Economic Research Ltd (BERL). The appended Price Level Changes table depicts the annual price level changes as indicated by BERL which are based upon 2020 values, with the exception of roading where the 2019 values were the latest available at the time of preparing budgets to be submitted to Waka Kotahi. A zero (baseline) budget has been used for the 2021/22 financial year. This has required budget managers and staff to consider all costs included during the budgeting process and apply these accordingly. Inflation percentages applied can be found at the end of this section.

LEVEL OF UNCERTAINTY (RISK)



REASON FOR UNCERTAINTY, IMPACT OF RISK:

Inflation is affected by external economic factors. The result of any variations up or down will result in higher or lower rates requirements, which may also impact on the levels of service, in particular for roading, water, sewerage and stormwater.

Service levels

Council is proposing several service level changes including:

- Upgrading urban and rural water schemes to meet national standards
- Upgrading wastewater infrastructure to improve the quality of discharges
- Increasing stormwater capacity to reduce risks of localised flooding
- Milton main street improvements
- Outside of these it is assumed service levels are expected to remain unchanged.



If Council has not adequately engaged and consulted on changes to service levels or service levels are perceived to be unaffordable, levels including funding would need to be reassessed.

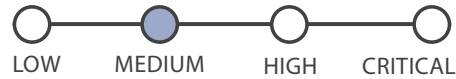
FINANCIAL ASSUMPTIONS

WHAT WE HAVE ASSUMED

Forecasted return on investments

A return of 3.4% is budgeted for returns on investments.

LEVEL OF UNCERTAINTY



REASON FOR UNCERTAINTY, IMPACT OF RISK:

Investments are an important part of our financial mix, so any changes in returns could have a major impact. Any significant drop of interest rate will mean lower returns than anticipated and impact on the amount we can use to off-set rates or put into projects that promote living and working in Clutha. There is a level of certainty in years 1-2 with increasing uncertainty after that. The risk is partly mitigated by re-forecasting on an annual basis through annual plan updates.

Sensitivity Analysis on Forecasted Return on Investments

| | LTP (1.0%) \$M | LTP \$M | LTP 1.0% \$M |
|-------------------------------------|-------------------|------------|-----------------|
| Rate of Return | 2.4% | 3.4% | 4.4% |
| Closing Value in 2031 | 31.3 | 35.0 | 39.0 |
| Total Interest Earned Over 10 years | 7.6 | 11.3 | 15.3 |

FINANCIAL ASSUMPTIONS

WHAT WE HAVE ASSUMED

LEVEL OF UNCERTAINTY

REASON FOR UNCERTAINTY, IMPACT OF RISK:

Expected interest rates on borrowing

Interest on existing and new internal borrowing is allowed for at 1.52% over the term of the borrowing.



Minimal impact as impact of internal borrowing is offset by income. There is a level of certainty in years 1-2 with increasing uncertainty after that. The risk is partly mitigated by re-forecasting on an annual basis through annual plan updates.

Expected level of external borrowing

As a result of an updated focus on maximising investment returns, Council's level of liquidity is expected to change, and external borrowing is forecast during this LTP. Council is part of the Local Government Funding Agency (LGFA) as a guaranteeing borrower. A forecast rate of 2.0% has been used as the average cost of borrowing based on advice received from the LGFA.



The risk is partly mitigated by re-forecasting on an annual basis through annual plan updates. A change in interest means the rating requirement for the cost of financing as well as the loan repayment would change as illustrated to the right.

Sensitivity Analysis on Forecasted Rate on External Borrowings

| | LTP (1.0%) \$M | LTP \$M | LTP 1.0% \$M |
|-----------------------------------|-------------------|------------|-----------------|
| Rate of Borrowing | 1.0% | 2.0% | 3.0% |
| Total Interest Paid Over 10 years | 8.6 | 17.3 | 25.9 |

FINANCIAL ASSUMPTIONS

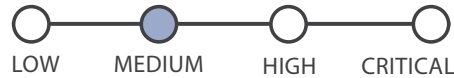
WHAT WE HAVE ASSUMED

LEVEL OF UNCERTAINTY (RISK)

REASON FOR UNCERTAINTY, IMPACT OF RISK:

Renewability or otherwise of external funding

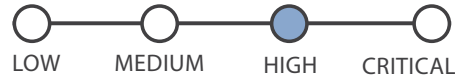
Cash flow deficits managed through Westpac multi-option credit facility can also be used if needed to meet medium-term lending requirements.



Higher cost of short term borrowing and inability to meet liquidity shortfalls.

Waka Kotahi NZ Transport Agency Financial Assistance Rate

Based on representation and advice from Waka Kotahi, Council will receive a financial assistance rate of 65% for each year of the 2021 Long Term Plan.



If there are changes or reductions, Council will have to reconsider the level of delivery for the financially-assisted programme..

The overall dollar value of the programme approved by Waka Kotahi is subject to update and review on a three-yearly cycle, with final confirmation taking place post adoption of the LTP and its budgets. Refer to the assumptions in the Council Activities - Transportation section for further information.

Depreciation rates on planned asset acquisitions

If depreciation costs are significantly higher than budgeted, rates would increase to balance the budget.



If depreciation costs are significantly higher than budgeted, rates would increase to balance the budget.

PRICE LEVEL CHANGES

ACCOUNTING RULES REQUIRE COUNCIL TO ADJUST ITS FORECAST FINANCIAL INFORMATION TO TAKE INTO ACCOUNT THE IMPACT INFLATION. THESE PRICE LEVEL ADJUSTMENTS HAVE BEEN APPLIED TO ALL BUDGETS AND PROJECTS AT THE RATES OUTLINED BELOW. THEY ARE BASED ON THE LOCAL GOVERNMENT COST INDEX (LGCI).

PRICE LEVEL ADJUSTERS APPLIED TO 2021/31 LONG TERM PLAN FORECASTS

| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 |
|-------------------------------|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Administration | Base year | 2.9% | 2.9% | 2.9% | 2.9% | 2.7% | 2.8% | 2.8% | 2.8% | 2.7% |
| Salaries | Base year | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| Three Waters | Base year | 3.4% | 3.4% | 3.5% | 3.5% | 3.0% | 3.4% | 3.4% | 3.4% | 3.0% |
| Roading | Base year | 2.4% | 2.5% | 2.5% | 2.5% | 2.6% | 2.6% | 2.6% | 2.7% | 2.7% |
| Information Technology | Base year | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| All Other Assets | Base year | 2.8% | 2.8% | 2.8% | 2.8% | 2.6% | 2.8% | 2.8% | 2.8% | 2.6% |

RATING UNIT CHANGES

Based on historical data and changes to the district’s rating base, Council is projecting that the number of rating units in the district will continue to grow at a rate of a average of 0.6% per annum during 2021 to 2031.

FORECAST CHANGES IN RATING UNITS 2021/31

| YEAR BEGINNING | RATING UNITS | ANNUAL CHANGE IN RATING UNITS |
|----------------|--------------|-------------------------------|
| 1/07/2021 | 11,266 | Base year |
| 1/07/2022 | 11,331 | 65 |
| 1/07/2023 | 11,396 | 65 |
| 1/07/2024 | 11,461 | 65 |
| 1/07/2025 | 11,526 | 65 |
| 1/07/2026 | 11,591 | 65 |
| 1/07/2027 | 11,656 | 65 |
| 1/07/2028 | 11,721 | 65 |
| 1/07/2029 | 11,786 | 65 |
| 1/07/2030 | 11,851 | 65 |
| 1/07/2031 | 11,916 | 65 |