



Financial Strategy



TE KAUNIHERA Ā ROHE O
WHAKAAHURANGI
STRATFORD
DISTRICT COUNCIL

Long Term Plan 2024-34

Financial Strategy

Summary of key information

Rates Increase Limit: < 7%

Borrowing Limits:

Net Debt < 115% of Annual Operating Revenue

Borrowing costs <15% of Annual Rates Revenue

Borrowing costs <10% of Annual Operating Revenue

Growth assumption: 0.4% annually

Inflation assumption:

Average of 2.1% annually, varies across categories of expenditure

Waka Kotahi (NZTA) Subsidy:

63% over the 10 years of the Long Term Plan

Three Waters activities:

Within council ownership and control for the ten years of the Long Term Plan

Introduction

The purpose of the financial strategy is to:

- Provide guidance for elected members and staff when considering proposals for funding and expenditure.
- Make Council funding and expenditure decisions and their overall effects on service levels, rates, debt and investments transparent to ratepayers.
- Ensure that services levels are maintained, while ensuring debt, revenue and expenditure (Operating and Capital) are managed in a financially sustainable way.

The Financial Strategy sets out the overall financials goals of the Stratford District Council for the 2024-34 Long Term Plan ('LTP'). The main target actions of this Financial Strategy are to:

- Ensure the Stratford District Council authority maintains financial sustainability to ensure independence and debt capacity for future growth opportunities. This includes ensuring targeted rate reserve balances are not in deficit by the end of the LTP.
- Build resilience for the Stratford District – by, amongst other things, adequately funding for asset renewals, and ensuring council owned buildings are earthquake strengthened and fit for purpose.
- Provide the platform to enable achievement of the Community Outcomes, agreed levels of service, and performance measures, without significantly burdening the districts' ratepayers.

Compared to the Financial Strategy 2021-2024, the foundation for this Strategy is based on significantly increased operating costs due to high inflation between 2022 and 2024, and an unprecedented capital expenditure programme from 2021 to 2024. This has resulted in the need to lift the rates increase limit to a level that is realistic, at <7% (LTP 2021-31: <6%), despite this being breached in year 1 of the Long Term Plan (of 15.37%).

The Net Debt to Annual Operating Revenue Limit is to reduce to 115% (LTP 2021-31: 130%), and additional limits have been added to ensure appropriate management of costs associated with debt. This prudent strategy recognises the need to maintain a high level of debt capacity, and the impact that debt servicing has on rates, and future financial sustainability. By year 10 the Net Debt to Revenue limit increases to 132%, due to significant resilience projects, although the limit is met in all prior years.

Guiding vision and desired community outcomes

Council's vision is to be "A Welcoming, Inclusive, Safe Community – Te Pūmanawa o Taranaki." (Te Pūmanawa o Taranaki translates as 'The Beating Heart of Taranaki.')

The Community Outcomes adopted in August 2023 are provided on page X, and guide the levels of service council provides.

Elected members have acknowledged that there is more work to do to achieve these Community Outcomes, above what would be considered business as usual. However, the foundations are in place, and future work to achieve these outcomes is focused on using the existing resources available to council – staff, expertise, infrastructure, community, funding capacity – to deliver on the Community Outcomes.

Prudence

Council is required to set its operating revenues to cover its projected operating costs unless it is prudent to do otherwise. The test of whether operating revenues are set to cover operating costs is whether the Statement of Comprehensive Revenue and Expense has a balance before Asset Revaluations (Net Surplus figure below) of greater than zero. The financial projections show that Council has met this requirement.

Long Term Plan forecast of Net Surplus

in \$000's	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Total operating revenue	32,733	32,512	39,748	40,963	46,835	38,387	40,133	40,509	42,063	44,446
Total operating expense	27,035	28,194	29,207	31,404	33,583	34,110	34,625	35,904	36,894	38,827
Net surplus	5,698	4,318	10,540	9,559	13,252	4,277	5,508	4,605	5,170	5,619

The net surplus includes Waka Kotahi funding revenue for capital expenditure on roading projects, which are particularly high in years 3, 4, and 5 of the LTP due to the Brecon Road bridge project. Revenue also includes the sale of subdivision sections in 2028/29 budgeted at \$9,208,000, which will be used to repay the original funding sources (debt and reserves).

