2014 FINANCIAL STRATEGY

Council has adopted and followed consistent financial strategies for more than 10 years. The financial strategies have had similar aims:

- strengthening Council's financial position in anticipation of projects and programmes that may need funding in the next 20-30 years
- ensuring rates were affordable to our community and competitive when compared to local authorities with a similar population and a significant urban centre
- delivering services more efficiently than our peer local authorities.

OUR 2014 FINANCIAL STRATEGY

Council wants to progress development in the city and advance community outcomes more rapidly. A number of projects and initiatives have been included in this plan with this in mind. These changes have financial implications.

Council is able to consider additional projects and initiatives because of our exceptional financial performance over the last 15 years. There has been very tight control over borrowing and a substantial reduction in the level of rate charges relative to other councils in the region and throughout the country. This is supported independently by Standard & Poor's, who have based our AA credit rating on Council's:

"Excellent financial management and very strong budgetary performance"

Council is determined to maintain that rating and assessment by Standard & Poor's. This Financial Strategy has been prepared with that objective firmly in mind.

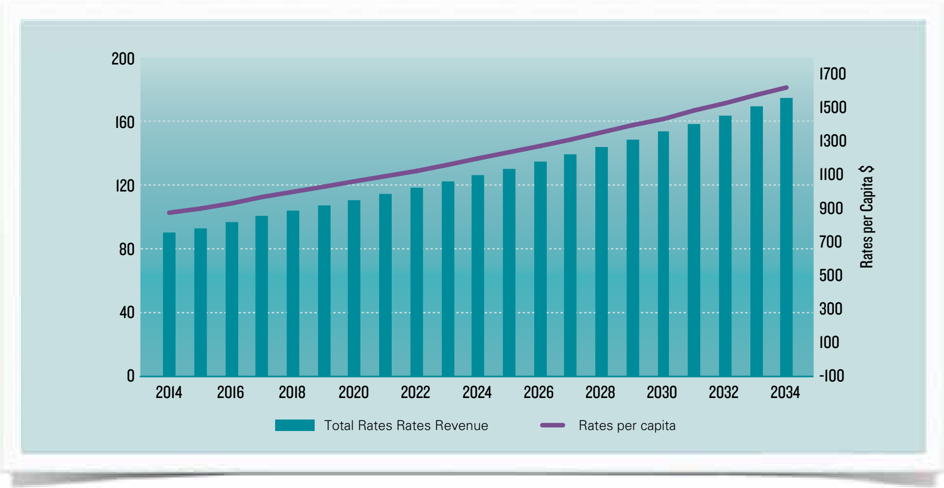
The Financial Strategy has been simplified. Several measures and targets have been removed because they had minimal practical influence over Council decision making. Key measures affecting rate and debt levels, and financial sustainability, have been retained and are outlined below.

LIMITS	MEASURE	CURRENT LEVEL[1]	TARGET
Overall operating result	Surplus each year	Surplus $2m	Budgeted surplus
Limits on revenue	Increase in rates revenue	2.5%[2]	2014-2017: An additional 1% per year above Consumer Price Index (CPI) after allowing for growth[3] 2017-2018 onwards: No more than CPI after allowing for growth[3]
Limits on borrowing	Net debt to income	44%	Below 100%
	Net interest to revenue	3%	Below 10%
	Net debt maxima	$58m	2020 – $100m 2025 – $100m 2030 – $100m

