TAUIRA RAUTAKINGA TŪROA

# DRAFT LONG TERM PLAN 2024 2034

te kaunihera ā-rohe o **matamata-piako** district council

## RAUTAKI Ā-PŪTEA
## FINANCIAL STRATEGY

WĀHANGA SECTION 3

# NGĀ HUA - WĀHANGA 3 I CONTENTS - SECTION 3

## Rautaki ā-pūtea I Financial strategy

# Horopaki I Context

Our Financial Strategy helps us to make decisions on the services and resources required to achieve our vision.

It provides a context for these decisions by outlining our current financial health, where we want to be, and what's driving our direction.

The strategy is based on the assumptions described in Part 2. The assumptions that are particularly key to the Financial Strategy include inflation, borrowing, return on investments, service delivery and levels of service, asset funding, development contributions, Waka Kotahi funding, rating unit growth, and capital programme delivery. This strategy should be read in conjunction with these assumptions and the Infrastructure Strategy in Part 4.

We report on our performance against the key financial strategy goals in our Annual Report at the end of each financial year and in the Pre-Election Report in the run-up to the local government elections.

# Tirohanga whānui I Overview

## Financial goals

Our financial goals have been consistent for the last two Long Term Plans. We have strived to:

- Maintain the current levels of service we provide
- Improve levels of service where this complements our vision
- Keep our rates at an affordable level
- Ensure our debt is manageable and allow ourselves some headroom to respond to emergencies or opportunities that may arise

These are still the goals that we want to achieve.

## The challenge

The challenge has become harder as:

- The costs to maintain our levels of service have increased more than what we projected
- We have to accelerate changes to our operations to meet the expectations of regulators, particularly in relation to drinking water and sewerage treatment
- We accept that our systems have to be more robust to deliver the services we provide to the standards expected
- And we understand that these same challenges exist for many local authorities. This means that Councils are competing for staff and resources to meet our needs.

## Three waters – uncertainty and impact

We do not yet have certainty regarding the future management structures for water, wastewater and stormwater under the current government. It is clear that improvements are needed in the delivery of the services, irrespective of who manages or owns the infrastructure.

With this in mind we have included a full 10-year view of the operation of these services in the Long Term Plan.

We note the significant emerging impact that these services will have on our finances and that this has prompted some changes in our Financial Strategy for the next 10 years, including the limits we set on debt and rate increases.

## So what are we doing?

### Continuing with our current approach, plus doing some things differently

To continue to deliver the current services at the same levels, rates will need to increase. But affordability is our key focus for this Long Term Plan.

So, we are also taking some different approaches:

- We have a large number of projects that we need to undertake to ensure that our water and wastewater services can meet the expected standards. We do not have the capacity to complete these projects in one or even two years. Our capital programme is based on progressing the most urgent projects (see the capital profile in the financial projections section).

- The priority given to water and wastewater has an impact on our capacity to undertake projects in other areas. The only discretionary projects included in the 10 years are those projects that we had already committed to in the previous plan.

- We are looking at different ways we can do things to keep rates at affordable levels. This includes the way we fund replacement of stormwater and roading assets (refer to the 'unbalanced budget' discussion).

- We are also looking to make some short-term investments in new technologies to help us work in more efficient ways.

- While not a change in approach, we are proposing significant increases to some fees and charges to ensure the fees keep up with the significantly increasing costs. The increase will maintain budgeted fees and charges at around 14% of total revenue over the Long Term Plan, and will reduce the need to put further pressure on rates.

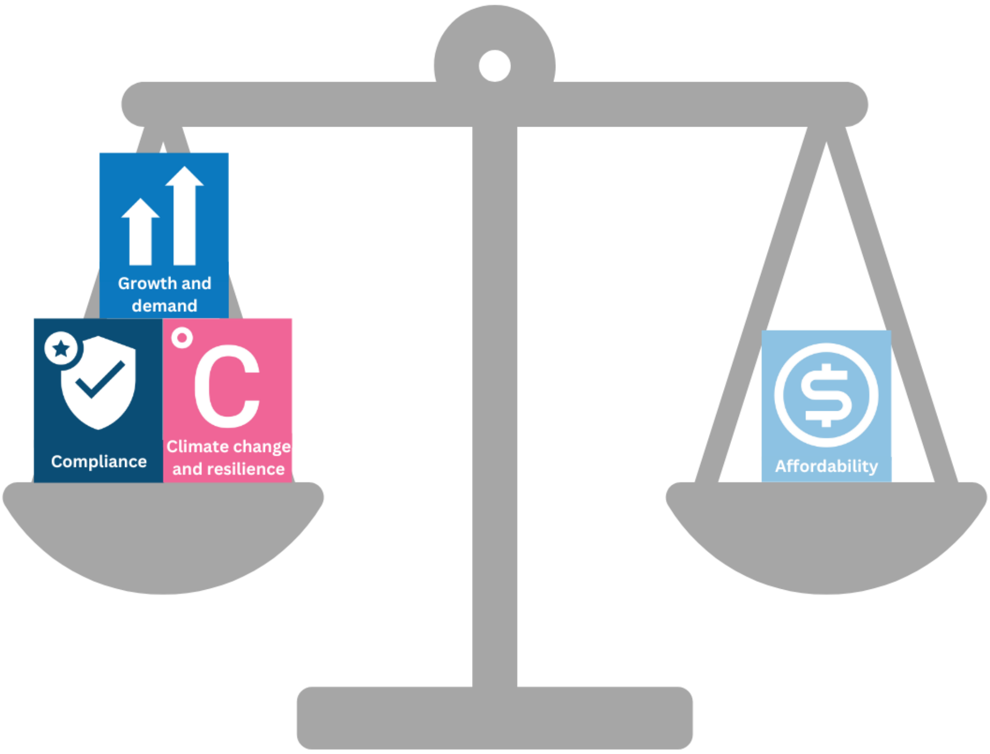
- On an overall basis, we have forecast the level of rates we need to collect to deliver the services and projects proposed in the Long Term Plan. But to highlight the relative levels of discretion Council has in setting budgets and rates, we have set two limits on our rate increases:
  - One for three waters targeted rates
  - One for other rates funded activities

# Ngā whakapātaritari I
# Our challenges

## Key drivers and our responses

Looking forward, there are some challenges and opportunities ahead of us which may affect where we are going and how we get there. The main drivers that have influenced the decision-making in the development of our Financial Strategy are:

- Affordability
- Growth and demand
- Climate change and resilience
- Compliance




Balancing our key drivers

Responding to our key drivers is about balancing the things we need to respond to on the one hand: growth and demand, compliance, and climate change and resilience, with affordability on the other: keeping rates affordable for our community.

A discussion and our response to these drivers is outlined below.

# Affordability

## The challenge

### The ability of our community to pay is constrained

- The median household income for our district is $32,400 (Census 2018)
- We have an ageing population
- The average household size is forecast to decrease from 2.5 to 2.3 by 2051
- We expect a higher proportion of single income or fixed income households

### The cost of providing our services and replacing assets has increased beyond what we had previously projected

This means it is not possible to keep rates and charges at current levels

## Our response

The following measures will ensure we set the right level of rates and charges.

### Limiting our discretionary projects to those that have already been committed to with the community

Our capital programme is heavily dominated by infrastructure projects. This is influenced by regulation, particularly in three waters, and government funding for roading. As a result, Council has more discretion on non-infrastructure activities. This is where we are making the biggest trade-off with our improvement programme, to keep rates as low as possible. We are limiting our discretionary projects to those that have already been committed to. This means that we cannot progress as many improvements as we would like.

### Budgeting, prioritising, and setting annual work programs with the goal of remaining within the prudential limits in this strategy

At times, budget forecasts may indicate that we could exceed these limits. In these cases, we will seek alternative funding sources or consider changes in the way we operate. For example, we may review the provision of non-essential services or defer projects.

### Continuing to develop our asset management practices to improve our knowledge of the condition of our assets

This will drive our asset replacement decisions and ensure that we derive best value from the assets.

## Smoothing costs and the impact of any anticipated drops in revenue where possible and looking at alternatives to funding

Where it makes sense, we will consider alternative ways of funding aspects of our services or asset replacement, after considering the impact on our levels of service, funding, the effect on ratepayers today and tomorrow's ratepayers, and how it aligns with our other policies and objectives. Refer to the unbalanced budget discussion on page 30 in this section.

# Growth and demand

We are forecasting that our population will increase over time with the majority of this increase happening among older groups and within urban areas. In terms of land use, there will be a continued shift of the geographical distribution of our people towards our main urban centres.

## The challenge

### Population growth and land intensification

Population growth and a shift to the towns increases demand for infrastructure service in urban centres. Growth requires infrastructure investment to extend networks to new areas of development which results in on-going costs to maintain and renew these assets.

### Our population is ageing

Our changing demographic increases demand for accessibility and changes the way infrastructure assets and services are used.

### Our tourism industry is continuing to recover

Our district is home to key visitor destinations, attracting regional, national and international tourists. Although international tourism hasn't recovered to pre-Covid levels, it is anticipated there will still be growth during the term of the strategy.

### Getting the timing right is key

Getting the assets in the ground at the right time is critical – too soon, and there is a risk that the growth will not eventuate leaving ratepayers to carry the costs. Too late, and opportunities for growth could be missed.

## Our response

The following measures will allow Council to plan for and fund growth effectively

### Planning strategically

The Infrastructure strategy (Part 4) has considered and allowed for the requirements for residential growth areas in the next 30 years as identified in the District Plan. We are striving to ensure we can be more prepared for private plan changes or future zoning changes. We are looking to cater for anticipated growth, and plan for infrastructure appropriately.