As stated in the Revenue and Financing Policy "Prior to determining the amount of expenditure to be funded by rates, Council will identify and exhaust all other funding sources available." These include Fees and Charges, Grants and Subsidies, Borrowings (where prudent), Asset Sales Proceeds, Financial Contributions, and Interest and Dividends from Investments. Fees and charges take into account the principles of user benefits/pays and exacerbator pays, while also recognising that many of the services that Council delivers provide wellbeing outcomes to the community and therefore affordability is also taken into account to encourage capacity utilisation and improved outcomes for the community.

Significant factors underpinning the financial strategy

Service Levels

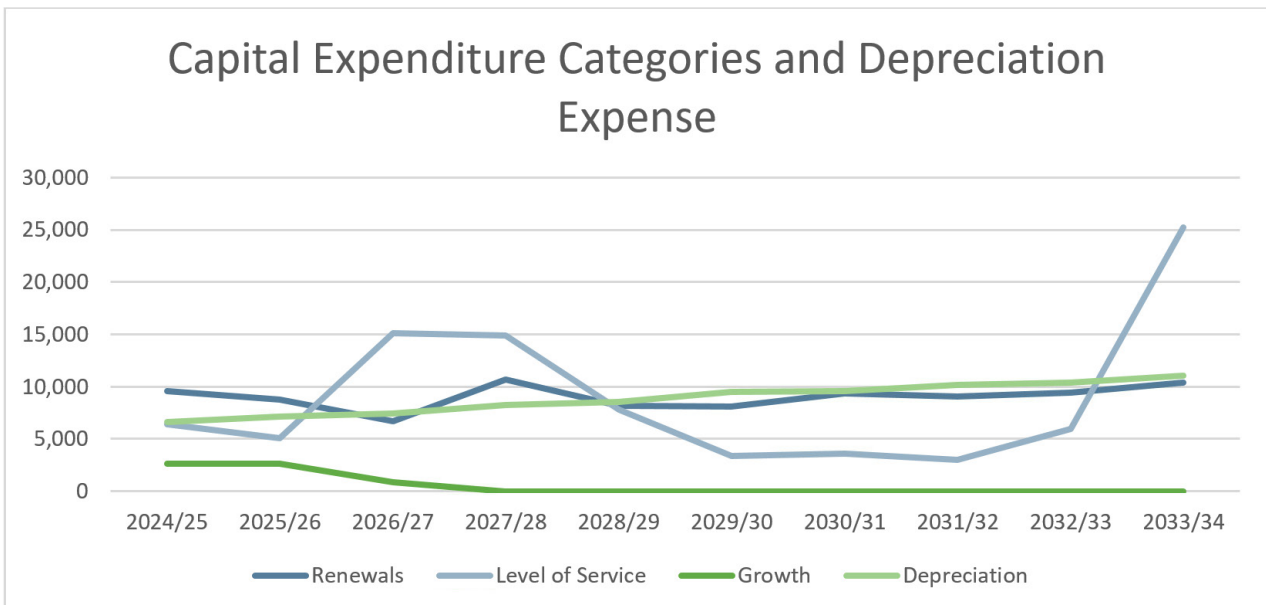
The budgeted expenditure in year 1 of the Long Term Plan provides for increased service levels in comparison to the previous Long Term Plan, notably the operating costs for the new Swimming Pool and Bike Park, Economic Development initiatives, Sustainability / Waste Minimisation initiatives, and the rollout of universal Water Metering. There are no significant cost reductions forecast that would result in a decrease in service levels provided.

Grants and subsidies will be actively sought to help fund the capital work programme. In previous years, the Council was successful in obtaining Government funding for the new Swimming Pool project of \$8,000,000, the Water Supply second Trunkmain of \$2,390,000, and the Stratford Bike Park of \$1,800,000. We are now seeing the impact of maintaining these assets on the ongoing funding required from our community.

Note: most assets that have been grant funded initially will be fully depreciated in the expectation that Council will fund the replacement of the asset from the appropriate reserve, except for roading where it is expected that the roading subsidy will continue to contribute towards the replacement of roading assets, and the Wai o Rua - Stratford Aquatic Centre where only Council's contribution towards the cost of construction will be depreciated.

