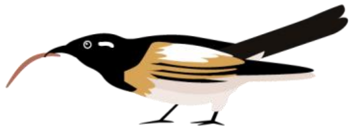
WEAVING THE FUTURE, TOGETHER
KOTAHITANGA
ŌTOROHANGA DISTRICT COUNCIL

FINANCIAL STRATEGY

2024 - 2034

Te Kaunihera ā-Rohe o Ōtorohanga District Council
Where kiwi can fly



OUR APPROACH

The community outcomes for people, place and partnerships overlaid with the themes of sustainability, resilience and transformation have informed and guided our approach to this Financial Strategy. Our intention is to position ourselves us well into the future by continuing to:

- Respond to our growing population
- Renew our assets when they wear out
- Adapt to climate change
- Improve our drinking water, wastewater and stormwater infrastructure.

By continuing down the pathway of the work we started in 2021, we believe that by 2034 the community will see substantive district wide benefits. The concept plans for our urban and rural areas will be helping us to focus our investment on items identified by residents, and our continued investment in our Three Waters infrastructure will enable us to provide high quality services to our communities. Furthermore, our debt will be well controlled and serviceable based on our income streams and interest payments kept at manageable levels.

Over the past 10 years we have been fortunate in being able to maintain low rate increases with low average rates per property figure. Unfortunately, in the medium to long term this approach no longer sustainable. Like most councils around the country, escalations in the cost of delivering services are driving significant rates increases. In order to continue to maintain and invest in the district, our annual rates cap needs to increase to between 5.9% to 10.9%.

ABOUT US

DISPERSED POPULATION IN A LONG, NARROW DISTRICT

Narrow in a north/south direction and long from east to west, the shape and size of our district affects how we go about our work. With two main settlements - Ōtorohanga and Kāwhia/Aotea - there is some duplication of services requiring different funding methods based on the size of the areas concerned. We have a small rating base to fund the significant amount of infrastructure required to service the district. As a result, the cost per household is higher than for larger, more concentrated areas like Hamilton City.

MODERATE RATES INCREASES OVER RECENT YEARS

Over the last 10 years, we have been able to keep rates increases at a moderate level, with an average increase across the district of 3.19%. Our average rates per residential property are among some of the lowest in the country.

LOW DEBT

Over the last 10 years, we have been able to reduce our borrowings down to nil, which has led to savings in interest costs.

MODESTLY GROWING POPULATION

Over the last 10 years, the District has experienced population growth from census to census. The current estimated population, as at 30 June 2023, is 10,900.

FINANCIAL GOALS

Our financial strategy has three interconnected goals:

- Deliver value for residents, both current and future
- Use debt as a tool for intergenerational equity while retaining borrowing headroom
- Be good custodians of community assets

DELIVER VALUE FOR RESIDENTS

It's our intention to invest sufficiently to maintain the assets and services in our communities, while also investing in the things that will make the most positive difference to the wellbeing of residents and the district. To achieve this, we will:

- Strive to provide the best value to our residents for the money we invest on their behalf
- Invest in our assets and infrastructure while maintaining rates affordability.

Rates affordability is important to many ratepayers, particularly those on lower fixed incomes. We want to maintain the affordability of rates over time so it is important that we consider affordability for both current and future ratepayers. Decisions made now could potentially affect rates affordability in the future. By not investing in infrastructure and services today we could potentially of pass financial burdens onto future generations. Through using debt, as discussed in the next section, we can ensure that that both current and future generations pay their fair share.

As well as this Financial Strategy, we also prepare an Infrastructure Strategy which identifies the key issues related to providing infrastructure, and the options and plans to address those issues for the next 30 years. Infrastructure expenditure is a significant part of our spending, being 64% of operating expenditure and 90% of capital expenditure over the next 10 years. Operating infrastructure expenditure can include things such as:

- Asset maintenance
- Activity operations, such as electricity, treatment chemicals and cleaning
- Depreciation
- Interest on loans

Infrastructure capital expenditure could include things like:

- Resealing roads
- Replacing old pipes
- Replacing pumps
- Metalling unsealed roads

This strategy and the Infrastructure Strategy are linked closely to ensure the balance between providing the levels of service for infrastructure within the agreed financial limits. The limits can influence how we develop and manage new and existing assets.

Over the next 10 years, forecast rates income increase is projected to be at, or near, our rates increase limits. We have worked hard to plan a programme of investment that addresses the key infrastructure issues and makes an impact on the wellbeing of residents, while remaining within the financial caps.

