Financial Strategy

About the Strategy

This Financial Strategy helps us to prudently manage our finances as we work towards our vision of Taranaki ki te Tonga – ka puta ka ora! South Taranaki – great people, connected communities where we belong! The Strategy guides our funding and expenditure decisions. It sets out our financial targets, explains how we will manage our resources and highlights where there will be significant financial impacts. It describes what we aim to achieve over the next ten years, and the resultant impacts on our services, rates, debt and investments.

The Strategy takes a long-term view of the sustainability of our infrastructure. We have identified three themes for the development of the 2024-34 Long Term Plan (LTP):

- Affordability – value for money
- Intergenerational equity – sharing the cost
- Partnerships – achieving together

These themes are the basis for our priorities and the projects we plan to carry out over the next 30 years. They reflect the balance between focusing on the basics and providing value-added services for our community at an affordable cost. The projects outlined in this Strategy have been planned to help achieve these key outcomes.

Over the past two decades we have completed upgrades to our water, wastewater, roading and community facilities infrastructure. This upgraded infrastructure will last well into the future; however, we are now required to meet new Government standards that include significant extra compliance work over the next ten years and this, along with several of our resource consents being due for renewal, has put added pressure on our budgets. The new Government standards focus on water supply, wastewater and environmental sustainability. We plan to stay on track with other key projects, such as town centre master plans and the South Taranaki Business Park. To make sure we don't get into a situation of having too much debt, we manage our debt levels and borrowing costs in line with the Liability Management Policy (LMP) limits. For the duration of this plan, we aim to limit rates increases to 6.00%.

Our Themes for the 2024-34 Long Term Plan

This Strategy focuses on three themes:

Affordability
Like households and businesses across the country, the Council is facing increased costs for the things we buy. Local government Inflation has risen by around 15% over the last two to three years and continues to rise, for things like fuel, bitumen, and electricity. Contractor's costs have increased significantly, (in some cases by over 60%), insurance costs have increased by around 20%, compliance costs driven by Government requirements have increased considerably and interest rate increases have raised the cost of borrowings and financing debt. This means we need to pay more just to keep doing what we are already doing, without adding anything else.

South Taranaki by its very nature is a relatively high-cost District. We have a small number of residents (around 29,000 with 14,420 rateable properties) spread over a large geographic area, living in seven small towns each with their own services, infrastructure and community facilities, connected by an extensive road network.

The key challenge for us is how we can afford to do this at a time when local government is facing unprecedented cost increases. Our plans for the District must be balanced with the need to keep rates affordable for our community while maintaining our current levels of service. Over the last 8 years (2015 to 2023) the average rate increase has been low, including a 0% rate increase in 2020/21 to support the community during the Covid-19 pandemic.

In this LTP we aim to achieve budgeted projects without raising our rates above the cap of 6.00% per year. The rate cap has been worked out on the basis of the Local Government Cost Index ten-year average of 2.40% plus allowing 0.60% to bring in three waters, and 3% for improvements, growth and for compliance costs. Increased compliance costs and planning for growth mean that our rates cap is higher than our previous LTP. The cap will be breached in years one to three mainly to allow for significant increase in costs, return of three waters services to Council, the need to meet government standards as well as allowing for some improvements and growth. The projected rate increase is 11.29% in year one, 8.72% in year two, and 6.19% in year three. The breach is not considered to be significant. The average rates increase for the next ten years is projected to be 5.47%.

Intergenerational Equity
We recognise that the infrastructure we build, maintain, and operate serves the community over many generations, and so we fund our infrastructure in a way that is fair to current and future users. This usually means the use of debt, which is repaid over the useful lives of the assets to ensure that future generations who will enjoy the benefits will also contribute to the costs.

Before taking on new debt, we consider other funding mechanisms such as funded depreciation, external contributions, capital contributions and special reserves, while ensuring that intergenerational equity is maintained. We will continue to seek external funds to help our community pay for key projects.

Partnerships
We pursue 'shared services' arrangements and partnerships with external organisations where we can achieve efficiencies and cost savings. We are involved in about 50 shared service arrangements with the other Taranaki councils, ranging from library services to purchasing vehicles, three water services to

insurance, civil defence to roading, regional organic material processing facility, where there is a financial or economic benefit to the Region's ratepayers due to economies of scale. A good example of this collaborative approach is the Taranaki Regional Waste Collection Contract, which has resulted in major cost savings to ratepayers. We will continue to explore future opportunities in this area to ensure our ratepayers benefit from economies of scale.

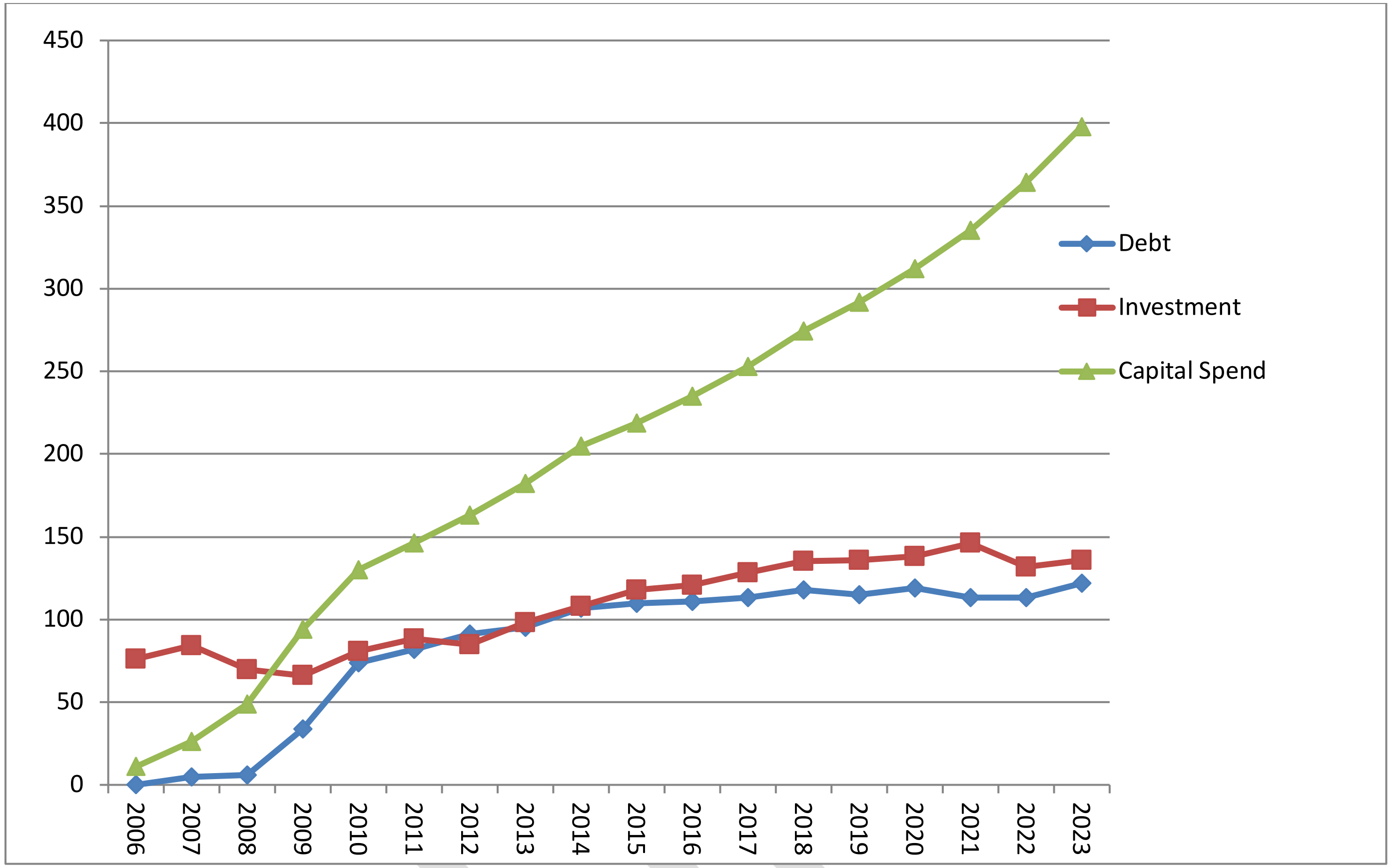
The following sections of this Strategy detail how the three priorities will be achieved.

