DRAFT FINANCIAL STRATEGY

EXECUTIVE SUMMARY

The Hurunui District has had numerous challenges in terms of the November 2016 Earthquakes; the effects of drought in various areas of the district; the potential downturn in tourism resulting from the COVID-19 pandemic specifically affecting the financial performance of the Hanmer Springs Thermal Pools and Spa; and the need to upgrade the water supplies to meet drinking water standards.

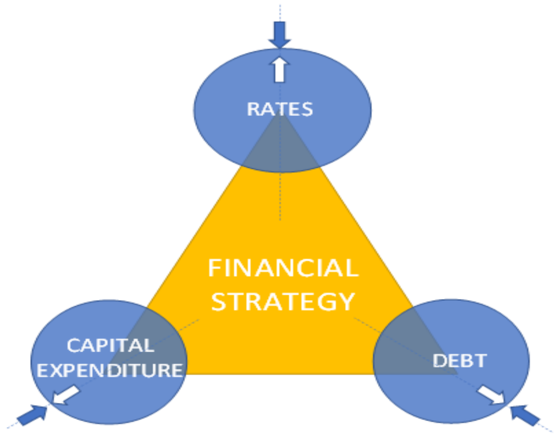
In the development of the 2015-25 Long-term Plan (LTP), the Council recognised the need to significantly upgrade the treatment of water to ensure that it will comply with drinking water standards. This required Council to actively manage its debt levels to ensure that it retained enough headroom to be able to afford to carry out the work when required. This work is scheduled to be completed during the 2023-24 financial year and has been funded entirely by debt, but with rising interest rates since emerging from the post-pandemic period, this has increased the operating costs of supplying drinking water and, in turn, has forced rates to increase.

In setting the budget, the key is to ensure that the work is undertaken to meet the legislation but also to ensure that the current levels of service that the ratepayers of the District have enjoyed can be maintained. In some activities, it is desirable that the District wants to increase its levels of service to cater for increasing needs.

The community can achieve any level of expenditure and complete any project it desires; however, this has to be weighed up against how this is to be funded. In general, the funding tools are rates or debt. Debt is only a way of spreading the cost of rates over a longer period of time to ensure the full range of people that will benefit from that project (both current and future ratepayers) pay for a portion of the cost.

Hurunui's Financial Strategy can best be thought of as a triangle the corners being represented by: Capital Expenditure; Rates; and Debt. As required under legislation, it is the intention that all operating expenditure is meet via operating revenue (principally Rates), therefore Capital Expenditure is generally funded from Debt or Rates.

- Any increase in the level of capital expenditure will have an impact on either Rates or Debt, or a combination of both.
- Conversely, a reduction in the level of capital expenditure will result a decrease in Rates or Debt, or a combination of both.



Capital Expenditure:

For the next ten-year period, the Council is expecting to incur $369 million in capital expenditure, which is on the back of $27 million spent in 2022-23 and forecast a further $33 million for the 2023-24 year. The particular areas of expenditure are work relating to the provision of water – both in terms of quality and in terms of delivery and in maintaining the roading network. In addition, there is a significant increase in identified building maintenance projects for the numerous buildings the Council owns on behalf of its community.

Debt:

The Council's Treasury Policy has been updated for the 2024-34 Long Term Plan to allow the Council to hold debt up to 165% of its total revenue. This is a more restrictive limit than required by the Council's key funding provider – the Local Government Funding Agency (LGFA). Based on the current budget, the debt/revenue ratio is expected to peak at 160%, so there is still room in the Council's debt ceiling (and further flexibility within the LGFA limits) to address unforeseen issues.

Rates:

The last factor in the triangle is rates and the Council is mindful of ensuring that rates remain affordable but still need to reflect the costs of doing things, otherwise the debt component of the triangle will start to balloon out. The Council has set its rate increase limits as part of the Financial Strategy with a large increase of 13.0% for 2024-25 (Year 1); 14.5% for 2025-26 (Year 2) and 5% for 2026-27 (Year 3). For the remainder of the LTP, the limits have been set at 5% increases, although the actual increases included in the LTP budget will be lower than these limits. All increases are after accounting for growth.

> 2024-25 (Year 1) Rates:
>
> The proposed rate increase (after allowing for growth) for Year 1 is 12.37%, with the key driver relating to Water Supplies. Rates for water a scheduled to increase from 2023-24 by 23.48% which represents 6.22% of the overall increase from last year. The key reason is to ensure that all operating expenditure is covered by rates, whereas last year, Council took the step of funding a level of the increased cost structure (primarily interest costs) from debt. The rates set for the 2023-24 year were in line with the staging process that the Council began in 2015 to harmonise the rates for restricted water supplies.
>
> 2025-26 (Year 2) Rates:
>
> The proposed growth adjusted rate increase for Year 2 is 14.26%, with the key driver relating to Roading. The Subsidised Roading Programme is forecast to increase from $15.6 million to $23.4 million. The budget has been set on the basis that Waka Kotahi will contribute 52% of this cost ($12.1 million) with Council needing to increase its rating input from $7.49 million to $11.2 million to meet the local share of 48%. This increase alone accounts for 10.94% of the overall increase in rates for the 2025-26 year. Further increases have been allowed for Three Waters (Drinking Water, Wastewater and Stormwater), where the Council has adopted a policy of staging in the funding of depreciation for these infrastructural assets over the remainder of the Long-Term Plan. The objective is that 100% of depreciation is funded by 2033-34. The increased rates collected to fund depreciation is used to repay debt.

2026-27 (Year 3) Rates:

> The proposed growth adjusted rate increase in Year 3 is 4.94%, with the key driver being the continuing staging in of funded depreciation for three waters and repayment of the outstanding level of debt relating to roading. Another factor is that for the 2026-27 year, the Council has factored in an amount of $522,450 ($500,000 plus inflation) to commence a programme of Advocacy for Significant Natural Areas (SNAs). This is required as the National Policy Statement (NPS) for Indigenous Biodiversity (which came into force on 7 July 2023) required each territorial authority to undertake a district-wide assessment of the land in its district to identify areas of significant indigenous or significant habitat of indigenous fauna that qualify as SNAs under the NPS. This NPS is being reviewed by the new government and the requirements may be amended before the timing of the assessment period.

The Hurunui District Council also has a significant level of non-rate income through subsidies from Waka Kotahi NZ Transport Agency, a range of user fees and the revenue derived from the Hanmer Springs Thermal Pools and Spa (HSTP&S). The subsidies received are specifically relating to roading costs and the Council limits the use of the surpluses from the HSTP&S to ensure that the Pools activity is able to repay debt that it has incurred on capital expenditure. There is the ability to increase user charges, which would offset rates, however, the market does determine what level the charges can realistically be set at. As a result, despite the large amount of non-rate income the Council receives, the ability for it to have a significant effect on rate increases is limited.

Considering the components of the triangle allows Council to balance the need to get things done while ensuring debt remains at sustainable levels and rates remain affordable.

INTRODUCTION

What is a financial strategy?

Our financial strategy sets out the overall financial goals of the Council for the 2021-31 Long-term Plan. The strategy sets out where we currently sit and where we wish to be at the end of the ten years.

The Local Government Act 2002 (LGA) provides the guiding legislation for councils and requires councils to prepare and adopt a financial strategy as part of the long-term plan. The purpose of the financial strategy is to:

- facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and
- provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.

The financial strategy also provides guidance on how we consider and approach funding of expenditure proposals in the current long-term plan and informs all subsequent activity decisions made for the duration of the 2024–34 long term plan.

Council's long-term vision

The Council's draft LTP has been developed with a purpose of continuing the work undertaken with the three previous LTPs but addressing the new challenges that the District has already faced and will face in the future.

The 2015-25 LTP had identified the need for the Council to develop a strategy to ultimately comply with the Ministry of Health's revised New Zealand Drinking Water Standards (2018) and to also manage debt. The 2018-28 LTP continued that strategy but also required the Council to address the effect of the November 2016 Earthquakes that significantly impacted on the District.

For the 2021-31 LTP, as well as seeing the capital work relating to the Drinking Water Standards through to completion by the end of 2027 and making appropriate provision for renewals, the Council plans to address the funding issues caused by the uncertainty that arose from the COVID-19 pandemic.

The Affordable Waters Reform programme implemented by the Labour Government introduced new legislation that would have ultimately meant that the three waters assets of Council would be transferred to a new Water Service Entity (WSE). The debt associated with those assets would also have been transferred to the WSE, although the structure allowed for the debt to be repaid over a five-year period.

The introduction of a new Water Regulator, Taumata Arowai, necessitated the need for to bring forward the water treatment capital works. The Council viewed this as a vital component to ensure that the three waters infrastructure of the District was fit for purpose before the ownership and responsibility was transferred to the WSE. The action has resulted in a higher level of debt than was forecast in the 2021-31 LTP, which coupled with the sharp increase in interest rates has resulted in a higher level of operating costs attributable to water.