To continue to deliver the levels of service for an Activity, Council must ensure that it has made sufficient provision for funding to do the maintenance and asset replacement outlined within its Asset Management Plans. The LTP includes provision for renewal capital works of \$9,538,100 in 2024/25, and \$90,040,000 over the full 10 years of the Long Term Plan. Depreciation over the 10 years of the LTP is \$88,721,000.

As the graph below indicates, depreciation over the years is at a similar level to renewals, demonstrating Council's commitment to maintain assets at a rate similar to the rate at which they are failing.



Building resilience

One of the key action plans for this Long Term Plan is to build resilience for the district and focus on maintaining current levels of service and being adequately equipped for future district growth.

Council will fully fund for depreciation on three waters and roading infrastructure. Universal water metering is expected to be rolled out over the first three years of the LTP to help with water conservation and identification of water loss and infrastructure maintenance requirements. Additionally, the Stratford water grit tanks will be replaced in years 1 and 2 of the LTP at a budgeted cost of \$4,000,000, and a new Patea crossing for the old trunkmain will be constructed in year 10 of the LTP at a budgeted cost of \$4,000,000. Additionally, for Wastewater, a new discharge point will be constructed in year 10 of the LTP at a budgeted cost of \$5,200,000 (note all figures quoted here are uninflated).

All council owned buildings that do not meet current legislative seismic standards will be brought up to standard by the end of the Long Term Plan to ensure public safety from potential earthquake risk and the ability to operate a civil defence emergency centre.

Council has recently hired a Sustainability Officer who is responsible for developing and delivering environment and sustainability strategies, plans and projects, including those relating to land & water conservation, Council's energy use, renewable energy and the mitigation of climate change. Future plans within the first three years of the LTP are to develop a corporate Sustainability Policy (and embed this internally), research and contract out a corporate baseline emissions assessment, and develop a Sustainability Strategy – utilising a facilitated working party model to develop the strategy. Projects will be developed to meet the high-level outcomes and objectives, approved by council, of the working party Sustainability Strategy. A capital expenditure budget of \$395,000 has been set from years 4-10 of the LTP. Council will also provide for resilience by ensuring debt capacity is maximised, which is reflected by a lower Net Debt to Revenue limit than the covenant set by the LGFA.

District Growth

Population and the number of rateable properties is expected to increase by 0.4% per annum. Council has noticed the upturn in Taranaki's regional growth which appears to be flowing through most of the provincial areas. In recent years there has been an increase in rating units of around 1%. However, it is not expected that this level of increase will be sustainable over the next ten years and so for the purposes of determining rating unit growth, 0.4% growth has been used as a conservative measure.

The District Plan will be reviewed over the next few years and will take into account any potential change

in use of land as a result of any higher than anticipated population growth. There is currently provision in the District Plan if new infrastructure is required to respond to new development. Those provisions allow Council to obtain financial contributions from developers to any response to the development required by Council.

Current assets have the capacity to cope with the moderate growth experienced and forecast. It would take consistent growth of 1-3% for a considerable number of years before this would change. If growth was to occur at a higher than anticipated level, the Council and the community would have enough time to develop policies and a new financial strategy to cope with that growth. New debt would be the likely source of funding for any new infrastructure required, after exhausting funding from financial contributions.

In 2019 – 2020, the Council developed a 33 section urban subdivision, with all sections sold within a year. Due to the high demand, Council plans to invest a further \$8,000,000 in a new subdivision, to be fully loan funded in the short term, with operating costs to be reserve funded. The budgets in the LTP are set to break even and not make an economic return from the section sales.

Forecasting Assumptions

Council has made a number of forecasting assumptions in preparing the 10 year plan. These are outlined in the Long Term Plan under Significant Forecasting Assumptions.

The Council also undertook a review of the current and forecast environment including the demographics, legislative reform, inflation, employment, and facilities available and in high demand in the district – including health and medical, educational and recreational facilities.

The most recent property rating valuations in 2023, effective from 1 July 2024, show a continued pattern (from the last three yearly valuation) of residential property values increasing, and dairy land values remaining flat. This is likely to have an impact on capital value based rates (general and roading targeted rate) and ability to pay for residential property owners. The increasing UAGC will also impact lower value properties, and council has increased its remission policy scope for low value properties that qualify for a remission of the UAGC.

Although Council believes it has made prudent assumptions in each case, there is a high level of uncertainty in some assumptions. In most cases Council has some flexibility to cope with changing circumstances. Depending on the issue, Council's response could involve reducing maintenance for a short period, postponing scheduled capital renewals or levels of service capital items, or using "headroom" in Council's borrowing capacity.