Our Current Financial Position

Where Are We Now

Our financial position remains strong, in terms of continued increased investment income and total net assets and, as at 30 June 2023, our net debt was zero. However, our gross debt is high and increasing compliance costs means that debt is expected to increase during the lifespan of this Plan. Our priority had been to consolidate and pay off debt, but the priority changed in the 2021-31 Plan to allow for the need to meet legislative compliance and sustainable growth. These priorities will remain a focus for this Plan as well. Despite the change in the 2021-31 Plan, paying off debt remains a priority. The following two graphs demonstrate this.

Actuals – Debt, Investments and Capital Spend (2006-2023)



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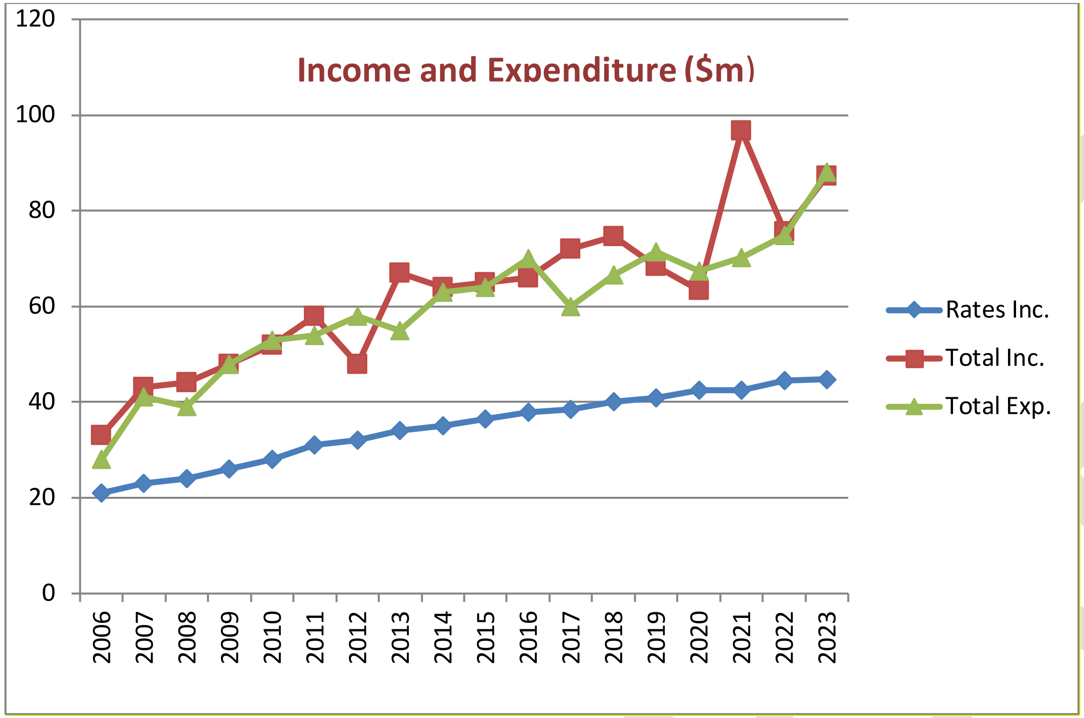


Capital Works Programme

Over the past two decades, we have implemented a major capital works programme to bring our core infrastructure up to standard. The implementation of the New Zealand Drinking Water Standards for potable water impacted the District's water supply schemes, and new reservoirs and water treatment plants have been constructed. Over several years, water treatment plant upgrades have been completed at Kāpuni, Ōpunakē, Eltham, Rāhotu, Pātea, Waverley, Inaha, Waimate West, Waverley Beach and Waiinu. The capital works programme also included the continued construction of Te Ramanui o Ruapūtahanga, completion of Nukumaru Station Road, renewals on the roading network and community facilities such as the Hāwera Aquatic Centre.

The COVID-19 pandemic in 2020 halted our capital works programme for two months and this had a flow-on effect into our forward programme. As a result, we are still recovering from the consequences of the pandemic. The construction of Te Ramanui o Ruapūtahanga and the extension and upgrading of Nukumaru Station Road were approved as shovel ready projects (part of the previous government's recovery plan). Both projects are scheduled to be completed in 2024 calendar year.

The revaluation of our assets at 30 June 2022, resulted in a significant increase in replacement costs of our assets. This means the cost of maintenance and renewal of our assets will come at significant costs.

Capital Works Delivery Plan

While we are mindful of anticipated changes to legislation and the need to upgrade infrastructure to meet new requirements, our biggest challenge is to build and deliver what we have said we will. This is identified as a strategic risk for the organisation and has been a focus for improvement. Experience shows we have delivered on average $29 million of capital works over the last three years with total capital spend of $34.6 million in the 2022/23 financial year. With a capital works programme of around $50 million per year for years 1 to 3 of this Plan, we have taken a number of steps to ensure that we can deliver the capital works programme we have set. Our ability to complete our works programmes is affected by external factors that are largely beyond our control. This includes the availability of contractors and materials, delays due to legal proceedings and stakeholder engagement resulting in changes to projects.

Our Financial Position

The projected financial position shows what we own (assets) and what we owe (liabilities) and the difference between them (equity) is effectively the net value belonging to the Council. Over the ten years of this Plan, it is forecast that our equity will grow from about $1.3 billion to $1.8 billion. The anticipated increase in the value of our fixed assets includes the Hāwera Town Centre Strategy implementation, Town Centre Plans, South Taranaki Business Park, water, wastewater, stormwater and roading assets. This reflects the investment made in these areas as well as future investment and the revaluations of the assets over the next ten years.

Operational Expenditure

Operational expenditure is funded per activity through targeted rates, general rates, grants and subsidies, capital contributions or a mix of these.

Capital Expenditure

Capital expenditure projects are categorised as renewals, extending level of services or growth related. Our total forecast capital spending is $452 million over the ten years of this Plan and, of that, $412 million is programmed to be spent on infrastructure assets. The spending will mostly be on renewals, improvements, and compliance costs, except for the Hāwera Town Centre Strategy projects, Town Centre Master Plans and, completing works on South Taranaki Business Parks.

Renewal projects

Renewal projects restore or replace components of an asset or the entire asset to return it to its original level of service (size, condition, or capacity). These projects will be funded from capital reserves built up from funded depreciation. If the reserve is not sufficient to meet the programmed renewals, loans will be utilised and repaid from a contribution from the reserve that best fits intergenerational equity and/or the operational funding sources for the particular activity as per the Revenue and Financing Policy.

Extending level of service projects
These projects involve the creation of new assets or alterations to existing assets including improvements required to meet legislative compliance to deliver a higher level of service. They will be funded by loans repaid from operational funding sources and/or external funding.

Growth related projects
These are additional assets required to serve growth in demand for existing services due to new areas being serviced. These projects will be funded from developers' financial contributions, and a contribution from the Economic Development Fund towards the asset creation will be considered on a case-by-case basis after considering specific criteria.

Cost increases
Our costs (Local Government Cost Index) are increasing at a higher rate than the consumer price index. The ongoing cost of maintaining existing infrastructure and building new assets is projected to continue to increase at higher rates. We acknowledge that balancing the increase in rates and maintaining and improving levels of service is a challenge and we are actively trying to encourage economic activity in our District.

