

Appendix 'J'

Debt and Annual Loan Servicing

1. The Present (and Forecasted Future) Situation

In meeting Council's long term financial commitments, two key funding methods are proposed to be used.

1. Rate Smoothing Process
2. Loans

In the 2006-16 Long Term Council Community Plan, Council introduced a new financial tool called "rate smoothing". This tool came about as a result of the program of works that was indicated in the plan and the "see-saw" effect that this had, annually, on the rates required. To give ratepayers some certainty as to the level of rate increase in the future, a consistent percentage rates increase is calculated.

In particular to this plan, the financial cost of meeting the levels of service indicated would increase the rates required substantially in the first year, then even out across the 10 years. The effect of the rate smoothing has been to draw down (effectively borrow) from reserves in the early years and repay these back in the later years. The effect of this is shown in Table J.1. Additional information on the rate smoothing process can be found in Councils Draft 2009-19 LTCCP in the "Balancing the Budget section" page 245.

Council also has some existing loans that have been factored into the plan. These amount to \$1,945,396 and \$1,315,990 repayable over 7 & 10 years respectively (balance as at 30 June 2009). The principal and interest components are detailed in Table J.1. Interest has been calculated at 7.75% annually over the term of the plan.

Table J. 1 **Likely Loan Requirements for the Next Ten Years**

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Interest Paid	242,620	214,338	183,800	150,826	115,221	82,340	56,348	34,696	22,280	8,873
Loans Drawn down	0	0	0	0	0	0	0	0	0	0
Loan Repayment	354,486	382,766	413,304	446,278	481,884	325,772	351,763	155,628	168,045	181,452
Roading Rate Reserve Pymt	0	0	0	0	52,498	1,025,256	1,780,787	2,844,108	3,456,303	4,337,989
Rates Reserve drawn down	2,984,417	1,788,725	1,368,190	765,619	0	0	0	0	0	0

This table reflects the funding requirements of business unit 10855 and 11950. Commitments owing by each community for streetworks etc are excluded.

2. Issues

The Council's Policy on loans for roading funding is contained in the overall Liability Management Policy. A copy of this policy is in the 2009 LTCCP.

3. Future Action and Improvements

Schedule
Future Improvement Priorities

Ref. No. (1)	Item (2)	Appendix Relative Urgency (3)						Comments
		1	2	3	4	5	6	
J1	Consider loan funding for new capital works				✓			Council using rates smoothing process across the District and not likely to raise roading specific loans.

Key:

- 1 = Extremely urgent (needs to be addressed now)
- 2 = Very urgent
- 3 = Urgent
- 4 = Reasonably or fairly urgent
- 5 = Not urgent
- 6 = A good idea for some time in the future