### Using revenue from those who benefit from growth to help fund it

Our Revenue and Financing Policy requires that those who create the need for or benefit most from the investment pay for it. This is done by way of development contributions or developer agreements.

We will continue to collect development contributions to recover growth related investments in infrastructure already undertaken.

National and Council policy directs development to zoned and serviceable areas. When developers comply with Council requirements, development can proceed. There is a risk that development can bring forward upgrades to treatment facilities or reticulation. Where the cost implications are significant, Council will promote specific developer agreements to recover the appropriate share of the cost of growth from the developers.

Growth in rating units expands the rating base upon which to share the on-going maintenance and renewal costs.

## Looking for opportunities to work with others

Council has a track record of partnering with major industry when necessary to provide increased infrastructure capacity.

# Climate change and resilience

Natural disasters and economic recessions continue to pose a threat to our communities. The Infrastructure Strategy (Section 4) addresses the threat of natural hazards and climate change to our infrastructure.

We are well prepared to deal with incident management and short-term recovery actions through our emergency management function.

With a borrowing limit of 175% (net debt to revenue), we project to have some available head-room so that if necessary, we could take on more debt to deal with one-off events. Nonetheless, a significant event would test the finances of any New Zealand council and government assistance would be critical.

## The challenge

### Severe weather events significantly impact our community

Our district is heavily dominated by agriculture and agri-related industry. Severe weather events and sudden or sustained changes in economic conditions affecting these industries can impact significantly on the whole community. The needs of the community and their ability to pay can shift as a result. As a Council, we must be in a position to respond to these shifts.

### Environmental and economic changes directly affect Council

We must also be able to respond to environmental and economic changes that directly affect the operations of Council. The Infrastructure Strategy discusses our response to environmental changes in terms of our network of assets and services. There are a range of ways we can manage and mitigate the financial impact of environmental and economic changes on our Council and community.

## Our response

The following financial management measures will help to safeguard our resilience

### Managing within our debt limit

Careful financial management within our prudent debt limits means that we have some headroom to cope with issues that may arise unexpectedly in the future without compromising affordability or sustainability. But there are limits to what level of issue we could cope with alone. The section under our financial goals around setting prudent limits on debt in this strategy reflects the debt limits and the level of available headroom we have based on our projections for this Long Term Plan.

### Smoothing our costs and any anticipated drops in revenue where possible

This approach will help to minimise the annual impact on ratepayers.

## Continuing to sustainably fund asset replacement

We plan to fully fund depreciation for the assets that we will be required to renew when they reach the end of their useful life. Or we will look for alternative funding methods to achieve the same objective. Refer to the unbalanced budget section in this document for more on this. This funding is needed so we can pay for the replacement of these assets in the future. Where an asset was initially funded by way of external subsidy e.g. Waka Kotahi (NZTA subsidy) we have assumed its future replacement will be funded in the same way unless otherwise stated (refer to the assumptions in Part 2).

## Insuring our most critical infrastructure

Council is part of a region-wide collaborative insurance scheme to ensure that we get the best possible cover in the most cost effective manner.

## Having a $5.4 million fund invested that can be accessed in an emergency situation

This fund could be used in events such as a natural disaster. We also maintain credit facilities that currently allow us to access $6 million as required.

## Managing our interest rate risk though the use of interest rate forward swap agreements

These agreements give us greater confidence in our future financing costs, with which we can more accurately budget funding requirements.

## Having a rate remission for natural disasters and emergencies

This scheme could be used in the event of a natural disaster or other type of emergency affecting the capacity of one or more rating units to be used for an extended period of time.

## Annually reviewing the available tools within our Revenue and Financing Policy

Reviewing tools that would allow Council to shift the incidence of rates, where this may provide some relief to affected ratepayers (e.g. shifting the Uniform Annual General charge between 22.5% and the maximum of 30%.

# Compliance

Many of our activities and services are subject to national and regional compliance, regulatory and legislative controls. There is rightly an expectation that Council will comply or is actively working towards compliance. Non-compliance can result in legal costs, fines and diverted effort.

The common overall objectives of these changes to legislation and consent conditions are the improvement in the health of our communities and environmental sustainability. These general objectives are consistent with the vision and outcomes that we seek for our district.

## The challenges

### Increased standards and the need to reduce the risk of non-compliance comes at a cost

## Our response

### Underpinning our planning with a clear strategic approach

Our Infrastructure Strategy sets out the planned spend attributable to compliance for the next thirty years. This is a major driver for the three waters capital programme in the Long Term Plan.

### Improving our infrastructure

Doing necessary upgrades to ensure that we can meet the prescribed standards.

### Improving our management practices and staff capabilities

Internal upskilling in order to be able to better monitor asset performance and respond to potential threats.  Enhance our digital capabilities, so that staff can focus on what matters most.

### Working with industry and in the community

Working with others to identify and mitigate risks to compliance.

### Using direct charges or legal action where necessary

Using enforcement to recover costs or dis-incentivise non-compliant actions.

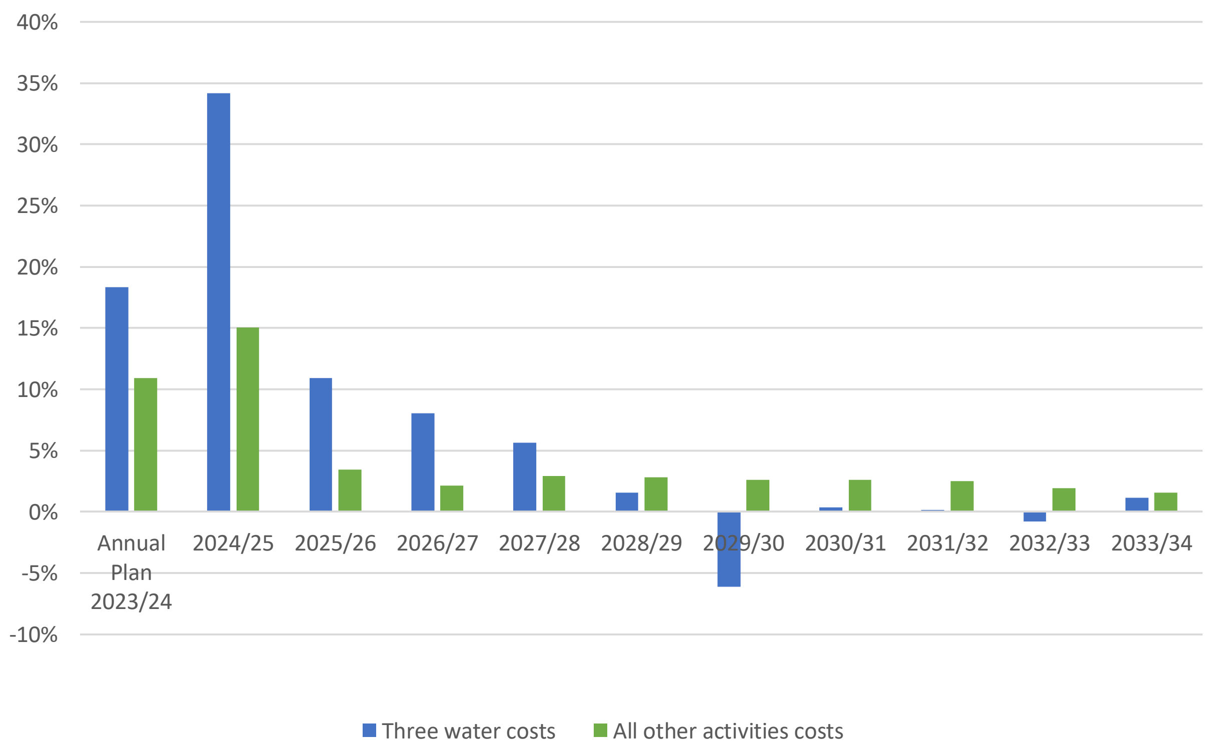
# Te rautaki hou I Our new strategy

## What's changed from last time?

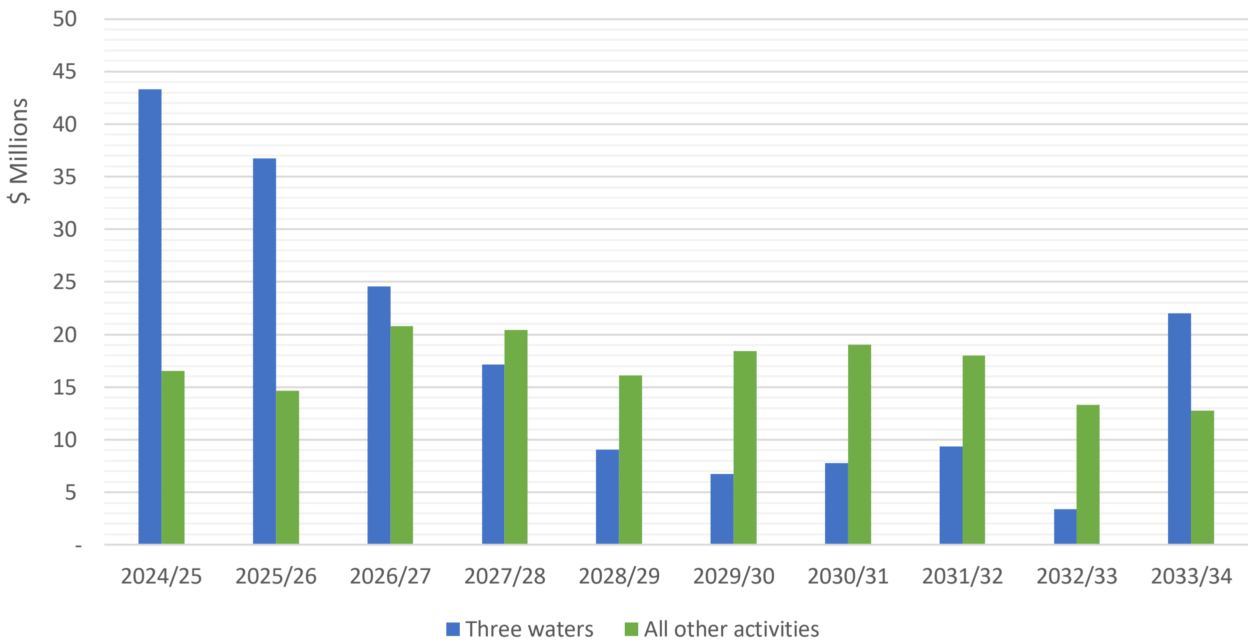
### The emerging impact of three waters on our finances

Regulation of New Zealand's water services began in October 2021. The new regulations are driving the need for significant upgrades to our assets and services over the coming years in order to comply. This means our three waters services are set to have an increasing dominance on our finances going forward. Regulators like Taumata Arowai determine the minimum standard that Council must achieve, so we have very little choice over our spending in this area. The future impact is evident when we look at the projected movement in annual operating costs, capital spend and projected debt to fund the capital spend.

