Rautaki Ahumoni

Financial Strategy 2024/34

CONTENTS

Introduction

This financial strategy sets out our planned approach to financial management over the life of the 10 year plan. It outlines how Council intends to manage its financial resources, details the funding required to support capital investments and service delivery, and assesses the impacts on rates, debt, service levels, and investments resulting from decisions made.

Our financial strategy is designed to establish a sustainable foundation for the long term, ensure funding to enhance the resilience of our assets and services, enable growth, and plan strategically for future generations in a financially sustainable way.

This strategy will guide the Council's future funding decisions and, in conjunction with the Infrastructure Strategy, will determine the capital and operational expenditure requirements for the life of the 10 year plan.

As a critical component of our strategic framework, this Financial Strategy plays a pivotal role in how the Council intends to address current and future challenges, and capitalise on opportunities identified during the life of this plan and that of future generations that will benefit our communities.

Affordability – what does it mean to us as a Council? Council views the meaning of "affordable" as something that is inexpensive or reasonably priced. Council strives to deliver its services in an affordable way, but the reality is that it faces challenges in spreading the cost of these services over a small number of ratepayers. We continue to experience significant cost increases, as has every house and business in New Zealand, due to the much higher than anticipated inflation.

Significant cost increases have occurred in the three waters and roading activities due to legislative requirements, and Council's ongoing recovery from the devasting effects of Cyclone Gabrielle. As signalled previously, in order to meet these cost increases, rates increases need to be higher.

When assessing the affordability of providing Council's services, we revisit our regular environmental scans that look at local and political factors that may impact our district, and we consider every dollar of our spend before it is approved.

In trying to maintain affordability and provide essential services to our community we are constantly trying to find the happy medium between all of these considerations. We revisit our budgets annually, weighing up necessities and nice to haves, and this plan as with the previous annual plan, we have pared back to the absolute minimum and to what is necessary across the board.

What guides us

Affordability – Council will deliver on public value while balancing rates affordability, sustainability, and reflecting the services this plan details we will deliver

Financial Stability – Ensuring council manages its finances in a way that maintains financial prudence and ensures long-term financial sustainability and resilience

Investment in Infrastructure – Continue to invest in our infrastructure to ensure our assets are able to provide services now and into the future while considering inter-generational impacts of decisions we make

Revenue Sources – To maximise the amount of external funding received to reduce the financial burden on ratepayers

Our Vision

We thrive together. Vibrant, connected communities where our land and our people are nurtured, and our people flourish.

Mā te whenua, mā te waiora tātou e ora ai hei hapori ngangahau hei hapori honohono hoki.

What our future looks like

The life of this plan presents a multitude of challenges and opportunities as identified in this strategy and throughout this plan.

The nuts and bolts of it is that Council is planning on investing heavily to maintain and upgrade our assets to prepare for growth, improve, maintain and where needed improve levels of service while trying to keep rates as affordable and sustainable as it can for our ratepayers.

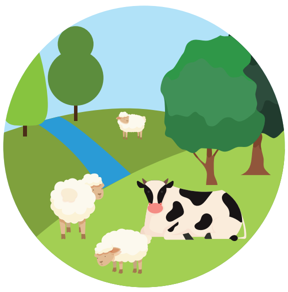
By achieving Council's vision and financial objectives for this plan, 2034 will look like this:

Thriving District

- Development and Financial contributions will be in place
- Opportunities for non-rate revenue realised
- Council has become a credit rated Council

Connected Communities

- Improved climate resilience
- Improved delivery of capital projects with the embedment of our project management framework within the organisation
- Our assets are taken care of with sufficient funding for renewal budgets being available throughout the plan



Improving our Environment

- Improved safety and resilience of the roading network.
- Emergency roading reserve maintained at a sustainable level.
- A significant amount of required renewals completed on our ageing reticulation network, while significantly reducing the risk of network failures or risks to the environment.

Interactive Council

- Service levels achieved as set out in this plan
- Rates increases within limits set in this plan
- Fees and charges reviewed annually ensuring they are set at the appropriate levels
- Surplus property sold to reduce debt and operating cost
- Depreciation is funded to allow for the replacements of our assets (unless deemed appropriate and prudent not to fund)Three waters depreciation reserves well on their way to being replenished to an appropriate level
- Balanced budget each year of the plan
- Debt maintained within borrowing limits
- Accelerated debt repayment program followed
- Sufficient ability to borrow funds for an unforeseen event should it be required
- A clear risk appetite and effective insurance strategy is in place.

This is how we will get there

There are increased uncertainties moving forward with a number of questions still to be answered. This Financial Strategy provides key directions that allow Council to progress its objectives, but with an increased focus on creating financial resilience to manage the financial implications of the unknown.

Growth is a major opportunity for our district, and it is likely that further investment will be required as we develop strategies to enable growth.

It is certain that there will be financial impacts from climate events, the timing and quantity, however, is a major financial risk that Council faces.

Ongoing legislative and regulatory changes in particular in the three waters activities and resource management space could result in further funding challenges as they become known.

Council has made significant forecasting assumptions in the assumptions section of this Long Term Plan, where the financial consequences are outlined.

The Strategies

To achieve Council's strategy of being financially sustainable and prudent, the strategy focuses on the following inter-linked key strategic directions that enable Council to achieve its strategic objectives, whilst ensuring financial sustainability and prudence by leaving headroom for the unknown as mentioned above:

Rates Limit: Increase Council's rates limit to service the increased debt levels, fund the operational cost increase resulting from investment in infrastructure and growth projects, and increase cost to meet service levels.

Dedicated Debt Repayment: Continue with the dedicated debt repayment program which ensures Council has continued financial resilience whilst continuing to invest in infrastructure that meets existing community needs and enables growth.

Borrowing Limits: Increase Council's debt limits to enable further capital investment to improve infrastructure, including community and recreation facilities that enable growth.

Revenue Sources: Alternative funding streams in line with Council's pricing strategy and ensure opportunities for external funding is maximised.

Balanced budget: Council will meet s100 LGA balanced budget requirement, and to enable this funding, an appropriate level of depreciation for future asset renewals and build reserves.

Rates Limit Increase

In the previous financial strategy Council set it's rates limit for year one at less than 10% and years 2-10 at BERL + 3% plus 2% debt repayment. This Long Term Plan we see the need for the rates to increase over the life of the plan as we invest in our district and maintain our existing Levels of Service.

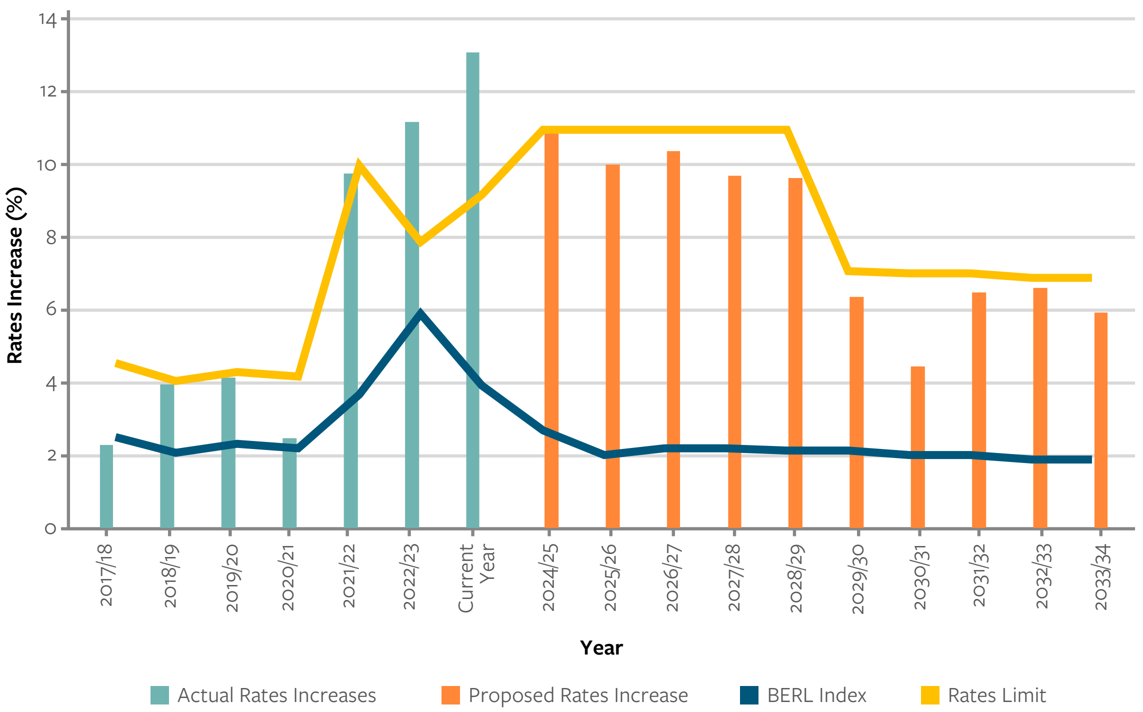
	Year 1	Year 2	Year 3
Previous Long Term Plan – years 1 to 3 actual performance			
Limit	< 10%	BERL + 3% +2%	BERL + 3% +2%
Quantified Limit	< 10%	7.90%	7.50%
Actual Increases	9.82%	11.22%	13.17%

Council appreciates the pressure rates place on our community. It is important to us to ensure we are spending prudently, and we engage regularly through various forums to understand the needs of our community.

