

# Draft Financial Strategy

## Introduction

Council has prepared this Long Term Plan on the basis that it needs to be financially sustainable, while meeting the needs of residents. The Financial Strategy details the underlying principles and approach for the next nine years as Council delivers services to the community in a financially prudent and sustainable manner. Balancing delivering the same levels of service, the needs of the community and keeping rates affordable are the key priorities.

## Background

The census in 2023 put Kawerau's population at 7,610 a 2% increase (2018 census 7,460). Further population projections provided by Statistics New Zealand indicate Kawerau's projected population in 2033 will be between 8,000 – 8,500. The existing infrastructural network has capacity for a District population of at least 10,000. Growth is monitored to determine any potential additional demand on infrastructural services. It is not anticipated that the current levels of service will change over the period of the 2025 - 2034 Long Term Plan.

Over the last three years Council has been investing in asset renewals of the water reticulation systems of the district. For the first time in many years Council has uplifted loans to fund this capital renewal project. As at 30 June 2025 Council will have \$6m in debt, a relatively low debt level, which does give Council capacity to borrow should the need arise.

Council to assist in residential development within the District, is progressing the subdivision at Stoneham Park, which will provide additional housing for the community, while also increasing Council's rating database in the next six years.

There continues to be private industrial land available to further expand the industrial hub that Kawerau is known for, which includes the

opportunities provided by the natural resources available and proximity to markets.

The priorities for the next nine years are for Council to maintain and continue the current levels of service, maintain Council's assets and complete capital infrastructure projects.

## Prudent Financial Management – Balanced Budget Requirement

Council is required under the Local Government Act 2002 to ensure that each year's projected operating revenues are set at a level to meet each year's operating costs. However, Council may set projected operating revenue at a different level if it believes that it is financially prudent to do so.

Council is further required to manage its revenues, expenses, assets, liabilities, investments and general dealings in a prudent manner which promotes the current and future interests of the community. In assessing a financially prudent position, consideration is given to:

- the estimated cost of maintaining the predicted levels of service contained in the Long Term Plan, including the cost of maintaining the service capacity and integrity of assets throughout their useful life and the revenue available to fund the cost of delivering services.
- equitable funding for the provision and maintenance of assets throughout their useful life.

Council's infrastructure assets significantly increased in value following the revaluation in June 2022. From this Council's depreciation expenditure has also risen. Council's balancing of the budget is impacted by the funding of depreciation, which in recent years has impacted the rates requirement. This has resulted in Council reducing the level of depreciation funding to ensure rates affordability for the community. This is further detailed under Council's funding and financial policies.

## Council's Funding and Financial Policies

Since 1998/99 Council has funded the annual depreciation expense of assets apart from the depreciation on non-critical assets. The specific buildings (non-critical) involved are: Town Hall, Concert Chamber, Ron Hardie Recreation Centre, Library/Museum Building, Museum/Archives Building, District Office, Council Depot, Tarawera Park Amenity Buildings, Swimming Pool, Pensioner Housing units and the Bert Hamilton Hall. Council also decided to not fully fund depreciation on roads subject to New Zealand Transport Agency (NZTA) subsidies.

These buildings remain non-critical and in addition, the level of utilisation for public halls in many cases is significantly below total capacity. As a result, the assets are not likely to be replaced in their present form or they may be replaced with rented accommodation or buildings funded by way of loans or grants.

Council has continued to support and confirm the 1998/99 decision and will continue the policy of not funding non-critical, non-strategic assets. Council believes the reasons for doing so have not changed and that the policy is appropriate for the Kawerau District.

The benefit of not funding depreciation on non-critical assets is that ratepayers are not paying for depreciation on assets which are unlikely to be replaced with buildings of equivalent value.

The benefit of not funding the portion of depreciation for assets which Council expects NZTA subsidies to fund, is that ratepayers are not funding depreciation which is unlikely to be needed.

The NZTA subsidy rate has recently been confirmed that the rates for Kawerau will be 75% for 2024 – 2027. Therefore, Council considers the risk of the subsidy rate being decreased to be low, for the period of this Long Term Plan. The subsidy rates for roading projects have been confirmed by NZTA for the next two years and this is reflected in the roading financial forecasts. Should any unforeseen changes to the

subsidy rate occur, Council would look at alternative funding options such as rates and loans.