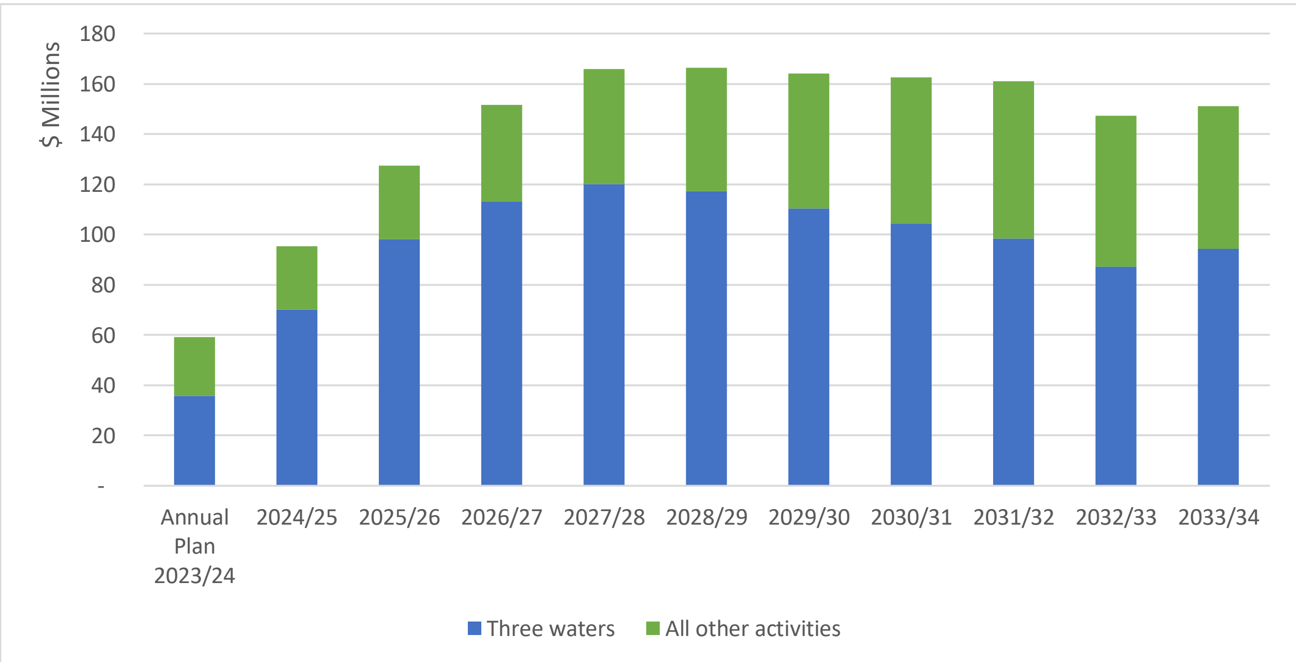
Forecast movement in annual costs – three waters compared to all other activities



## Proposed capital spend for next 10 years




## Forecast debt

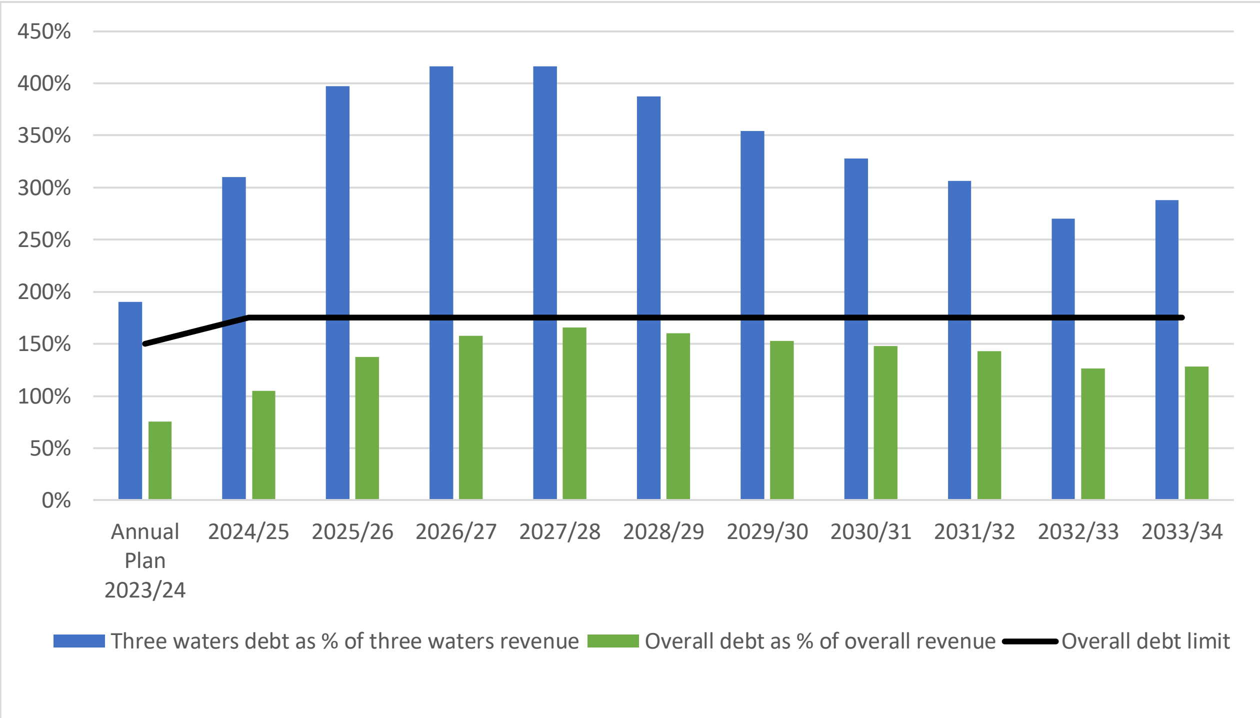



The emerging dominance of the three waters has prompted several changes or considerations in our proposed Financial Strategy for the next 10 years of this Long Term Plan. These include:

**Increasing our limit on borrowing.** The scale of the capital work required for three-waters means that we are proposing to increase our limit on borrowing (read more under our financial goals around setting prudent limits on debt).

**Consideration of the sustainability of debt related to three-waters beyond the 10 years of this Long Term Plan**. Our lenders measure the reasonableness of our debt based on our ability to repay it over time, and we fund these repayments from rates. They have set a limit on our overall debt of 175%. On an overall basis, we project that we can manage within the increased limit of 175%. What the projections do reveal however, is that when we drill down and look at the proposed level of debt for just our three-water activities alone, compared to the revenue for these activities over the next 10 years, the ratio gets as high as 416%.

## Three waters debt to revenue ratio compared to overall debt to revenue ratio




## Forecast three waters debt compared to three waters revenue

| | Annual Plan 2023/24 $000 | 2024/25 $000 | 2025/26 $000 | 2026/27 $000 | 2027/28 $000 | 2028/29 $000 | 2029/30 $000 | 2030/31 $000 | 2031/32 $000 | 2032/33 $000 | 2033/34 $000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Debt** | 35,727 | 70,009 | 98,022 | 113,046 | 120,130 | 117,172 | 110,481 | 104,307 | 98,434 | 87,152 | 94,310 |
| **Revenue** | 18,791 | 22,598 | 24,672 | 27,177 | 28,867 | 30,242 | 31,168 | 31,841 | 32,151 | 32,270 | 32,768 |
| **Debt to revenue ratio** | 190% | 310% | 397% | 416% | 416% | 387% | 354% | 328% | 306% | 270% | 288% |

This made us question, is that level sustainable? Does the debt of the three water activities unfairly reduce the ability for Council to meet other needs and wants of the community? Given the infrastructure needs that lie beyond the 10 years of this plan (as outlined in the 30-year Infrastructure Strategy) how are our funding decisions within this 10 year plan going to leave us placed to deal with the following 10 years and beyond?