Three Waters Reform
Like other councils, we devoted a great deal of time and resources to preparing for the Government's three waters reforms. This would have seen three waters services included in year one only of the 2024-34 LTP, before the services and assets were transferred to new water services entities. The new Government's change in direction means we have reinstated three waters for the ten years of this Plan. As part of that, we have budgeted for significantly increased costs associated with the new regulations and with upcoming consents for water extraction and wastewater treatment, which are now expected to require further infrastructure upgrades to meet environmental standards over the next ten years.

Despite recent change in legislation, the three Taranaki councils already work closely together in the delivery of water services, with joint contractors and shared services. We will continue to investigate the possibility of being part of a regional water entity, as we seek to deliver the best and most efficient water services to our communities.

How We Fund Our Infrastructure
We fund our infrastructure in a way that is fair to current and future users. Before considering new debt, we first consider other funding mechanisms such as funded depreciation, external contributions, capital contributions and special reserves as well as considering the correct method of ensuring that intergenerational equity is maintained. Our debt will reach a peak debt level of $225.6 million (including internal borrowings) in 2033/34. We expect debt levels to reduce after that point.

Long Term Investment Fund

In 1997 the Council sold its shares in the power company, Egmont Electricity. The net proceeds of $88m from the sale were transferred to a Long Term Investment Fund (LTIF). The LTIF remains our only long term investment fund and since that time the amount held in the LTIF has grown to $147.6 million (January 2024, this includes internal borrowing.)

Our LTIF strategy clearly states the objectives and risks associated with the investment fund. After seeking advice from our Investment Advisor, we have determined a Strategic Asset Allocation (SAA) or Benchmark Portfolio (shown on the next page) that, in our view, best reflects our risk preference and is appropriate given our investment objectives:

- To deliver income to subsidise rates by $4.22 million each year, an additional subsidy of $1.73 million to service loans for specific community projects and $762,000 for the Hāwera Town Centre Upgrade and earthquake-prone building projects. The subsidies are reviewed every three years.
- To maintain the real value (as opposed to face value) of the LTIF capital over time with respect to inflation.
- An investment fluctuation reserve (IFR) has been established at a level appropriate for the risk. The Council agreed to use funds from this reserve to fund Te Ramanui o Ruapūtahanga, fund some of the projects relating to town centre developments including additional funding for the Hāwera Town Centre Project.
- The current objective of the LTIF is to earn an overall net real return (that is, after fees and inflation) of 4% per annum over the longer term (rolling over 10 year periods). However, in the last few months the Risk and Assurance Committee together with the Council have discussed and suggested to increase this from 4% net return to 4.75% net return from 1 July 2025.

From the time it began in 1997 to 30 June 2023, the LTIF has achieved an average gross return (before subsidy and inflation) of 6.83% and has returned $133 million back to the community.

Sector	Benchmark %	Ranges %
Trans-Tasman Equities	12.5	7.5% - 17.5
Global Equities*	31.0	21.0 – 41.0
Global Equities – Low Volatility*	6.5	0.0 – 13.0
Total Equities	**50.0**	
Global Listed Property (hedged)	5.0	0.0 – 10.0
Global Listed Infrastructure (hedged)	5.0	0.0 – 10.0
Total Real Assets	**10.0**	
Total Growth Assets	**60.0**	**50.0 – 66.0**
NZ Fixed Interest	9.0	6.0 – 12.0
International Fixed Interest (hedged)**	26.0	18.0 – 34.0
Cash and Short Term Securities	5.0	0.0 – 15.0
Total Income Assets	**40.0**	**34.0 – 50.0**

As mentioned above, in the last few months, the Risk and Assurance Committee and the Council have discussed and suggested to increase the net real return from 4% to 4.75% as from 1 July 2025. To achieve a net real return of 4.75% the Committee and Council have suggested increasing the Strategic Asset Allocation of growth assets from 60% to 75% and reducing income generating assets from 40% to 25%. This change would result in increased probability of achieving the increased objective of 4.75% net return. However, like any investments, higher risk also increases the probability of negative returns. The Council considers the Long Term Investment Fund as a perpetual fund for current and future generations, which allows increasing investments in growth assets. The current SAA is considered to be a balanced portfolio which would change to a growth portfolio. The Committee and the Council will consider this change in March 2024. If agreed, the allocations and net real return objective will take effect from 1 July 2025.

Current Management of the LTIF

The LTIF carries a degree of risk as the value can go down as well as up, and we saw this over the initial COVID-19 lockdown period. Ultimately, a decrease in value could diminish the original amount invested. To reduce the risk we employ investment advisors, Mercer to advise on the LTIF. We also have a Statement of Investment Policy and Objectives (SIPO) that outlines our preferred approach to portfolio diversification. Currently 60% of the LTIF is in growth investments and 40% is held in income generating investments. This would change to 75% in growth and 25% in income generating assets if the Committee and the Council agrees to change the SAA. The LTIF investments are subject to market movements and the LTIF has a potential risk of losing its value completely. However, the risk is extremely remote.

Mercer monitors the LTIF's performance on a daily basis and the Risk and Assurance Committee meets quarterly to review its performance and make any required decisions.

The impact of not receiving investment returns great enough to fund the annual rates subsidy, repayments for specific community projects and facilities, the Hāwera Town Centre Strategy and earthquake-prone buildings projects would be $6.7 million per year.

Debt Management

We have incurred debt to help pay for infrastructure across the District. We could pay off debt by using our investments but we consider it is more prudent to continue borrowing. Despite the rising costs of borrowing, we expect the future return on investments will outweigh the cost of financing debt and associated debt repayment as it has done over the last 26 years. Our focus is to make sure the debt repayment profile matches the life of the assets.

Because our infrastructure serves the community over many generations, we use debt to fund new infrastructure, reflecting the intergenerational value of our roads, water, wastewater, community facilities and other assets. Gross debt levels are high and are managed through our Liability Management Policy. Managing our debt effectively and paying down debt over the term of this Plan is a priority and we are using funds from the LTIF's fluctuation reserve to pay for some key projects.

In addition to loans, we use other mechanisms to fund our operational and capital expenditure, such as funded depreciation, external contributions, capital contributions and special reserves. The full list is in our Revenue and Financing Policy.

Before taking on new debt, we need to consider other funding mechanisms such as funded depreciation, external contributions, capital contributions and special reserves as well as considering the correct method of ensuring that intergenerational equity is maintained.

Renewal expenditure is usually funded from depreciation reserves. The loan repayments and interest costs are funded from depreciation, savings made from the Local Government Funding Agency (LGFA) and rates. As a Principal Shareholding Local Authority of the LGFA, we are able to access long term loan funding at cheaper rates than other institutions like banks.

Our Net Debt
If you consider our peak debt of $225.6 million and our investment Fund of $181.8 million in 2033/34, including internal borrowing, our net debt is expected to be $43.8 million. We are forecasting to repay approximately $108 million in loan repayments, including $11 million for internal loan repayments, over the next ten years, and forecast a $180 million increase in new loans over the same period.

It is important to highlight the risk associated with the LTIF and, as a result, the net debt position can decrease or increase, depending on the LTIF's performance. The worst case scenario is the net debt position being $223.8 million by 2033/34, and the LTIF performs at a negative return for the next ten years, although this is extremely unlikely. We believe the forecast debt levels are sustainable as they are well within the Liability Management Policy limits.

Limits on Borrowing

We manage our borrowings prudently and this is demonstrated by borrowing within our ability to service and repay debt without increasing the various limits in our Treasury policies and managing our future borrowing needs within these limits.