This Long Term Plan is a balancing act between the communities wants and needs, the regulatory environment, Council's aspirations, and the ability to fund them. Affordability has been at the forefront of every decision that has been made. In addition to inflation, interest costs, depreciation costs and loan repayments, the proposed increases are attributable to the following factors;

- Increased compliance for wastewater treatment and management
- Resilience and compliance for water treatment and management
- Resilience and increased maintenance for our roading network
- Reticulation investment – historic low investment
- Growth – impacting three waters reticulation. Funding option available e.g. Development Contributions
- Solid Waste – expect increases in later years
- Urban and above ground Infrastructure – maintenance and growth

Rates forecast – Proposed Rates Limits



We believe we have achieved a balance in the decision that has been made but recognise that rates do contribute to a sizeable portion of household costs. We have set the rates limits for this plan as follows:

- Years 1 to 5 (2024-2028): rates increase less than 11%
- Years 6 to 10 (2028-2034): rates increases in any one year will be maintained within the weighted average local government cost index, which is calculated as BERL and specifically reflects the types of costs faced by councils, plus three percent, plus two percent dedicated for additional principal debt repayment

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Limit	< 11%	< 11%	< 11%	< 11%	< 11%	BERL + 3% +2%	BERL + 3% +2%	BERL + 3% +2%	BERL + 3% +2%	BERL + 3% +2%
Quantified Limit	< 11%	< 11%	< 11%	< 11%	< 11%	7.10%	7.00%	7.00%	6.90%	6.90%
Actual Increases	10.30%	10.13%	10.71%	9.95%	9.45%	6.36%	4.31%	6.44%	6.66%	6.13%

Dedicated debt repayment

- In the previous financial strategy, Council introduced a dedicated loan repayment program. This strategy was required to allow Council to:
- fund its proposed capital program while also creating the necessary headroom and financial resilience for unforeseen events that could arise from climate change
- enable future councils to have the ability to introduce new projects to meet the future needs of our communities.

Council's debt was set to peak at $78 million in 2026-2027 year.

Over the past three years, although the dedicated debt repayment rate was intended to be 2%, with Council facing affordability constraints and increases in rates, this was a lever that Council used to help reduce rates increases, and as a result Council's rated debt repayment for each of the past three years was only 1%.

The key challenges we see now are:

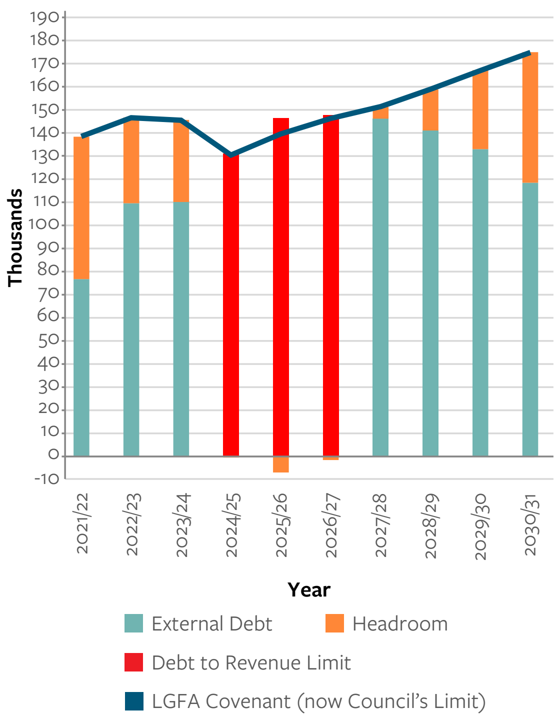
- price increases higher than anticipated for capital projects
- regulatory compliance and change in standards Council is required to adhere to
- three waters assets remaining in Council ownership and operation
- Growth and climate change compounding the level investments required in our infrastructure

In this Long Term Plan we see Councils debt levels peaking at $149 million in 2028-2029 year (-$949,000).

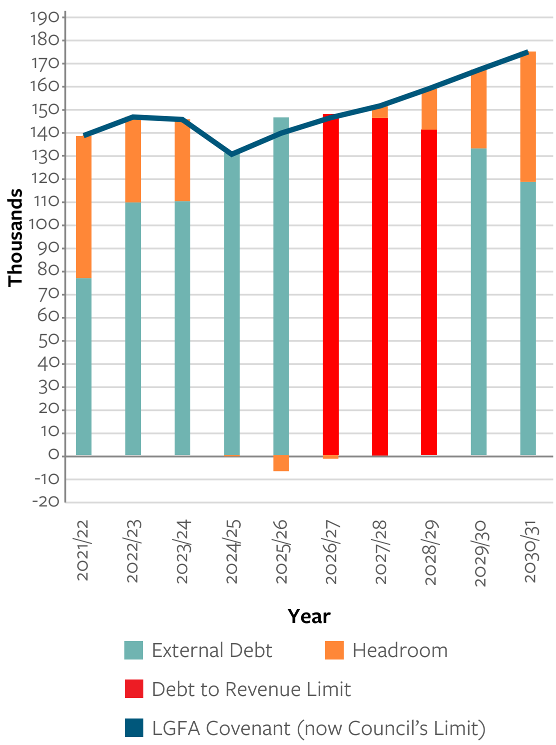
The graphs below show the financial headroom that is created for future borrowing from this strategy. Without this strategy, Council will not have sufficient headroom in years 4-6 (2026-2029) to allow it to fund the capital works program or borrow to respond to an unforeseen event.

Even with this strategy in place Council is set to breach it's borrowing limits in year 5 (2028/29) where debt hits the peak.

With debt repayment



Without debt repayment



Borrowing Limits

In its previous Long Term Plans, Council embarked on an ambitious capital investment program and it is continuing to invest heavily for the length of this Long Term Plan. As a result, Council's debt is projected to increase significantly from $60 million to a peak of $149 million during the course of the Plan.

To enable this investment, with rising interest rates and increase to Council's debt levels, Council has increased three of its debt limits as can be seen in the table below.

	2021-2031 Long Term Plan	2024-2034 Long Term Plan
Net Interest on External Borrowings as a Percentage of Total Revenue	< 150%	< 175%
Net Interest on External Borrowings as a Percentage of Annual Rates Income	< 7%	< 10%
Net Interest on External Borrowings as a Percentage of Annual Rates Income	<10%	<15%

The previous graphs highlight the available headroom against the changed debt limit.