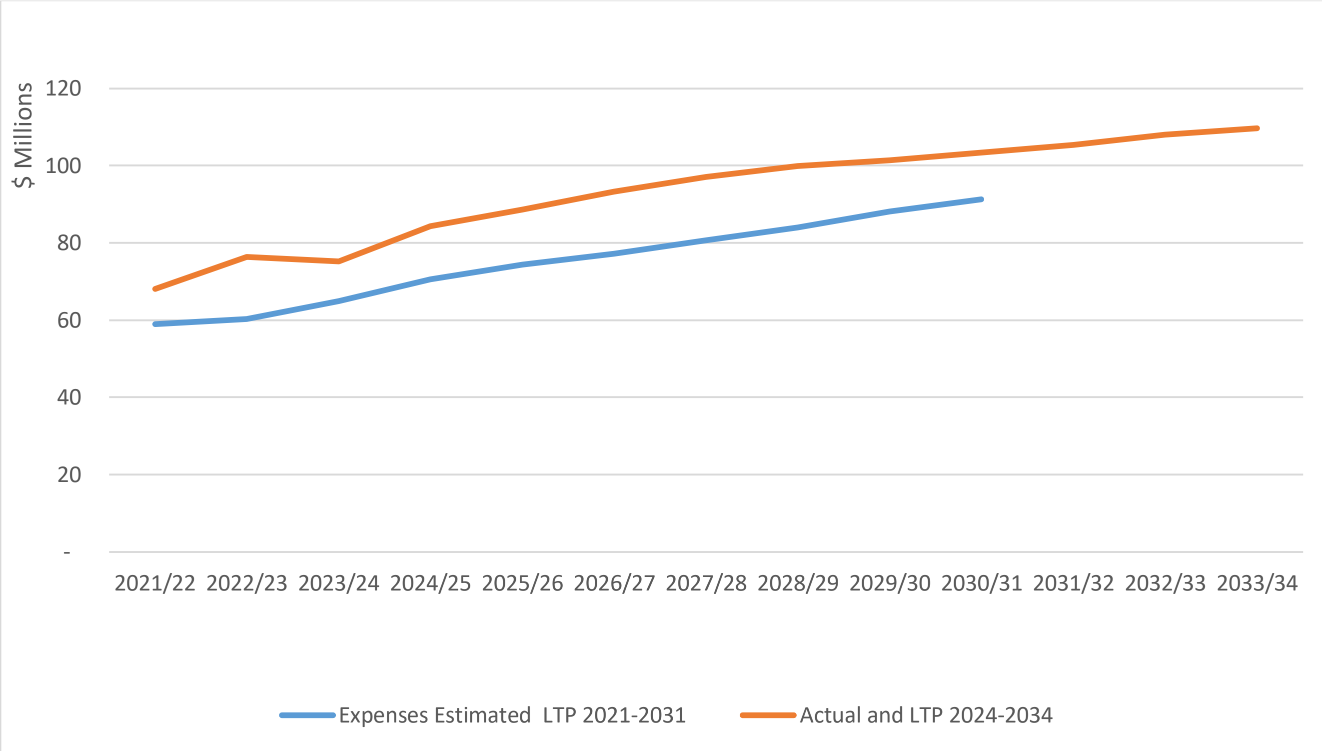
And how can we address this issue? There are two ways – reducing debt or increasing revenue. All of Council's proposed three waters capital work is considered MUST DO projects, so Council's ability to reduce debt is limited, leaving increasing rates as the most likely solution. However, with so much uncertainty around the three waters space at this time, and our overall debt manageable within the limits, Council does not think it would be prudent to rush into hiking rates to resolve this now. Instead, we've provided for a small additional increase in three waters revenue of 1.5% over the last 4 years of the plan, which will put us in a better position to address the debt position post 2034. And being aware of this issue, it is something we can continue to monitor over future Long Term Plans and as the future becomes clearer from the government's position on three waters, regulation and potential future funding sources.

**Setting limits on three water rates separately from rates for all other activities**. Council has very little discretion in the three waters space, and the rates we have proposed are what we consider to be the minimum required to meet the increased requirements. Council has more discretion around our general rate funded activities, and other targeted rate areas, so we have set separate limits on rate increases for each. See more in our financial goals section on limits on rate increases.

## The costs to maintain our current levels of service have increased more than we projected

The actual costs to provide our services - maintaining our roads, replacing our water pipes, powering our treatment plants, treating our drinking water and pools, insuring our assets, employing staff, processing building consents, fuel for mowing our parks - almost everything increased by far more than what we had projected when we adopted the last Long Term Plan back in June 2021.

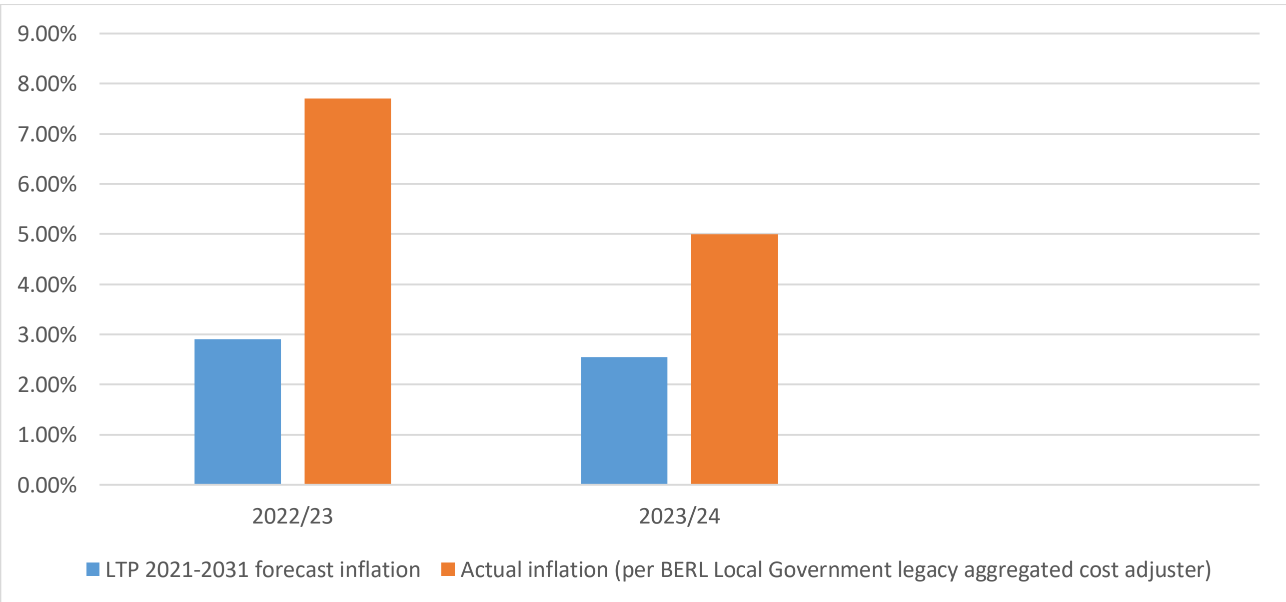
## LTP 2021-2031 forecast expenditure compared to actual and LTP 2024-2034 forecast




In the last Long Term Plan, the rate increases projected were based on the assumption of expenses increasing by inflation rates of 2.9% in 2022/23 and 2.55% in 2023/24.

The actual inflation for 2022/23 for local government is calculated by BERL at 7.7% and is projected to be 5% for 2023/24.

## LTP 2021-2031 forecast inflation vs actual inflation for local government



On top of the inflation in costs and aside from the growing costs of compliance and regulation in respect of the three waters, the scope of our services has had to increase to look after new parks, walkways, cycle trails, footpaths, streetlights etc. that have been developed in our district over recent years, along with the costs of regulating, processing and monitoring all of that development. We have extended cemeteries to maintain, and additional event centres to manage.

Like all businesses, the unexpected can happen. Unexpected pressures on our costs increase the risk of activities being short-funded or non-urgent work needing to be delayed. It isn't sustainable to have deficits in our operating funding. So our choices are either to cut services to reduce our costs, or to increase rates and other revenue.

### We have to accelerate changes to our operations to meet the expectations of regulators

Regulatory bodies and the community expect Council to achieve the expected regulatory standards. This applies particularly to the production of drinking water and the discharge of sewerage. This has also had an impact on our building consent process.

These requirements necessitate that Council must ensure systems and processes are more robust to meet the expected standards.

As a result, we have to accelerate our efforts to ensure we can comply with regulatory requirements. An example is the bio solids (sludge) that have accumulated at the Morrinsville and Te Aroha wastewater treatment plants. This material presents an environmental risk and we have known for some time that it must be addressed. It is estimated that it will cost $8.5 million over 5 years. We have made provision in the plan to remove the sludge and fund this over 15 years.

Regulators determine the minimum standard that Council must achieve. We can aim to exceed these standards. Council does not have discretion to achieve lower standards.

### We accept that our systems have to be more robust

The structure of the organisation has been largely unchanged since 2011. In that time our district and the organisation have grown. With changes in legislation and regulation we have been reflecting on whether the current structure is fit-for-purpose. This has included:

- the need for resilience and robustness in the delivery of our services
- how we can be more effective at providing our services
- being ready to respond to what the future may bring

These goals have been balanced against the need to be a good employer. A place where people want to come and work to meet the needs of our community.

We are proceeding with a new organisation structure that is planned to achieve these outcomes and be more efficient.

As part of this organisation change we are investing in new digital technology. It is not sustainable to expect to be able to employ more staff to respond to increased demands. Digital technologies can help free up staff from repetitive or dull aspects of their work, allowing them to focus on the most important parts of their job.

Council will be investing $800,000 over three years to be funded from special funds. The return on this investment would be expected to filter through from year 4 of the Long Term Plan.