The general election in October 2023 resulted in a change in government. The new government direction for water service delivery has meant that the Council will continue to hold ownership and responsibility of three waters as well as the need to service the increased debt resulting from the capital expenditure incurred in period since adopting the 2021-31 LTP.

The key outcomes that these actions will support are to put the Council's finances on a more sustainable footing, to increase the resilience of our assets and to plan for the future.

STRATEGIC CONTEXT

Where are we?

Understanding the base from which the Council is starting is important to provide context around the scale of work that is planned for the 2024-34 period.

Rates

There have been relatively low levels of rate increases in the past. This has been a combination of utilising financial reserves, particularly those built up from the profits from the Hanmer Springs Thermal Pools and Spa (HSTP&S) and not fully funding the cost of depreciation. The Council's rates have had to increase to ensure the Council can comply with drinking water standards and to fund the costs incurred arising from the 2016 Earthquakes. In addition, significant increases to operating costs, particularly in Roading, has meant that increases to rates have been necessary to meet the on-going costs of the service.

Income from other sources

Total revenue from non-rate sources for the 2023-24 year is forecast at $30.1 million, with revenue from the HSTP&S forecast to be $15.7 million and subsidies from Waka Kotahi NZ Transport Agency accounting for a further $5.1 million.

Operating expenditure

For the 2023-24 year, operating expenditure (including depreciation) is forecast at $63.0 million, with $18.5 million relating to employment costs (of which wage costs at the HSTP&S make up $6.4 million); other operating costs amount to $25.0 million; external interest is forecast at $3.1 million; and depreciation of $16.5 million.

Capital Expenditure

The capital programme for the 2023-24 year is forecast at $32.9 million. The predominant component is $12.0 million forecast for Water Supplies, with another $7.2 million relating to roading and $3.2 relating to project work at the HSTP&S.

Debt

External Debt is now forecast to sit at $64.5 million at the end of June 2024.

Value of Assets

It is forecast that the value of the Council's Assets will sit at $744 million at the end of June 2024. This is significantly advanced from the total value of assets forecast in June 2021 of $488 million, which reflect the significant increase in the scheduled revaluation of assets (particularly for Roading) that have been accounted for in the intervening period.

Where do we want to be in ten years?

There is a clear focus on undertaking the required capital work over the ten-year period, while ensuring that Council maintains its appropriate debt levels.

Capital Expenditure

The LTP budget allows for capital expenditure of $369 million for the 2024-34 period. To put this in perspective, the capital programme for the 2021-31 LTP was $195 million and for the 2018-28 LTP the programme was $148 million. The level of capital work has continued to increase to meet increasing standards and to continue to maintain the current levels of service.

Value of Assets

Over the ten-year period, the value of Council's total assets (including current and non-current assets) is expected to increase from the forecast level of $744 million to $1.07 billion (a 44% increase).

Operating Expenditure

Operating expenditure is also expected to increase by 55% from the forecast $63.0 million in 2023-24 to reach a total of $97.5 million in 2033-34. Wage costs are set to increase by 42%, direct operating costs by 59%, external interest is set to increase by 75% and depreciation is set to increase by 56%.

Income from other sources

Total revenue from non-rate sources for the Council is expected to increase by only 72% from $30.1 million to $51.6 million, with revenue from the HSTP&S forecast to account for $23.9 million of that amount and roading subsidies from Waka Kotahi expected to increase to $15.5 million.

Rates

The LTP has scheduled an increase to rates for year 1 at 12.37%, with year 2 sitting at an increase of 14.26% and year 3 at 4.94%. The remainder of the LTP period currently fluctuates between a 1.23% increase and a 4.95%. These rate increases are after allowing for growth and have not been amending to allow smoothing. As a result, the total rates are expected to increase from $28.9 million in 2023-24 to $58.5 million in 2033-34.

Debt

The level of debt over the ten-year period will grow to a peak of $140.0 million during the 2030-31 year. It is expected that a level of repayments of debt will be allowed for resulting in the debt at the end of the ten-year period sitting at $111.5 million. In the final year, this debt represents 101% of the total revenue (excluding Development Contributions and Vested Assets), which is significantly lower than the limits placed on Council of 165%.

What has happened since the last LTP?

COVID-19

While direct effects of Covid-19 have lessened since the development of the 2021-31 LTP, however, there have been significant economic effects arising, particularly in respect to rising level of inflation and the sharp increases in interest rates.

At the time in which the 2021-31 LTP was adopted, New Zealand had been a period of close to 15 months without an Alert Level 4 lockdown (the first period of lockdown concluded in April 2020), although the were restrictions placed on at the border which still had an effect on the operations of the Hanmer Springs Thermal Pools and Spa. In August 2021, the country went into a further period of Alert Level 4 lockdown, which necessitated the closure of the HSTP&S and the remainder of the 2021-22 financial year did impose restrictions on the operations which has adversely affected the profitability of the activity. The HSTP&S recorded a significantly reduced profit in the 2021-22 year, which resulted in a much lower level of debt repayment anticipated in the 2021-31 LTP.

Affordable Waters Reform

The Affordable Waters Reform programme implemented by the Labour Government introduced new legislation that would have ultimately meant that the three waters assets of Council would be transferred to a new Water Service Entity (WSE). The debt associated with those assets would also have been transferred to the WSE., although the structure allowed for the debt to be repaid over a five-year period.

The introduction of a new Water Regulator, Taumata Arowai, necessitated the need for to bring forward the water treatment capital works. The Council viewed this as a vital component to ensure that the three waters infrastructure of the District was fit for purpose before the ownership and responsibility was transferred to the WSE. The action has resulted in a higher level of debt than was forecast in the 2021-31 LTP, which coupled with the sharp increase in interest rates has resulted in a higher level of operating costs attributable to water.

The general election in October 2023 resulted in a change in government. The new government direction for water service delivery has meant that the Council will continue to hold ownership and responsibility of three waters as well as the need to service the increased debt resulting from the capital expenditure incurred in period since adopting the 2021-31 LTP.

Capital Programme

Over the period since the 2021-31 LTP, the level of capital work undertaken has been significantly higher than what was previously budgeted for. It is common for many local authorities to only spend a portion of the capital programme, with many projects carried forward to later years. With a greater focus on project management, the Council is expecting to have met a capital programme of close to $83 million for the three years.

Debt

To meet the cost of the capital programme, external debt is forecast to rise from $38.0 million in June 2021 to $64.0 million at the end of June 2024. In the meantime, the underlying cost of external interest has dramatically increased with the wholesale interest rates increase from 0.35% as at 30 June 2021 to 5.68% as at 7 February 2024.

Rates

For the 2021-31 LTP, the rates increases were scheduled at: 8.49% for 2021-22; 4.99% for 2022-23 and 4.99% for 2023-24. The Council was able to set the rate increase at 8.49% for 2021-22, however on the back of a 30% increase in the underlying costs of the roading contract and without the commensurate increase in the subsidies from Waka Kotahi, the Council was required to increase the rates at an average of 10.50%. The post-pandemic inflationary conditions had an effect on the following year and coupled with the significant increase in interest rates, the Council resolved to increase rates by a further 7.49% in the 2023-24 year.

INFRASTRUCTURE STRATEGY

What is an infrastructure strategy?

The purpose of the infrastructure strategy is to identify the significant infrastructure issues facing the Hurunui District and provide for options to manage them over a 30-year period.

The infrastructure strategy must describe how we intend to manage or infrastructure assets, and associated expenditure needs over the period of the strategy. It takes into account of a range of factors that affect the nature and cost of infrastructure provision. The Activity Management Plans and the 30 Year Infrastructure Strategy underpin the Financial Strategy.

The full infrastructure strategy is included in this Long Term Plan.

Known Infrastructure Issues

The most significant issue is the need to comply with Drinking Water Standards. This had emerged during the preparation of the 2015/25 Long Term Plan and the funding structure for Water Supplies changed to ensure that compliance remained affordable for all consumers. Including work being carried out in the 2020/21 year, a total cost of $19.6 million has been allowed for.