The debt limits and interest rate limits for the next ten years are:

Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Net debt as a % of total income <150%	15%	33%	38%	42%	34%	26%	18%	25%	33%	27%
Net interest Exp. % of Total Rates <25%	8%	8%	8%	8%	7%	6%	6%	7%	7%	7%
Net interest Exp. % of Total Annual Income <15%	4%	5%	5%	5%	4%	4%	4%	4%	4%	4%
Net debt per capita <$2,000	$499	$1,198	$1,436	$1,605	$1,343	$1,040	$766	$1,049	$1,439	$1,218
Borrowing costs % of Revenue (DIA) Measure)	7%	7%	7%	7%	7%	7%	7%	8%	8%	8%

We will maintain our liquidity ratio at a minimum of 110% as per the Liability Management Policy, depending on the cash and capital expenditure over the ten years.

If we reduce loan repayments, loan balances will remain at higher levels and put pressure on our future borrowings. We have to comply with our Liability Management Policy and, as a result, future projects may have to be delayed if loans are not repaid within time. Increasing repayments and paying off loans before time will result in overcharging current ratepayers. Our Liability Management Policy explains how we manage our interest rate risk by using various ratios between fixed and floating interest rates. We review the Policy regularly and Price Waterhouse Coopers provides regular advice to manage the risk.

Security for Borrowing

We provide securities against our borrowings from external lenders. We have provided a guarantee to the LGFA and the amount of the guarantee will reduce as more councils join the LGFA as shareholders in the future. We provide different types of guarantees, such as our assets and rates revenue.

Shared Services and Partnerships with External Organisations

We have a strategy of pursuing 'shared services' and partnerships with external organisations where we can achieve efficiencies and cost savings. We are involved in about 50 shared service arrangements with the other Taranaki councils, ranging from library services to insurance, civil defence to purchasing vehicles (where there is a financial or economic benefit due to economies of scale to the ratepayers of the Region). A good example of this collaborative approach is the Taranaki Regional Waste Collection Contract, which has resulted in major cost savings to ratepayers.

Economic Climate and Population

The current economic climate continues to present challenges to households, businesses and councils across the country, and to the rest of the world. The economic conditions remain volatile due to on-going conflict in the middle east as well as war between Russia and Ukraine.

During the long term planning process we considered total expenditure (including capital expenditure) in maintaining current levels of service (factoring in inflation, additional compliance measures and additional demand/increase in levels of service). We believe we will be able to meet existing levels of service with the forecast rate increases for the next ten years. The ratepayers are facing unprecedented increases in rates over the next couple of years.

We have contributed to the development of Tapuae Roa: Make Way for Taranaki, the Taranaki Regional Economic Development Strategy August 2017. The core focus of Tapuae Roa is people, as it is people that take economies forward. Our partnership with Venture Taranaki continues to provide valuable information relating to economic trends in the local economy and statistics, which assists our planning for the future.

Digital technology presents one of the biggest opportunities and challenges for our District. The roll-out of ultrafast fibre by the Government will have an impact on our rural townships. A digital strategy is to be developed to ensure some groups do not miss out on the social and economic opportunities to access and adopt new technologies and new ways of doing things.

Infometrics predict our population will grow by 2.9% (857) people) to 2037 and then decline by 3.0% from 2037 to 2054. A predicted steady in-migration of around 3,500 to 4,000 people per year will largely offset the population decline. Most of our modest growth is likely to occur in and around Hāwera, as that is where most of our residential and commercial development is taking place.

Ensuring environmental sustainability

Environmental sustainability and climate change are increasingly important issues that impact the way we live, work and play in South Taranaki, both now and into the future. To meet these challenges and our legal obligations/requirements from the Government, we developed an Environment and Sustainability Strategy that identifies the impacts we have on our environment and looks at changes we can make to move towards increased sustainability.

A range of actions associated with environmental protection, climate change and waste minimisation focus on the areas where we believe we can have the greatest impact on our journey to become more environmentally sustainable, reduce our emissions and our waste, and adapt to climate change effects. Implementing most of the Environment and Sustainability Strategy will be done with existing resources; however, there are some significant cost implications that we sought the community's feedback on in the 2021-31 LTP. We received a clear message that the community wanted us to implement the strategy, and the costs have been included in our budgets.

One of our community outcomes is Mana Taiao / Environmental well-being – Sustainable communities that manage resources in a way that improves our environment for future generations. This aligns with the environmental well-being in the LGA 2002, and includes the following elements:

Climate change

In 2018, the Ministry for the Environment predicted that, compared to 1995, the impacts of climate change on the Taranaki Region are likely to be:

- Temperatures 0.5° C to 1.0° C warmer by 2040 and 0.7° C to 3.1° C warmer by 2090.
- Seasonal changes in rainfall but little annual change and little change in the frequency of extreme rainy days.
- Small change in the frequency of storms, some increase in storm intensity, local wind extremes and thunderstorms.
- Sea level rise of 0.2m to 0.4m above the 1995 level by 2060 and 0.3m to 1.0m by 2100.

A 2022 report by the National Institute of Water and Atmospheric Research (NIWA) commissioned by the Taranaki Regional Council summarised the potential future impacts of climate change for Taranaki as follows:

- A warmer atmosphere in the future is expected to result in increases to rainfall intensity, which can cause soil saturation issues for the agricultural sector. It also increases the risk of flooding events which have associated adverse impacts such as damage to infrastructure.
- Increased risk of land degradation resulting from landslides and soil erosion.
- Warmer winter and spring periods will allow increased seasonal pasture growth rates.
- Increased concentrations of atmospheric carbon dioxide should increase forest, pasture, crop, and horticulture productivity, if not limited by water availability.
- Human health will be affected by a changing climate, for example due to the increasing prevalence of hot conditions and heatwaves.
- Ongoing sea-level rise is likely to increase exposure of infrastructure to extreme coastal flooding, as well as cause habitat loss at the coastal margins where ecosystems are not able to move further inland (coastal squeeze). Exposure is likely to increase over time in response to higher sea levels.

The Council will continue to work in this area and proactively plan to offset the impacts of climate change.

Resilience to natural disasters

It is essential that communities continue to receive infrastructure services following a natural disaster, and assets are managed according to their criticality. It is not practicable to build infrastructure systems that can withstand all possible scenarios, but resilience is built in where practicable and affordable. In the event of a disaster, potential financial losses are mitigated by a combination of insurance and placing assets in the Local Authority Protection Programme (LAPP), which is specifically designed to cover losses following a major event.

The Risk and Assurance Committee and the Council considered self-insurance as part of the 2023-24 insurance renewal process which resulted in self-insurance of $136 million worth of above ground assets. The Council also agreed to setup a “disaster recovery fund” of $10 million. The detailed information is included in the “insurance framework”.

Managing our resources

Our Infrastructure Strategy covers our infrastructure networks including water supply, wastewater, stormwater and roads. It covers the financial overview of these assets and the operational and capital expenditure over a 30 year period. The Strategy considers the costs associated with renewals, increases in levels of service and growth. Future commitments have been identified and managed to ensure its affordability for the community.

The projections for all infrastructure activities are driven by the Asset Management Plans (AMPs) and the Infrastructure Strategy.

Previously Council had been told by the Government not to include anything related to three waters delivery in our long term plans, except for the first year. The new Government and new direction has meant a late inclusion of three waters services and budgets into our long-term planning. Because of the uncertainty and complexity around three waters, and to make it more manageable for Council, the Government has allowed us to have an un-audited consultation document. Another consequence of the late inclusion is that some of the three waters renewals in our current proposed long term plan budget and Infrastructure Strategy may differ. This will have an impact on rates and the amount of loans needed for the three waters activities. We will provide the updated renewals for the final Long Term Plan which will be audited and adopted by 30 June 2024. Until the Government’s new legislation is in place, we won’t know for sure what the options for funding three waters infrastructure are. Until then we will continue to fund three waters infrastructure in the same way we have in the past – through a combination of loans, targeted rates and user fees and charges.

