

# Financial Strategy

**LTP 2024 - 2034**



# Local Government Act 2002 (LGA)






Financial Management under the LGA is subject to the following

## Key concepts:






- Balanced budget (s101) - projected operating revenues are set at a level sufficient to meet that year's projected operating expenses (can do otherwise if deemed prudent to do so)
- Prudence – realistic, achievable, trends, cashflow, debt sustainability and capability to repay
- Community outcome it contributes to
- Who benefits – general or targeted or user fees
- Funding take into account length of benefits (intergenerational equity)
- Alignment between Infrastructure strategy and Financial strategy
- 4 well-beings

# Key Drivers for our Council

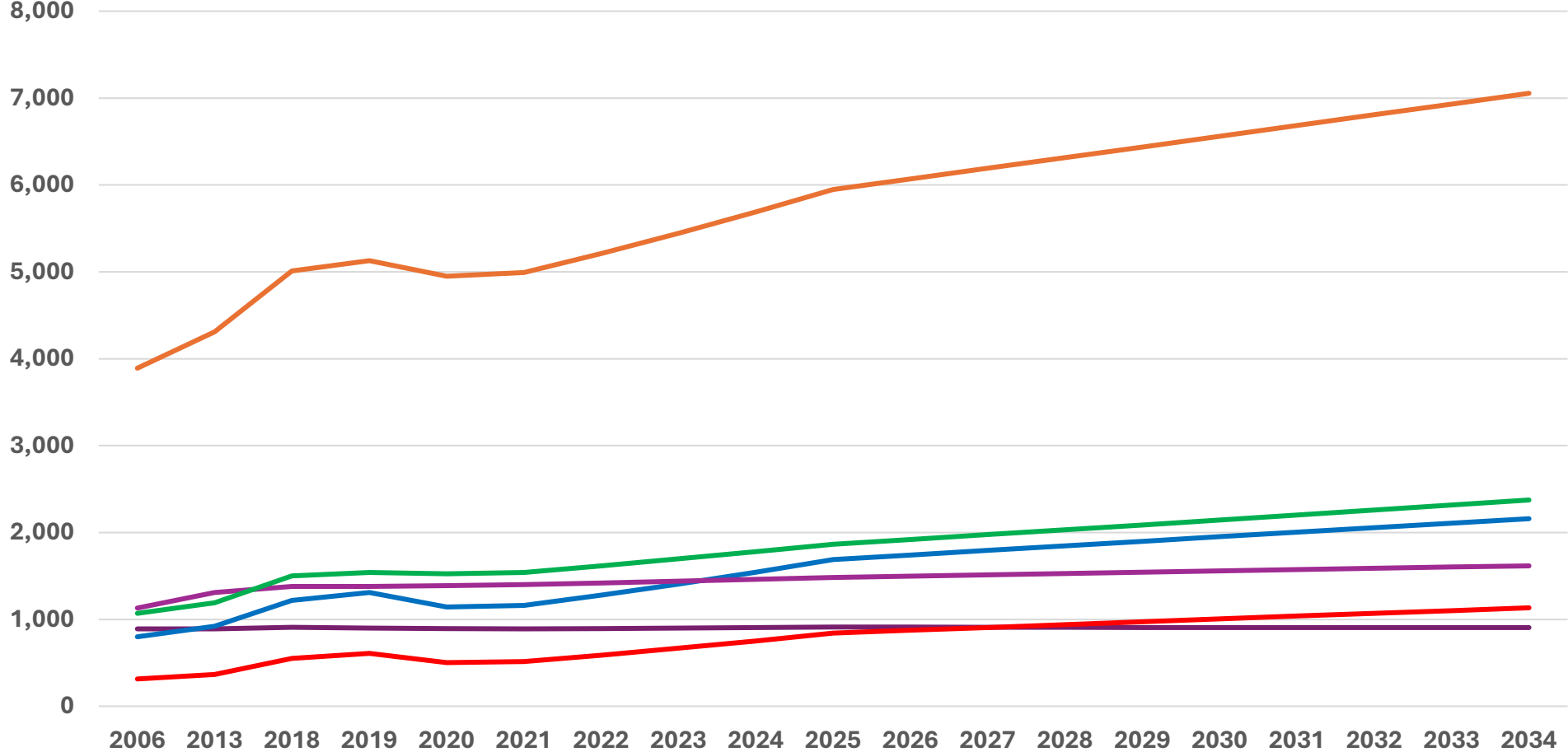
## 2021 Drivers – previous LTP

<p><b>GROWTH</b></p>  <p>A growing population increases the demand for core infrastructure and the ability to maintain a sustainable infrastructure and services</p>	<p><b>LEGISLATIVE INFLUENCES</b></p>  <p>Changing central government priorities and legislation redirects local councils focus and leads to improved standards</p>	<p><b>TECHNOLOGY</b></p>  <p>New technology is becoming available and adoption is essentially a continuous process.</p>	<p><b>CLIMATE CHANGE</b></p>  <p>Increasing temperatures, increasing extreme weather events and rain will put greater pressure on infrastructure and services</p>	<p><b>COVID-19</b></p>  <p>The closure of international borders caused a fall in international visitors which impacts the types of infrastructure and services needs</p>
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## 2024 Drivers