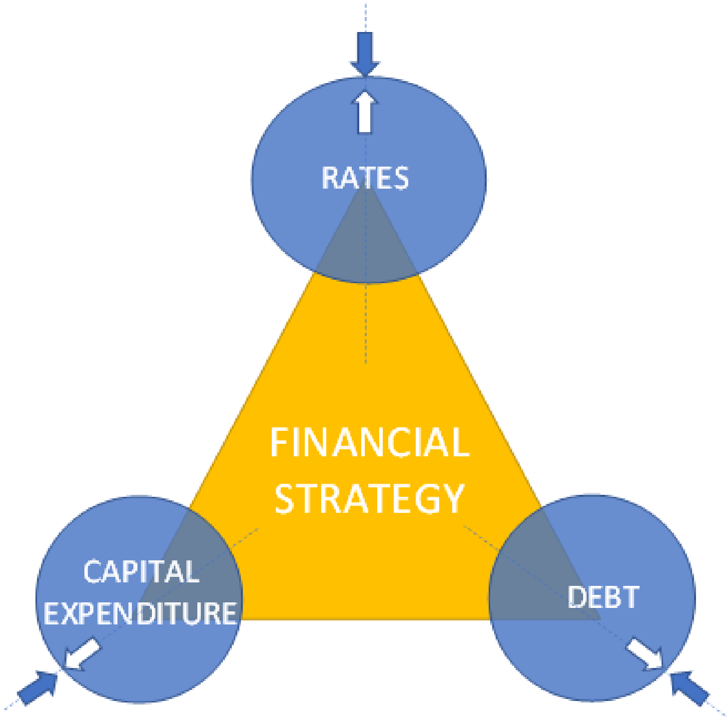
While Council had been concentrating on funding for the major expenditure, it had deferred its pipe replacement programme in an attempt to manage debt levels. This has been addressed in the Long Term Plan with the Council proposing to spend $7.55 million in pipe replacement as well as a planned $4.20 million in replacing Very High and High Critically pipes. In undertaking the increased renewal programme, Council is confident it will ensure that any backlogs in the renewal programme have been met by the end of June 2031.

Other Infrastructure Challenges

The Infrastructure Strategy has identified a range of future challenges facing Council over the 30 year period, for instance, the effects of Climate Change. As time progresses, Council will be provided with a greater level of information on these future challenges and will need to adapt its strategies to meet those challenges. This may result in Council needing to revisit its financial strategy as those future challenges become known issues that need addressing.

FINANCIAL STRATEGY

The financial strategy aims to achieve a balance of undertaking activities and completing projects, and how to pay for it. This balance can be represented by reflecting the three financial components of rates, capital expenditure and borrowings as levers, as shown in the diagram below:



The financial strategy triangle is affected by the three levers:

- Rates;
- Capital Expenditure; and
- Debt.

There appears to always be pressure on the Council to do more – providing higher levels of service, completing a new project; complying with increased legislation; or simply meeting the debt servicing associated with previous Capital Expenditure. Doing more is always achievable but it does result in either an increase in rates or an increase in debt, or an increase in both.

LEVER 1 – CAPITAL EXPENDITURE

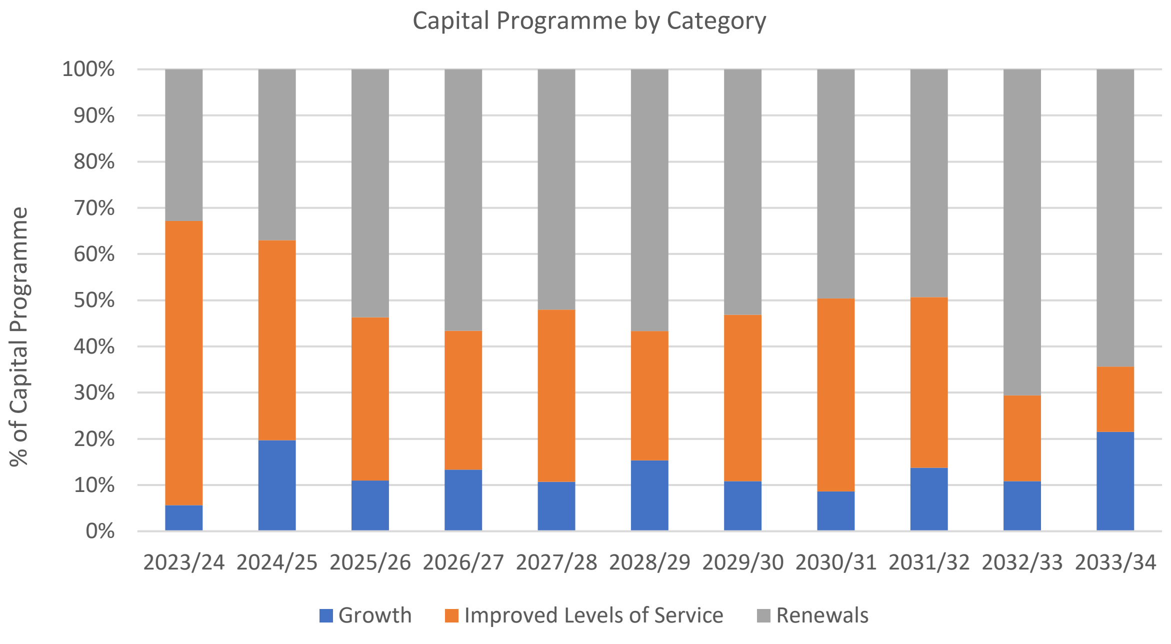
Capital expenditure requirements for our three waters assets, roads and community facilities are determined by the levels outlined in the Activity Management Plans (AMPs) for each activity. The AMPs are updated on a regular basis to ensure that various changes to the plan in the interim period are accounted for.

In general, capital expenditure is broken down into three key categories:

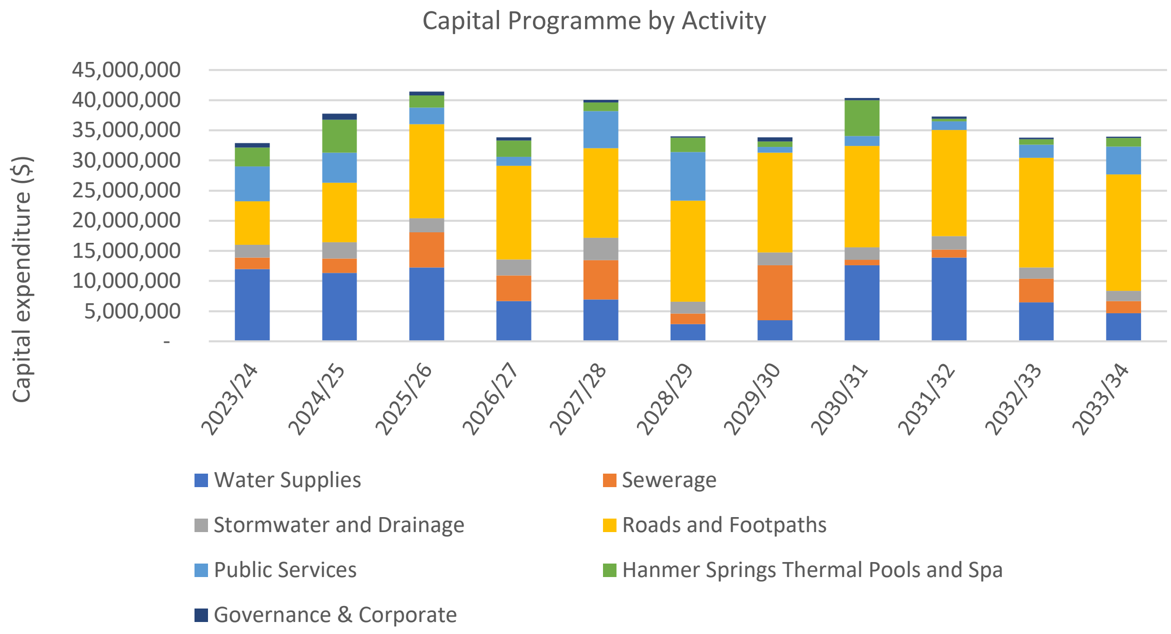
1. Capital expenditure relating to meeting the existing levels of service. This will be principally replacement of the existing assets.
2. Capital expenditure aimed at improving the current levels of service.
3. Capital expenditure on assets required due to growth.

Some items of capital expenditure may fall into more than one category. For example, the replacement of a length of water pipe is required to provide water to existing consumers, but the diameter of that length of pipe may be increased from its existing diameter to allow for greater capacity in the future.

Over the period of the LTP, we have budgeted to spend $368.9 million on capital expenditure. Of this balance, $198.6 million (53.8%) is related to maintaining the existing levels of service by providing for replacement of current assets. A further $120.6 million (32.7%) is aimed at making improvements to the level of service and the balance of $49.7 million (13.5%) relates to projects scheduled due to growth.



The key area of capital expenditure relates to the infrastructural assets. Of the total capital expenditure programme for the ten years of $368.9 million; $161.1 million relates to Roads and Footpaths; $81.3 million relates to Water Supplies, $37.9 million relates to Sewerage Schemes; $23.4 million relates to Stormwater; $34.3 million relates to Public Services and $23.5 million relates to projects for the Hanmer Springs Thermal Pools and Spa.



Renewals

As at the end of June 2021, we are forecasting to have $488 million in assets, mainly relating to our core infrastructure of roads and three waters. Our activity management plans identify the timing for renewals, based on the condition of the assets. We are undertaking a continuous programme of condition assessments to help us build a more detailed picture of all our assets. This is so that we can renew them all at the right time – before they deteriorate significantly or fail, but not while they still have a significant useful life.

In the 2024-34 long term plan we are planning to spend a total of $198.6 million (average of $19.9 million per annum) on renewals, so we are still maintaining all our assets to a good standard with timely, but not early, replacement of assets.