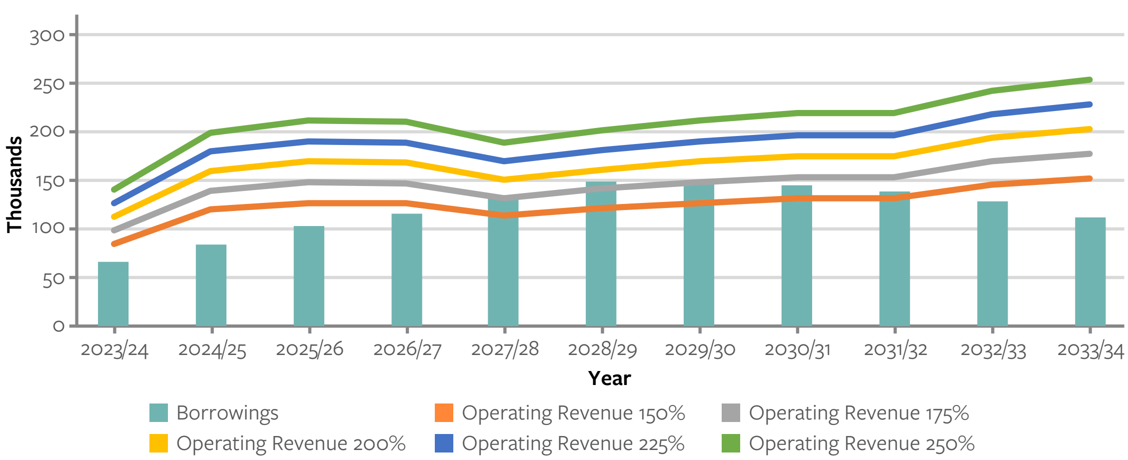
Although Council complies with all of the debt limits except for one in year 5 for the 10 years of the Long Term Plan as per its Treasury and Risk Management Policy, the previous graphs and the table below show that Council has very little headroom/ no headroom available during years 4 – 6 (2027- 2030) of this plan.

In these years Council will have very little ability to respond to an unforeseen event should it be required to do so, Council will also need to be prudent in approving any unbudgeted expenditure in the years leading up to and including 2027-2030.

Because of this, in years 2 and 3 of the plan Council will look to become a credit rated Council, to allow Council to increase it's borrowing limits outside of the maximum limits imposed under its LGFA covenant of 175%.

		LTP Year 1 2024/25 $000's	LTP Year 2 2025/26 $000's	LTP Year 3 2026/27 $000's	LTP Year 4 2027/28 $000's	LTP Year 5 2028/29 $000's	LTP Year 6 2029/30 $000's	LTP Year 7 2030/31 $000's	LTP Year 8 2031/32 $000's	LTP Year 9 2022/33 $000's	LTP Year 10 2033/34 $000's
Council's Proposed Borrowing Limits 2024/2034 Long Term Plan											
Net Debt as a Percentage of Revenue	< 175%	52,121	52,992	39,508	4,373	(949)	5,624	13,609	27,640	45,449	69,349
Net Interest on External Borrowings as a Percentage of Total Revenue	< 10%	77,278	76,960	58,914	22,567	11,092	6,620	8,447	15,857	29,468	46,536
Net Interest on External Borrowings as a Percentage of Annual Rates Income	<15%	38,527	39,917	34,193	89,062	82,249	14,418	10,886	17,171	15,779	31,423
Liquidity (External term debt + committed loan facilities + available liquid investments to existing external debt)	> 110%	6,330	1,444	2,647	2,324	1,616	1,244	1,114	1,289	1,718	2,697

Council Debt vs Debt Limits



Revenue Sources

Alternative sources of revenue, other than rates and loans, are critical to help fund Council's activities.

Since 2012, funding from rates had increased from 60% to 63%. Council has put a greater focus on alternative funding sources in this Long Term Plan to reduce the financial burden on ratepayers. After a period that resulted in funding from fees and charges drop from 13% in 2012 to 8% of total revenue, Council adopted a pricing strategy in 2015. This provided a framework for decision making when setting fees and charges. Fees and charges for activities that provide a benefit to a direct user have been increased in year one of this Long Term Plan to reflect the cost of providing the service. This is illustrated in the table below.

Over the previous decade, external funding provided by Waka Kotahi NZ Transport Agency (NZTA) towards the roading network has increased significantly. Funding is provided at a Funding Assistance Rate (FAR) on approved funding categories and has increased from 59% in 2015, to 73%. In 2018, footpaths were also included in the scheme having previously been fully provided from rates funding. These changes have enabled increased expenditure in roading and footpaths without creating a significant impact on ratepayers.

Capital projects are funded by loans for new assets, and depreciation reserves for replacements. Where external grants and subsidies are available, Council will actively seek funding.

The major contributor to capital subsidies is NZTA . However, Council has funding still to be received from the Three Waters Reform Better Off Funding package to fund both capital and operational projects as well as funding still to be received for the upgrade of a section of Route 52 that Council was successful in securing during the previous long term plan.

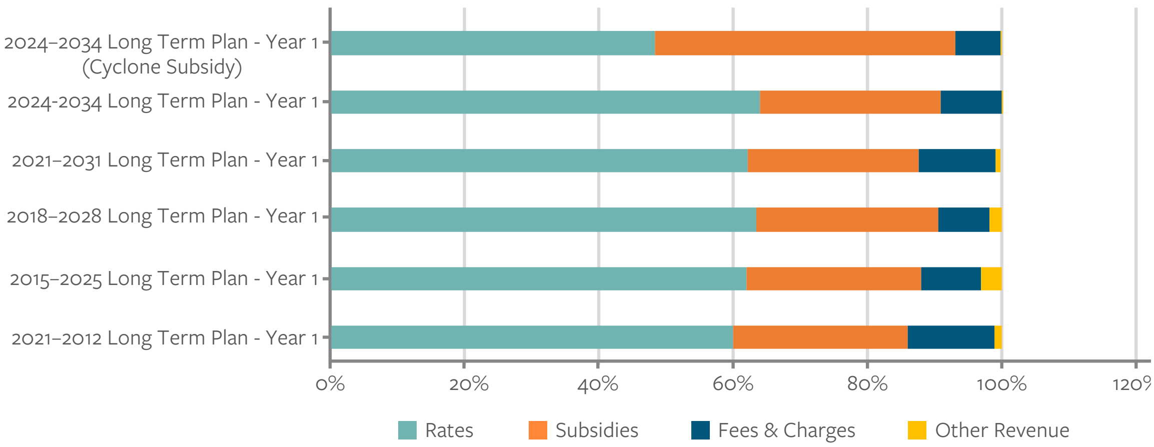
No new funding sources have been indicated in the Government's "Waters Done Right" program. This means debt, user chargers and rates will still be the main sources of funding for whoever deliver the services in the future.

Council is introducing Financial Contributions in year one and will look to introduce Development Contributions in year two. These charges provide an alternative tool to rates to fund capital investment necessary as a direct consequence of new property subdivisions. Council has not in the past imposed development contributions in order to encourage development in the district.

Council has also budgeted in year one to complete rationalisation of the land and buildings it owns. The outcome from this piece of work is to reduce operating expenses and debt, arising rom the sale of assets.

Council has gone to the market as it looks to divest its forestry portfolio. Like the land and buildings rationalisation this will also allow Council to reduce both operating and debt services expenses from the sale proceeds.