# Ngā whakautu I Our response

## Our goals and actions

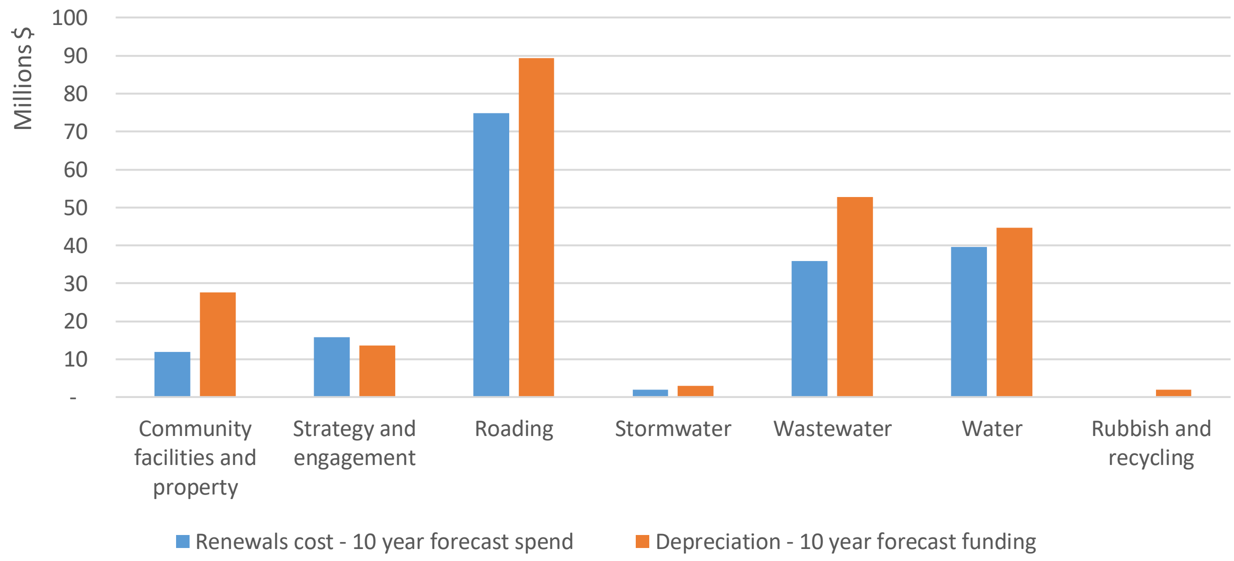
### Our goals haven't changed, our actions have changed slightly

| Financial goals | Key actions |
|---|---|
| Maintain the levels of service we currently provide | Use asset management planning to ensure the future costs of maintenance and asset renewals can be planned, and actively minimised<br><br>Allocate $180 million over 2024-2034 to renew existing assets<br><br>Smooth our costs and any anticipated drops in revenue where possible, to minimise the impact on ratepayers<br><br>When the time is right, extend services to provide for new areas of growth at a forecast cost of $46 million over 2024-2034 ($38 million of which relates to wastewater) |
| Improve some levels of service where this complements our vision. | Give priority to improvements that are related to compliant and resilient water and wastewater systems<br><br>Undertake other improvements that align with Council's vision and that are already committed<br><br>Allocate $119 million over 2024-2034 to improve levels of service |
| Set prudent limits on rates and rate increases. | Rates for the three waters services will not increase by more than 25% in 2024/25, 11% in 2025/26 and 2026/27, and will not increase by more than 7% over the remainder of the 10-year period<br><br>Rates for all other activities will not increase by more than 12% in 2024/25, and will not increase by more than 5% over the remainder of the 10-year period<br><br>Leverage other funding opportunities where possible<br><br>Maintain or increase the proportion of revenue from user fees and charges |
| Set prudent limits on debt | Limit net debt to 175% of annual revenue |

## Goal 1: To maintain the current levels of service we provide

In order to maintain our current levels of service, we will continue to maintain and renew our existing assets. Robust asset management planning is critical in ensuring that this is done in the most cost effective and sustainable manner. Our asset management plans (AMPs) set out the plans and timing for the renewal of our assets over the term of the Long Term Plan and beyond. Refer to the Infrastructure Strategy for more discussion on Council's approach to asset management planning. The planned renewal costs over the 10 years of the Long Term Plan and the funding from depreciation (rates) is shown below:

### Forecast asset renewal costs and funding for next 10 years, by activity group

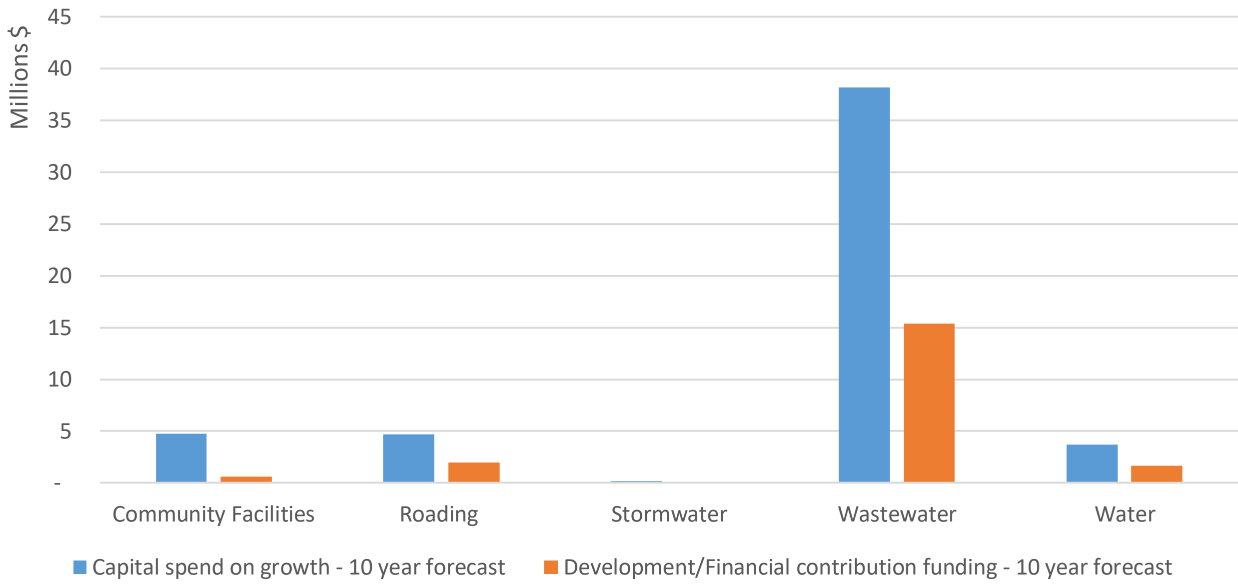



For activities where the depreciation funding collected over 10 years is less than what is forecast to be spent on renewing assets, we will look to fund the shortfall by borrowing from other activities where the funding collected over this 10-year period is more than required for the planned spend.

Our infrastructure renewal costs can vary widely from one year to the next as our assets have different lifecycles and need to be replaced at different times. Where possible, we've smoothed peaks in our reticulation and roading renewals, and we have considered the affordability and timing of other projects alongside compliance related spending.

Our AMPs also set out, based on the assumptions developed around population and development growth (see Part 2), the level of investment required to provide the required infrastructure at the right time. This infrastructure will extend the provision of services currently provided to new areas of development. That investment over the next 10 years, along with the funding expected from development and financial contributions over this same time is shown below:

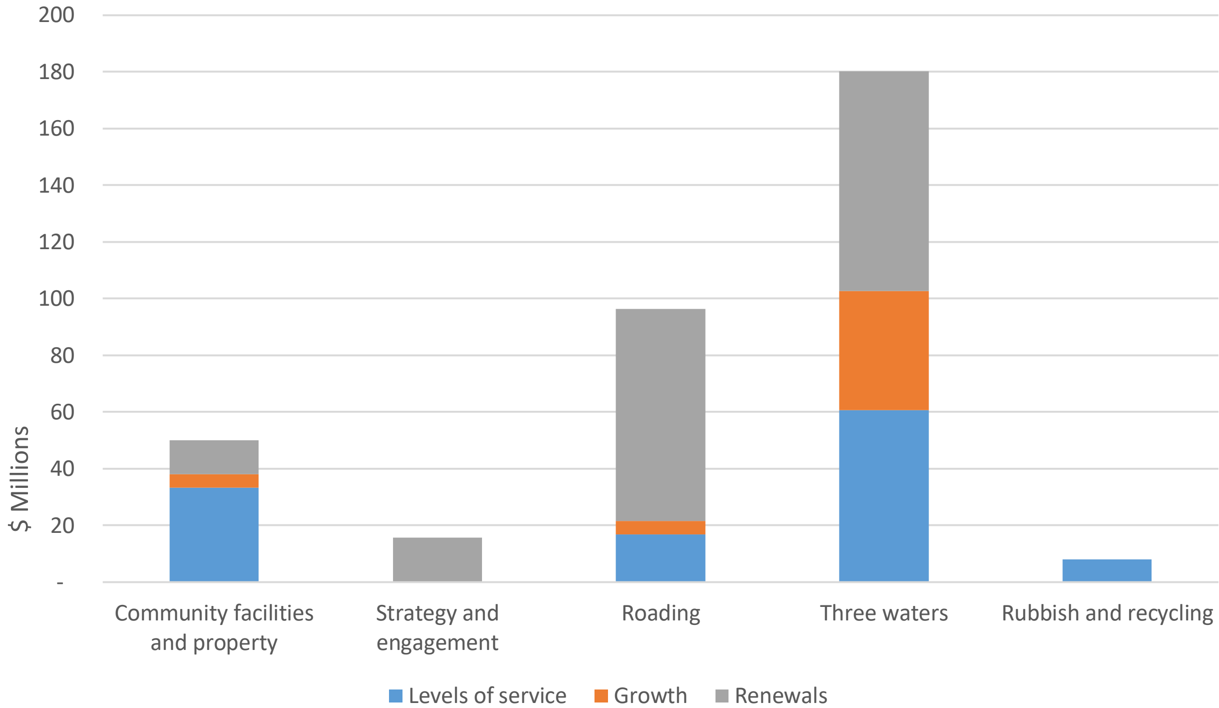
## Forecast growth capital costs and development/ financial contribution funding over next 10 years




The total contributions to be collected for projects are spread out over a 25-year period, so will continue to be collected outside of this Long Term Plan period. The contributions to be collected over the next 10 years shown above, will be used to reduce the amount borrowed to fund the capital works undertaken to meet the demands of growth in the district.