Improved Levels of Service

The planned capital works relating to increased Levels of Service amount to $120.6 million. Of this balance $28.4 million relates to improved Levels of Service for Water Supplies. A further $20.8 million relates to roads and footpaths. All but $1 million of this relates to “Low Cost Low Risk” Roading Projects (almost $2 million per annum), with the balance relating to new footpath project throughout the district. Included in the Capital Expenditure Programme is a total of $17.1 million of new projects for the Hanmer Springs Thermal Pools and Spa. This ensures that the complex remains competitive.

Growth

Under the Capital Expenditure Programme is a total of $49.7 million relating to growth projects. $31.2 million relates to assets that are proposed to be vested in the Council as a result of subdivisions undertaken. The balance of the growth projects of which some are funded in full or in part by Development Contributions.

Funding depreciation

Including depreciation in our operating expenses each year ensures ratepayers pay their fair share, and only their fair share, of the assets they use and benefit from – it ensures intergenerational equity.

Three Waters

The requirement for councils to fund depreciation was introduced as part of the 1996 Amendment to the Local Government Act. For a variety of reasons, the Hurunui District Council opted not to fund the depreciation on Water and Sewer with any capital costs simply being funded by either debt or rates. With the looming debt servicing costs associated with the capital cost to comply with the Drinking Water Standards, the Council deemed it appropriate to start staging in the funding for depreciation and apply those funds to offsetting debt.

For the 2024-34 LTP, the Council is mindful that there are significant direct operating costs already associated with Three Waters, and that fully funding depreciation immediately would result in an unaffordable increase in rates. As a result, the Council has resolved to stage in the funding of depreciation on Three Waters with the objective of fully funding it by 2034.

Roading

The Council does not fund depreciation on its roading network but funds all operating and capital works through operating income. The operating income is in the form of Waka Kotahi subsidies and rates. The key reason for this is that Waka Kotahi only subsidises the actual physical costs relating to roading and not the cost of depreciation.

Other Assets

The Council does not fund depreciation on most community buildings. This has been mainly due to recognising that communities change over time and that the current facilities may not be appropriate in the future. Any decision on how to fund the replacement of a community building will be made as part of the planning for a new facility.

Use of Depreciation Funds

All depreciation funds are used to offset any debt relating to that activity. Should the activity hold no debt, then depreciation funds build up and then used to fund future capital expenditure. This is fully explained in Council’s Internal Financing Policy.

LEVER 2 – RATES

We base the vast majority of the rates set on the either Capital Value of each property or a fixed cost to each property. We set our rates by way of district wide rates and targeted rates.

- District Wide rates are charged on all properties in the district, regardless of location. They are broken down further to:
  - Governance;
  - Roading;
  - Planning;
  - Waste Management;
  - Canterbury Museum;
  - Footpath Maintenance;
  - Stormwater;
  - Earthquake Recovery;
  - Earthquake Prone Buildings; and
  - Other General Rates.
- Targeted rates are charged for specific activities based on services provided or land use. They are broken down further to:
  - Water;
  - Sewer;
  - Coastal Hazards;
  - Rating Area Amenities;
  - Refuse Collection;
  - Rating Area Medical Centres;
  - Roadside Construction;
  - Tourism; and
  - Other sundry targeted rates.

The rates and how they are set are further defined in the Funding Impact Statement.

For the 2021-31 LTP, a series of local Targeted Rates for Roadside Construction were reinstated, which provides funding for the local areas to construct new footpaths, as distinct from the District Wide Footpath Maintenance rate, which provides for maintenance and ultimate renewals of existing footpaths throughout the District.

For the draft 2024-34 LTP, it is proposed to combine all stormwater operational and capital costs (similar to the process adopted for Water Supplies and Sewerage as part of the 2015-25 LTP). The reason for this is that new global stormwater consents are required for each urban area, including those urban areas that have had no requirement to meet a stormwater rate in the past.

Recognising that all ratepayers benefit in some way in the effective control of stormwater, the Council has resolved that the urban ratepayer will be charged 90% of the cost (recognising the greater benefit to urban ratepayers) and that the rural ratepayers will contribute to 10% of the cost.

A further new rate proposed is a Amberley Beach Proactive Relocation Rate, which is designed to fund a level of funding to allow for land to be purchased and ultimately developed for the primary benefit of the existing ratepayers of Amberley Beach when there is a need to relocate to higher land in the advent of sea inundation of the current village.

RATE INCREASES

In general terms, the Council tries to keep the overall annual rate increase to the level of inflation. For various reasons, this cannot be achieved.

From previous LTPs, the following issues have been raised:

- Servicing the debt resulting from the November 2016 Earthquakes.
- Recognising the need to adequately allow for Earthquake Strengthening of Council buildings.
- The increased work programme for roading to meet the levels of service outlined in the Asset Management Plans.
- Staging in the funding for depreciation on water and sewer
- Funding a portion of the costs for recreation reserves from the general rate rather than relying on profits derived from the Hanmer Springs Thermal Pools & Spa (HSTP&S) to pay for these.

Funding issues for the 2024-34 LTP that need to be addressed are:

- Significantly increased costs associated with Roading and the forecast to lift the levels of service for roading by increasing the overall subsidised roading programme.
- The increased debt servicing costs as a result of increased debt levels and the increase in the underlying interest rates.
- The completion of capital works, particularly relating to water, necessitates an increase in operating costs (including Labour).

LIMITS ON RATE INCREASES

When determining the overall rate increases, an allowance is made for growth in the capital value of the district each year. This is based on the number of new rating units calculated based on the assumed increase in population of the ten-year period.

There are numerous targeted rates charged in different areas which means that the overall increase in rates will not be consistent for each property throughout the district. The increase will depend on the targeted rates that are charged to that particular property and also the capital value of the property. To demonstrate the varying increases to the rates charged for particular properties, the Council has selected a total of 125 individual properties to show the movements in the rates over the first three years of the LTP. These properties have been selected to provide examples of properties connected to every water supply and sewerage scheme in the district and provide a wide range of capital values in the rural and urban areas of the District. The full analysis of the sample properties is provided in the Rates section of the LTP.

In preparing the LTP for the 2024-34 period, the Council has set limits for the rates increases for each year. The rating levels have been set to meet those limits.

Smoothing allows the Council to adjust the rate increases in particular years to ensure that there are consistent increases year to year. This has not been applied in the development of the 2024-34 LTP.

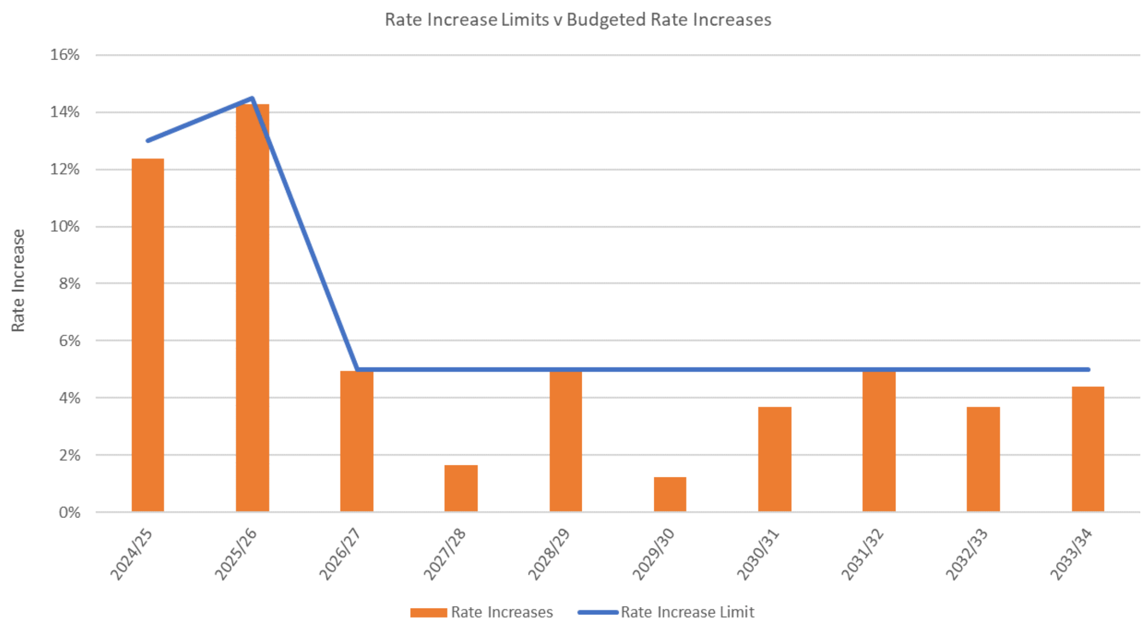
Limits

For the ten-year period the rate increase limits (after allowing for growth) have been set follows:

Year	Overall Increase
2024/2025 (Year 1)	13.00%
2025/2026 (Year 2)	14.50%
2026/2027 (Year 3)	5.00%
2027/2028 (Year 4)	5.00%
2028/2029 (Year 5)	5.00%
2029/2030 (Year 6)	5.00%
2030/2031 (Year 7)	5.00%
2031/2032 (Year 8)	5.00%
2032/2033 (Year 9)	5.00%
2033/2034 (Year 10)	5.00%

The Council's proposed rate increases that have been allowed for in the LTP are as follows:

Year	Overall Increase
2024/2025 (Year 1)	12.37%
2025/2026 (Year 2)	14.26%
2026/2027 (Year 3)	4.94%
2027/2028 (Year 4)	1.65%
2028/2029 (Year 5)	4.94%
2029/2030 (Year 6)	1.23%
2030/2031 (Year 7)	3.68%
2031/2032 (Year 8)	4.95%
2032/2033 (Year 9)	3.69%
2033/2034 (Year 10)	4.39%



Again, because of the nature of the targeted rate structure, the increase (or decrease) in rates for any year for individual properties can vary markedly, hence the development of the sample property analysis to indicate the potential movements in rates.