Sources of Funding



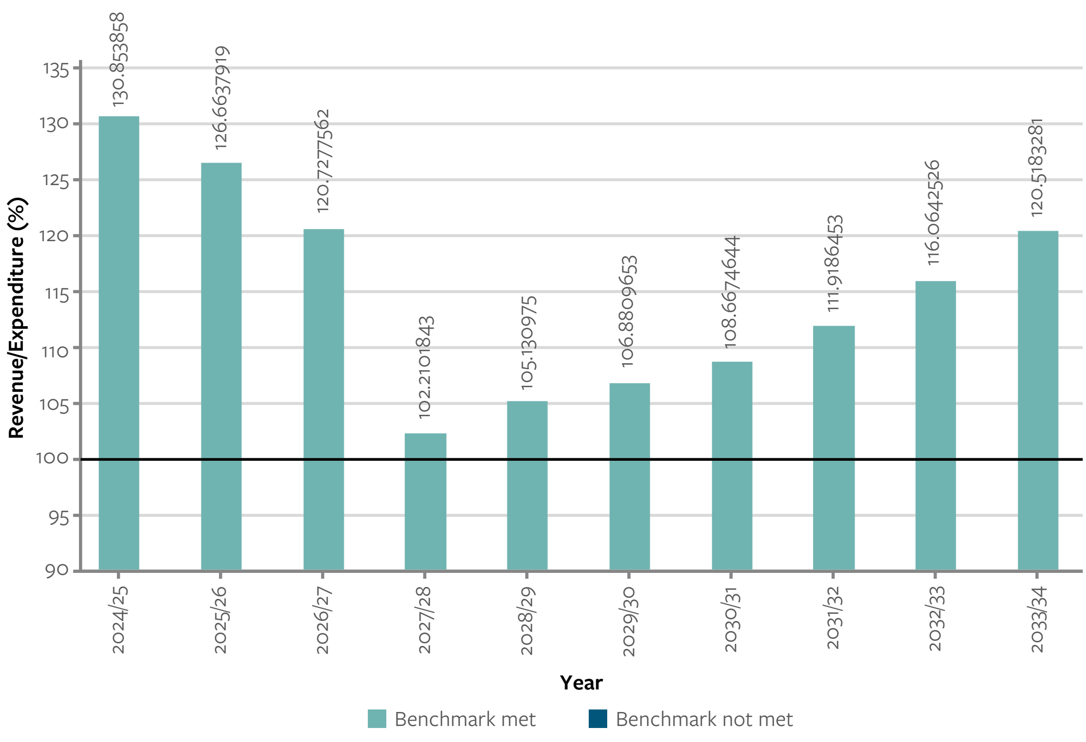
We plan to balance the Budget

We are required to balance our budget unless we resolve it is financially prudent not to. This means in each year of the plan the revenue we receive from operations, e.g. Rates, operational subsidies and grants, fees and charges etc., meets the day-to-day cost of providing our services and maintaining our assets, and other operating requirements.

To help us with balancing our budget we are looking to bring in additional depreciation funding as explained below.

The graphic below illustrates our operational revenue over the 10 years of our plan. We forecast to achieve a balanced budget in each year of the plan.

Balanced Budget



Depreciation funding

Most assets lose their value over time as they wear out (in other words, they depreciate), and must be replaced once the end of their useful life is reached. Depreciation is a method of allocating the cost of an asset over its useful life.

The objective of depreciation funding is to ensure that those who receive the benefit of Council's assets, pay a fair share towards the eventual replacement cost of the asset.

Council will review the amount of funded depreciation each Long Term Plan to ensure that we are funding for our future renewals in a sustainable and prudent manner. The assumptions that are made when undertaking the depreciation modelling are conservative and are reviewed every three years.

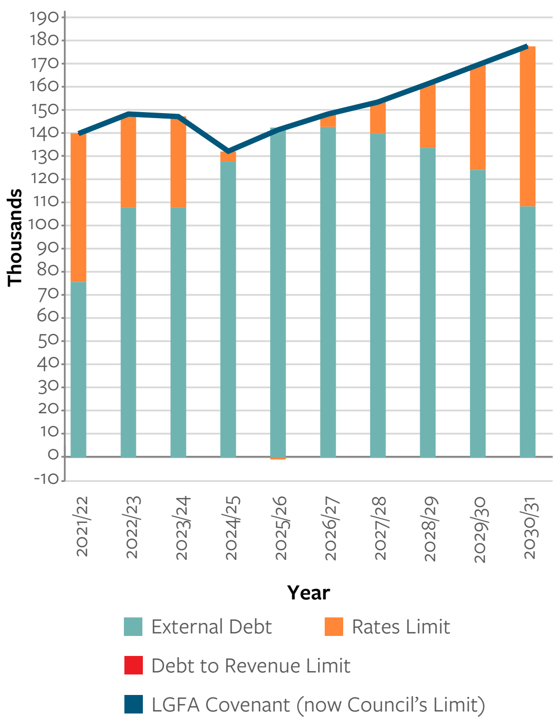
A notable rise In Council's asset value's following revaluations has significantly increased depreciation expenses, especially for infrastructure assets.

Consequently, the Council has opted not to allocate funds to cover 100% of depreciation expenses. In making this decision, considerations include:

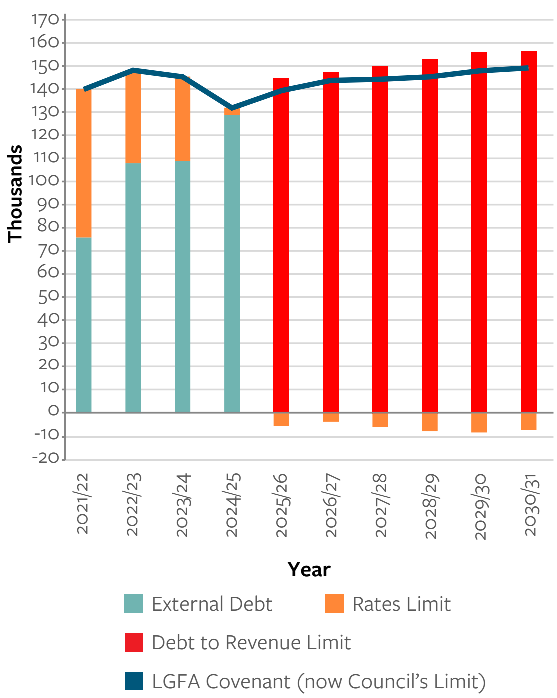
- Optimization: The replacement of certain assets may not be like-for-like. For instance, a bridge might be replaced by a culvert, or a multi-story building by a single-story one.
- Compounded interest: Funds set aside for depreciation can be internally borrowed and accrue interest. It's important to consider the long-term compounded interest on these funds to avoid over-accumulating for asset renewals.
- Rationalisation: Council may decide not to replace the asset or sell the asset. For these assets, Council may choose not to even fund the depreciation.

For the 2021/2022 and 2022/2023 financial years, to reduce the level of rate increases, Council deferred providing for some depreciation and the caveat that it will be provided for during the Long Term Plan.

Debt profile with additional Depreciation Funding



Debt profile without additional Depreciation Funding



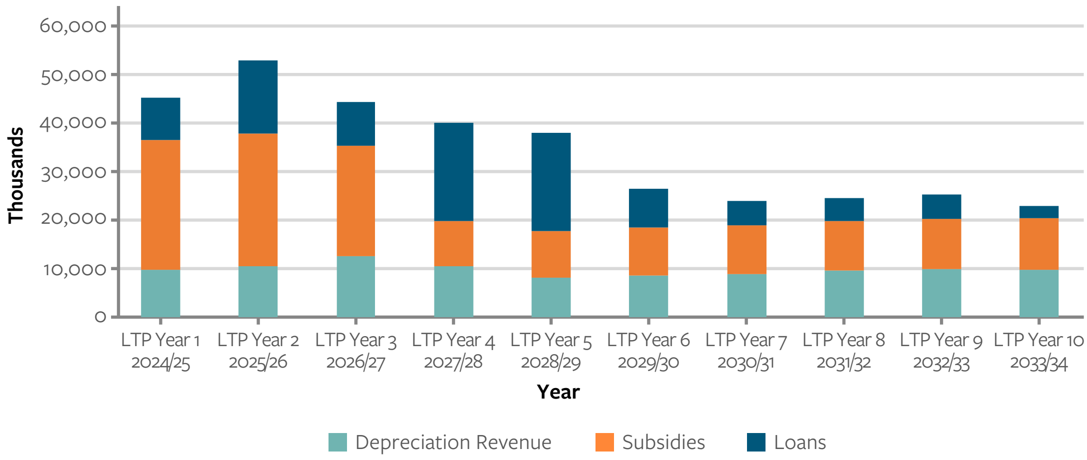
To provide relief to our ratepayers this plan proposes to fund less depreciation than it would ordinarily do so as a lever to spread the impact of the year one rates increase over the first six years of the plan.

Council plans to fund additional depreciation in years 3-10 (2026-2034) to build depreciation reserves to meet the costs of the capital renewal program.

With Council retaining its three waters assets under the government's Local Waters Done Well reform until the depreciation reserves are replenished. The depreciation Council has been funding is not enough to deliver the three waters renewal program.

This means Council will need to increase it's external borrowings to fund the projected capital renewal program.

Infrastucture Capital Program Funding



Where are we now?