In 2023/24 Council resolved to fund 65% of depreciation for all other assets, due to the uncertainty over the then Government's 3 waters reforms and due to the need to make rates affordable for the community. With the revaluation of Council's assets increasing depreciation and the inflationary impacts increasing the rates requirement, the depreciation funding levels were key to rates affordability. Council intends to gradually start increasing the funding of depreciation annually by 3% from 2026/27 (year 2 of the LTP). The funding of depreciation will be consulted with the community in the Long Term Plan Consultation Document.

Council is aware of the impact of not fully funding depreciation has on the balanced budget which is discussed further under the "Prudent Financial Management - Balanced Budget Requirement".

## Delivery of three waters

The Financial Strategy anticipates that Council will continue to deliver drinking water, wastewater and stormwater services for the period of the strategy and is prepared on the basis that delivery of these services will be by an in-house business unit. However, this service delivery option is still to be consulted on with the community and is yet to be confirmed as part of the Local Water Done Well legislative changes.

There are still uncertainties regarding the full impacts and requirements the Local Water Done Well legislation, will have on the delivery of three waters. One certainty is that Councils will continue to have overall ownership and control over the three waters service delivery. Council has prepared the Long Term Plan on the basis that the three waters services will continue to be delivered by Council for the nine year period.

Therefore, with the Local Water Done Well legislation impacts, there is a level of uncertainty (and therefore risk) with the structure of water service delivery and how this is funded.

**Table: Estimated lives of non-critical assets**

Building	Year Built	Gross Replacement Cost 2022 (\$)	Expected Life	End of Life
District Office	1960	5,060,000	80	2040
Town Hall	1960	4,610,000	85	2045
Concert Chamber	1953	1,540,000	85	2040
Library/Museum	1953-2008	2,360,000	85	2040
Tarawera Park Amenity Building	1985	1,380,000	75	2060
Recreation Centre	1969-1999	6,950,000	70	2040
Swimming Pool (Buildings)	1970-2023	3,263,000	50-75	2035-75
Building	Year Built	Gross Replacement Cost 2022 (\$)	Expected Life	End of Life
Depot	1955-60	1,324,000	70-75	2030
Pensioner Housing/BH Hall	1965-1984	4,475,000	70-90	2055
Museum/Archives Building (16-18 Jellicoe Court)	1955	880,000	95	2050

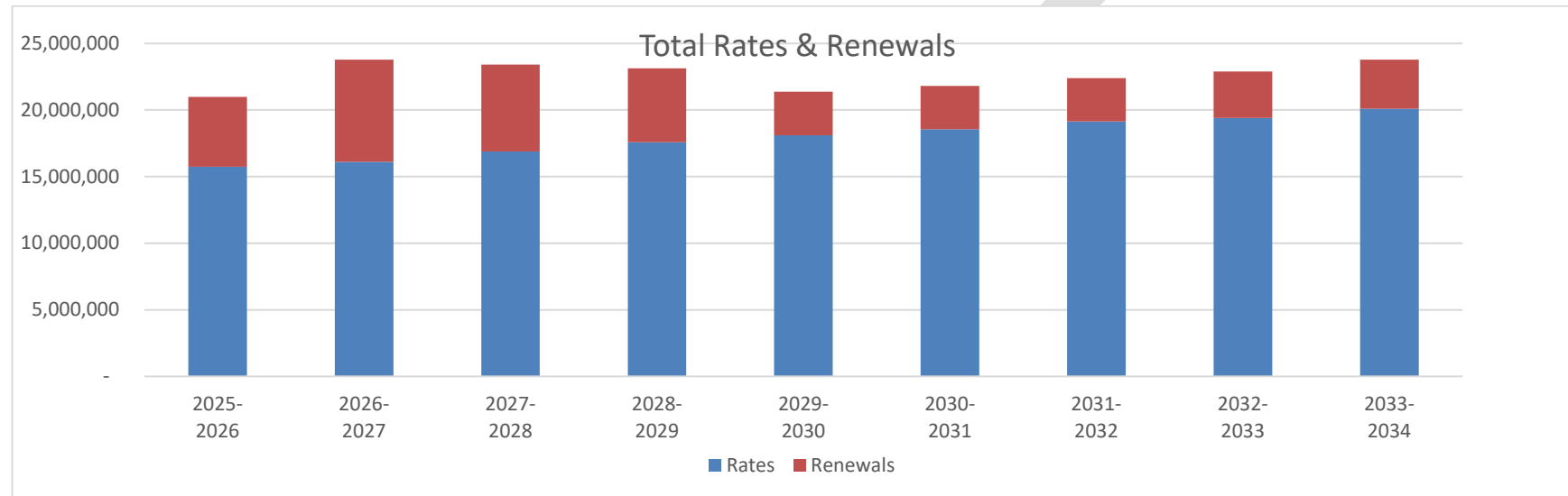
**Table: Budgeted non-funded depreciation by Activity**