LEVER 3 - DEBT

We have two key areas of borrowing - Internal and External. The Internal debt is set out in our Internal Financing Policy.

As our cash resources have been drawn down to fund key capital projects in the past few years, we needed to take on external debt to manage cash flow. Council is expected to remain a net borrower for the period of the LTP.

Anticipated levels of external debt

As at 31 December 2023, the total amount of external debt the Council held was $59.0 million. At the end of the ten-year period, the debt is expected to be $111.5 million. The debt level is expected to peak at $140.0 million over the period during the 2030/31 year. The anticipated debt levels over the 10-year period are:

Year	Total Anticipated Debt	Total Anticipated Interest Expense
2024/2025 (Year 1)	$87.0 million	$3,578,700
2025/2026 (Year 2)	$106.0 million	$4,101,250
2026/2027 (Year 3)	$116.0 million	$4,684,200
2027/2028 (Year 4)	$131.5 million	$5,333,625
2028/2029 (Year 5)	$138.5 million	$5,737,500
2029/2030 (Year 6)	$137.0 million	$5,881,925
2030/2031 (Year 7)	$140.0 million	$6,107,850
2031/2032 (Year 8)	$134.0 million	$6,219,800
2032/2033 (Year 9)	$121.0 million	$5,877,750
2031/2034 (Year 10)	$111.5 million	$5,498,625

Limits on Debt Levels

Our External Liability Risk Management Policy, which is part of the Treasury Risk Management Policy, sets out the limits on the level of debt that we can take on. There are key ratios set by the Local Government Funding Agency (LGFA) which have been used as a guide. With the significant level of capital expenditure anticipated in the 2024-34 LTP, the Council has amended it limits.

The Policy allows for three key ratios that the Council needs to meet:

- Total Debt is no more than 165% of Total Income (excluding Development Contributions and Vested Assets Income)
- Total External Interest Cost is no more than 20% of Total Income (excluding Development Contributions and Vested Assets Income)
- Total External Interest Cost is no more than 25% of Total Rates.

In addition, there is the requirement for the Liquidity ratio to be at least 110%. Under the Treasury Risk Management Policy, the Liquidity Ratio is calculated as follows:

(External debt + committed loan facilities + available cash) ÷ Existing External Debt

The Council manages this ratio by ensuring that there are sufficient flexible bank loan facilities in place at all times.

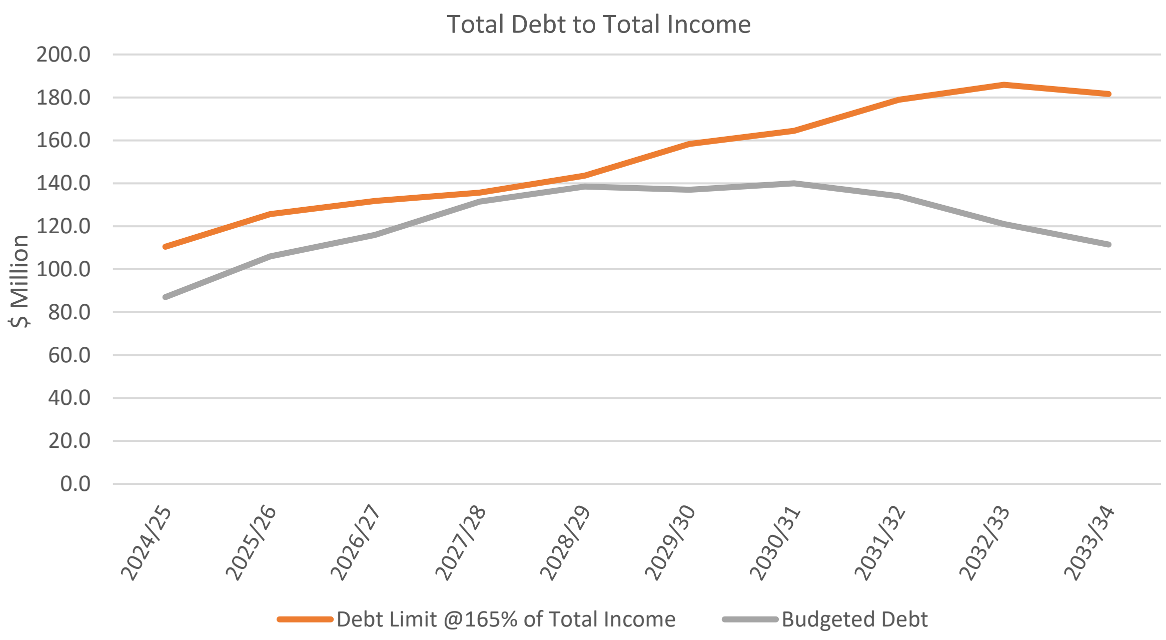
While the Council has opted to set its external debt limit at 165% of Total Income, the anticipated debt levels result in a peak to the debt/revenue ratio of 160.57% in the 2027/28 year. As a result, the Council does retain a significant amount of headroom in its debt ceiling to deal with unplanned events, such as a natural disaster.

Total Debt to Total Income Ratio

The net debt limits provided for in the policy are that total debt shall be no more than 165% of total income. The income excludes Development Contributions (DCs) and Vested Assets Income. Based on the levels of income allowed for in the LTP, the limit of the debt that could be taken on is $181.7 million in the 2033-34 year.

Year	Total Income (excl DCs and Vested Assets)	Debt Limit at 165%	Total Anticipated Debt
2024/2025 (Year 1)	$66.9 million	$110.5 million	$87.0 million
2025/2026 (Year 2)	$76.2 million	$125.7 million	$106.0 million
2026/2027 (Year 3)	$79.8 million	$131.7 million	$116.0 million
2027/2028 (Year 4)	$82.2 million	$135.6 million	$131.5 million
2028/2029 (Year 5)	$87.0 million	$143.5 million	$138.5 million
2029/2030 (Year 6)	$96.0 million	$158.4 million	$137.0 million
2030/2031 (Year 7)	$99.6 million	$164.4 million	$140.0 million
2031/2032 (Year 8)	$108.5 million	$179.0 million	$134.0 million
2032/2033 (Year 9)	$112.7 million	$185.9 million	$121.0 million
2031/2034 (Year 10)	$110.1 million	$181.7 million	$111.5 million

Graphically, this is shown as follows:

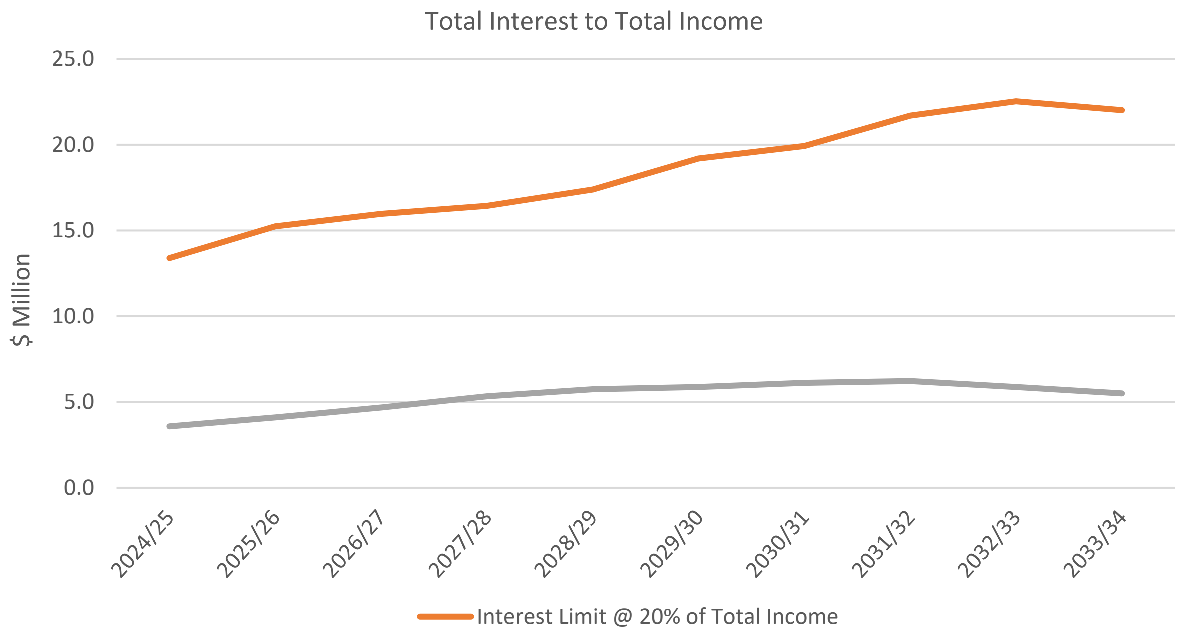


Total Interest to Total Income Ratio

The amended policy also provides that the total amount of interest expense is no more than 20% of total income. Again, total income excludes DCs and Vested Assets.