Current position (2024) and end position (2034)

Treasury Position

Net debt by the end of year 1 of the Long Term Plan is expected to be \$27,393,000. This is expected to peak to \$58,817,000 in ten years, by 2034. Loan funded capital expenditure proposed over the Long Term Plan is \$61,219,000.

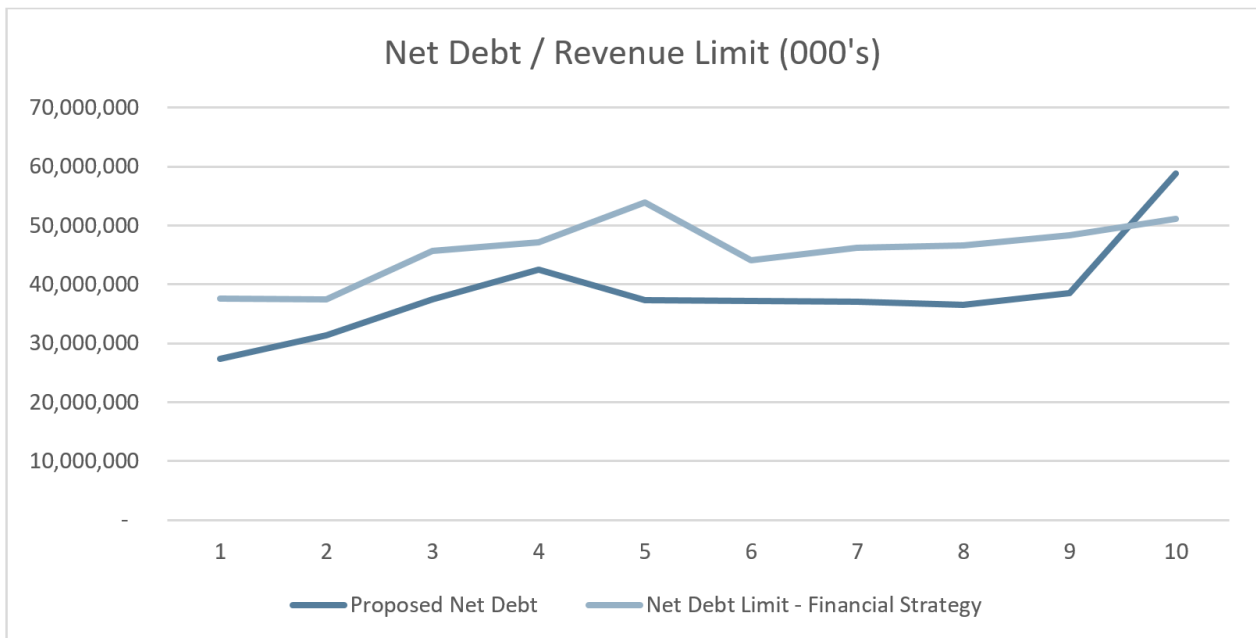
The Net Debt limit has been reduced to 115% of annual operating revenue to encourage prudent decision making when considering proposals for funding investment in level of service capital expenditure. Borrowing flows directly through to the rates requirement by increasing the cost of interest. However, this limit is breached in year 10 of the Long Term Plan when it reaches 132%.

In terms of long term liquidity, and access to capital funding, the Council is not expected to breach its LGFA covenants over the next ten years, and based on the proposed net debt forecast. In the short term, Council has access to a \$1,000,000 loan facility if needed.

The net debt limit is lower than the LGFA covenant of 175% of annual operating revenue, as elected members consider that future generations should not be inheriting a treasury position where debt is at its maximum. Council is mindful that interest rates and borrowing costs are and may continue to increase further, putting pressure on ratepayers to fund debt servicing costs.

Council investments forecast to provide a financial return include Term Deposit investments of \$6,000,000, and a loan to the Stratford Agricultural and Pastoral Association of \$7,180,000. The forecasts maintain both at the same level over the next ten years, although it is likely the term deposits may need to increase as the level of reserves increases, and there is provision for \$3,680,000 of the \$7,180,000 loan to be repaid in the loan contract within the next 5 years so this may reduce, offsetting one another to some extent.

Council expects to breach its Net Debt / Revenue limit in year 10 of the Long Term Plan due to significant Water and Wastewater improvement projects.