Asset	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Economic Development	\$216,980	\$214,960	\$229,970	\$227,890	\$225,790	\$238,690	\$236,540	\$234,380	\$246,860
Roading *	\$978,420	\$974,380	\$1,054,760	\$1,049,950	\$1,044,800	\$1,119,530	\$1,113,630	\$1,107,430	\$1,178,530
Stormwater	\$192,000	\$144,000	\$104,950	\$90,950	\$80,460	\$75,620	\$64,280	\$52,930	\$44,600
Water	\$245,800	\$237,490	\$246,420	\$228,320	\$202,460	\$192,390	\$163,850	\$135,480	\$114,840
Wastewater	\$234,500	\$214,400	\$215,140	\$192,880	\$170,630	\$161,840	\$137,560	\$113,290	\$95,850
Solid Waste	\$6,200	\$5,660	\$5,680	\$5,100	\$4,500	\$4,280	\$3,640	\$2,990	\$2,530
Leisure & Recreation	\$210,410	\$187,600	\$186,440	\$170,460	\$159,680	\$155,440	\$143,620	\$131,440	\$124,700
<b>Total</b>	<b>\$2,084,310</b>	<b>\$1,978,490</b>	<b>\$2,043,360</b>	<b>\$1,965,550</b>	<b>\$1,888,320</b>	<b>\$1,947,790</b>	<b>\$1,863,120</b>	<b>\$1,777,930</b>	<b>\$1,807,910</b>

\* Subsidised roading with 75% subsidy is not fully funded.

The following graph shows the trend for rates and asset renewal expenditure which are the key financial aspects of this plan. Inflationary figures have been provided by BERL. See significant forecasting assumptions, which are included in all figures in the Long Term Plan.

### ***Projected rates and asset renewals 2025 – 2034***



Council is forecasting its operating expenditure to increase from \$21,069,520 to \$25,840,040 between 2025 and June 2034. These increases are as a result of:

#### **Price increases**

Inflation and the factors that influence inflation will increase the cost of doing business.