<p><b>GROWTH</b></p>  <p>A growing population increases the demand for core infrastructure and the ability to maintain a sustainable infrastructure and services</p>	<p><b>Government Change &amp; Uncertainty, Regulation &amp; Compliance</b></p> 	<p><b>CLIMATE CHANGE</b></p>  <p>Increasing temperatures, increasing extreme weather events and rain will put greater pressure on infrastructure and services</p>	<p><b>Servicing the High Visitor Demand &amp; Recovery</b></p> 	<p><b>Inflation and cost increases</b></p> 
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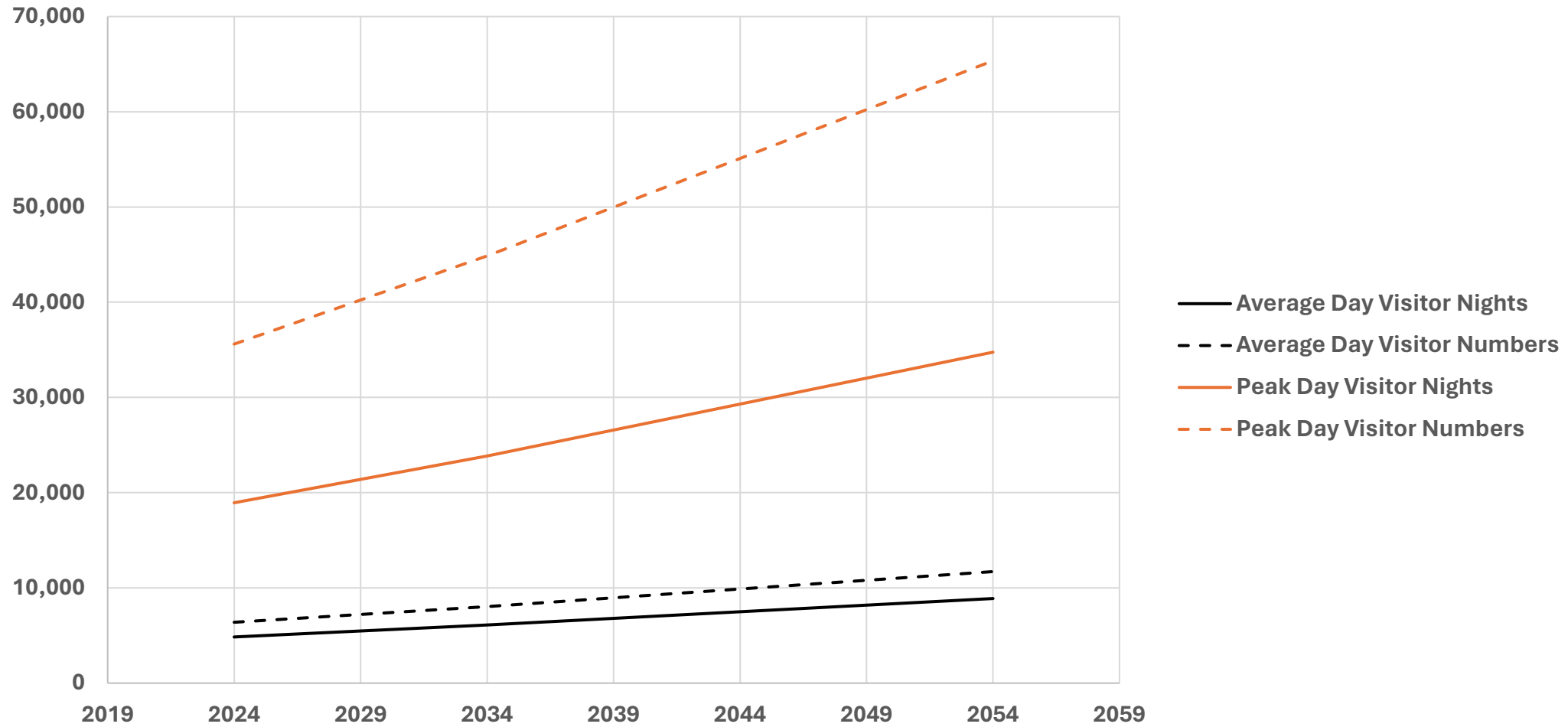
# Population Growth



- District Total
- Fairlie
- Mackenzie Lakes Restricted
- Opua (Mackenzie District)
- Tekapo Restricted
- Twizel Restricted

