1 RATES SMOOTHING

Like many Councils in New Zealand, we're facing big financial challenges. On average, local Council rates are going up by 15%. In the Tararua District, we need to increase our rates by 16.29% in 2024/25 to deliver on our responsibilities to our community.

We know this is a large increase, so in this Long Term Plan (LTP) we're exploring ways to lessen the financial impact on ratepayers. To get here Council had prioritised the capital projects, reduced operational budgets and focused on delivering on its core activities. To lessen the financial impact further we are considering delaying our depreciation funding and smoothing the rates increase in Year 1 of the LTP by spreading it over the first 3 or 6 years. This means instead of one big jump in 2024/25, ratepayers would see incremental rises over time. For example, if we smoothed rates over 6 years, Year 1 becomes an 10.30% increase. You can see the full breakdown in the table on the next page.

Background

Financial budgeting and forecasting is extremely complex, especially in today's financial and regulatory landscape. High interest rates and inflation, increasing compliance coupled with changes in key central government policies like the three waters legislation, is causing a lot of financial uncertainty for local councils.

Everything we do is costing more to deliver and managing these rising costs with a small and sparce rate payer base over a large geographical area, is an added layer of complexity.

Key to these challenges is our three waters infrastructure, that's stormwater, wastewater and drinking water. These are almost exclusively funded by rates and make up the most of Council's capital expenditure. A large portion of our infrastructure is already ageing and underperforming, requiring replacement or significant upgrades in the near future.

In spite of the uncertainties, we have no choice but to make some tough decisions now.

What's happening now?

We're looking at every area of Council expenses, trimming budgets where we can and delaying non-essential work. We're also more than doubling what we're borrowing to adapt to huge project costs for water, wastewater and regulatory compliance.

Knowing exact costs is difficult and regrettably, it's not something we can guarantee. As a Council, we're moving forward with the best information available, fully aware that uncertainties still loom large.

? What is depreciation funding, you may ask, and why do we use this lever?

Depreciation is a major expense and makes up almost a third of our overall expenses.

Depreciation funding is a way to account for the wear and tear of assets such as bridges, roads, facilities, and water treatment plants over time. When these assets need to be renewed or replaced, depreciation helps to pay for this to happen. By funding this depreciation through rates each year, ratepayers can contribute their fair share towards the use of these assets, both currently and in the future.

There is a significant risk to Council in not properly funding for depreciation. It could mean having too much or too little money to fix or replace things when needed.

Depreciation funding is part of our broader financial and infrastructure planning. You can see how spreading out the rates increase over the first few years, and delaying how we fund depreciation would work in the table at the top of the next page.

These are the 3 rates smoothing options

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
1	16.29%	6.52%	10.99%	6.47%	7.20%	6.56%	7.39%	6.44%	6.66%	6.13%
2	12.09%	12.11%	11.31%	4.65%	7.20%	6.56%	7.39%	6.44%	6.66%	6.13%
3	10.30%	10.13%	10.71%	9.95%	9.45%	6.36%	4.41%	6.44%	6.66%	6.13%

OPTION 1 – No smoothing

The required increase is all absorbed in Year 1 of the LTP

Not delaying depreciation funding is more prudent due to uncertainties in the environment we operate

Council will be balancing its budgets by funding the right amount of depreciation

Future rates increases are less lumpy

Rates increase in Year 1 is not affordable

Due to uncertainties, there is the risk that the rates could be higher in Years 2 & 3

What is the cost?

NIL

How does that impact rates?

Rates are not smoothed. In this option the rates increase is highest in the first year (see Table above)

What is the impact on debt?

NIL

Impact on level of service?

NIL

OPTION 2 – Rates smoothing over 3 yrs

Less financial impact for ratepayers in Year 1 of the LTP

Rates for Year 1 are affordable

Rates smoothing can provide ratepayers with more predictable and stable rate increases over a longer period

For Council and ratepayers it is a consistent revenue and cost stream

Due to uncertainties, rates increases could be higher in later years

Commits Council to a multi-year plan

What is the cost?

$99,000 (additional interest cost)

How does that impact rates?

Rates are smoothed so that the highest increases are in years 2-3 (see Table above)

What is the impact on debt?

$1.4 million (reduced over 2-3 years)

Impact on the level of service?

NIL

We prefer this option

OPTION 3 – Rates smoothing over 6 years

Even less financial impact in Year 1 of the LTP

Due to uncertainties, rates increase could be higher in later years

Rate smoothing can provide ratepayers with more predictable and stable rate increases over a longer period

For Council and ratepayer it is a consistent revenue and cost stream

Due to uncertainties, rates increase could be higher in later years

Commits Council to a longer term plan

What is the cost?

$645,000 (additional interest cost)

How does that impact rates?

Rates are smoothed so that the highest increases are in years 4-5 (see Table above)

What is the impact on debt?

$2 million (reduced over 2-6 years)

Impact on the level of service?

NIL