## Goal 2: To improve some levels of service where this complements our vision

### Forecast total capital spend for next 10 years




Our capital programme is based on progressing the most urgent projects. It is not physically possible or financially viable to do all of our capital projects.

Once again we have had to prioritise our projects. Infrastructure projects and particularly water and wastewater dominate the investment programme. This reflects the need for more resilience in our systems to ensure we comply with expected standards. This has meant that we cannot afford to include as many improvement projects as we would prefer.

Council has more discretion on non-infrastructure activities (Community facilities and property). This is where we are making the biggest trade-off with our improvement programme to keep rates as low as possible. We are limiting our discretionary projects to those that have already been committed to. This means that we cannot progress as many improvements as we would like.

# Goal 3: Set prudent limits on rates and rate increases

## Proposed rates for the next 10 years

| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Proposed total rates revenue* $000 | 51,129 | 59,162 | 62,903 | 66,567 | 70,267 | 73,229 | 75,531 | 77,329 | 78,756 | 80,755 | 81,897 |
| Proposed increase in total rates revenue* | 14.4% | 15.7% | 6.3% | 5.8% | 5.6% | 4.2% | 3.1% | 2.4% | 1.8% | 2.5% | 1.4% |

*Total rates revenue includes targeted rates from metered water that is charged to large industries and extra-ordinary water users.

Increases in three waters operating expenses, capital budgets and debt have a significant impact on Council finances in the early years of this plan.

The changes are driven by the need:

- to comply with tougher regulations - particularly for drinking water and sewerage treatment
- to have more robust systems to deliver the services we provide to the standards expected

Regulators can have a major influence on the focus and timing of the investments Council has to make. Council has more choice/ discretion in non-three waters activities. For this reason, Council has decided to set two rating limits for the 10-year period:

### Three waters activities

Rates for the three water services will not increase by more than 25% in 2024/2025, 11% in 2025/2026 and 2026/2027, and will not increase by more than 7% over the remainder of the 10-year period.

### All other activities

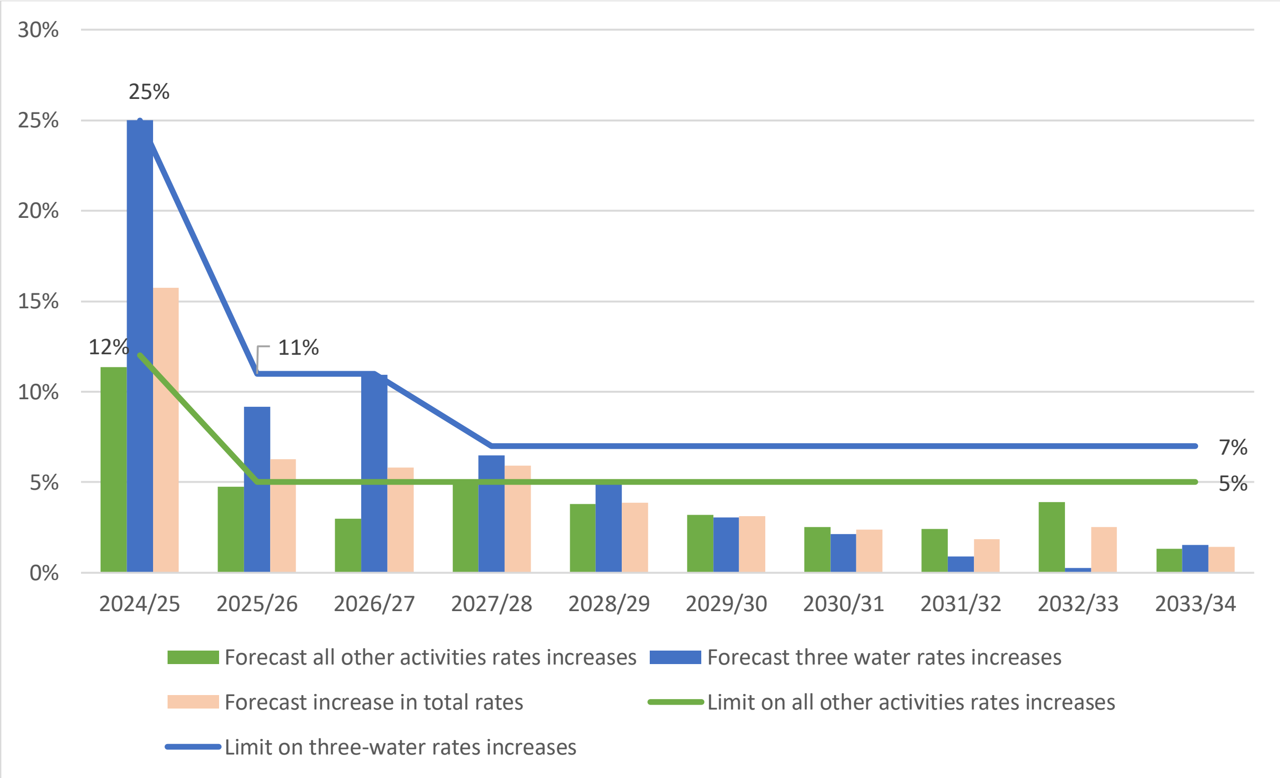
Rates for all other rates funded activities will not increase by more than 12% in 2024/2025, and will not increase by more than 5% over the remainder of the 10-year period.

- The green bars show projected rate increases for all our services, EXCLUDING water, wastewater and stormwater. If your property doesn't have water, wastewater or stormwater services, then you only need to look at the green bars.

- The blue bars show projected rate increases and decreases just for water services. If you have a fully serviced property, then you will be affected by both the green and blue bars.

- The pink bars show the projected increase in total rates – that is the total rate revenue that Council collects from the whole district including from our large industrial metered water users.

## Proposed rate increases and limits showing three water related rates, rates for all other activities and total rates




### Leveraging other funding opportunities

Council will continue to partner with or seek funding from industry, community groups, other district and regional councils and central government agencies to deliver shared outcomes that benefit our district.

In recent years our district has benefited from funding from Waka Kotahi (NZTA) for connectivity projects under the Transport Choices funding scheme which funded the Morrinsville Recreation Grounds shared walkway, Ministry for the Environment funding for waste minimisation initiatives which helped fund aspects of the new kerbside collection contract roll-out, partnering with the Ministry of Education to provide the new indoor Matamata Stadium, etc. Council will also continue to pursue funding opportunities as they arise.

### Maintain or increase the proportion of revenue from user fees and charges

One way that we can ease pressure on rates is to increase fees and charges.

We have forecast to maintain fees and charges at around 14% of total revenue over the 10 years of the LTP. Because costs have increased so significantly, this will require a large jump in many of our individual fees for 2024/25, and then a steady increase for inflation over the remainder of the 10-year period.

In terms of total revenue from fees and charges the increase in 2024/25 represents an 8% increase which is relatively small in the context of the proposed rates movements. But the change signals an intent from Council.

Increases in the cost of providing services have often not been matched by increases in fees for the service. Council wishes to ensure that people who directly benefit from the services will be expected to pay a justifiable share of the service, and may look to increase this share in the future. However, it is also important to find a balance that does not discourage use of our facilities and services, and a decline in the outcomes we are aiming to provide for our community.

## Goal 4: Set prudent limits on debt

We currently borrow money to pay for new assets – for water, wastewater, roads and community buildings and facilities that will service the community over a long period of time.

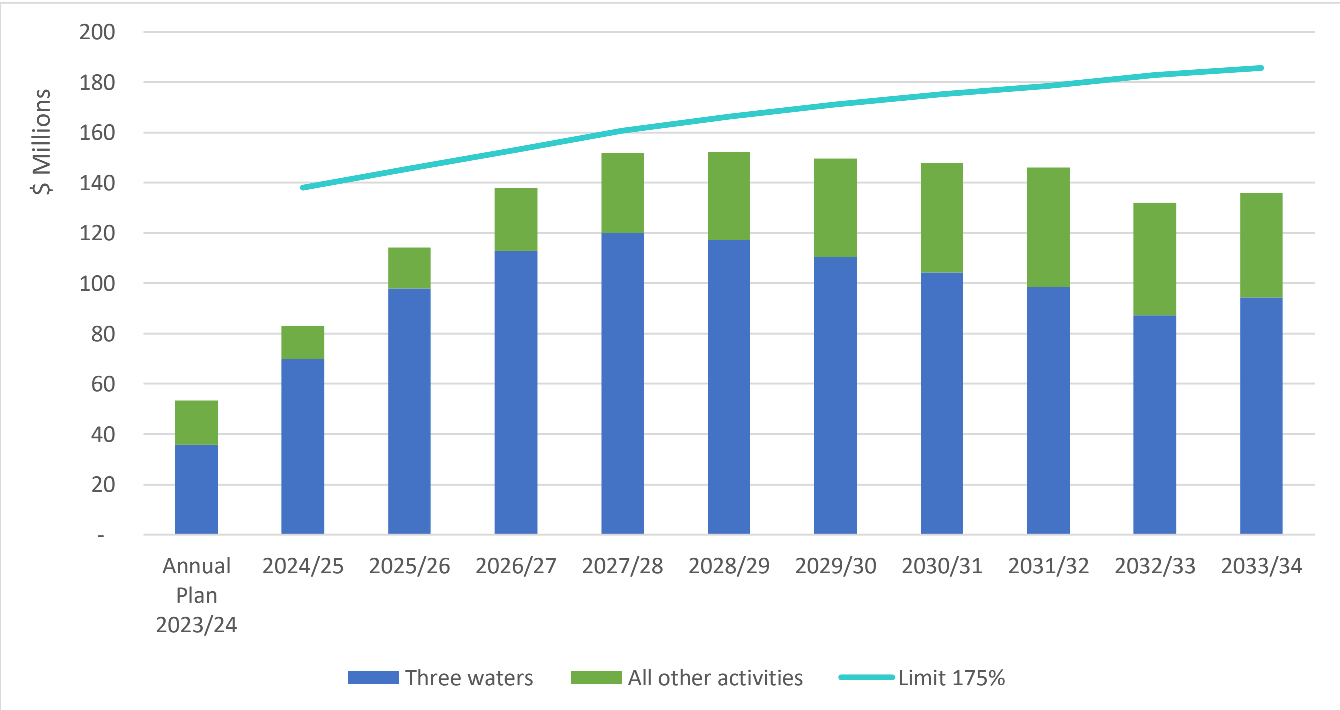
Using loans to pay for these kinds of assets means we can recover the costs over time, so that both current and future ratepayers pay their fair share.