# Tourism Recovery

## Peak Day and Average Day Visitor Projections - District Total



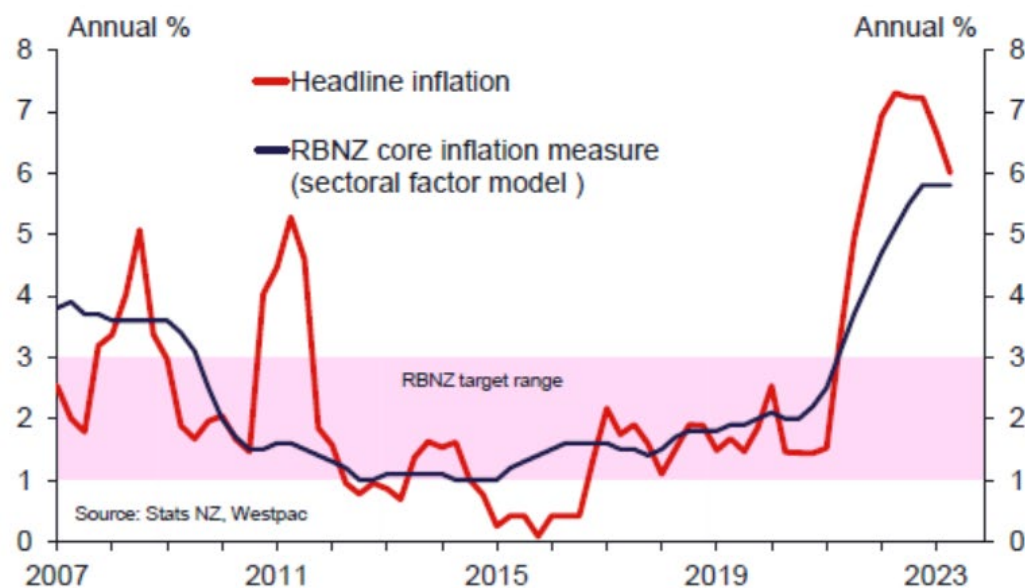
# Change in government Regulations and Compliance

- Repealing of acts reforming local government
- Uncertainty around Three Waters reform
- Announcements to be Government over next 12 months
- Councils expected to have plan for water service delivery but no framework for funding alternative
- Fast track consenting but no way forward about RMA
- New Water Regulator with higher compliance costs and more capital upgrades
- Myriad of acts requiring compliance