Water Supply
We plan to spend $205.9 million in the next ten years on operational expenditure across the urban and Waimate West water supply schemes. The operational expenditure is funded from targeted rates and fees and charges.

We have included funding of $127.7 million in this Plan for capital expenditure on water supply. This expenditure is funded through depreciation, reserves, financial contributions, capital contributions and loans.

Based on the information in the asset database, there will be a significant apparent spike in renewals of $17.6 million in 2025/26, $9.9 million in 2030/31 and, $9.6 million in 2031/32. The impact of spending an additional $8.2 million in 2025/26 would be an additional average rate increase of around 4.0% in water rates, no major impact in 2031/32 mainly due to the fact that the difference between budgeted renewals and database renewals is not significant. This would result in an additional borrowings of $8.2 million in 2025/26. The likelihood of this scenario is low as we have allowed for this expenditure to be spread over a number of years. At the end of ten years the budgeted renewal programme will exceed what is required as per the database. The Infrastructure Strategy further explains this risk and the reasons for spreading the renewal programme over a number of years.

Wastewater

We are planning to spend $117.6 million on wastewater operational costs over the next ten years. Operational expenditure is funded through targeted rates, trade waste charges, fees and charges and other income. We have included $89.7 million in this Plan for capital expenditure on wastewater over the next ten years, funded from depreciation, financial contributions, capital contributions, reserves and loans.

The budgeted renewals compared to the database renewals are higher over the next ten years. The wastewater asset database predicts renewals based wholly on the installation year. However, analysis of the wastewater network performance shows that a significant amount of rehabilitation is required to reduce the amount of water that enters the wastewater networks.

Wastewater renewals have been predicted based on network performance. We have begun by putting more resources into condition assessment in the past few years, which will continue in the future. The condition assessment of the reticulation network will be used to improve our predicted renewal dates. Improved asset data will be reconciled with the amount we have invested to improve the network performance and, depending on the results, the ongoing expenditure planned may be different to what is currently predicted in the Plan. The Infrastructure Strategy further explains this risk and the reasons for spreading the renewals programme over a number of years.

Stormwater

We have included $19.9 million of operational expenditure for the stormwater activity over the next ten years, funded from the general rate. We have planned $7.9 million of capital expenditure in the next ten years, which is funded from depreciation, financial contributions, capital contributions, reserves and loans.

There is no significant difference in budgeted renewals and database renewals. The infrastructure Strategy further provides more detail on renewal programme.

Roading and Footpaths

We plan to spend $286.2 million in the next ten years on operational expenditure for the Roading and Footpaths activity. This expenditure is funded from the Roading Rate, Waka Kotahi New Zealand Transport Agency subsidy, financial contributions, grants, reserves, fees and charges and other income. We plan to spend $180.3 million in the next ten years on capital expenditure for the Roading and Footpaths activity, funded by depreciation, capital contributions, Waka Kotahi Subsidy and the Roading Rate.

The database shows that there would be a major spike in renewal expenditure of $60 million in 2024/25. This was picked up as part of the LTP 2021-31 process. The renewals consist largely of roading basecourse that is beyond its expected remaining life as per the database. We use asset condition to determine our forward renewal programme. While the roading surface above the basecourse has had its life extended through condition assessments and renewals (resealing), the remaining life of the basecourse underneath has not been adjusted when roads have been resealed. This is fundamentally a data quality issue and remaining life will need be revised to match actual condition. This does not pose a significant financial risk to the roading rate.

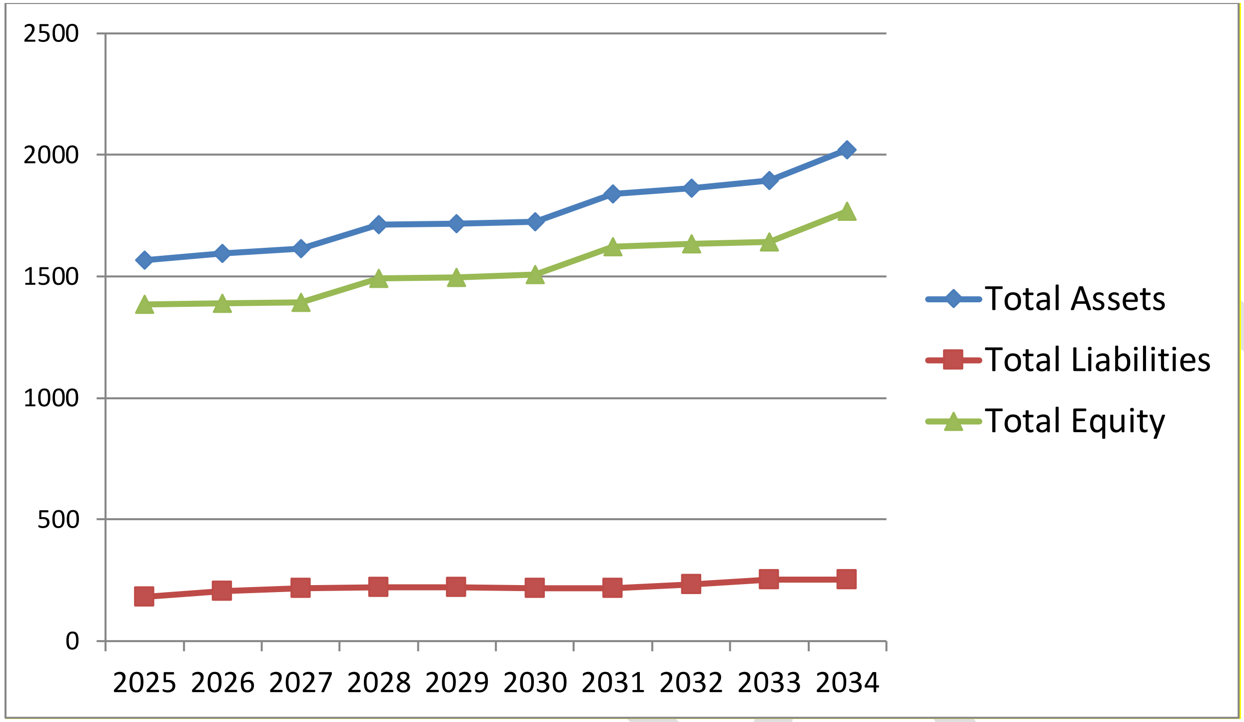
Our Plan for the Future – the Most Likely Scenario

This Strategy provides an overview of the most likely scenario for managing our infrastructure. In general, we plan to maintain our current levels of service while focusing on the three themes described earlier – affordability, intergenerational equity and partnerships.

We have included our preferred options for significant capital expenditure in our Long Term Plan budgets to meet current levels of service, improvements, compliance and growth. The forecasts for the first three years are the most detailed, while those in years four to ten are a reasonable outline of the most likely scenario. The forecasts beyond year ten are indicative estimates and will be developed further as more information becomes available.