USE DEBT AS A TOOL FOR INTERGENERATIONAL EQUITY WHILE RETAINING BORROWING HEADROOM

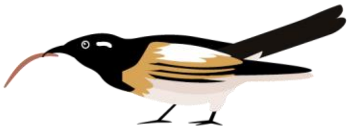
We use debt to spread the cost of assets across all those who benefit from these assets, both current and future generations. Using debt in this way ensures that all those who benefit pay a fair share toward the cost of these assets. Taking on a level of debt that can be serviced from reliable revenue sources without compromising service delivery is an acceptable and positive way of operating.

The use of debt exposes us to the impacts of interest rate movements and refinancing risks. With high debt levels, the impact of these movements can have a significant impact on debt servicing costs. In considering the use of debt, we are mindful of the impact that increases in future interest rates would have on rates.

We are proposing to set our debt limit at the same limit required by the Local Government Funding Agency (LGFA) but maintain a significant portion of this limit as headroom that can be borrowed in the event of any emergency events. We are focussed on ensuring that debt is a useful tool but is kept at a manageable and prudent level.

BE GOOD CUSTODIANS OF COMMUNITY ASSETS

Tasked with custody of community assets that have been built, gifted or created over many years, our job is to ensure they are maintained now and into the future for the use and enjoyment of future generations.



PRINCIPLES

The following principles have been applied in this Financial Strategy:

- Keep the medium to long term focus in mind (medium 5-10 years, long term 10 years plus)
- Make the most of the opportunities for Government funding, subsidies and other incentives to advance community outcomes
- Understand the trade-offs and benefits across all the wellbeings (social, environmental, economic and cultural)
- Continue to meet obligations related to fiscal prudence, financial sustainability and environmental sustainability
- Right size the council staffing and operational expenditure to provide our services in the most efficient method.

The impacts of the Covid-19 pandemic, global supply chain issues and higher inflation have been factors that have put pressure on us to continue to provide existing levels of service and maintain the historically moderate rates increases of the past. This has meant that we have had to consider the possibility of reducing levels of service to keep rates increases moderate. However, in considering this alongside the current and future wellbeing, we have decided that maintaining existing levels of service and continuing to investment in assets and infrastructure is the better option.

To help us achieve these investments in assets and maintain the existing levels of service, we have decided to increase our financial limits for this long-term plan.

LIMITS ON RATES AND DEBT

RATES INCREASE LIMIT

We are proposing that the rates revenue increase cap will be set at the following levels:

Year	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
LGCI as a %	2.9%	2.2%	2.3%	2.3%	2.2%	2.1%	2.0%	2.0%	1.9%	1.9%
Adjustor	8.0%	8.0%	6.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Increase Limit	10.9%	10.2%	8.3%	7.3%	6.2%	6.1%	6.0%	6.0%	5.9%	5.9%

Local Government Cost Index (LGCI) is a measure of inflation based on costs specific to Local Government. This is different from the Consumer Price Index (CPI) which is based on consumer products. The adjustor represents the level above the projected LGCI that Council is setting the rates increase limit.

While rates are the principal source of funding for our activities, we do attempt to maximise funding from Government funding sources. In addition, where the user of a service can be easily identified and charged, we will generally set fees and charges to cover the costs of providing that service.

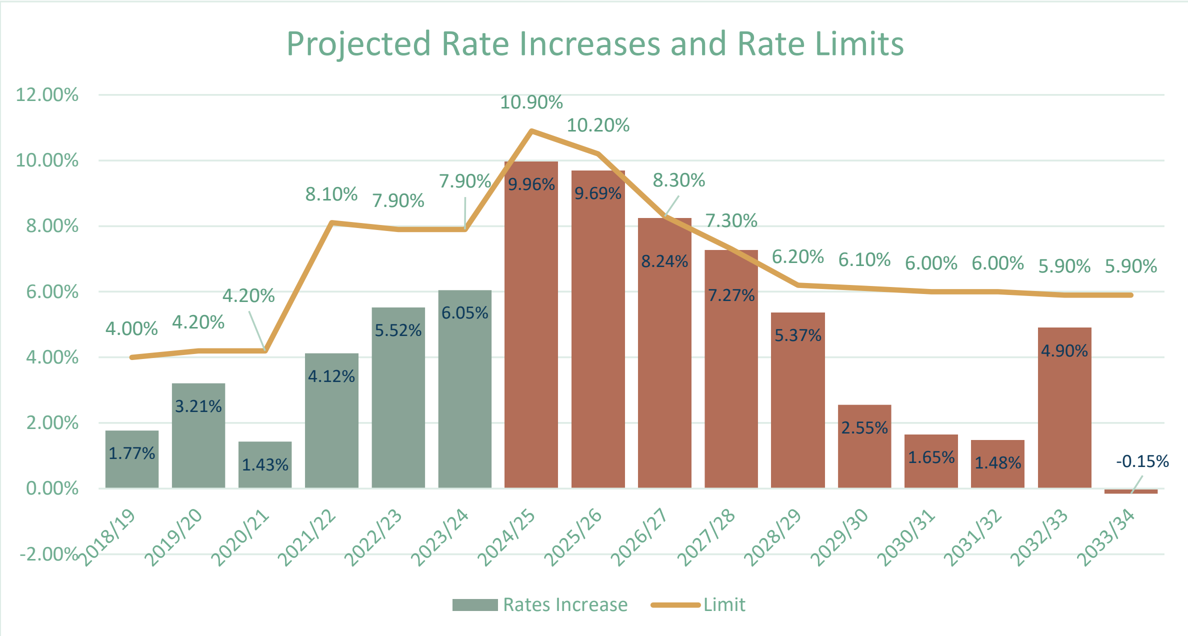
We are projecting in our long term plan to have balanced budgets from year 2026/27 onwards. In 2024/25 and 2025/26, we have elected to not fully fund depreciation on the following assets:

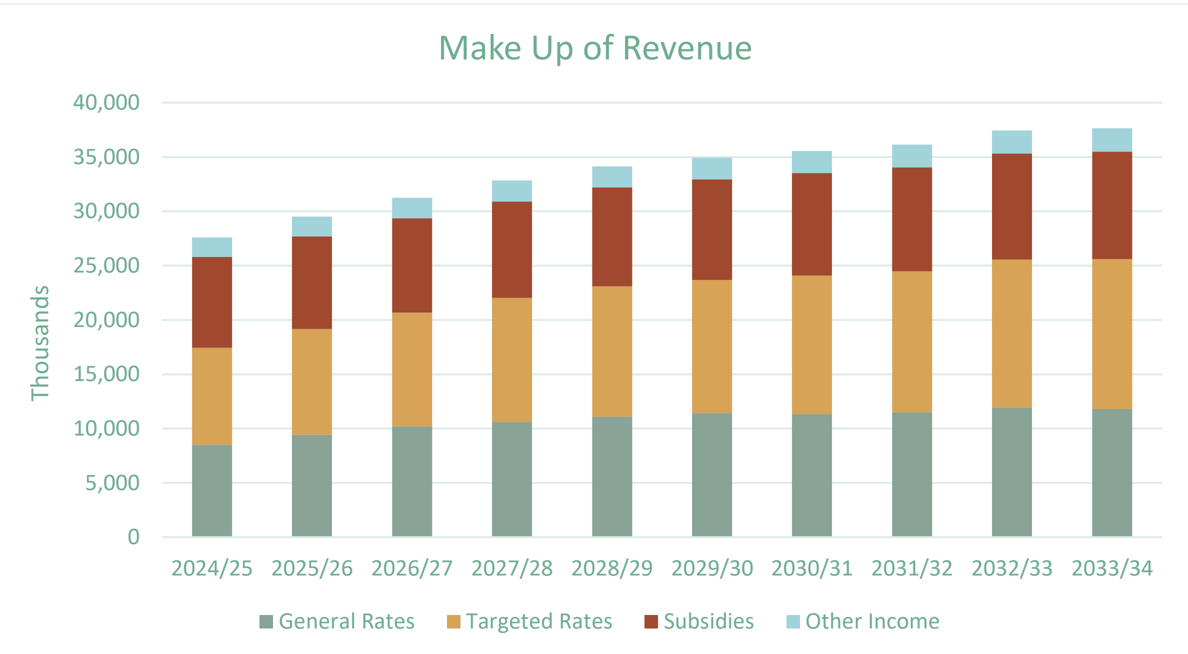
Asset	Location	Depreciation Funded	
		2024/25	2025/26
Water, Wastewater and Stormwater	Ōtorohanga, Kāwhia	50%	75%
Parks and Reserves properties including buildings on reserve land and Kāwhia Wharf	District Wide	50%	75%

As well as these items, the following assets are either partially or fully non funded for depreciation:

Asset	Depreciation Funding
Roading assets	37% funded, due to Waka Kotahi subsidy being available on expenditure for the remaining 63%.
Waipa Rural Water Supply	Fully non funded
Kāwhia Community Centre and other Council owned Community Halls	Fully non funded

The prospective Statement of Comprehensive Revenue and Expense shows small deficit in the first three years of the plan, with a surplus then in every subsequent year of the plan. This reflects the fact the we receive a significant amount of revenue that is used to fund capital expenditure. Revenue sources include Waka Kotahi roading subsidy, central government funding, Development Contributions and Financial contributions.