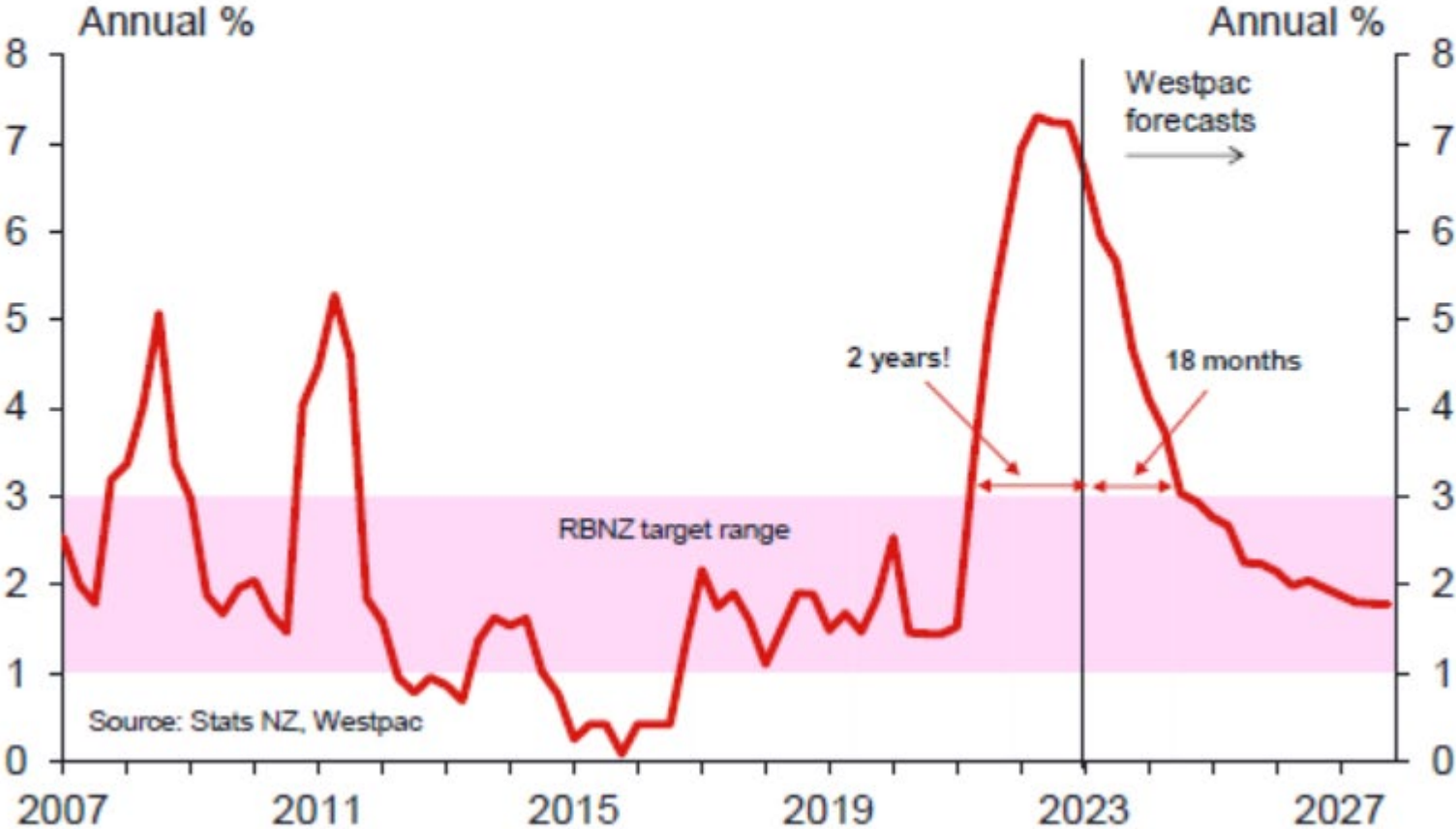
# Impact of inflation

- In the LTP we used 10.2% inflation (BERL indices)
- We budgeted for 18%, 17% and 10.4% (45.4%) rates increases to meet what was required under this lower inflation cost
- In reality, inflation climbed by 27% (using the BERL indices)
- Cost adjustors went up 17% more than planned
- Resulted in 17% less “real” effect of our planned rates increases of 45%.i.e. the gains were reduced by inflation
- This is why the compound effect of inflation has contributed to our projected/proposed increases now

## Consumer price inflation



# Inflation past the peak, set to remain above 3% for extended period





# Financial strategy - purpose and required content

- provide a context for consultation
- effects of those proposals on the local authority's services, rates, debt, and investments.
- provides the strategic direction and the underpinning context
- costs, risks, and trade-offs that underpin the development of the expenditure programmes
- by summarising what happened in the past, describing the present situation and challenges, and setting goals for the future (including why these are desirable and important)

# Our key objectives of the financial strategy

- financially sustainable
- economically sustainable & Council meets its service obligations and statutory requirements.
- meets its operating commitments and balanced budget requirements.
- Good stewardship of assets
- Fund core infrastructure capital programmes to meet standards and legislative requirements set by the new regulator
- Fund Services that meet statutory requirements certain acts eg building Control
- Prudent sustainable debt financial management - each generation pays for its fair share of and capital expenditure.
- provide adequately for network and tourism infrastructure sourcing external funds where possible to assist and help mitigate the impact for local communities

# Key Pillars of our Financial Strategy

**Prudently Rate for what we need to deliver**

**This will mean higher rates increases in the short term due to compound inflation & Increasing needs from population growth and tourism**

**We are working to balance our budget and build our reserves over time**

**We have used internal borrowings to fund expenditure to lower finance costs but this will be repaid and we will fund increasing levels of depreciation for roading**

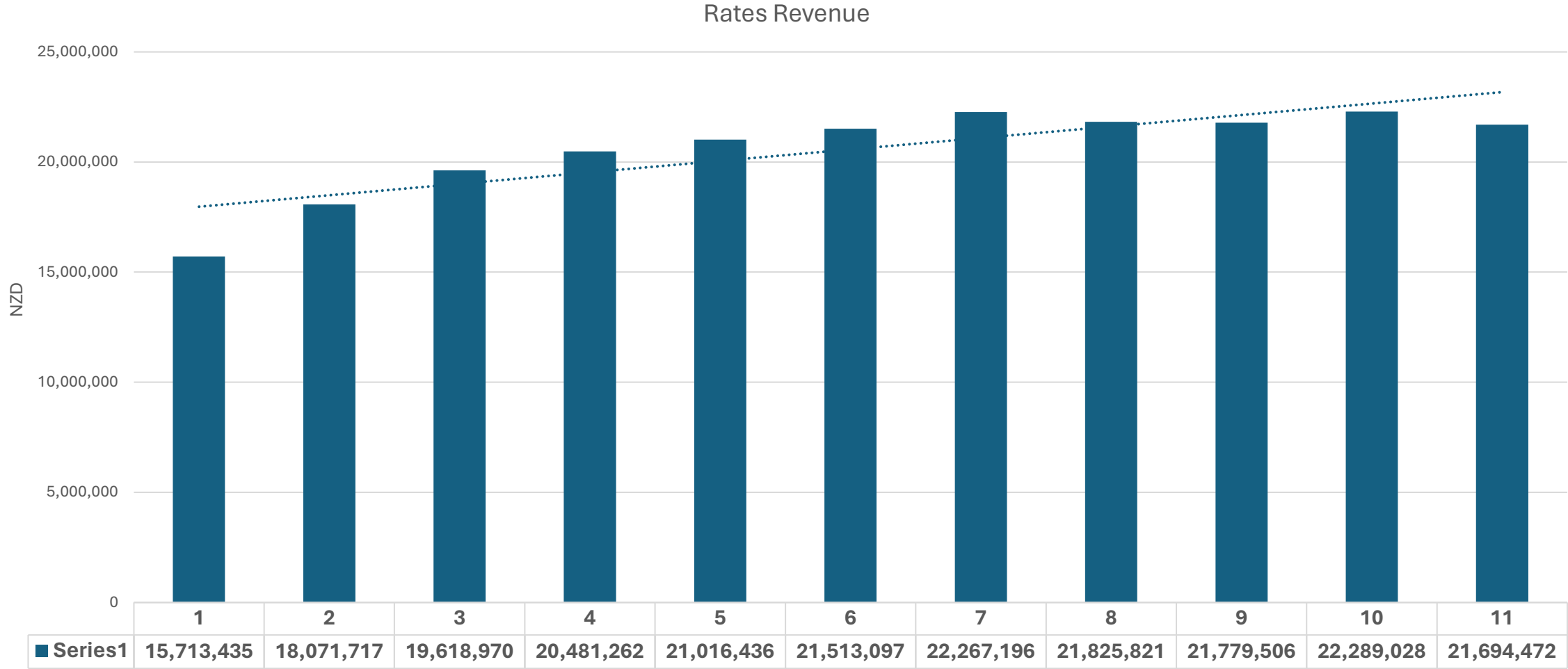
**We will invest in our infrastructure to make sure it is fit for purpose and resilient**