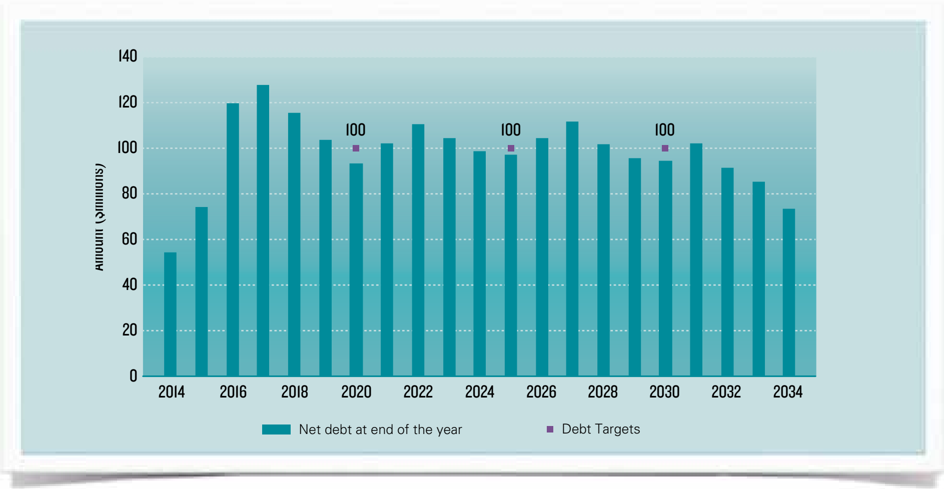
1. All calculations based on 2012/13 Annual Report.
2. After allowing for estimated growth of 0.7%.
3. Growth is determined by the actual and forecast increase in rateable property in the city.

The impacts of these changes on Council's rates and debt projections are shown in the following graphs.

ANNUAL RATES



NET DEBT



The bars in the net debt graph represent the actual projected net debt levels. Also shown are the debt targets for 2020, 2025, and 2030.

See page 95 for the assumptions we've used in preparing the financial data that supports the financial strategy.

The targets in the Financial Strategy represent firm goals for Council. However, there may be instances when the targets are not achieved. There could be several reasons for this.
For example:

- a major adverse event, such as an earthquake or flood, requiring substantial additional expenditure by Council
- economic conditions change such that there is a significant increase in Council costs, or significant reduction in Council revenue
- there are significant new initiatives or projects that have community support despite funding implications.

In any instance such as the above examples, Council will consider alternative options before proposing any temporary breach of Financial Strategy targets. This would include options such as deferring expenditure, surplus asset sales and cost reductions. Ultimately, Council will make all its financial decisions in the best interests of the community.

Affordability remains a top priority for Council. We have a diverse population with varying socio-economic indicators, and the recession and global economy have impacted all sectors of the community.

OUR LEGAL OBLIGATIONS

The Local Government Act 2002 requires us to manage our revenues, expenses, assets, liabilities, investments and general financial dealings prudently. In doing so we're aware of the impact our costs and funding decisions have on our community. We're particularly concerned about the affordability of Council services, and have considered this in proposing our rates, net debt and other limits. We also carefully consider the level of fees and charges. Our Revenue and Financing Policy helps us identify and distribute the costs and benefits of Council services across the different sectors of our community.

We're also required to provide a balanced budget. Revenue raised in the current year should be enough to meet our expenses for that year. Balancing the budget helps allocate the burden of rates and charges between today's ratepayers and those of tomorrow. We also look to fairly allocate development costs between current and future beneficiaries through our development and financial contributions policies.

PLANNING FOR GROWTH

Statistics New Zealand is projecting limited population growth, fewer young people and growing numbers of those over 65 for our city in the period to 2031. The number of households is projected to increase by 11 per cent over the same period. (Source: Statistics New Zealand Demographic Trends 2011)

Economic growth in the city has been modest.

Council has responded to these considerations by adopting an Urban Growth Strategy and an Economic Development Strategy. These strategies have financial implications that have been incorporated into the Plan. Those implications include additional expenditure to promote and support growth, and additional revenue generated as a result of growth in the city.

MANAGING OUR ASSETS AND DEBT

A major part of our business involves managing over $1.4 billion of assets from annual income of approximately $130 million. We use other funding sources such as debt and capital subsidies to fund the maintenance and development of our infrastructure and other assets.

We use asset management practices to sustainably maintain service levels to at least current levels. We balance the wants and needs of today with the demands and replacements required for the future; ensuring we fulfil legal requirements. Council continues its commitment to encouraging a strong, diverse, enterprising business community and protecting the environment through sustainable management of waste, transport, energy, water, urban environment and biodiversity.