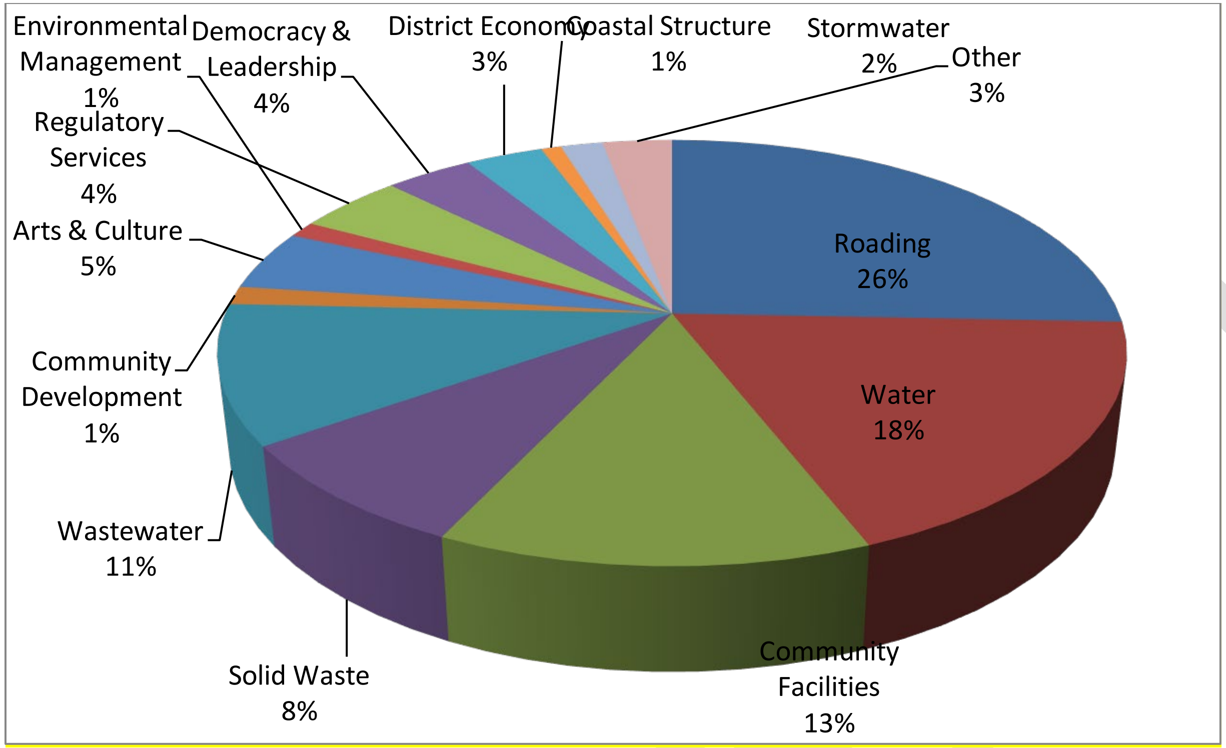
Forecast Financial Position for the Next 10 Years

The projected financial position shows what we own (assets) and what we owe (liabilities) and the difference between them (equity) is effectively the net value belonging to the Council. Over the ten years it is forecast that our equity will grow from about $1.3 billion to $1.8 billion. The anticipated increase in the value of our fixed assets, including the Hāwera Town Centre Strategy implementation, town centre plans, South Taranaki Business Park, water, wastewater, stormwater and roading assets, reflects the investment made in these areas as well as future investment and the revaluations of the assets over the next ten years.



Forecast Expenditure and Income
The forecast expenditure shows what we intend to spend on each group of activities over the next ten years. The forecast spending on water, wastewater, stormwater, roading, solid waste, coastal structures, parks and reserves and community facilities totals about 78% of our overall spending.

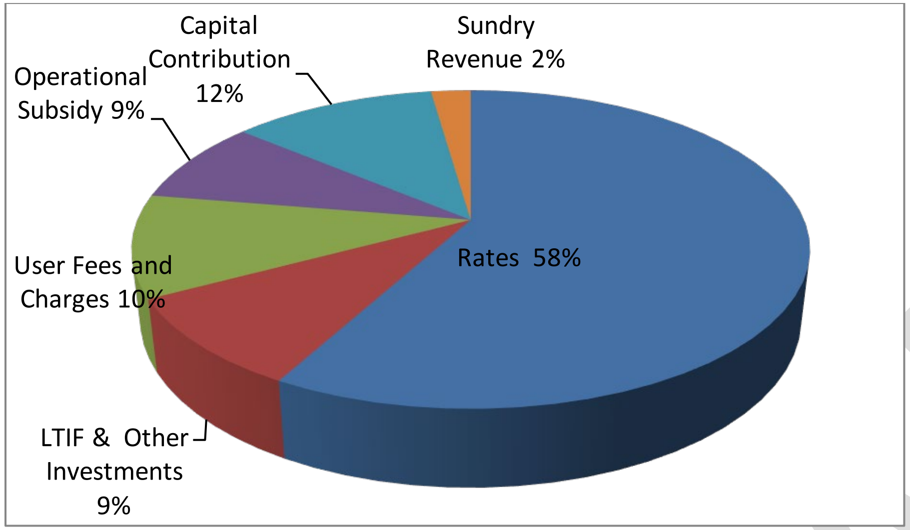
Council's Spending - $1,117 million



Forecast Income

The following graph shows the income we are forecasting from different income sources over the next ten years. Our total income from rates makes up about 58% of the total income, followed by 12% from Capital Contributions.

Council's Revenue - $1,192 million



Affordable Rates

The ability of our ratepayers to continue funding services and the maintenance and renewal of the assets needed to provide sustainable infrastructure is an on-going issue. We will mostly look after what we have by concentrating on maintaining and replacing existing assets rather than creating new ones that will increase operational costs. Exceptions are:

- New assets as part of the Town Centre Master Plans;
- New assets for the South Taranaki Business Park; and
- Tertiary level wastewater treatment plants.

We want South Taranaki to be an affordable place to live and do business. Our plans for the District – to retain our population, maintain our current levels of service, meet legislative changes, improvements, planning for growth and, effective management of our debt – must be balanced with the need to keep rates affordable for our community. We need to respond to our community's needs in a manner that is sensitive to economic factors, keep costs down by focusing on the basics, deferring or deleting projects where appropriate and utilising various funding mechanisms as well as rates without raising our rates above 6.00%.

Limits on Rates and Rates Increases
Our total rates income is forecast to increase from $48.9 million in 2023/24 to $54.4 million in 2024/25 and to $83 million by 2033/34. We want to provide ratepayers with a degree of certainty over future rates movements and propose to limit average rate increases over the next ten years to no more than 6.0%. This ‘cap’ is made up of the forecast 2.4% increase in the Local Government Cost Index (LGCI), 0.6% for the return of water services, plus 3% for improvements, compliance and growth.

Our forecast income for 2024/25 will be made up of rates (53%), subsidies, grants and capital contributions (23%) investment income (10%), and user fees and charges (11%).

The quantified limit for rates income is 65% of total projected revenue, and we will seek to reduce the amount collected by rates while continuing to fund activities as per our Revenue and Financing Policy.

The District Rate
The District Rate includes General Rates, UAGC and the Roading Rate. In 2024/25 the District Rate will increase by 13.1%. Over the ten years it will increase by an average of 4.8% per annum. The increase mainly reflects inflation, increase in borrowing costs, energy costs, and increased costs related to anticipated maintenance, repairs and renewal expenditure.

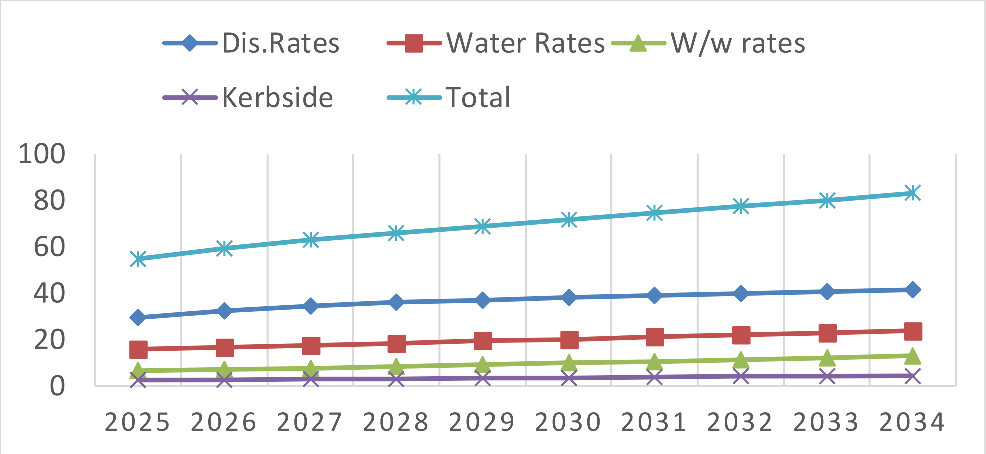
Targeted Rates
The wastewater targeted rate will increase by 10.7% in 2024/25, moving from $805.00 to $891.25 as the cost of compliance is increasing significantly. The wastewater rate will increase by an average of 7.5% per annum over ten years.