**We need to invest in infrastructure to meet standards and to become resilient to increasing severe weather events**

**We will continue to borrow to fund upgrades and replacements**

**This will mean will increase but we will make sure this is sustainable**

# Rates Revenue



# Key operating expenditure drivers

- Increased Audit NZ costs
- Borrowing costs higher due to increased borrowings
- Increase water compliance costs – software costs for quality monitoring, sampling, additional plant costs
- Insurance increases due to more frequent intensive weather events
- Electricity costs
- CPI Increases built into key contracts (inflation driver)
- Additional costs for community development and community led/ driven projects
- Provided for the provision of an interim library
- Inflation/Cost increases across all activities

# What have we done to reduce costs

- Focus on the critical projects
- Line by line review
- Change in service delivery of building control
- Reduction in contractors and movement to in house staff
- Community Led Development to help drive community projects forwards and sources external funds for key township projects
- District Plan review costs which will be borrowed for and paid back over 20 years

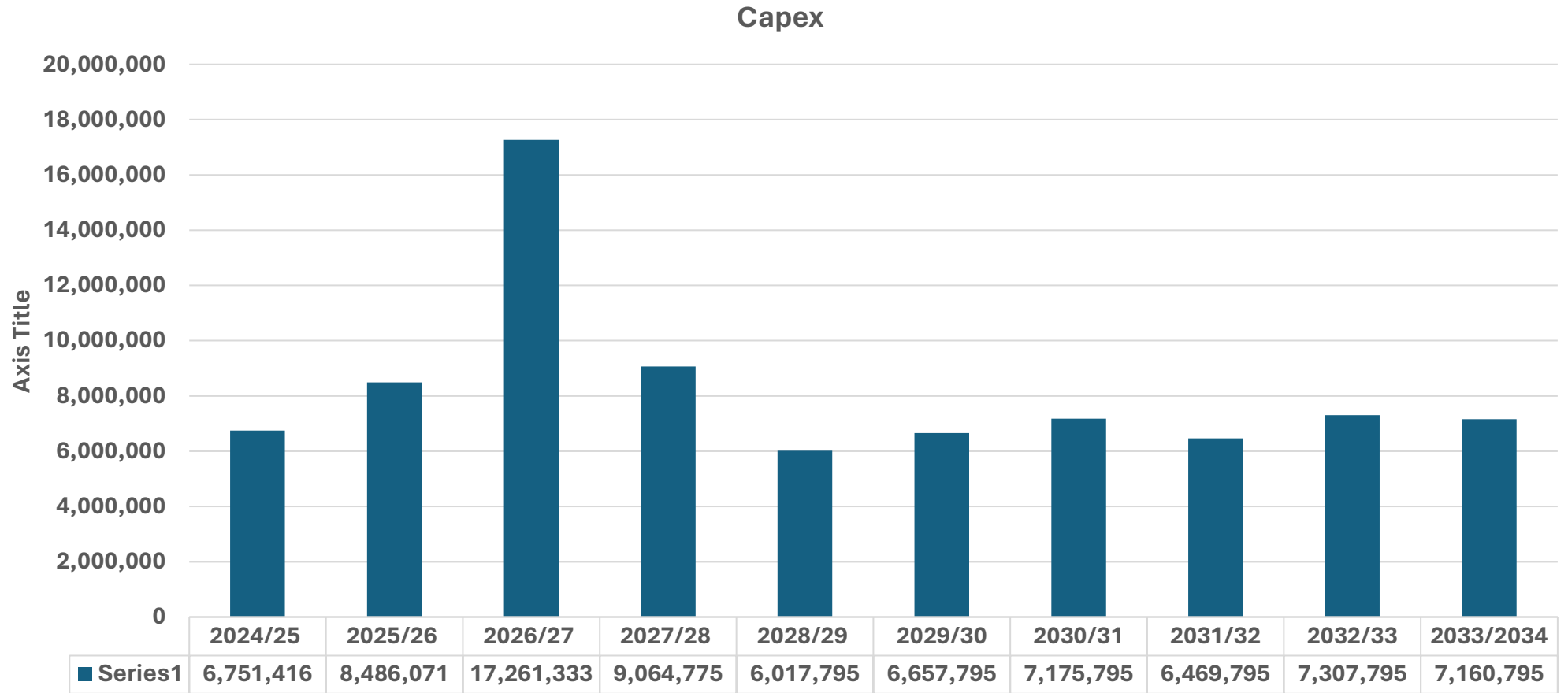
# Key Infrastructure projects

- Roading – Bridges and Cass River bridge (\$6.4m)
- Drainage (\$1.8m)
- Unsealed metaling (\$7.7m) and sealed road resurfacing \$7.2m)
- Footpaths (\$ \$2.7m)
- Water Reticulation pipe renewal programme, second supply main to boost the east Tekapo, water infrastructure for Twizel (\$3.5m over 10 years)
- Improved treatment process, water storage monitoring & SCADA, Fle '30-'33, Tkp '34 (\$1.8m)
- Purchase of Land for the treatment plant (\$ 0.5k)
- Water meters (\$1.14m)
- Allandale water supply compliance (\$ 3.3m)
- Tekapo Waste Water Treatment extension of capacity (\$8m)
- Sewer reticulation (\$4m)
- Real time monitoring of Sewer treatment (\$380k)
- Stormwater reticulation (\$650k)
- Lochinvar stormwater disposal system (\$0.9m)