We plan to spend approximately $500 million over the next ten years to maintain and improve existing assets and create some new assets. Capital expenditure to 2032 rises to approximately $1,000 million due to inflation and some large projects, including significant roading network improvements and upgrading the main wastewater pipeline to Pencarrow.

Delays to the timing of projects may impact on service through reducing asset lives or increasing maintenance in any one year. Advancement of the timing of projects may positively impact service levels, but increase debt servicing costs.

The ability to maintain current levels of service may be affected if there is a change to regional governance arrangements. A new regional governing entity may have different priorities to those currently agreed for our local area. Our strong financial position assists Council to ensure our assets are well maintained and appropriate to our communities' needs in advance of any future changes in governance structure.

We continue to set target levels to restrict net debt. Debt servicing levels are kept at affordable percentages of total operational spend. These targets also seek to fairly apportion funding costs between current and future ratepayers.

This strategy places reliance on retaining existing sources of funding of capital, through debt, subsidies, development contributions and other revenue. We have facilities in place as a safeguard against an inability to refinance existing debt.

We place reliance on a strong financial position to ensure we have capacity to borrow, both for forecast expenditure needs and any unforeseen requirements that may arise. We do this through ensuring appropriate levels of debt in accordance with our strategy limits, with no significant concentrations of debt repayment in any one year, ensuring working capital is maintained to meet ongoing commitments and surplus cash is invested or used to repay debt. We also focus on collection of monies owed to ensure no concentrations of credit risk exist.

MANAGING OUR REVENUE

We've managed to achieve a net surplus from our operations almost every year. We'll continue to do this and use our surplus to help repay our debt and fund our capital programme. In recent years we've used asset sales to assist repayment of debt and this will continue but at a reducing level.

Revenue is expected to increase over the next 20 years, in accordance with inflation. This will be sufficient to sustain the current levels of service.

We fund operating expenditure from the following sources: general rates, targeted rates, fees and charges, interest and dividends from investments, grants and subsidies, and other operating revenue.

General rates

We use capital value as the basis for gathering general rates. Generally, the higher the value of the property, the higher the rates.

General rates are assessed on a differential basis, with a differential applied to Businesses and Utility Networks, reflecting a higher share of the benefits of Council services.

Differentials are also applied to Community Facilities and Rural sectors to reflect their ability to pay and the relative levels of service received. These are incorporated into the Revenue and Financing Policy, which is reviewed regularly.

Targeted rates

If Council decides that the cost of a service should be met by a particular group of ratepayers, it may use targeted rates. Council's targeted rate charges include water, wastewater, Jackson Street and recycling.

Fees and charges

Council levies charges to contribute to the cost of services. Direct benefits attributed to service users are considered a private funding component and are recovered through a fee or charge for that service. See page 120 for a schedule of fees and charges.

Interest and dividends from investments

Council obtains specialist advice when considering financial investments and structure. We invest surplus cash from operations on call overnight and gain interest revenue from such investing. Council also gains interest revenue from lending within its group to its Council controlled organisations (CCOs). Council charges a market interest rate for this lending. Council may also gain dividend income from shares held in company holdings.

Subsidies

Council receives subsidies of both an operating and a capital nature to partially fund services and contribute to the cost of capital projects. Council receives government grants to provide services.

Development and financial contributions

Development contributions are used to fairly allocate the costs of growth to ensure equity between developers and ratepayers. Financial contributions are required where individual developments give rise to capital expenditure that is not included in the Long Term Plan and for reserves.

Other revenue includes, but is not limited to, proceeds from the sale of assets and other miscellaneous income.

COUNCIL'S POLICY ON GIVING SECURITIES FOR ITS BORROWING

Council secures borrowing by way of a Debenture Trust Deed which provides security over rating income.

COUNCIL'S OBJECTIVES FOR HOLDING AND MANAGING FINANCIAL INVESTMENTS

Council maintains liquidity and credit facilities to minimise financial risk and have secure and cost effective funding sources to meet financial needs.