The kerbside collection rate will increase by 47.7% in 2024/25, moving from $220.00 to $325.00 as the new collection, including food waste, is introduced. It will increase by an average of 10.5% per annum over ten years, reflecting increased disposal levies and contractor costs.

The urban water targeted rate will increase by an average of 3.4% per annum over ten years. We have different Urban Water Supply rates for various metered water users. For extra high users, the per cubic metre rate will increase by an average of 2.9% per annum over ten years. For all other urban users, the per cubic metre rate will increase by an average of 3.5% per annum over ten years. From 2027/28, the per cubic metre rate for town, high and extra high users will be same. The rate for Waimate West/Inaha metered water increases by an average of 3.7% per annum over ten years.

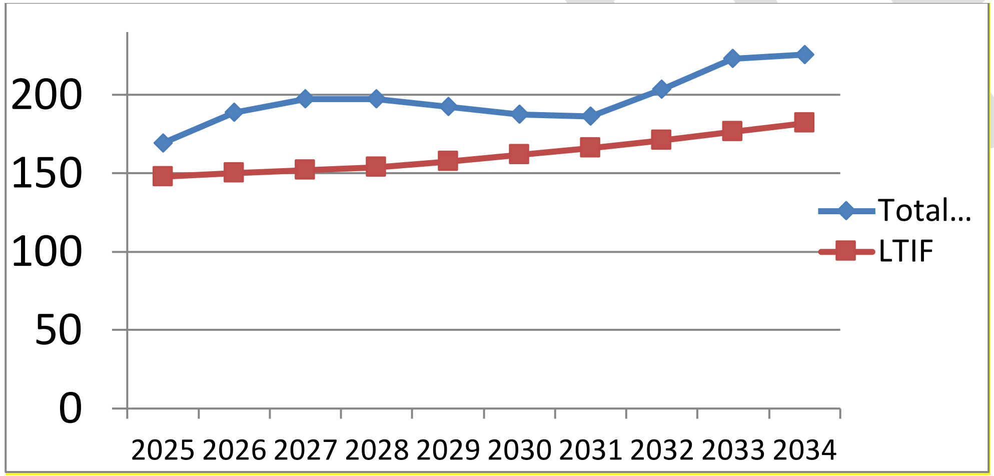
Total Rate Limit

Table (p40 of current LTP)

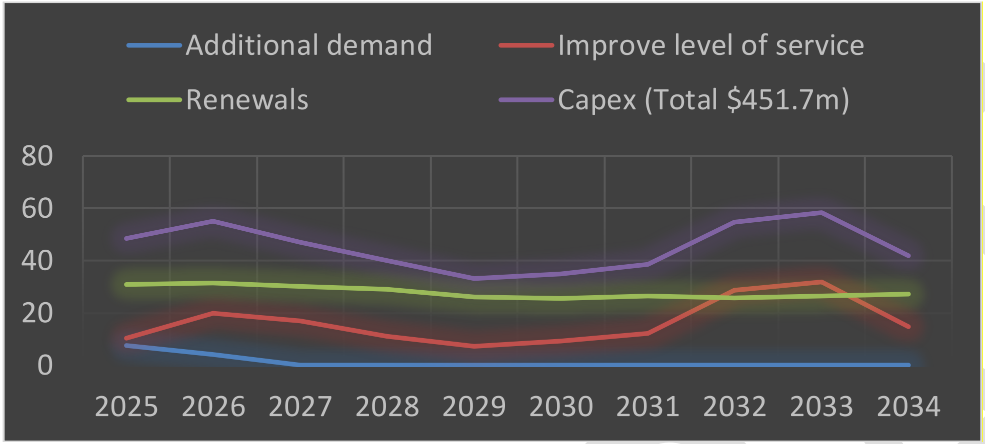


Our debt is forecast to grow from $169.1 million in 2024/25 to a peak of $225.6 million in 2033/34, before beginning to decrease. These numbers include internal borrowing.

The LTIF is forecast to increase in value from $147.8 million in 2024/25 to $181.8 million in 2033/34. These numbers include internal borrowing.



Our total forecast capital spending is $451.6 million for the ten years, with $411.7 million of that being on infrastructure assets. We have completed the final stages of our major network infrastructural improvements and spending will mostly be on renewals for the next ten years, except for the Hāwera Town Centre Strategy projects and Town Centre Master Plans.



Affordability

Our costs (Local Government Cost Index - LGCI) are increasing at a higher rate than the consumer price index (CPI). The ongoing cost of servicing existing infrastructure and new assets is projected to continue to increase at higher rates. We acknowledge that balancing the increase in rates and maintaining and improving levels of service is a challenge and we are actively trying to encourage economic activity in our District.

Rate Cap	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
LGCI Average 10 Years	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%
Plus Three Waters back in	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%
Plus 3%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Total Rate Cap	**6.00%**	**6.00%**	**6.00%**	**6.00%**	**6.00%**	**6.00%**	**6.00%**	**6.00%**	**6.00%**	**6.00%**
Total Rate Increases	11.29%	10.33%	6.19%	4.77%	4.50%	4.19%	3.93%	3.76%	3.69%	3.63%
Difference	**-5.29%**	**-4.33%**	**-0.19%**	**1.23%**	**1.50%**	**1.81%**	**2.07%**	**2.24%**	**2.31%**	**2.37%**

Explanation:

The total rate limits on the overall rate collection is on average 6.00% for the ten years. The cap will be breached in years one to three mainly to allow for significant increase in costs, return of three waters services to Council, the need to meet government standards as well as allowing for some improvements and growth. The projected rate increase is 11.29% in year one, 8.72% in year two, and 6.19% in year three. The breach is not considered to be significant. The average rates increase for the next ten years is projected to be 5.47%.

Mō ō Reiti / About Your Rates

Ten Year Projections for General and Targeted Rates (includes an allowance of inflation) - Including GST

Rate	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
District Rate* (annual increase)	7.95%	13.06%	10.33%	6.19%	3.99%	3.22%	2.61%	2.29%	2.08%	2.29%	2.06%
General Rate – Cents per $	0.08429	0.09309	0.09998	0.10788	0.11410	0.11710	0.11680	0.11853	0.12001	0.12118	0.12114
Roading Rate – Cents per $	0.05941	0.07527	0.08706	0.09099	0.09251	0.09546	0.10068	0.10322	0.10553	0.10893	0.11284
UAGC	$727	$758	$824	$872	$909	$945	$976	$1,005	$1,033	$1,063	$1,093
Targeted Rates**											
Water targeted rate	$673	$684	$713	$744	$776	$811	$840	$865	$891	$911	$937
Wastewater targeted rate	$805	$891	$966	$1,035	$1,116	$1,196	$1,288	$1,380	$1,472	$1,564	$1,656
Kerbside Collection rate	$220	$325	$351	$374	$397	$420	$449	$477	$506	$535	$564
Water meter only charge <= 32mm	$150	$150	$150	$150	$150	$150	$150	$150	$150	$150	$150
Water meter and backflow charge <= 32mm	$260	$260	$260	$260	$260	$260	$260	$260	$260	$260	$260
Water meter only <= 40mm	$175	$175	$175	$175	$175	$175	$175	$175	$175	$175	$175
Water meter and backflow charge <= 40mm	$325	$325	$325	$325	$325	$325	$325	$325	$325	$325	$325
Water meter and backflow charge <= 50mm	$460	$460	$460	$460	$460	$460	$460	$460	$460	$460	$460
Water meter and backflow charge >50mm	$630	$630	$630	$630	$630	$630	$630	$630	$630	$630	$630
Water by meter rates per cubic metre											
Town & Urban High User	$2.56	$2.97	$3.11	$3.28	$3.42	$3.57	$3.70	$3.82	$3.93	$4.03	$4.14
Urban water Extra High User	$2.70	$3.16	$3.28	$3.36	$3.42	$3.57	$3.70	$3.82	$3.93	$4.03	$4.14
Waimate West (now include – Inaha)	$1.13	$1.16	$1.21	$1.27	$1.30	$1.35	$1.39	$1.45	$1.51	$1.56	$1.62

*The district rate includes the UAGC, general rate and roading rate. The general and roading rates are calculated on the capital value of the property, so each property pays a different amount.