#### **Depreciation and interest payments**

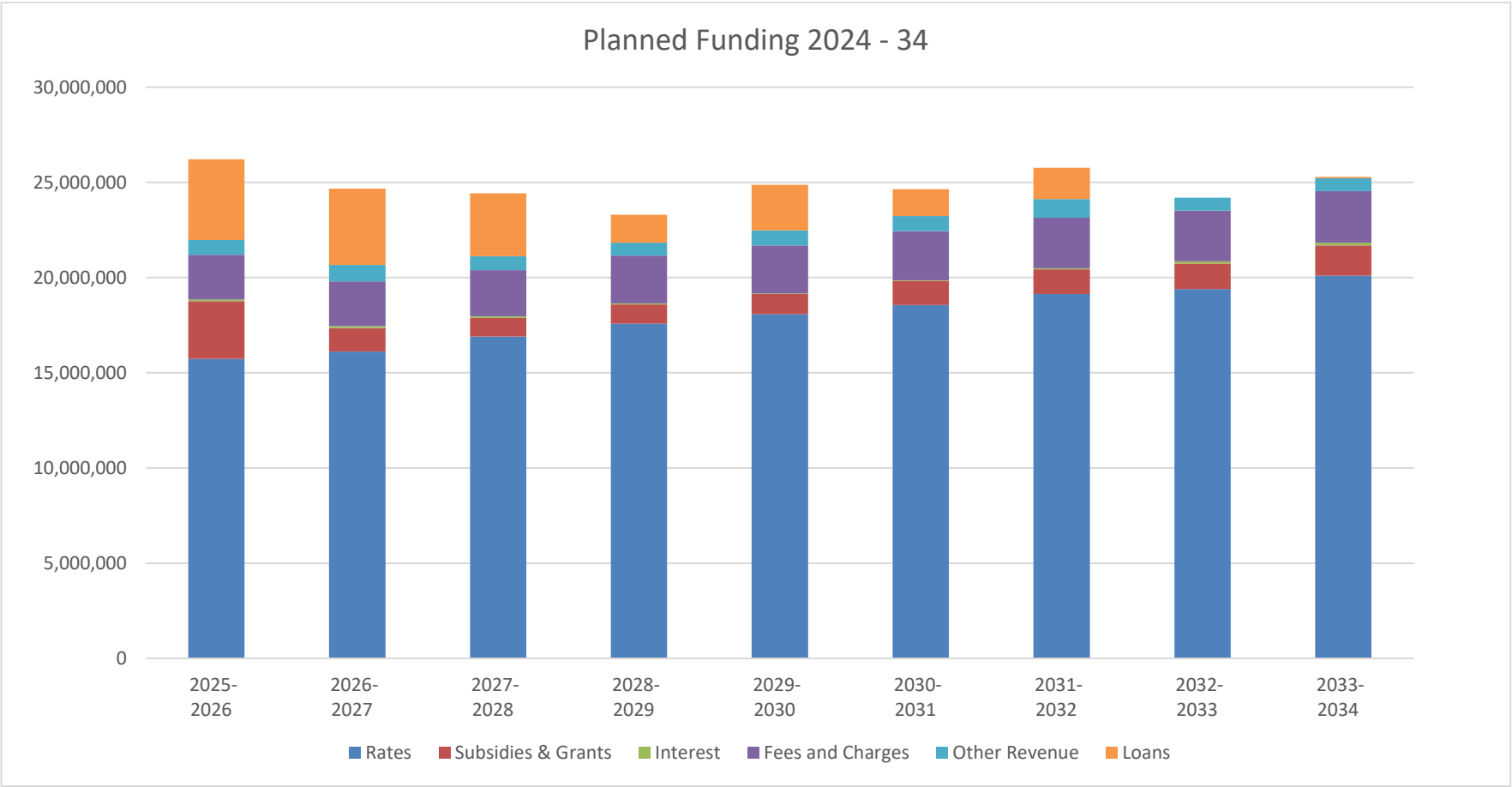
The increased capital expenditure programme means corresponding increases in costs in these areas, especially as Council will be borrowing an additional \$6.0 million over the next nine years

#### **Service level increases**

There are no increases in the levels of service for activities.

Council has adopted strategies to ensure that over the period of the Long Term Plan, Council continues to be financially sustainable.

***Planned funding for 2025 - 2034***



## Rates and Rates Increase

The Long Term Plan includes a rates increase of 8.5 percent for 2025/26 and between 1.4 and 4.9 percent for each of the following eight years. Contributing to the increase in the next three years in particular is the increased debt servicing costs for the loan funded water reticulation renewals. Council has endeavoured to keep rates increases to affordable levels over the period, while also ensuring its costs are funded and finances are prudently managed.

Council charges a general rate to every rateable property and a Uniform Annual General Charge to every separately used or inhabited part of a property. The general rate charge is different for residential and commercial/industrial properties. This recognises the different levels of services provided to the two categories of property.

Council also charges targeted rates for the following services:

- Water supply
- Wastewater disposal
- Refuse collection

The rateable values of all properties in the district are reviewed three-yearly. The last revaluation was conducted in August 2024, and the next will be in 2027. After the next district revaluation Council will undertake a full review of its rating policy to ensure that the rates charged to individual properties are fair and reasonable.

While there is still uncertainty regarding the delivery and funding of water, wastewater and stormwater (three waters) with the new Local Water Done Well legislation, these activities are included in the Long Term Plan as Council delivered services. The Long Term Plan also accounts for a gradual increase in targeted rates for water and wastewater, while reducing the levels of the general rate that fund these waters activities. The Local Water Done Well legislation requires ring-fencing and transparency with regards to all three waters expenditure and revenue.

## What is a Reasonable Level of Rates?

When setting rates, Council must consider what is affordable for both Council and the community. Council also needs to take into account the range of services that are delivered and whether the costs should be paid for by current or future ratepayers (referred to as 'intergenerational equity'). This is particularly important given that many of Council assets have long service lives and provide benefits over a long period of time.