It also means that increases in rates are usually more stable/steady, as the cost of the asset is spread out over a longer period. While having a certain level of debt makes sense, it can also make us feel uncomfortable – we shouldn't borrow any more than we can comfortably afford to pay interest on, or eventually repay.

The New Zealand Local Government Funding Agency (LGFA) is one of the main lenders to New Zealand Councils. As our key lender, LGFA has set a limit on how much it believes our Council can comfortably borrow, based on our net debt compared to revenue – which is set at a ratio of 175%. (Net debt is external borrowing less cash and investments).

Up until now, Council has set our own internal limit at a more conservative level of 150%. We have only before reached as high as 47%, and have felt comforted by the extra buffer within our debt limits, which provides opportunity to the district if new things come up, and security if the worst happens.

### Proposed net debt to revenue




To fund the MUST DO capital work required for our three waters activities, we're proposing to increase our debt significantly over the first 3-4 years of this plan. This would push our debt over 150%, peaking at $152 million or 166%, meaning we would exceed our current limit and have very little to no headroom for much of the next 10 years. These pressures mean that we feel there is little option but to increase our limit to 175% - however this is not a target. Any borrowing adds additional interest costs to ratepayers, so all projects will continue to be carefully considered with that tension in mind.

How our actual debt tracks against this forecast will depend significantly on how well we progress with our planned capital programme. We expect our debt to be, on average, around 143% of our revenue over the next 10 years.

Risk management strategies for debt are outlined in Council's Liability Management Policy, including strategies to manage interest rate risk, limits to manage liquidity and funding exposure, counterparty credit exposure, debt repayment, borrowing limits, maintaining financial covenants and security arrangements. The full policy can be found at mpdc.nz/liabilitymanagement. Council has an opportunity to review the impact of interest rates on its overall costs and rates with the community at each Annual Planning round, and can look to slow and spread capital work programmes and/or levels of service accordingly and where this is acceptable to our regulators. However, should a significant event occur, there is uncertainty that the headroom will be sufficient. Included within the headroom, we have a $5.4m investment fund for emergencies and a $6m credit facility for urgent cashflow requirements.

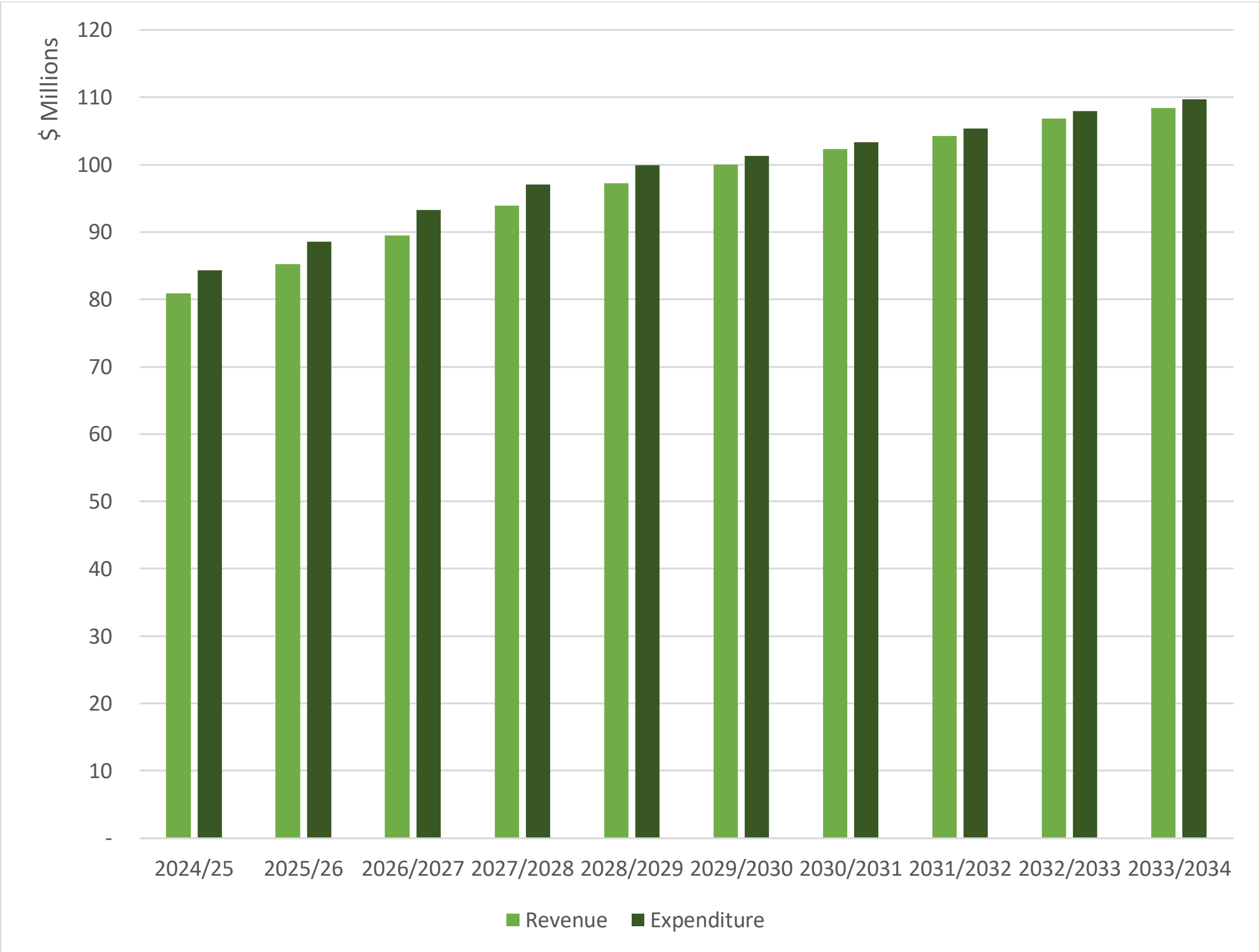
Council's full suite of financial prudence benchmarks can be found in section 6 of the Long Term Plan .

# More on different actions we are taking

### We have looked at how we fund things and are proposing to have an ‘unbalanced budget’

Under the Local Government Act 2002, local authorities are required to set balanced budgets, where operating revenue is equal to expenditure. Council may operate an unbalanced budget only where this can be shown to be financially prudent. We’re proposing to have an ‘unbalanced budget’ in all 10 years of this plan. This means that the revenue received each year will be less than the expenses for that year.

## Proposed unbalanced budget over the next 10 years




There are three reasons for this:

- To manage the level of rate increases (affordablity) over the next 10 years
- We are not planning to fund the total depreciation expense each year
- We are planning to remove wastewater biosolids (sludge) for Matamata, Morrinsville and Te Aroha over a 5 year period. We are going to fund this work over a 15 year period.

In making sure these decisions are prudent over the term of the Long Term Plan, Council have considered the risks and what effect they may have on the level of service we can provide, funding of the service and how it may impact both current and future ratepayers. These considerations are outlined below.

**Affordability**

We have a goal to manage the level of rates increases over the next 10 years by keeping them affordable and avoiding significant fluctuations. Our capital programme is heavily dominated by infrastructure projects. This is influenced by regulation, particularly around three waters, government funding for roading and maintaining critical assets. Non-infrastructure activities are where we have more discretion and this is where we are planning the biggest trade-off with our improvement programme to keep rates as low as possible. We are limiting our discretionary projects to those that have already been committed to. This means that we cannot progress as many improvements as we would like.

**Depreciation**

Depreciation is an accounting entry not an actual cash expense.

Annual depreciation, which is reflected as an expense in each year, provides a guide on the amount of money that should be collected each year to fund the replacement of assets at the end of their life. Asset replacements are funded directly from rates. Asset lives are based on estimates and in general there is a low level of uncertainty. However, there is greater uncertainty related to the asset lives of stormwater assets. We don’t believe it is necessary to collect the total depreciation expense each year for assets as outlined below:

**Community Facilities** - There are a number of buildings on Council land that are not owned by Council or are not essential to Council operations. Council has decided that it will not make provision to fund the replacement or refurbishment of these buildings, amounting to an average of $141,000 per year that would otherwise have to be recovered from rates or from users (or a mixture of both).

Council’s approach places the responsibility for building refurbishment and replacement on the users or owners of the buildings. The risk is that the different groups will not be able to raise the necessary funds to undertake this work. There may then be an expectation that Council will fund the work.

However, Council has determined that this approach is prudent as the buildings in this category are not essential. Non-replacement or non-refurbishment of the buildings is a valid option. This does not prevent owners or users of the buildings from funding the work required.

**Roading** - The renewal or replacement of roading assets is jointly funded by Council and Waka Kotahi (NZTA).

We have ensured that we rate for Council’s share and have assumed the agency will continue to meet its obligations. This amounts to an average of $3.2 million per year which we would otherwise have to include in the rates.