Our current and forecast financial position

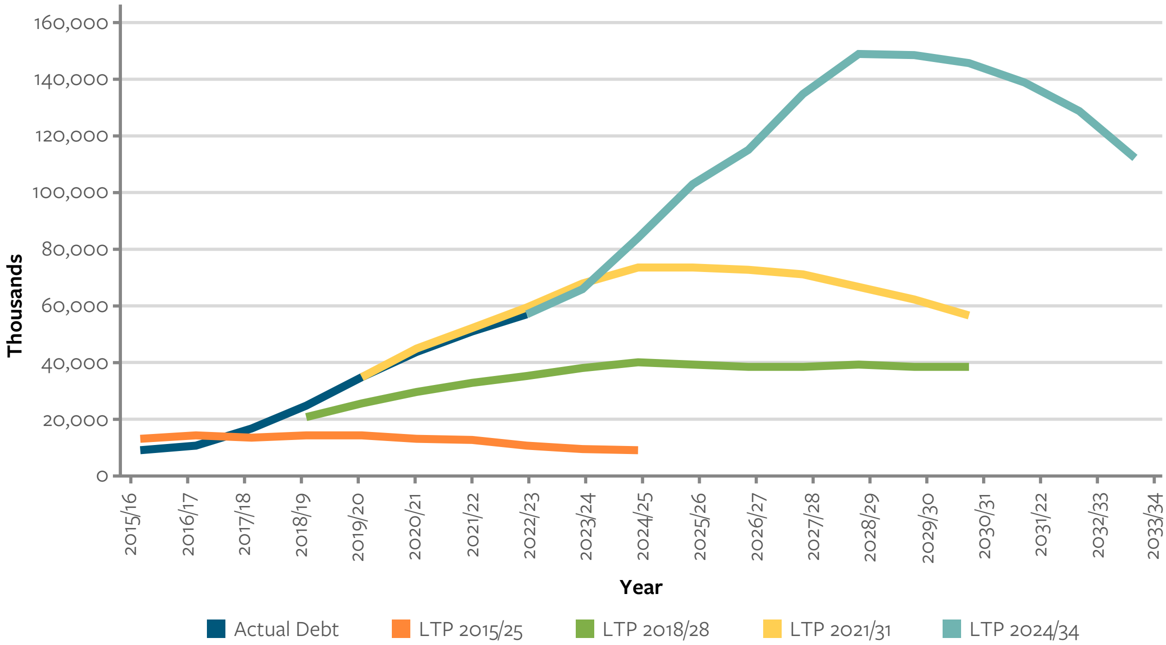
Council is starting in a stable financial position with forecasted assets at 30 June 2024 of $1.15 billion in fixed assets (including forestry), $7.9 million in cash and $2.3 million in term deposits, total external borrowings of $60 million and equity of $1.1 billion.

Debt levels

Over the last decade Council has invested heavily in its core infrastructure. Council began this period of capital investment well placed with very low levels of debt. Due to the heavy capital investment, along with increasing replacement of ageing infrastructure and higher than planned emergency repairs from climate events, Council's debt has significantly increased over the previous six years.

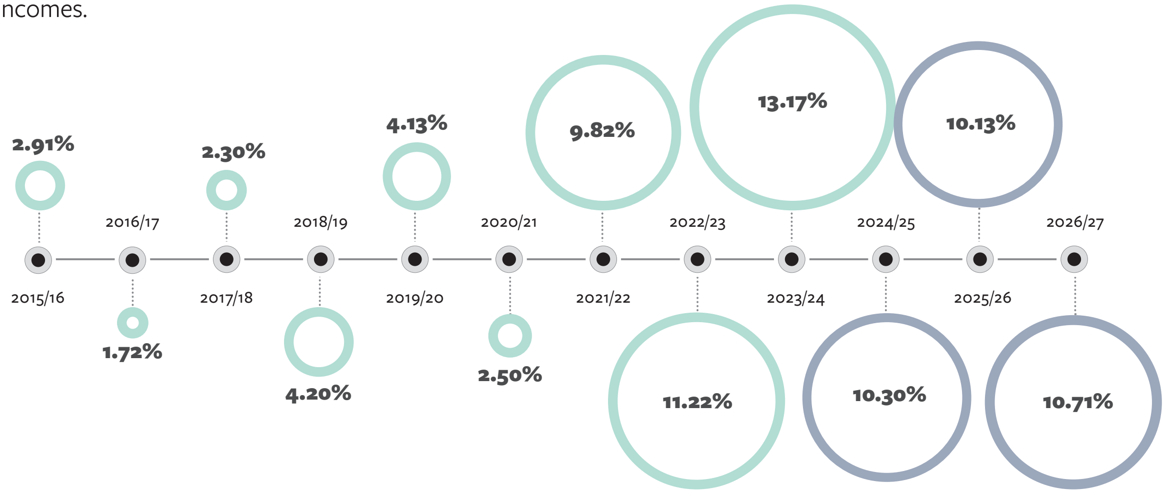
As a result, in the previous financial strategy a debt repayment program and an increase in Council's debt borrowing limits were introduced as key directions. In 2024 we see this as now more important than ever, and a requirement to increase debt borrowing limits further, as well as implementing additional depreciation funding into later years of this plan are key strategies to enable this 10 year plan.

Total External Debt



Rates level

Rates affordability continues to be a key issue for ratepayers, especially for those who are on low incomes.



Council has historically been able to achieve low rates increases from 2015-2020, however, like all households and businesses in this current economic climate Council has also been experiencing ongoing increases in costs for its business as usual (insurance, power, and maintenance costs etc.) as well as increase in interest costs with interest rate rises (2.1% first year previous long term plan to 4.7% first year of this plan) and increase in debt levels.

Council has also been facing cost increases with changes required to existing levels of services as a result of changes in legislation and the introduction of new standards. Council has 7 water and wastewater treatment plants, and changes to legislation, standards and consent conditions has resulted in increased operating costs and increase in resource demands as Council continues to maintain service levels.

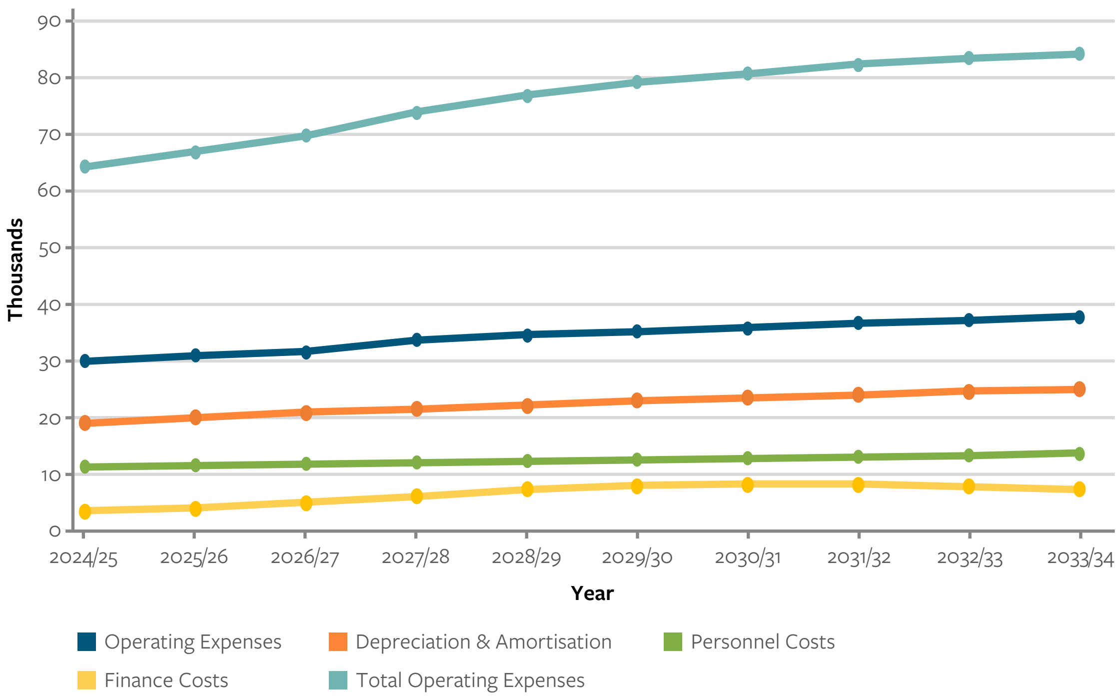
Operating Expenditure

Like all businesses, Council incurs day-to-day running costs to provide the services and maintenance of our assets, and aseveryone is currently experiencing personally and professionally it's fair to that that across the board there is a price exploitation that Council is not immune to.