Rates

A key challenge is to keep rates at an affordable level while delivering on the Community Outcomes and the increased levels of service desired by the community. Rates are a key source of funding as many of the services provided by Council are unable to be provided privately due to the public benefit associated with these services limiting the economic returns on investment, or there is no practical way to charge for services efficiently.

Council will set rates on the following basis:

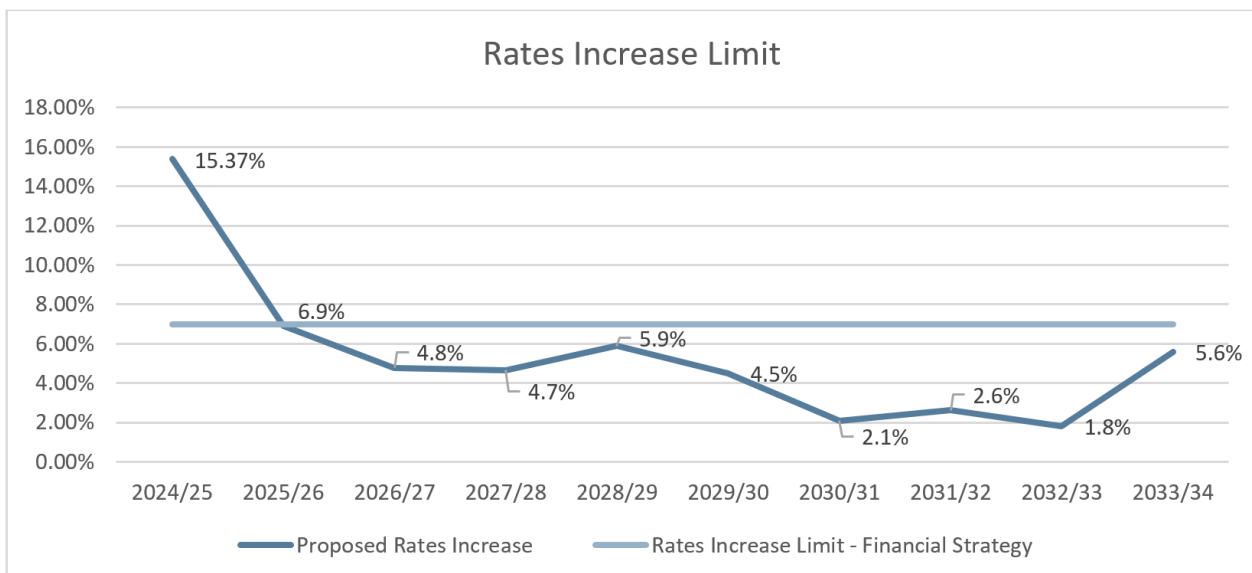
- District wide rates on all properties:
- General Rates (including a Uniform Annual General Charge)
- Roading Rates (for the costs of the roading activity), which will include a differential on properties that have plantation forestry.
- Targeted rate on serviced and serviceable properties
- Wastewater Disposal Rates (for sewage disposal from serviceable properties)
- Solid Waste Collection Rates (for refuse collection from serviceable properties)
- Water Supply Rates (for water supply to serviceable properties)

- Targeted rate on properties in a specified area:
- Community Centres (for the maintenance of local community halls)

Inter-generational equity is better served by maintaining consistency in the level of rates increases year on year. The rates increase limit is to be set at 7%, up from 6% from the previous Long Term Plan (and 4.45% from the LTP 2018-28). This is to take into account the increased prices experienced by the local government sector in all cost areas, and the increased levels of service delivered to the community to deliver on the Community Outcomes, as a result of the completion of capital projects budgeted for in the Long Term Plan 2021-31.

The below graph shows the budgeted rates increase over each of the next ten years against the rates increase limit.

The proposed rates increases are less than the rates increase limit set by Council, except for in Year 1 of the Long Term Plan, where a significant upwards shift is required as a result of recent inflationary pressures, and to include the impact of new capital expenditure on operating funding requirements. Additionally, in year 1 and 2 of the LTP, council has committed to rectifying the deficit in the Roading Reserve. From year 2 onwards, council spending is expected to settle under the limit and the focus will be on maintenance of existing services and building infrastructure resilience.