Investing in  
Infrastructure

# Capital Programme in the LTP (\$82.3m )





# Prudence Benchmarks – statutory requirements

Balanced budget – requirement of LGA Act

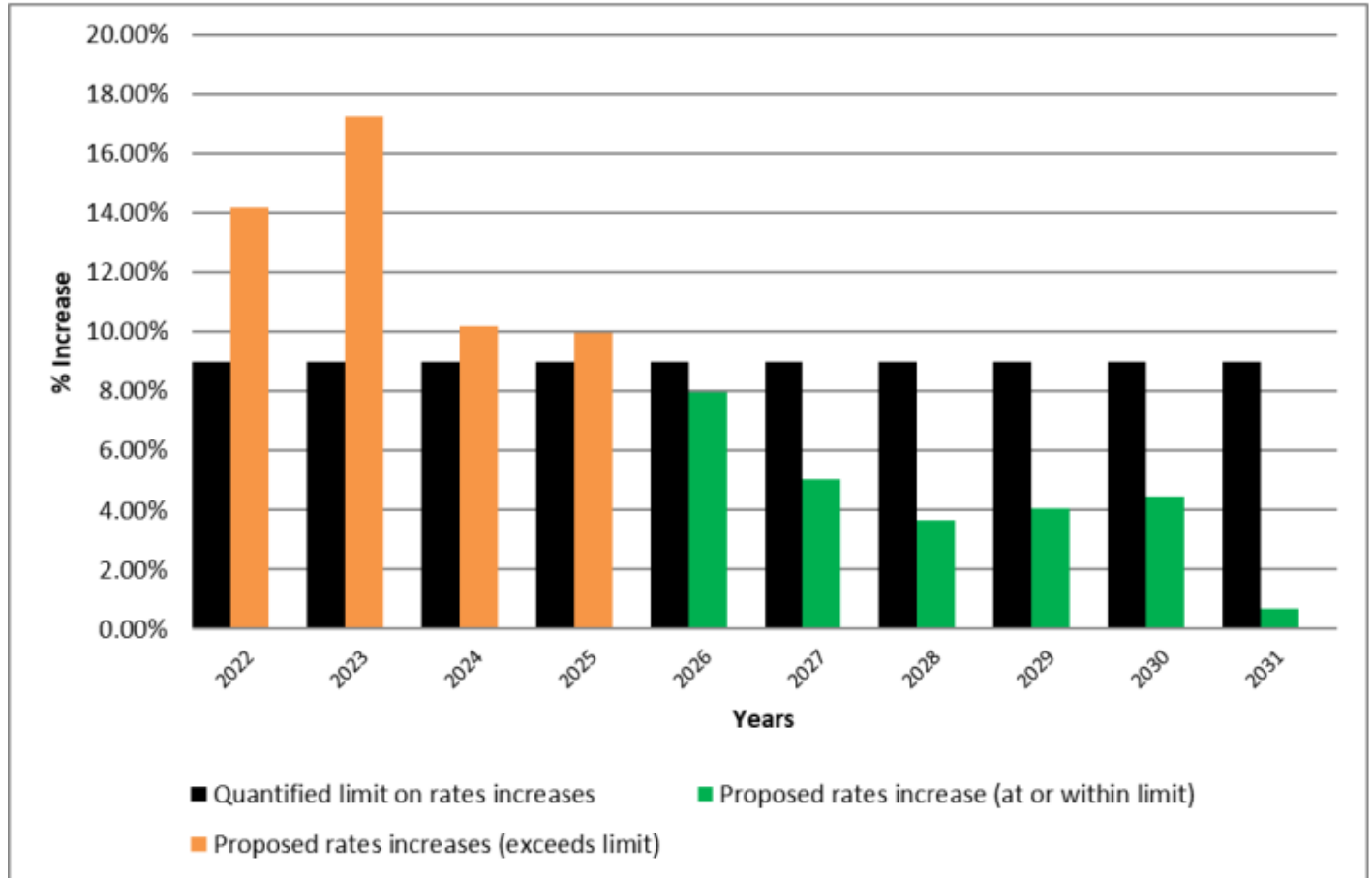
Rates affordability – rates limits

Debt affordability – debt threshold

Debt servicing - interest cover threshold

Essential services – adequate investment in infrastructure

# Rates Limit previous strategy



6% plus long term average of LGCI

# Rates Limits

Cumulative BERL inflation rates over the LTP are 27.5% - average over 10 years on average 2.75%

Our Rates un-escalated are planning to increase shown below (still to adjust years 7 to 10)