Unfortunately, what this means is that Council's budgeted costs of operations have increased from $58 million in 2024 to $84 million in 2034. How that is funded is that Council aims to raise enough revenue each year to cover the budgeted operating expenditure, including depreciation, unless prudent not to so do (as discussed further in the strategy).

Rates are used to fund any balance of operating expenditure after all other revenue streams have been exhausted.

Forecast Operating Expenditure 2024-2034



Our challenges and opportunities

Growth – Population

More people are choosing Tararua as a place to live, work and play.

Over the past decade, Tararua has seen a surge in growth, especially in urban areas like Pahiatua and Woodville, with increases of 11%, and Dannevirke growing by 8% from the 2018 census.

Council has projected that over the life of this plan, the district population will increase by 5.7% with the total population in June 2034 at 20,357, compared to 19,261 forecast for June 2024 in the previous Long Term Plan.

The total number of households is predicted to increase by 7.5% to 8,520 (increase of 594 households). These additional households are anticipated to be split 70% urban & 30% rural.

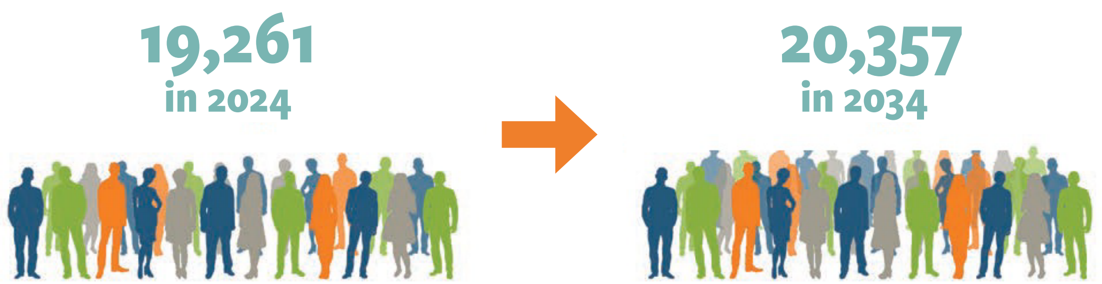
Council has been working on it's district plan review over the previous three years and as a result of this has produced a Growth Strategy for the district which it has recently consulted on. Council predicts that urban development will drive this growth, despite a recent dip in housebuilding due to economic pressures.

The forecasts are based on informetrics data and factor in historic growth forecasts and the anticipated positive impact of the Te Ahu a Tūranga Highway.

Although the population is an aging demographic shifting towards an older population, with the number of older residents in the district increasing significantly over the long term, this will lead to changes in the way Council delivers services. The number of residents aged over sixty-five increased by 17.3% (583 people) from June 2018 to June 2023. Older people at June 2023 made up 20.6% of the estimated resident population (up from 19% in the March 2018 census). Council forecasts this to increase to 26.2% of the population in 2034.

This is an increase of 1,231 people aged over sixty-five to 5,333 residents for the 10 years, against a total population forecast increase of 1,096 residents to 20,357.

To accommodate this growth and anticipated changes to our population, Council is exploring funding options like development contributions to manage the infrastructure demands without overburdening current ratepayers. This is part of a broader strategy to prepare for growth, ensuring community facilities meet future needs and keeping rates affordable.
The rising population is also putting pressure on the rental market, complicating housing and employment attraction. Employment in Tararua is expected to grow by 1,367 FTEs over 30 years, with rural areas and Dannevirke seeing the most significant increases.



Growth - Economic

Council recognises the proposed increase in population is likely to boost further economic development.

The rising number of residents and businesses requires Council to invest in improving amenities and the functionality of our towns, maintaining the Tararua district as an attractive place to live, work, and enjoy leisure activities.

Tararua is home to four primary towns: Dannevirke, Woodville, Pahiatua, and Eketāhuna, along with several smaller communities throughout the district.

It boasts strong connectivity to both the south and north, positioning Wellington and Hawkes Bay within a manageable driving distance. Additionally, Palmerston North, a significant provincial city, is close enough

for daily commuting, allowing Tararua residents to enjoy the district's lifestyle without compromising on career opportunities. The introduction of the Te Ahu a Tūranga (Manawatū Tararua Highway) is set to further enhance accessibility, promising shorter travel times and more attractive living options in Tararua, especially in Woodville.

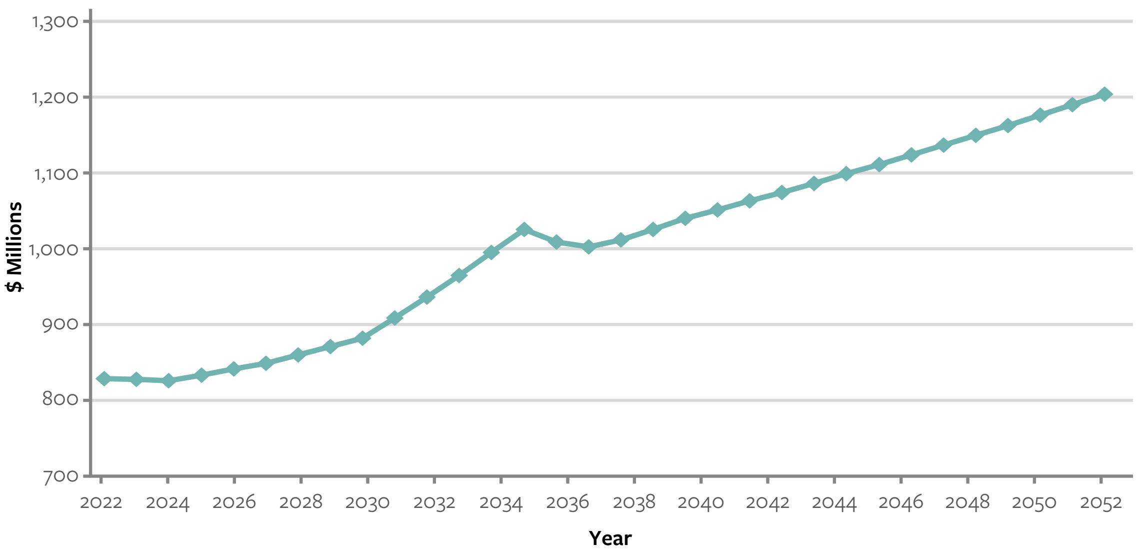
Council's growth strategy highlights the district's strategic location as an ideal spot for creating industrial and potential satellite distribution hubs, facilitating the transport of goods in and out of the area.

By 2053, Tararua's GDP is expected to reach $1.208 billion, marking a $378 million increase from 2022 and averaging an annual growth rate of 1.2% over the next three decades. Of this growth, rural Tararua is projected to contribute $188 million, with the urban centres adding another $190 million.

Currently, the primary sector is the region's dominant force, contributing 36% to the GDP, with manufacturing also playing a significant role at about 20%. This dynamic is expected to remain stable for the next 30 years. Nevertheless, forecasts indicate an increasing need for industrial and commercial real estate, as highlighted in the land use overview.

The district's heavy reliance on its primary sector is seen as a vulnerability, especially since shifts in global markets could directly influence export revenues resulting in negative outcomes for the districts economy.

Tararua GDP Forecast



Source BERL – Long-term economic forecasts - Tararua District Council

Land Use

Land use change is a key consideration of this Strategy. It signals where Council may need to consider investments and changes to service levels to meet the changing needs of ratepayers.

Council forecasts a slight change of land use from rural to commercial and industrial use in the Tararua District over the next 30 years. At present, commercial and industrial activities cover 131 hectares. By 2053, this figure is anticipated to increase to 187 hectares, with commercial use accounting for 49 hectares and the remainder allocated to industrial purposes. This expansion by 56 hectares will lessen the amount of land available for other purposes.

The growth of commercial and industrial land use will be greatest in rural Tararua with an estimated 31 hectares of land required by 2053 followed by Dannevirke which will require an additional 5 hectares of land. Dannevirke sees the highest growth in commercial land use by 2053 requiring 7 hectares of land.