**Targeted rates are uniform charges (every property pays the same amount) with the exception of the water by meter charges which are volumetric (you pay for what you use).

Rating Examples (including GST)

Below are five property examples to show the impact of the rates increases for the next ten years.

Urban $380,000 capital value property

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
General	320.32	353.76	379.92	409.94	433.57	445.00	443.85	450.41	456.04	460.48	460.33
Roading	225.75	286.01	330.84	345.75	351.52	362.75	382.59	392.25	401.03	413.94	428.81
UAGC	727.10	757.57	823.65	872.29	908.99	944.89	975.52	1004.73	1033.41	1062.69	1092.76
Water	672.75	684.25	713.00	744.05	776.25	810.75	839.50	865.38	891.25	911.38	937.25
Wastewater	805.00	891.25	966.00	1035.00	1115.50	1196.00	1288.00	1380.00	1472.00	1564.00	1656.00
Kerbside	220.00	325.00	350.75	373.75	396.75	419.75	448.50	477.25	506.00	534.75	563.50
Total Rates	**2,970.92**	**3,297.84**	**3,564.15**	**3,780.77**	**3,982.59**	**4,179.14**	**4,377.96**	**4,570.01**	**4,759.73**	**4,947.24**	**5,138.65**
Increase each year		326.93	266.31	216.62	201.82	196.55	198.82	192.05	189.72	187.51	191.40
Percentage increase		**11.00%**	**8.08%**	**6.08%**	**5.34%**	**4.94%**	**4.76%**	**4.39%**	**4.15%**	**3.94%**	**3.87%**

Urban $600,000 capital value property

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
General	505.77	558.56	599.87	647.27	684.58	702.64	700.81	711.17	720.07	727.08	726.83
Roading	356.45	451.60	522.37	545.92	555.04	572.76	604.09	619.34	633.20	653.59	677.06
UAGC	727.10	757.57	823.65	872.29	908.99	944.89	975.52	1004.73	1033.41	1062.69	1092.76
Water	672.75	684.25	713.00	744.05	776.25	810.75	839.50	865.38	891.25	911.38	937.25
Wastewater	805.00	891.25	966.00	1035.00	1115.50	1196.00	1288.00	1380.00	1472.00	1564.00	1656.00
Kerbside	220.00	325.00	350.75	373.75	396.75	419.75	448.50	477.25	506.00	534.75	563.50
Total Rates	**3,287.06**	**3,668.23**	**3,975.64**	**4,218.27**	**4,437.12**	**4,646.79**	**4,856.42**	**5,057.86**	**5,255.93**	**5,453.49**	**5,653.41**
Increase each year		381.17	307.41	242.63	218.84	209.67	209.64	201.44	198.07	197.56	199.92
Percentage increase		**11.60%**	**8.38%**	**6.10%**	**5.19%**	**4.73%**	**4.51%**	**4.15%**	**3.92%**	**3.76%**	**3.67%**

Urban $900,000 capital value property

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
General	758.65	837.84	899.80	970.91	1,026.87	1,053.96	1,051.22	1,066.75	1,080.10	1,090.62	1,090.25
Roading	534.68	677.40	783.56	818.87	832.56	859.14	906.14	929.00	949.80	980.39	1,015.59
UAGC	727.10	757.57	823.65	872.29	908.99	944.89	975.52	1,004.73	1,033.41	1,062.69	1,092.76
Water	672.75	684.25	713.00	744.05	776.25	810.75	839.50	865.38	891.25	911.38	937.25
Wastewater	805.00	891.25	966.00	1,035.00	1,115.50	1,196.00	1,288.00	1,380.00	1,472.00	1,564.00	1,656.00
Kerbside	220.00	325.00	350.75	373.75	396.75	419.75	448.50	477.25	506.00	534.75	563.50
Total Rates	**3,718.17**	**4,173.31**	**4,536.76**	**4,814.87**	**5,056.93**	**5,284.49**	**5,508.87**	**5,723.12**	**5,932.56**	**6,143.83**	**6,355.35**
Increase each year		455.14	363.45	278.11	242.06	227.56	224.39	214.24	209.45	211.26	211.53
Percentage increase		**12.24%**	**8.71%**	**6.13%**	**5.03%**	**4.50%**	**4.25%**	**3.89%**	**3.66%**	**3.56%**	**3.44%**

Hāwera commercial/industrial $850,000 capital value property

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
General	716.51	791.30	849.81	916.97	969.82	995.40	992.81	1,007.49	1,020.10	1,030.03	1,029.68
Roading	504.97	639.76	740.03	773.38	786.31	811.41	855.80	877.39	897.03	925.92	959.17
UAGC	727.10	757.57	823.65	872.29	908.99	944.89	975.52	1,004.73	1,033.41	1,062.69	1,092.76
Water	672.75	684.25	713.00	744.05	776.25	810.75	839.50	865.38	891.25	911.38	937.25
Wastewater	805.00	891.25	966.00	1,035.00	1,115.50	1,196.00	1,288.00	1,380.00	1,472.00	1,564.00	1,656.00
Hāwera Business Rate	614.16	631.50	645.77	660.04	674.43	689.00	703.81	718.87	734.18	749.82	765.72
Total Rates	**4,040.48**	**4,395.63**	**4,738.26**	**5,001.72**	**5,231.30**	**5,447.45**	**5,655.44**	**5,853.86**	**6,047.97**	**6,243.84**	**6,440.58**
Increase each year		355.14	342.63	263.47	229.58	216.15	207.99	198.42	194.11	195.86	196.74
Percentage increase		**8.79%**	**7.79%**	**5.56%**	**4.59%**	**4.13%**	**3.82%**	**3.51%**	**3.32%**	**3.24%**	**3.15%**

Rural $8 million capital value property

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
General	6,743.58	7,447.50	7,998.22	8,630.28	9,127.76	9,368.50	9,344.14	9,482.26	9,600.92	9,694.41	9,691.09
Roading	4,752.68	6,021.29	6,964.96	7,278.88	7,400.52	7,636.84	8,054.55	8,257.82	8,442.65	8,714.55	9,027.49
UAGC	727.10	757.57	823.65	872.29	908.99	944.89	975.52	1,004.73	1,033.41	1,062.69	1,092.76
Total Rates	**12,223.36**	**14,226.36**	**15,786.83**	**16,781.45**	**17,437.28**	**17,950.23**	**18,374.20**	**18,744.81**	**19,076.98**	**19,471.65**	**19,811.35**
Increase each year		2,003.01	1,560.47	994.62	655.83	512.95	423.97	370.61	332.17	394.67	339.69
Percentage increase		**16.39%**	**10.97%**	**6.30%**	**3.91%**	**2.94%**	**2.36%**	**2.02%**	**1.77%**	**2.07%**	**1.74%**