Year	Total Income (excl DCs and Vested Assets)	Limit at 20%	Total Anticipated Interest Expense
2024/2025 (Year 1)	$66.9 million	$13.39 million	$3.58 million
2025/2026 (Year 2)	$76.2 million	$15.23 million	$4.10 million
2026/2027 (Year 3)	$79.8 million	$15.97 million	$4.68 million
2027/2028 (Year 4)	$82.2 million	$16.44 million	$5.33 million
2028/2029 (Year 5)	$87.0 million	$17.39 million	$5.74 million
2029/2030 (Year 6)	$96.0 million	$19.20 million	$5.88 million
2030/2031 (Year 7)	$99.6 million	$19.93 million	$6.11 million
2031/2032 (Year 8)	$108.5 million	$21.70 million	$6.23 million
2032/2033 (Year 9)	$112.7 million	$22.53 million	$5.88 million
2031/2034 (Year 10)	$110.1 million	$22.02 million	$5.50 million

Graphically, this is shown as follows:

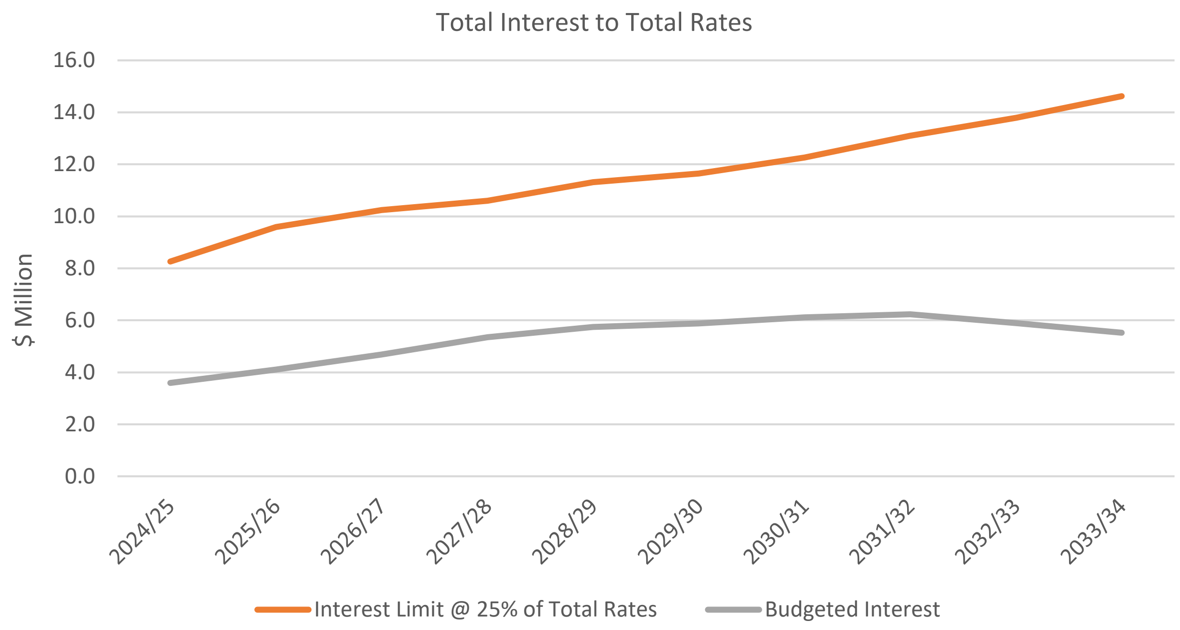


Total Interest to Total Rates Ratio

The amended policy also provides for the total amount of interest expenses is no more than 25% of total rates.

Year	Total Rates	Limit at 25%	Total Anticipated Interest Expense
2024/2025 (Year 1)	$33.0 million	$8.26 million	$3.58 million
2025/2026 (Year 2)	$38.4 million	$9.59 million	$4.10 million
2026/2027 (Year 3)	$41.0 million	$10.24 million	$4.68 million
2027/2028 (Year 4)	$42.4 million	$10.60 million	$5.33 million
2028/2029 (Year 5)	$45.2 million	$11.31 million	$5.74 million
2029/2030 (Year 6)	$46.6 million	$11.65 million	$5.88 million
2030/2031 (Year 7)	$49.1 million	$12.26 million	$6.11 million
2031/2032 (Year 8)	$52.4 million	$13.10 million	$6.23 million
2032/2033 (Year 9)	$55.2 million	$13.79 million	$5.88 million
2031/2034 (Year 10)	$58.5 million	$14.62 million	$5.50 million

Graphically, this is shown as follows:



Security for borrowing

Prior to taking on debt for the first time in September 2010, we prepared a Debenture Trust Deed and selected Perpetual Trust (now Covenant Trustees Services) as our Trustee. The Debenture Trust Deed is a standard security document for councils. The key security available is that a charge can be made against the rates of the Council to repay debt. The market perspective on this is that a Debenture Trust Deed provides a low level of risk for an investor or funding provider, which in turn should allow for lower interest rates.

Holding a Debenture Trust Deed provides us with security for a range of different funding options:

- Registered Bank Debt
- Use of the Local Government Funding Agency
- Issuing Council Debt directly to the market

Further information is available in the External Liability Management Policy section of the Treasury Risk Management policy in this plan.

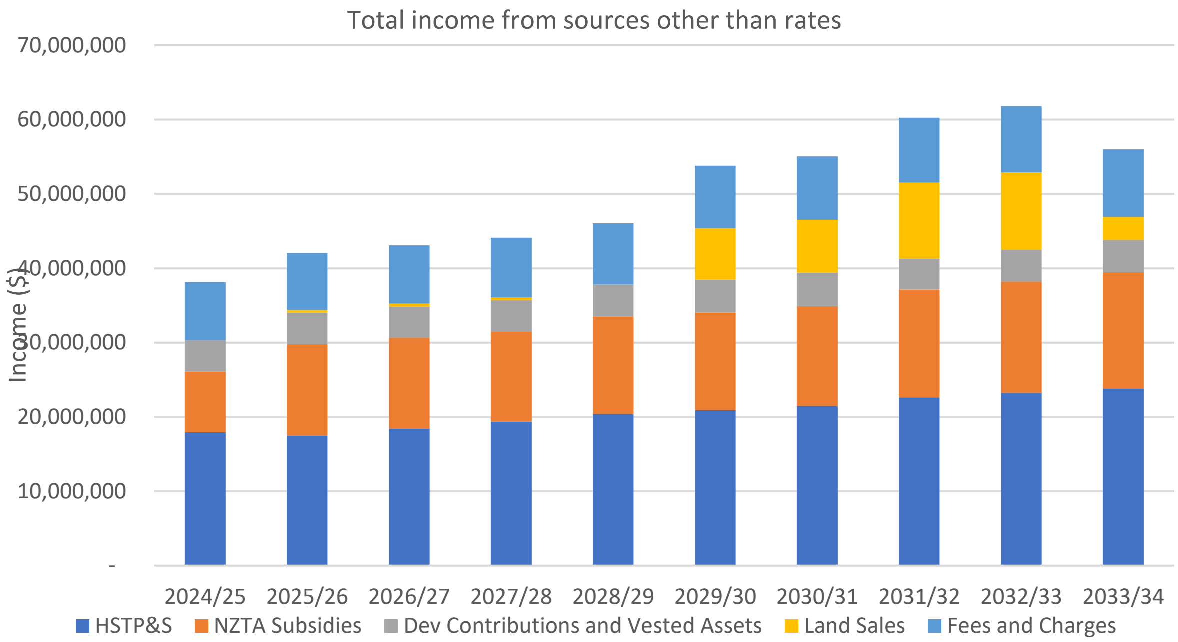
OTHER CONSIDERATIONS

Although Capital Expenditure, Rates and Debt represent the key financial levers that the Council may need to pull to affect the strategy, there are a number of other considerations that the Council considers in respect to its financial strategy. These other considerations are:

- Non-rates income
- Operating expenditure
- Investments

NON-RATES INCOME

We rely heavily on other forms of income to finance our operations. For the period of the LTP, the budget has scheduled that $500 million (or 52%) of our total income is generated from sources other than rates.