Our districts population is continuing to grow at a significant pace, with very few rentals and a shortage of housing available to purchase. This is likely to see new and infill urban subdivisions increase the district's number of rateable properties. Initially, these are likely to be provided from within the current urban boundaries, but if there is a need to extend beyond the urban boundary, we will see a small number of urban and rural properties converted into urban housing. If this occurs, the cost of providing infrastructure to these new areas would be significant. Councils' intention is to explore the use of development contributions to help fund the infrastructure required for urban development.

Urban Development

Tararua has begun to experience increased population growth, with an increased demand for land for private development as evidenced through the subdivision of rural and urban land throughout our district. Therefore, Council has developed an Urban Growth Strategy to establish clear, effective direction for the management of projected residential, commercial and industrial growth within our District over the next 30 years. We have used population growth predictions based on Statistics NZ and Informetrics. Informetrics is a research company and they have provided detailed analysis of the Stats NZ numbers for our district. We have also used BERL (Business and Economic Research Ltd) to help us predict commercial and industrial growth for our district in the main town centres. There was a business-as-usual scenario run on the Statistics NZ high population growth scenario and an aspirational scenario run on these figures. The aspirational scenario assumes that the Tararua Industries grow by 1% per annum. This scenario assumes that Council is successful in attracting manufacturing, transport and warehouse businesses to locate in Woodville, a potential outcome with the opening of Te ahu a Tūranga.

The Urban Growth Strategy signals a direction for recommended residential, commercial and industrial re-zonings to accommodate population growth throughout the four main town centres of the District. These re-zoning recommendations will need to be incorporated into the Proposed District Plan review to be given effect to and these will create changes to our urban and rural boundaries. The Proposed District Plan Review is to be notified under Schedule 1 (RMA) in early 2025.

Resilience

Over the previous three years Council has experienced the effects of a severe drought that led to a critical water supply shortage, a global pandemic, Cyclone Gabrielle and other weather events, showing us why planning for unforeseen events is critical.

Council maintains an extensive roading network vulnerable to climate change. The majority of these roads are in challenging terrain that is highly vulnerable to slips and dropouts, leading to unplanned repair costs. Over the last ten years the district has seen an increase in frequency and intensity of rainfall events across the district.

Council sets aside funding for emergency repairs each year with the intention of maintaining a reserve fund that fluctuates year to year. A high proportion of the costs (historically 89% from 1 July 2024 will be 93% – subject to NZTA approval for each event) is funded by NZTA from the Land Transport Fund.

The emergency roading reserve is currently healthy, Council was successful in securing emergency funding at a 100% FAR from NZTA to aid the initial response and recovery planning in response to the damage caused to our network by Cyclone Gabrielle in February 2023.

With the economic pressures and affordability issues this reserve is likely to become a growing issue in the future for Council. Recent events suggest it is prudent for Council to continue to fund this reserve.

After Cyclone Gabrielle Council has been investing in building further resilience into its network to enable it to sustain climate events. The incorporation of renewal projects with that of capital projects such as Route 52 is expected to produce efficiencies in the renewal and capital programs. The focus on drainage assets is incorporated into the roading program and essential in providing whole of route resilience.

In urban areas, the increasing severity and frequency of rainfall events is also likely to put increasing pressure on stormwater systems. This trend is likely to continue, and to maintain current levels of service will require Council to respond with significant improvements to the stormwater network in the future. Council has already begun providing for these risks within existing budgets. However, the stormwater network along with infiltration into the wastewater network is likely to require further investment than is currently provided for.

The Council needs to ensure it has capacity in its borrowing limits to fund these currently unplanned improvements as the impacts of climate change intensifies.

We are also likely to have more frequent and severe droughts. Council has invested significantly in water storage and is planning to continue in that space.

However, Council will need to continue to manage water demand, and is still investigating alternative water sources and looking to introduce universal metering during this Long Term Plan to ensure the needs of current and future residents are met.

Capital Investment

As previously mentioned Council has been investing heavily in improving core infrastructure, whilst gradually increasing planned asset replacements.

Council is responsible for over $1 billion of plant, property, and equipment and is required to maintain these assets to provide the required levels of service our communities expect.

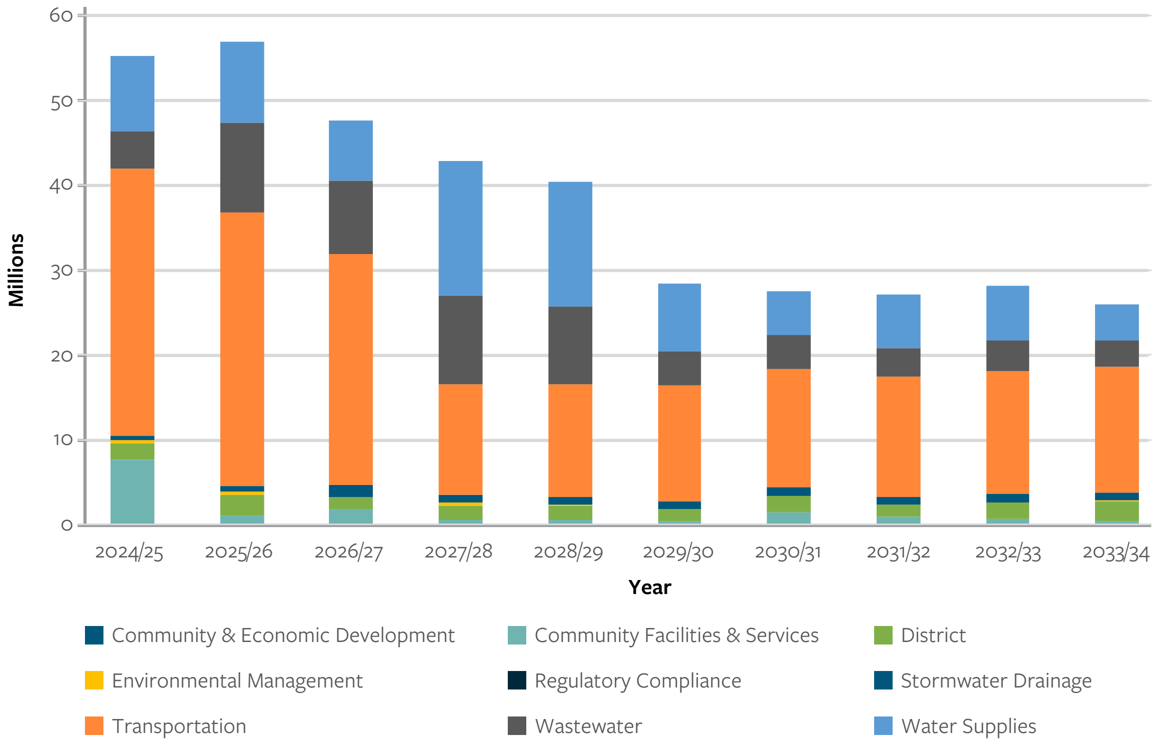
During the life of this plan Council plans to spend

$373 million investing into our infrastructure, community and recreational facilities.

The key spending priorities are summarised below:

- Improving resilience in existing infrastructure networks
- Ageing infrastructure requiring replacement
- Upgrades to infrastructure to meet change in legislation and maintain existing levels of service
- Community and recreation facilities
- Increased demands from growth

2024-2034 Capital Program



Council has had a great deal of focus over the previous few years on obtaining data around the age, location and condition assessments of its three waters network. As a result of this work Councils three waters renewal works program for this plan has been able to be programmed and prioritised.

Council needs to have financial resilience to allow for future borrowing to enable projects to be added to this plan, needing to give effect to changing regulations and provide funds if required in order to respond to an emergency event.

This need to maintain financial flexibility is driven from the pace of growth within the district being different than assumed in this plan, and the uncertainty around legislative changes, climate and growth impacts. Although this plan has been prepared on the assumption of Council continuing to own and operate the three waters infrastructure, this has put an enormous financial strain on our district.