As Council is funding a sufficient amount to meet its share of the planned physical works, there is not considered to be any financial risk over the term of the 10-year plan. A fundamental assumption in this approach is that Waka Kotahi (NZTA) will continue to fund its share of the programme.

On that basis Council is comfortable that the approach is prudent.

**Stormwater** - The amount of depreciation over the ten years is $12.1 million. In that period we are expecting to undertake $4.8 million of capital work.

The 30 year projection in the Infrastructure Strategy shows that the major portion of our asset replacement or renewals occurs in the 20 year period after this plan.

So instead of using depreciation as a guide, we have looked at how much we would have to invest each year to ensure we have sufficient funds to undertake the work. This has reduced our annual provision by an average of $908,000 per year. Alternatively, we would need to fund this amount through annual rates.

This is considered to be a low risk strategy as there will be a number of long term plans to review the calculations before the renewals programme escalates. Council considers it is prudent as the strategy is to ensure sufficient funding is available to meet the renewals programme. This strategy meets that test for the 10 year and 30 year planning periods.

**Desludging**

Council is planning to remove biosolids (sludge) in ponds in the Morrinsville and Te Aroha wastewater treatment plants. This is estimated to cost $8.5m and the work will be undertaken over 5 years. The sludge has built up over many decades.

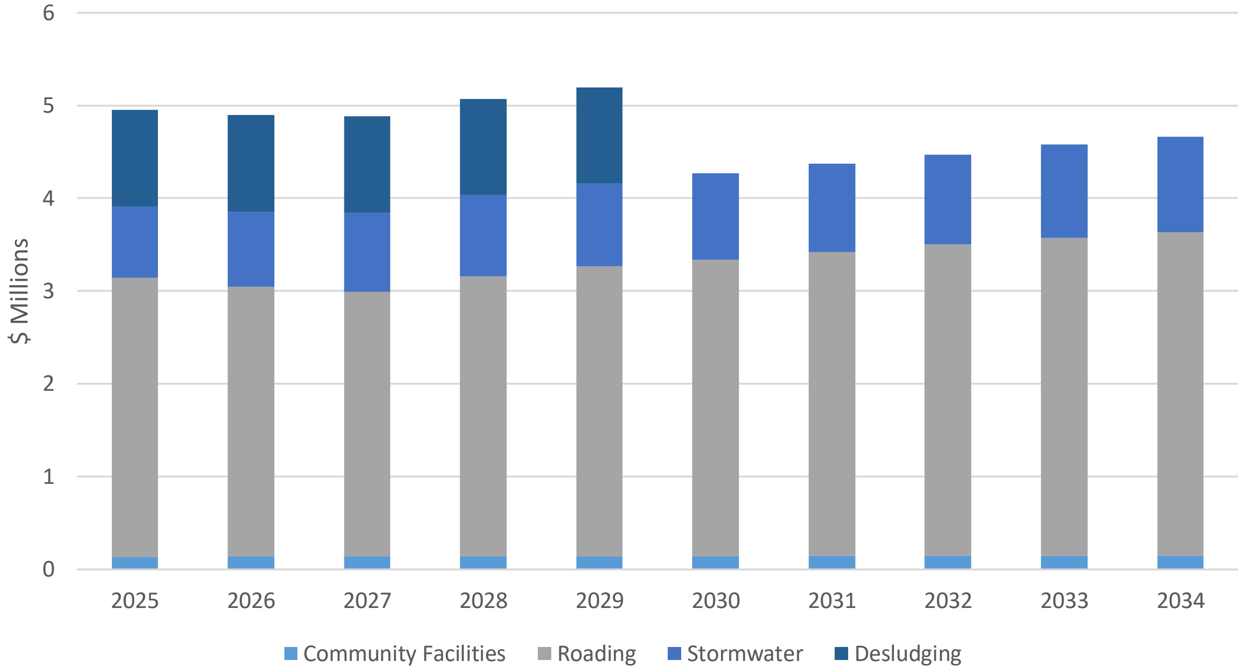
Council has decided that it is unfair, particularly in the current environment, to load all of that cost on ratepayers over a 5 year period. Instead it will be funded over 15 years, resulting in $1.04 million less funding from rates per year for the first 5 years.

This is considered to be a low risk strategy as Council can continue to manage within its prudent debt limits over the term of the Long Term Plan. Also funding the work for rates over 5 years would have increased the risk of making rates less affordable. Council considers this strategy is prudent as it ensures the work is funded from the appropriate sources, over an extended periods, and the desludging work will also provide the benefit of increased capacity over an extended period.

**Overall impact of the unbalanced budget**

Together, these alternative funding decisions result in a funding gap between revenue and expenses over the 10 year plan as follows:

## What is not funded over the next 10 years?




We are not planning to take steps to achieve a balanced budget during this 10-year period. With each Long Term Plan cycle we will re-assess our financial position. We foresee that an unbalanced budget will likely continue past the 10-year period due to similar reasons as stated above for this cycle.

Except for the wastewater sludge removal projects, there is not expected to be any impact on our borrowing as a result of the unbalanced budget beyond this 10-year period. The proposed budget is based on a number of assumptions, with the risk of uncertainty and impact high in some. A full understanding of these assumptions and risks is presented in this Long Term Plan.

As outlined above, Council acknowledges these alternative funding decisions are not without risk, but considers them to be prudent considering that projected funding will ensure levels of service will be maintained and that intergenerational equity will be achieved by ensuring that the current generation does not fund replacement of assets significantly in advance of when their replacement will occur, or fund assets that are not considered essential to the desired levels of service. These funding decisions are consistent with the Revenue and Financing Policy.

# Ngā mōrearea I Risks

## What are the risks in our strategy and how do we manage these?

Our Financial Strategy is based on a number of assumptions that have been made using the best information we have at this point. These include assumptions on the forecast level of inflation for local government costs, interest rates, growth in the population and rating base, the impact on revenue streams related to the entry or exit of large industrial users in the district, continuing government subsidies etc.

We have continued to plan and budget to undertake our Water, Wastewater and Stormwater activities, but acknowledge that this may change in the future.

Some of these assumptions could have a big impact on our financial situation if they prove to be significantly higher or lower than we anticipated. The assumptions set out in Part 2 explain how shifts in these assumptions may be managed, and the need to manage these will be assessed on an annual basis in the development of the Annual Plan.

As we have already noted, the need to improve our three waters services to comply with regulations or consent conditions is a major driver for the plan. Council has based the capital programme on priorities and also what it thinks it can practically achieve. It is possible that priorities in these areas could change at the direction of regulators.

# Ngā take pūtea I Other financial matters

Our Financial Strategy is required to include information on our objectives for holding financial investments and equity securities and to provide quantified targets for returns on those investments. We must also include our policy on giving securities for our borrowing.

## Investments

Our Investment Policy (available on our website) sets out the detail of the type of investments we can hold, and our objectives and risk management strategies related to holding these investments.

Council's commitment is to:

- Prudently manage Council's financial investments, from low risk investments
- Maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements
- Invest only in approved investment instruments and securities
- Seek to optimise investment income

## Cash and treasury investments

We hold cash and treasury investments, such as term deposits, as part of managing our cash flow to finance our day to day operations and capital expenditure programme. Other purposes include:

- To provide cash that could be accessed in an emergency situation, like in the event of a natural disaster. The cash could act as a buffer until normal revenue streams are reinstated following an event. Council has a $5.4 million fund invested that could be utilised for this purpose
- To invest funds allocated for approved future expenditure
- To invest funds allocated to restricted reserves
- To manage debt refinancing risks, by pre-funding maturing debt, and investing any surplus where considered prudent
- To maintain and manage liquidity risk

We have targeted an average rate of return on cash and treasury investments of 4.91% over the 10 years of this Long Term Plan

## Strategic Shareholdings

Council holds a range of strategic shareholdings that we have acquired over a number of years. We intend to continue to hold these investments, specifically for the strategic benefit that they create for the district. These investments include:

| Entity and Holding | Objectives of holding equity | Target rate of return |
|---|---|---|
| Waikato Regional Airport Limited – 15.625% | To secure the retention of the airport as a major infrastructural facility, important to the economy of the Waikato. The airport also operates a tourism subsidiary which aims to promote the region to tourists. We contribute separately to this subsidiary by way of an annual grant. | ≥0% |
| Waikato Local Authority Shared Services Limited (Colab) – 3.43% | WLASS was established to provide the councils in the Waikato region with a vehicle to procure shared services. It provides a mechanism to achieve operational efficiencies and contributes to economic wellbeing. It is an investment which aims to reduce the cost of providing generic services. | ≥0% |
| Hauraki Rail Trail Charitable Trust – 33% | The Trust was formed to manage the cycleway which has economic benefits for our district. | ≥0% |
| New Zealand Local Government Funding Agency Limited (LGFA) | We hold borrower notes in the LGFA that are issued at 1.6% of any loans drawn. The LGFA was established to provide secure and lower cost financing options to local government in New Zealand. While we do obtain a return on those investments (on the maturity of the debt raised), the investment is more so a requirement of the funding structure of the entity to ensure it remains viable. | ≥0% |
| New Zealand Local Government Insurance Company (Civic Assurance) – 1.1% | Local Authorities have pooled funds to access cost effective insurance for infrastructure assets and indemnity and public liability cover. | ≥0% |

There are no current plans to invest in additional equity securities during the term of this plan, other than as a requirement of financing debt through the LGFA.

## Security for borrowing

Our Liability Management Policy (available on our website) sets out our policy related to giving securities for our borrowing as follows.

In brief, Council will:

- Offer security over borrowing by way of a charge over rates and rates revenue through the Debenture Trust Deed
- From time to time, may offer alternative security over specific assets, with approval by Council and the Debenture Trust Deed Trustee