Table 10 Local Government Aggregate Cost Adjusters, cumulative change  
Cumulative change (since 2023)

Year	OPEX	CAPEX	Total								
2024	3.4	3.6	3.5								
2025	6.2	6.4	6.3								
2026	8.4	8.6	8.4								
2027	10.8	11.0	10.9								
2028	13.2	13.5	13.3								
2029	15.6	16.0	15.7	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>27/28</b>	<b>28/29</b>	<b>29/30</b>	<b>30/31</b>	<b>31/32</b>
2030	17.9	18.4	18.1								
2031	20.3	20.8	20.4	15.01%	8.56%	4.40%	2.61%	2.36%	3.51%	-1.98%	-0.21%
2032	22.6	23.2	22.8								
2033	25.0	25.6	25.2								
2034	27.3	28.0	27.5								

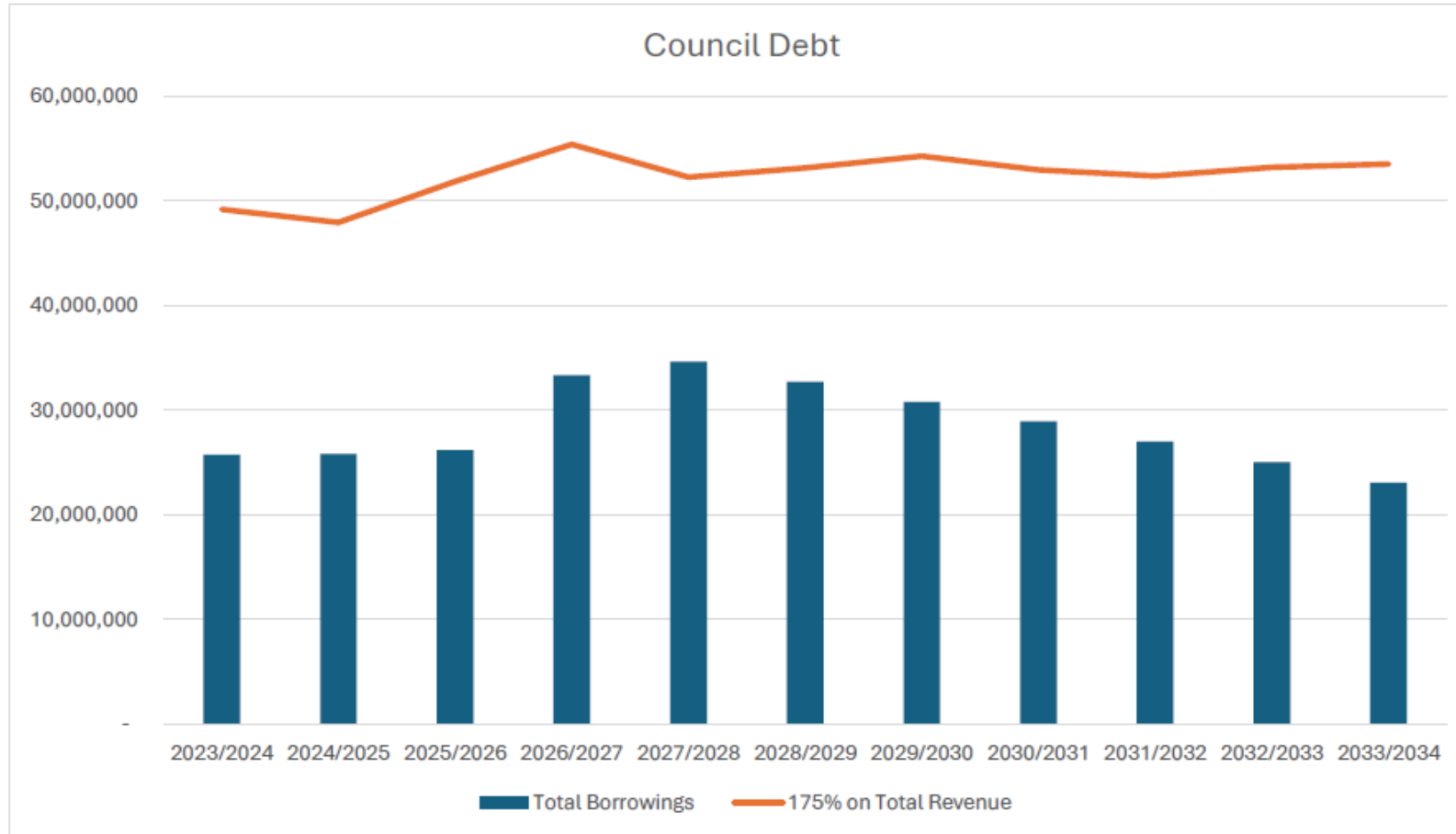
**Rates limit – previously 6% + 3.39% (LGCI average) = 9%**