Key projects included in this plan include:

- Cyclone Gabrielle Recovery – Route 52 – $53.306m
- Dannevirke water main line renewal – $15.5m
- Dannevirke wastewater treatment plant upgrade – $10.8m
- Pahiatua swimming pool – $2m (Council's contribution)
- Dannevirke impounded supply – $5.6m
- Woodville reservoir earthquake assessment and renewal – $3.6m
- Pahiatua wastewater treatment plant upgrade – $3.1m
- Woodville wastewater treatment plant upgrade – $2m
- Wastewater sludge disposal facilities – $2.2m
- Eketāhuna wastewater treatment plan upgrade – $2.1m
- Pahiatua town hall/library earthquake strengthening – $1.5m
- Wastewater reticulation network renewals – $24.6m
- Water reticulation network renewals – $31.6m
- Stormwater reticulation network renewals – $8.5m
- Roading pavement rehab, reseals & heavy metaling – $70.0m
- Roading emergency reinstatement – $12.7m
- Roading drainage – $16.4m

Increased service levels

Council plans to increase specific service levels during the first three years of this Long Term Plan in addition to the increasing capital spend.

Service levels in the Solid Waste and Roading space are increasing as Council responds to changes in Government legislation and community expectations, while building resilience into key infrastructure to withstand climate change.

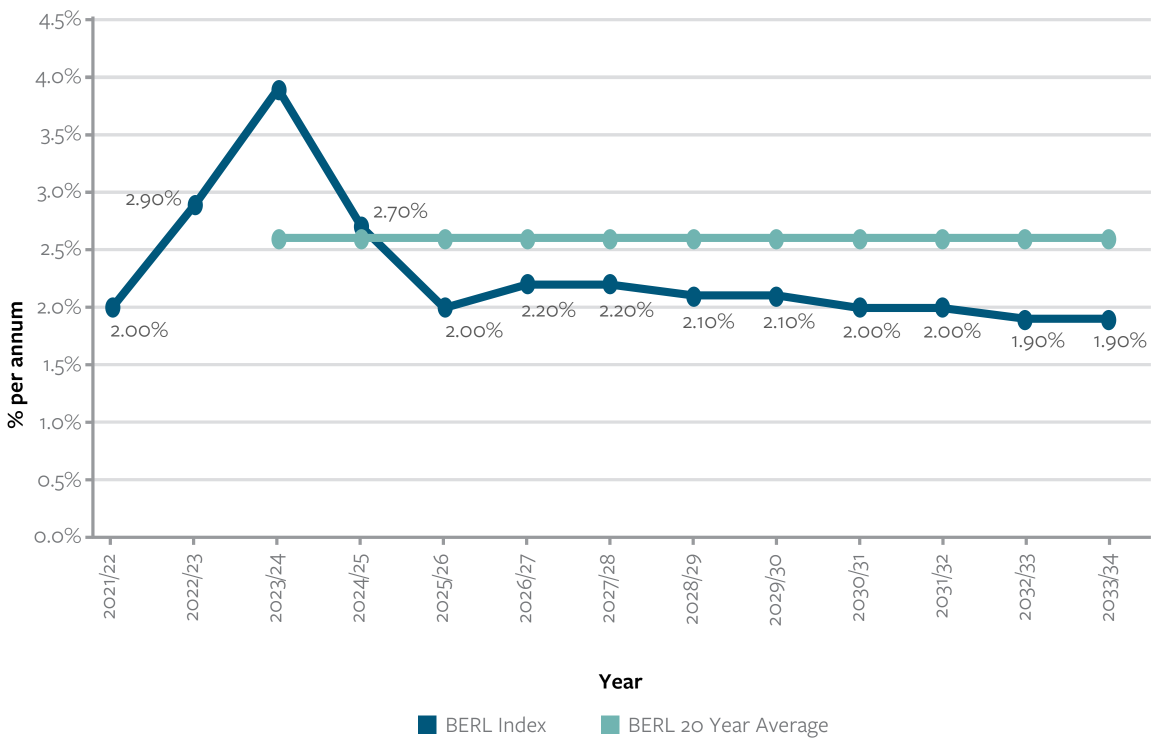
Council is having to pay more for less and as a result some activities we are proposing a decrease in existing levels of service (Economic and Community Development).

These will be funded by a mix of rates, fees and charges, subsidies and debt. Council has considered the additional funding pressures when weighing up whether to increase existing levels of service.

Inflation

We have used an BERL inflation factor to reflect the impact of inflation on each year of our plan.

BERL Forecast Inflation vs 20 year Average



Discussions about inflation in the news often focus on the Consumer Price Index (CPI), which measures the price changes of goods typically used by households. However, for councils, the CPI is less relevant due to their unique cost pressures, like those from infrastructure materials such as pipes and bitumen. Councils instead look to specialized measures like the Local Government Cost Index (LGCI) provided by Business and Economic Research Limited (BERL), which more accurately captures the costs associated with the goods and services they commonly purchase.

In the period leading up to the Long Term Plan, inflation saw significant rises, hitting 7% in 2022 and 5% in 2023. These increases have notably pushed up the prices, leading to elevated expenses.

Looking ahead, we forecast inflation to fall below to the 20-year average in the coming decade. Nonetheless, the high inflation rates seen before the plan's introduction, particularly alongside rising infrastructure costs, have contributed to the need for larger rate increases.

Accounting for inflation is crucial for accurate financial planning and budgeting, especially in terms of infrastructure projects and the maintenance work that is continuously required. Council also needs to balance its budgets.

Appendix 1

Policies governing borrowing and investments

i. Council appetite for risk: Council activities are largely funded from collecting rates in return for the provision of services for the benefit of the district. Therefore, the Council is risk adverse and has strict limitations on what investments it can make. These limitations are contained in the Treasury and Risk Management Policy.

ii. Borrowing: Council uses both external and internal borrowing to fund the acquisition of assets. Council's Treasury and Risk Management Policy governs the borrowing mechanisms and current limits. The term of borrowings is to be the lesser of the estimated useful life of the asset or twenty years. Loans principal is repaid over the life of the loan by regular principal repayments throughout the life of the loan. Strategies included as part of the Financial Strategy cover key strategic decisions that have been made in relation to treasury activities.

iii. Internal borrowing: Internal borrowing is a mechanism available to manage both the level of funds available and external debt. This facility enables an activity to borrow from the Council Treasury Function as opposed to borrowing externally, with an appropriate interest rate charged. Utilising internal borrowing enables Council to manage its cash/investment portfolio to take advantage of the moving margins between interest rate receivable and interest rates payable. Internal borrowing is used when external borrowing costs are higher than investment returns.

iv. Security for borrowing: Many of Council's assets are not readily saleable so are less attractive as security items. Council will secure borrowings by a charge over our rating revenue either directly or through a debenture trust deed. Council will not secure other assets unless circumstances show it to be appropriate (e.g. leased assets).

v. Council currently provides its lenders Local Government Funding Agency (LGFA) with security on its borrowings through a debenture trust deed. In the extremely unlikely event this gives lenders a charge over our rates income.
v In the unlikely event of Council defaulting on a loan, the lender can ensure a rate is set to recover the outstanding amount owed. This security is attractive to lenders, which helps ensure we have ongoing support for our debt program, while reducing the interest rates lenders charge.

vi. Financial investments: Council holds financial investments as part of its day to day working capital management, cash backed trust funds, and as required by the LGFA (Borrower Notes). Council may invest in approved financial instruments as set out in the Treasury Risk Management Policy. Council only invests in approved creditworthy counterparties. These investments are held for maturity terms up to 12 months and are actively managed to ensure sufficient liquidity and to maximise interest returns for ratepayers. For further information on the Council's Investment Policy, refer to the full Investment Policy (part of the Treasury Risk Management Policy).

vii. Equity investments: Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity. Generating a commercial return on strategic investments is considered a secondary objective. Investments and associated risks are monitored and managed, and regularly reported to Council. Council equity investments are in NZ Local Government Insurance Corporation Limited (Civic Assurance).

viii. Asset investments: The purpose of asset investments is to provide a return to the Council to offset the rates requirement. The main asset in this category is the Birch North Forest. Council has created a reserve to ensure ongoing maintenance of the forest continues to be self-funding with no input from rates. Council has been utilizing this reserve to remove costly roadside trees to improve road safety and resilience of Council's roads. Council is exploring options on the future of this investment given the long periods of no returns, and ongoing maintenance costs between harvests.