Council obtains surplus daily cash from its rates instalments and other revenue generating activities. In managing its liquidity, Council looks to apply surplus cash to reduce its short term borrowings, while ensuring cash requirements until the next rates instalment are provided for. Council will place surplus cash on call or term deposits as appropriate.

Interest Rate Swaps are held to smooth impacts of fluctuating interest rates.

Council lends money to its CCOs at a commercial rate of return. This is typically set at between 100 and 200 basis points above the cost to Council.

COUNCIL'S OBJECTIVES FOR HOLDING AND MANAGING EQUITY INVESTMENTS

Council has investments in several CCOs.

Capacity Infrastructure Services

This company is owned by Wellington, Hutt City, Upper Hutt City and Porirua City Councils. The nature of the business of the company is to jointly manage the water services for these four councils. Our objective for this company is for it to manage, for the long term, the provision of water, wastewater and stormwater services and to operate as a successful business.

A formal return on investment is not anticipated in the near future as the business is managed on a non-profit basis.

Seaview Marina Limited (100% owned CCO)

Council holds 100% of the shares issued by Seaview Marina Limited. Council's objective is for it to operate a successful and profitable marina providing berth and associated services, and providing public marine recreation facilities for the enjoyment of the Lower Hutt community, without compromising its commercial objectives and environmental responsibilities.

Return on investment is 5% before tax on shareholders' funds in accordance with the company's Statement of Intent. This return is reinvested within the company.

Urban Plus Limited (100% owned CCO)

Council's objectives for this company are for it to own and operate a portfolio of rental housing, develop property in preparation for sale or lease, and manage Council property and building assets.

Returns are forecast in the company's Statement of Intent.

Hutt City Community Facilities Trust

Council established this charitable trust to manage and develop its leisure and community facilities.

Our objective for this Trust is for it to enhance the health and wellbeing of the city's communities through the effective and efficient provision, development and operation of leisure and community facilities throughout Hutt City. This will include securing funding to enable investment and improvement of community facilities, developing new or enhancing existing facilities, administering any facilities vested in the Trust, and providing strategic direction, expert advice and championing ongoing investment and development.

No financial return on investment is anticipated at this stage.

Civic Assurance

With over $1 billion in assets, Council needs to have appropriate safeguards in place to protect their value. Appropriate levels of insurance are maintained to safeguard Council from significant loss.

The recent global events have impacted on the stability of the insurance market. Historically, councils have struggled to obtain adequate levels of insurance and many years ago Civic Assurance was created to fill a gap in the market and provide some level of surety for local government. While the organisation suffered loss through the New Zealand events in Christchurch, Council considers continued investment in Civic Assurance beneficial to provide the sector an alternative to the other insurance options.

The return expected is a dividend as approved by the Board of Directors in addition to providing an avenue for Council to insure its assets. A formal return on investment is not anticipated in the near future while the company rebuilds an equity base.

Local Government Funding Agency (LGFA)

Debt is a significant funding source for many local authorities. Interest costs are a major item of expenditure for these councils. Hutt City Council has invested in LGFA to help the sector achieve a reduction in the costs of borrowing. While Hutt City Council's debt levels are relatively low, the LGFA provides an additional borrowing source and savings in interest costs.

In addition, the LGFA will provide local authorities with increased certainty of access to funding, including the potential access to longer funding terms.

The return anticipated is through lower borrowing costs and security of longer term funding rather than a formal dividend.

As a shareholder or guarantor Council will have increased exposure to liability for repayment of debt.

Smartlinx3

Part of the Council's Economic Development Strategy included the undertaking of a survey of businesses completed in early 2003, to understand broadband infrastructure needs in Hutt City. The survey indicated a large number of businesses had ongoing issues with either or both access to and the cost of broadband.

An outcome of the survey was the establishment of a business led, Council supported company (Smartlinx3). It was representative of businesses in Hutt City, Upper Hutt City and Porirua City, and the three councils.

Smartlinx3 has deployed broadband assets in the three cities and provided some competition to pricing of broadband services. However, the value of Council's investment in the company has diminished over time. New investment into the company by external organisations has improved prospects for growth.

A formal return on investment is not anticipated in the near future.