Hanmer Springs Thermal Pools and Spa Revenue

A key component is the revenue derived from the Hanmer Springs Thermal Pools & Spa (HSTP&S), which accounts for over 21% of the Council's total income received. The HSTP&S is run as a separate business unit of the Council. After allowing for Operating Expenses and Interest, a portion of the profits are actively used to fund reserve costs throughout the District. These reserve costs are libraries, cemeteries, public toilets, and a range of district parks and other reserve costs. The Council's use of the overall surplus derived from the HSTP&S to offset these reserve costs has been set at $1.5 million in 2024-25 and a further $100,000 is added to the 'dividend' in each subsequent year resulting in a total 'dividend' of $2.4 million in 2033-34.

Any excess profits from the HSTP&S are actively used to repay the internal debt accumulated by the business unit, which is the result of continual investment in the assets.

Waka Kotahi Subsidies

A further key component of non-rate income is Waka Kotahi subsidies, which are used to fund both operating and capital expenditure relating to the roading network. Based on a direct confirmation, we have assumed that the financial assistance rate provided by Waka Kotahi will be 52% for the entire LTP. Further discussion of this is provided in the Forecasting Assumptions in this plan.

The uncertainty surrounding the actual amount of subsidies received sits on the confirmation of the overall roading programme. If the approved roading programme from Waka Kotahi falls short of the draft budgets, then Council has to consider the following options:

- maintaining the budget and fund a higher percentage of the cost through rates (as had been the case for 2021/22 and 2022/23) resulting in an increase to the rating input; or
- reducing the programme by the reduced subsidies, but retaining the current level of rating input; or
- reducing the programme and match funding the equivalent of 48% rating input, resulting in savings to rates.

Both the second and third option will effectively reduce the amount of funds available to apply to roading and will reduce in lower levels of services provided.

Development Contributions

Development Contributions also form a key component for funding capital expenditure which has been required due to increased growth. It is anticipated that over the life of the LTP, we will receive a total of $11.9 million in Development Contributions, however the amount actually received will be dependent on the level of growth experienced. Further information about the Development Contribution Policy is included in the LTP.

Land Sales

With the budgeted development of the Queen Mary South Project, the Council has budgeted to receive proceeds from both residential and commercial property beginning from 2029 onwards to after the completion of the Long Term Plan.

Fees and Charges

Fees and Charges account for the remaining non-rate income. The Council review it's fees and charges each year to help offset actual costs so that the activities are not overly reliant on rate funding. The Council is conscious of making the fees and charges affordable and fair on those who use them.

OPERATING EXPENDITURE

Operating expenditure is not included as one of the levers within the financial strategy triangle model. If there is a significant increase in operating expenditure, this would require a significant rate increase to fund, on the basis that the Council should always attempt to fund operating expenditure from operating income, rather than using debt to fund operating expenditure. The increase in rates would, in turn would affect the other two levers of the financial strategy triangle.

INVESTMENTS

Legislation requires the Council to specify its objectives for holding and managing financial investments and equity securities and its quantified targets for returns.

Cash Investments

Since September 2010, the Council has held term debt. The debt was primarily taken out to fund the $8.8 million expansion of the HSTP&S, but large capital works (particularly in three waters) have meant that the debt has needed to be expanded. Over the period of the LTP, we expect to remain a net borrower. As a result, we no longer hold any long-term cash assets in the form of bonds or stock. Any spare cash funds are generally held on call or in short term deposits to earn a small amount of interest as the interest rates are better than holding the funds in a current account.

Equity Investments

Currently, we hold two equity investments – one in Civic Financial Services Limited and the other in Transwaste Canterbury. Neither assets are readily tradable on the open market, but we have objectives for retaining ownerships of these investments.

Civic Financial Services Limited was previously named Civic Assurance. While not providing insurance to the sector anymore, the company does provide administration for the Local Authority Protection Programme (LAPP) and the provision of a Kiwisaver scheme providing benefits to local government employees.

The Council owns 1.2% of Transwaste Canterbury, which owns and operates the Kate Valley Landfill. The value of the investment as at 30 June 2023 was $417,192. The Company is 50% owned by the Councils in Canterbury and our objective for holding our investment is to continue to receive dividends from the Company. We have budgeted to receive $180,000 per annum (plus an annual inflation adjustment) from this investment.

Forestry Investments

We hold approximately 75 hectares of land that has been used for Forestry. Forestry assets are held as long-term investments on the basis of net positive discounted cash flows, factoring in projected market prices and annual maintenance and cutting costs. All income from forestry is included in the statement of comprehensive income, and this funds replanting of the land. The Council may determine the use of any excess funds. Council does hold a number of units under the Emissions Trading Scheme, which places a requirement on the Council to replant those areas that are harvested.

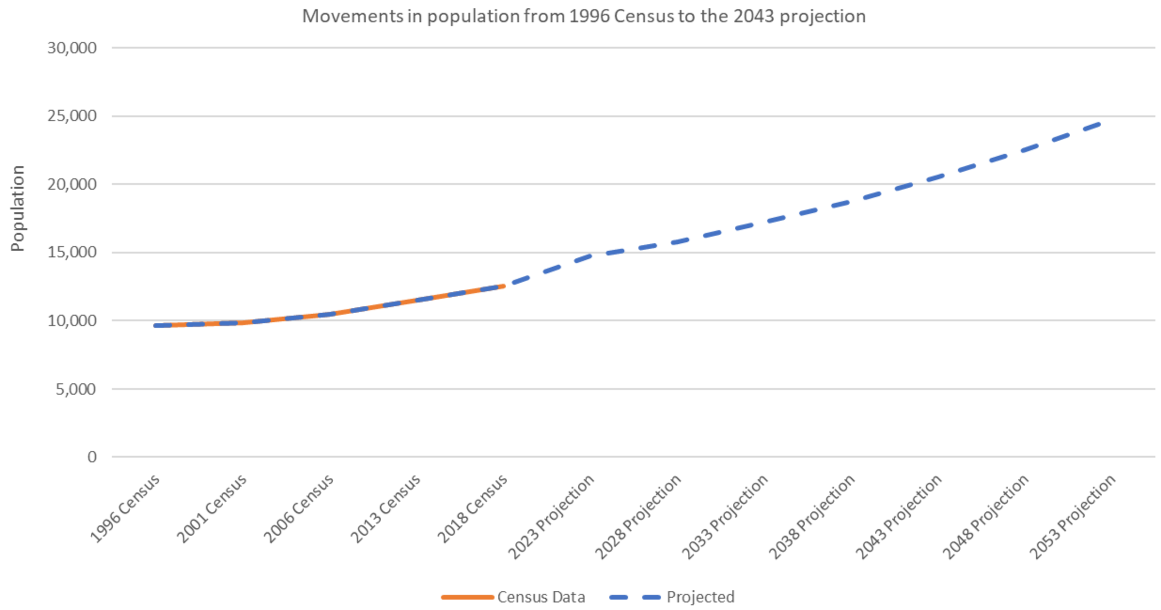
POPULATION

Changes in Population

In preparing the LTP, the Council has been forced to develop its own population projections. Ordinarily, this information would be readily provided by Stats NZ, generated from the 2023 Census, but this has not been available.

This information has been important as the Hurunui has experienced a significant amount of growth in recent years, particularly in the southern part of the District. The 2018 census revealed the population of the District was 12,561, which was up by 9% in the five years since the previous Census in 2013.

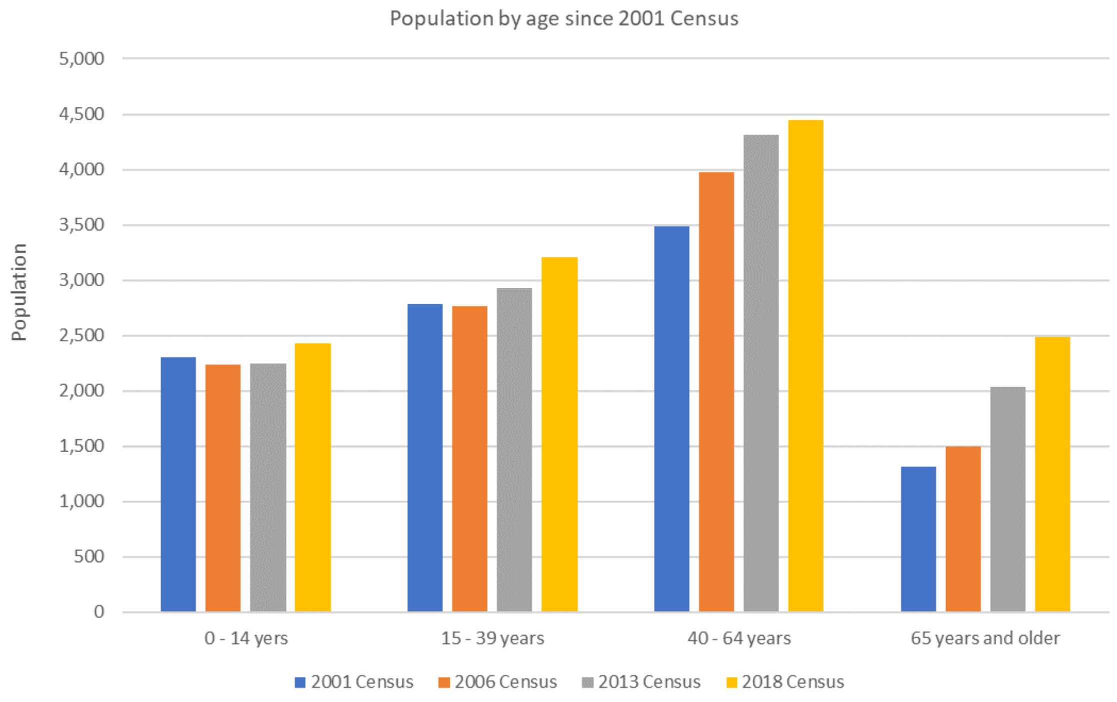
Council assumptions anticipate that the population of the district will grow to 14,734 by the start of the LTP and will continue to increase to 17,505 by the end of the ten-year period.