## Debt Limits

Financial strategy previously set debts limits at twice the total revenue need to amend to the LGFA covenants

Financial covenant	Lending policy covenants
Net Debt / Total Revenue	<175%
Net Interest / Total Revenue	<20%
Net Interest / Annual Rates Income	<25%
Liquidity	>110%

# Internal and External debt over the ten-year plan



**Trend is a reducing debt but it is reducing slower due to significant projects in Three Waters and Roading**



# Financial Strategy – Investments

The council funds cash investments for the following reasons:

- To support the balance of cash backed reserves
- To ensure strong lines of liquidity and access to cash remain available to the Council. Cash is supplemented by the use of committed banking facilities.
- As a reserve for an unforeseen event

Cash is invested on short term deposits and other approved investments to manage cash-flows and maximise returns.

## Financial Strategy – Investments

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### Equity Investments

- 4.96% share in Alpine Energy Ltd. This asset is not readily tradeable on the open market.
- Retain ownership of this investment. Strategic
- Low dividends - due to the current pricing regime.

### Forestry Investments

- Forestry assets are held as long term investments
- Income from forestry is used to offset rates but also to invest in future plantations.
- Currently forestry strategy and ETS strategy in progress.
- Mitigated the 2050 ETS liabilities (\$2.9m) through bring the harvest forward and changing the species planted. Faster rotation.

### Property Investments

Own property that is necessary to achieve Council's strategic plan objectives. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results.

# Financial Strategy – Depreciation Funding

Council has decided it is prudent not to fully rate the depreciation cost of various assets, and planning costs associated with District Plan reviews.

Council will continue this approach for a number of assets, documented in our Depreciation Funding Policies.

A key change to the funding of depreciation is in transportation. To fund the proposed roading programme outlined in the Infrastructure Strategy, Council will increase its funded roading depreciation over time.

Council considers that in most instances where an asset needs to be replaced there will be sufficient funds available to do this or will have the capacity to borrow if required.



# Rates Modelling

- **Acknowledge the rates revaluation and it would have impacted the distribution of the rates**
- **We will need to consider the rates \$ impact for typical properties**
- **We may need to adjust some of the various aspects**
  - **Higher UAGC**
  - **Historic factors to adjust equitability**
- **Need to signal that we will be considering a rates review and that we will be reviewing visitor/tourism funding including the accommodation rates in the following year**

# Revaluation overview

Industrial and Lifestyle sectors will get a bigger share of the pie than previously and compared to other sectors

Sector	No. Assets	2023 CV	CV % Change	2023 LV	LV % Change
Dairy	21	\$193,340,000	3.5%	\$143,720,000	0.7%
Pastoral	399	\$1,492,953,750	18.1%	\$1,231,659,500	17.8%
Arable	5	\$50,030,000	18.9%	\$42,490,000	19.8%
Specialist	23	\$79,402,000	14.2%	\$63,146,000	13.8%
Forestry	31	\$11,488,500	12.9%	\$11,075,000	12.6%
Mining	1	\$5,000	11.1%	\$4,500	12.5%
Lifestyle	707	\$565,509,300	34.8%	\$318,460,000	42.1%
Residential	3,310	\$2,283,048,200	15.8%	\$1,240,392,000	14.0%
Commercial	311	\$391,292,000	15.8%	\$171,360,000	9.6%
Industrial	65	\$52,351,000	30.6%	\$37,300,000	47.3%
Other	352	\$418,329,570	17.1%	\$296,407,950	15.1%
Utilities	31	\$810,552,000	13.8%	\$34,506,000	12.6%
<b>TOTAL</b>	<b>5,256</b>	<b>\$6,348,301,320</b>	<b>17.3%</b>	<b>\$3,590,520,950</b>	<b>16.9%</b>