	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Proposed rates increase	15.37%	6.9%	4.8%	4.7%	5.9%	4.5%	2.1%	2.6%	1.8%	5.6%
Rates increase limit - financial strategy	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Difference in Rates Increase	8.37%	-0.11%	-2.23%	-2.34%	-1.11%	-2.51%	-4.91%	-4.38%	-5.20%	-1.40%
Remove/(add) to get to limit	\$1,352,755	\$(20,530)	\$(445,311)	\$(488,325)	\$(243,324)	\$(580,977)	\$(1,186,456)	\$(1,081,547)	\$(1,318,331)	\$(360,853)

Rates are rising at a level higher than expected inflation of 2.10% largely due to the operational costs (depreciation and/or interest) arising from new capital expenditure on service level increases, particularly the new swimming pool complex and the bike park. Many of the fees and charges are not able to be increased at a rate higher than inflation without affecting community participation and overall revenue, and counteracting the wellbeing benefits provided by council services.

Fees and charges for 2024/25 were reviewed by Council as part of the development of the Long Term Plan, with increases across the board, where appropriate.

Council Infrastructure and Asset Condition

Council manages Assets with a value of \$463,280,000 (as at 30 June 2023), made up largely of infrastructure assets, including Rooding, Water Supply, Wastewater and Stormwater assets (total infrastructure asset value of \$392,377,000). These assets have very long lives of up to 120 years, and have an estimated replacement value of \$583,261,000. By the end of the Long Term Plan, June 2034, the value of Council property plant and equipment is expected to increase to \$831,682,000, as a result of asset revaluations and capital expenditure on new assets to increase levels of service.

Generally, the Council takes a risk-based approach to monitoring the condition of assets and conducts condition assessments of its critical assets. Where assets have low risk because they are in the first half of their life, condition monitoring is low. If the consequences of running an asset through to failure are high, the Council, through its AMP and systems hold more information on the asset condition. The Council has assessed the risk of sudden asset failure as minor and therefore has not budgeted for the replacement of assets before their useful life. To clarify, Council's strategy is to replace non-critical assets when they fail. This is a common strategy with many Councils, and

Stratford has a good track record of fixing failures in a timely manner.

Council insures all essential infrastructure assets, except Rooding assets, at full reinstatement cost, ensuring that following a risk event, the Council is effectively positioned to return in a timely manner to its pre-event state.

The Financial Strategy is the enabler of the Infrastructure Strategy which identifies Rooding and Three Waters resilience as the key focus areas for the Long Term Plan. The Council's Infrastructure Strategy and Asset Management Plans provide details on asset condition and expectations for asset replacement. Assets are only replaced when at the end of their useful life based on the condition of the asset, rather than at the end of the expected useful life.

There is a high risk that council's planned capital expenditure program will not be fulfilled in each year of the LTP, based on historical capital program completion rates. The reasons for not delivering on the full program are largely due to factors outside of council's control which are unlikely to be mitigated for the future as well. The capital program for years 2 and later will be reviewed at each Annual Plan and for the next Long Term Plan. The biggest impact on under delivering on capital projects will be on council's debt and reserves balances, which will be lower than forecast. Where there is potential for significant reductions in levels of service as a result of not delivering particular capital projects, these projects will be prioritised.

Council Infrastructure and Asset Condition

Council manages Assets with a value of \$328,722,000 (as at 30 June 2020), made up largely of infrastructure assets, including Roothing, Water Supply, Wastewater and Stormwater assets (total infrastructure asset value of \$288,000,000). These assets have very long lives of up to 120 years, and have an estimated replacement value of \$412,549,000.

By the end of the Long Term Plan, June 2031, the value of Council assets is expected to increase to \$518,776,000, as a result of asset revaluations and capital expenditure on new assets to increase levels of service.

The Council's Infrastructure Strategy and Asset Management Plans provide details on asset condition and expectations for asset replacement. Assets are only replaced when at the end of their useful life based on the condition of the asset, rather than at the end of the expected useful life.

Infrastructure deep dive 1 - Roothing

Council has identified seven bridges that will need to be replaced by Year 10 (2031) at a cost of \$2,000,000. There are a further 14 bridges to be replaced in Years 11 – 20, and a further 36 bridges to be replaced in Years 21-30. The Council's total budget over the next 30 years for bridge replacement is \$16,500,000. These will need to be funded from the rooothing reserve, the Long Term Plan 2021-31 seeks to build the Roothing reserve up from \$600,000 to \$3,632,000 by June 2031 to ensure there are sufficient funds in the reserve to cover this cost, allowing for intergenerational equity.