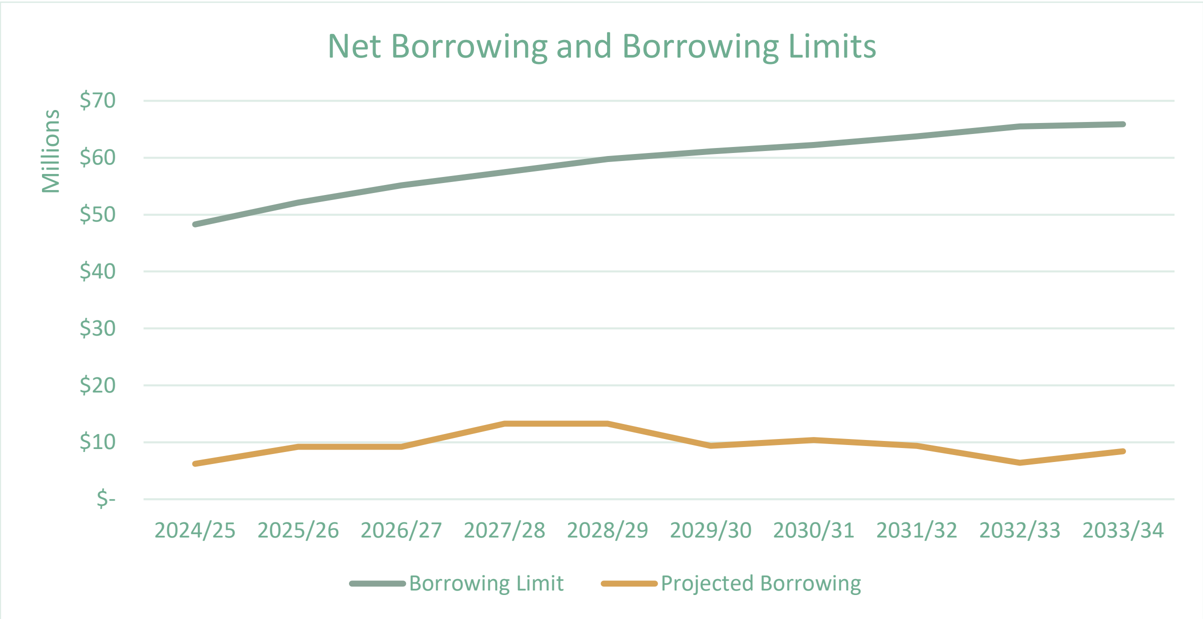
BORROWING CAP

We are not planning to change the methodology of determining our borrowing limit in this plan. Our limit on borrowing will continue to be calculated as 175% of total income each year. This means that in 2024/25, the cap will be approximately $48m, increasing over the ten years of the plan to $66m in 2033/34.

The NZ Local Government Funding Agency (LGFA) stipulates a number of financial limits and covenants, which are repeated at the same level in our Treasury Management Policies. Not exceeding these limits is considered best practice in the local government sector. If we were to exceed these limits, the cost of borrowing is likely to increase significantly, and we may have difficulties sourcing borrowing.

Our Treasury Management Policies also have a number of other prudent limits for monitoring debt and borrowing must remain within these limits. These limits also help us to ensure that our overall borrowing remains within prudent levels.

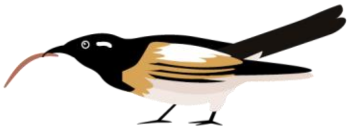
Financial projections show that borrowings will peak at $13.275m in 2027/28, and then decrease to $8.4m in 2033/34.



TREASURY MANAGEMENT POLICY LIMITS

We have set limits in our Treasury Management Policies to ensure that we only borrow to prudent levels and have sufficient rates and other income to service the loans.

The table below compares our forecast performance against these limits for each year of the plan.



Measure	Treasury Management Limit	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Net External Debt/ Total Operating Income	<175%	13%	18%	17%	23%	22%	15%	17%	15%	10%	13%
Net Interest on External Debt/Total Operating Income	<20%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Net Interest on External Debt/Annual Rates Income	<25%	1%	2%	1%	2%	2%	1%	2%	1%	1%	1%
Liquidity (external, term debt and committed loan facilities and liquid investments/cash equivalents to existing external debt	>110%	155%	127%	129%	121%	126%	138%	128%	134%	157%	146%