Population by Age

The Hurunui has an aging population reflected by the increase in the population aged 65 and over since the 2013 Census.

The Graph below shows the movements in numbers of people in particular age groups since the 2001 Census. Note the 2023 Census information is not available.



Ratepayer Growth

The growth in the District's population correlates with the growth in numbers of rateable properties, after making allowance for the differing makeup of the community. For example, the number of rateable properties per head of permanent population in Hanmer Springs is much different to that in Amberley due to the higher number of non-resident ratepayers in Hanmer Springs.

Below is the table of the number of rateable properties projected for the ten-year period:

Year	Number of Rateable Properties	Number of New Properties
2023/2024 (Annual Plan)	8,923	
2024/2025 (Year 1)	9,075	152
2025/2026 (Year 2)	9,250	174
2026/2027 (Year 3)	9,409	159
2027/2028 (Year 4)	9,572	163
2028/2029 (Year 5)	9,739	167
2029/2030 (Year 6)	9,909	170
2030/2031 (Year 7)	10,083	174
2031/2032 (Year 8)	10,261	178
2032/2033 (Year 9)	10,443	182
2033/2034 (Year 10)	10,629	186

The total new properties have been assessed at 1,706, which has been averaged out at 171 new properties per annum, with the resulting growth projections allowed for in the LTP:

Year	Number of Rateable Properties	Number of New Properties	% Growth
2023/2024 (Annual Plan)	8,923		
2024/2025 (Year 1)	9,094	171	1.91%
2025/2026 (Year 2)	9,264	171	1.88%
2026/2027 (Year 3)	9,435	171	1.84%
2027/2028 (Year 4)	9,605	171	1.81%
2028/2029 (Year 5)	9,776	171	1.78%
2029/2030 (Year 6)	9,947	171	1.75%
2030/2031 (Year 7)	10,117	171	1.72%
2031/2032 (Year 8)	10,288	171	1.69%
2032/2033 (Year 9)	10,459	171	1.66%
2033/2034 (Year 10)	10,629	171	1.63%

CHANGES IN LAND USE

The Hurunui District has historically been an agriculture-based district, primarily beef and sheep.

The growth in tourism, especially in Hanmer Springs, centred around the development of the HSTP&S, has resulted in an increased number of accommodation providers and other businesses associated with tourism, as well as more holiday homes. As a result, any significant changes in land use have been in residential or lifestyle properties.

The following table shows the current land use of properties in the Hurunui District as at July 2022 (the date of the last District revaluation):

Table: Land use in the Hurunui District Since September 2013 (QV Valuation Statistics)

Category of Land	Number of Assessments July 2022	Number of Assessments September 2019	Number of Assessments September 2016	Number of Assessments September 2013
Arable, Horticultural & Specialist	133	160	163	198
Commercial	288	296	291	296
Dairy & Pastoral	967	1,097	1,097	1,247
Forestry & Mining	105	104	104	107
Industrial	77	72	69	64
Lifestyle	1,514	1,428	1,379	1,376
Other/Utilities	659	753	747	732
Residential	4,834	4,548	4,526	4,332
TOTAL	**8,577**	**8,458**	**8,376**	**8,352**

Capital and Operating Costs of providing for changes in Land Use

There has been an increase in residential properties, particularly in the Amberley area. This has prompted an increase in capital expenditure (particularly water) to assist the growth of the township.

REVIEW OF RATING SYSTEM

Through the development of the LTP, we have reflected on the need for any changes to the rating system.

In the 2015-25 LTP, there was a significant change to the way in which Water Supplies and Wastewater were funded. These changes are still being staged in as part of the 2021-31 LTP.

For the 2018-28 LTP, the Council introduced a number of new rates to address particular issues:

- Debt resulting from the Earthquakes.
- Building up a fund to carry out earthquake strengthening work on the Council owned buildings
- A district footpath maintenance rate was introduced to address the trip hazard issue across the district.
- A District Urban Stormwater Rate was introduced to meet the testing costs relating to stormwater for all urban areas – not just those which have stormwater assets that need to be maintained or upgraded.
- An operational rate for the Amberley Swimming Pool was introduced.

For the 2021-31 LTP, after consulting with individual Community Committees and the Hanmer Springs Community Board, the only new rate contemplated had been the re-instatement of the Roadside Construction Rates, which provide selected communities funding to construct new footpath in their respective areas.

For the draft 2024-34 LTP, it is proposed to combine all stormwater operational and capital costs (similar to the process adopted for Water Supplies and Sewerage as part of the 2015-25 LTP). The reason for this is that new global stormwater consents are required for each urban area, including those urban areas that have had no requirement to meet a stormwater rate in the past.

Recognising that all ratepayers benefit in some way in the effective control of stormwater, the Council has resolved that the urban ratepayer will be charged 90% of the cost (recognising the greater benefit to urban ratepayers) and that the rural ratepayers will contribute to 10% of the cost.

A further new rate proposed is an Amberley Beach Proactive Relocation Rate, which is designed to fund a level of funding to allow for land to be purchased and ultimately developed for the primary benefit of the existing ratepayers of Amberley Beach when there is a need to relocate to higher land in the advent of sea inundation of the current village.

DEVELOPMENT IMPACT FEES

To address a portion of the cost of growth-related projects, the Council utilises Development Contributions. This is provided for under the Development Contributions Policy, which has been amended for the 2024-34 LTP.

Development contributions are forecast according to how we expect the district to grow. They contribute to the cost of capital expenditure for network and community infrastructure that is required as a result of growth.

Having significant development contributions can be a disincentive for developers and can adversely impact housing affordability. Equally, large rate increases to fund growth costs would not be fair to our existing ratepayers, so the Council needs to find a balance.

As required by the Local Government Act 2002, we are reviewing our current development contributions policy, and we are consulting on any changes that we propose as part of the long-term plan process.

INTERGENERATIONAL EQUITY

Intergenerational equity requires that each generation that benefits from a capital project should contribute to the cost of that investment. An example is the provision of a Wastewater plant which may have a 50-year life. The benefits of that plant are received by not only today's ratepayers but also ratepayers for the next 50 years.

Councils should generally only borrow to fund capital investment such as the building of infrastructure and amenities that benefit current and future generations. Debt is one way of smoothing the cost of construction over the generations that make use of, or benefit from, the service. It is a way of meeting the principle of 'intergenerational equity'.

LEVEL OF SERVICE STATEMENT

Assessment of our ability to provide and maintain existing levels of service and to meet additional demands for service within the proposed rate increase limits:

The Local Government Act requires us to assess whether we have the ability to provide and maintain existing levels of services and meet additional demands for services within the rates and debt limits as set out within the financial strategy.

Council will be reliant on the level of funding provided by Waka Kothai to ensure that the levels of service are maintained for the roading network. The budgets have proposed an increase to the roading programme to meet the levels of service, with the Waka Kotahi subsides and the Council's rating input being critical to ensure that programme is achieved. It is assumed that those subsidies will continue to be provided.

For the three waters assets, Council has allowed for an increased level of renewals for the three waters throughout the Long-Term Plan budget from that allowed for in previous Long-Term Plans. This increased level of renewals is deemed to be required to continue to meet current levels of service.

The continued success of the Hanmer Springs Thermal Pools and Spa is key to ensuring Council meets levels of service, particularly in respect of expenditure on the reserves.

Council has made assumptions on the growth of revenue in the Long Term Plan that are deemed to be reasonable.

Assessment of our ability to provide and maintain existing levels of service and to meet additional demands for service within the proposed debt limits:

We are not contemplating taking on debt greater that exceeds the specified covenants dictated by the Council's key funding provider, the Local Government Funding Agency. Therefore, with the exception of the roading network due to circumstances outlined earlier, our assessment is that we do have the ability to maintain the existing levels of service and to meet additional demands for service within those debt limits.