An increase in Heavy Commercial Vehicles (HCV's) and forestry activity combined, coupled with the current standard of Council rooothing assets in areas where forestry is prevalent, is resulting in reactive investment and inefficient allocation of resources. The preferred response option is to strengthen key rooothing structures to accommodate the HCV's, enabling these vehicles to efficiently use key routes, however there may still be reactive maintenance work required as notice of at least 4-6 months is required from the forestry landowners to enable road strengthening work to be carried out and this is often not achievable. Over the ten years of the Long Term Plan it is forecast that \$2,900,000 will be spent on proactive strengthening of these roads, and \$3,900,000 will be spent on reactive maintenance.

The costs above are expected to be subsidised by Waka Kotahi at 61%

Infrastructure deep dive 2 – Water Reforms

In July 2020, the Government launched the Three Waters Reform Programme - a three-year programme to reform the water, wastewater and stormwater service delivery arrangements. The work on this is still underway and no firm decision has been made yet on what the reforms might look like, so the Long Term Plan does not allow for potential Water Reforms at all. Instead the operating and capital expenditure budget are as per normal with some level of service expenditure required to ensure a sustainable water supply for future generations. This includes rolling out Universal Water Metering to all residential properties connected to the district's water supply, and investment in a second Trunkmain and a third Water Reservoir.

However, if the 3 Water Activities were to be shifted from Council to another entity, from say Year 4 of the Long Term Plan, this would have an impact on Council assets, debt, revenue, expenditure, and treasury covenants. With everything else remaining the same but overheads being reallocated to other activities, the total rates requirement in Year 4 would drop by \$2,724,611 – or roughly a 13% reduction in rates from the previous year. By Year 4, the debt for the three waters Activities is expected to be \$11,839,272, and it is proposed that this debt, along with any reserve funds – expected to total \$657,087 by Year 4, will be transferred to the new consolidated entity.

Although Council rates would significantly reduce, and the level of debt would too, it does not mean that the community would benefit economically, as the new entity will take over charging Stratford ratepayers the cost of the 3 Water Activities. Also, total annual revenue of \$3,588,274 (Year 4 forecast) would be transferred to the new entity and unable to be used by Council in determining Local Government Funding Agency (LGFA) covenants.

Policy on giving security for borrowing

Council has the ability to borrow from the LGFA. The accession to LGFA was completed in May 2018, and Council became a guarantor to the LGFA in April 2020.

Borrowings from the Local Government Funding Agency will be under Debenture Trust Deed security documents and a debenture trustee is appointed to monitor financial compliance and to hold the security on our behalf for borrowed funds. The security for the loans is a charge over rates revenue.

Council may also choose to secure certain borrowings by a charge over assets. This will only occur when;

- there is a direct relationship between the debt and the asset purchase/construction and
- Council considers a pledge of the physical assets to be a more appropriate mechanism than the general charge over rates.

Any pledging of physical assets must meet the terms and conditions of the debenture trust deed and the Local Government Act 2002 (which prevents water service assets from being used as security for any purpose).

Financial investments and equity securities

Financial investments of \$13,180,000 is not expected to change over the Long Term Plan. Council also has non-financial investments in property including a farm, and has surplus cash available for investment from time to time.

Council maintains financial investments primarily to allow for:

- investment of surplus cash,
- liquid funds to be available to support Council reserves and/or a Civil Defence Emergency Event requiring significant capital expenditure, and/or
- a return on investment by way of improved community outcomes.

Over the ten years of the LTP, Council has budgeted to receive \$4,181,000 in interest revenue from financial investments. Investment return rates are based on either contracted investment rates, or for term deposits, the forecast 12 month term deposit rate.

Council also holds shares in cooperative companies for the farm operation to support the activity which requires the holding of those shares.

Investment and financial instruments will be restricted by the Treasury Management Policy, which is to be reviewed at least once every three years, and was last reviewed in February 2024.

The farm investment is expected to contribute at least \$75,000 per year to subsidise rates, however the Farm and Aerodrome Committee is responsible for the allocation of year end profits and may decide to increase this amount in any year to contribute towards the annual rates requirement.