In assessing the appropriate level of funding, Council has to consider the following:

- Are there sufficient revenues to cover all expenses?
- Is revenue set at a level that will enable Council to undertake an ongoing asset renewal and replacement programme?
- Are rates and fees affordable for the community?
- Have the needs of current and future ratepayers been considered?
- And finally, does Council have a balanced budget overall?

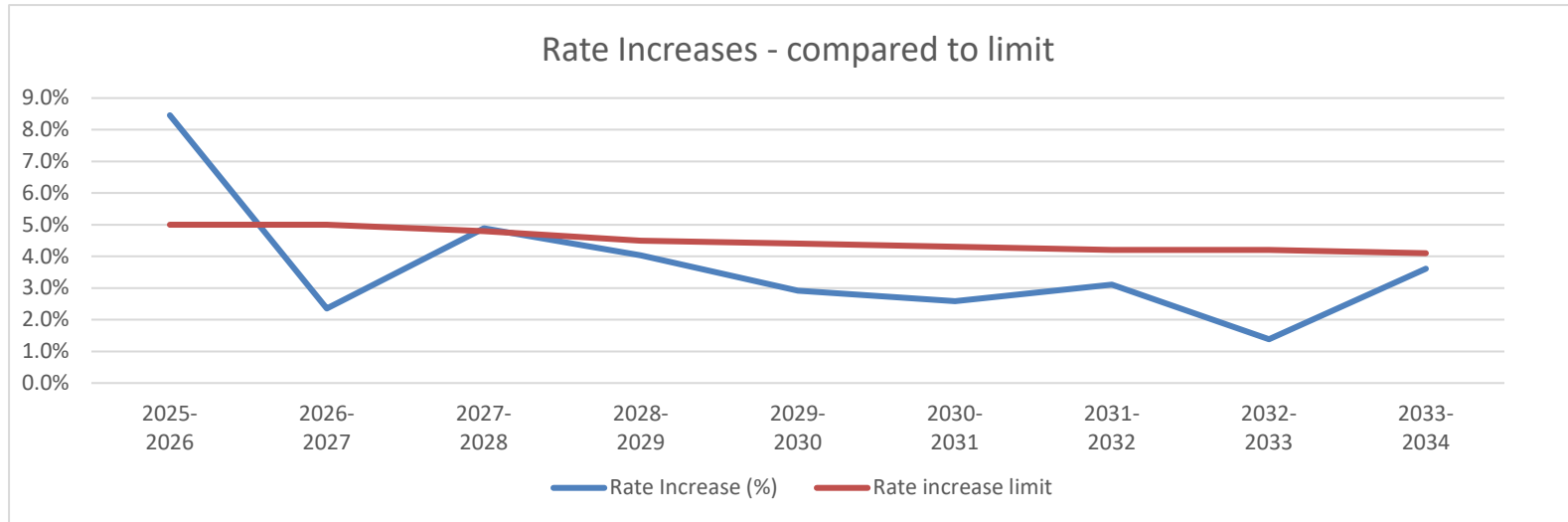
After taking the above factors into consideration, Council has determined the quantum of rates for the next nine years. The increases are between 1.4 to 8.5 percent.

Council has set the following limits for rates for the period of the Long Term Plan:

1. Total rates will not exceed 88 percent of total budgeted revenue.
2. The total rate increase (excluding rates penalties) in any one year will not exceed the underlying rate of inflation for Council costs plus 2 percent.

The table below shows the budgeted rates increases for the next nine years. While the rate increase for 2025/26 is 8.5%, the rate increases for the following 8 years are either below or close to the rate increase limit. Council believes that these rate increases are affordable for the community.

### Rate increases for next nine years (compared to limit)



### 2025/26 Rates charges

<b>CV = \$435,000*</b>	<b>\$</b>
UAGC	900
General Rate	2,124
Water Supply	130
Wastewater Charge	219
Refuse	302
<b>Total</b>	<b>3,675</b>

\*2024 Valuation

### Contribution to Council activities

<b>Activity Group</b>	<b>\$</b>
Democracy	202
Economic Development	245
Environmental Services	293
Roading	263
Stormwater	27
Water Supply	463
Wastewater & Solid Waste	1,151
Leisure & Recreation	1,020
Vandalism & Graffiti	11
<b>Total</b>	<b>3,675</b>



## Debt and Issuing Securities

As at 30 June 2025, Council will have loans totalling \$6.0 million (for water pipe renewal) as well as finance leases for funding the office telephones and photocopiers. Council also has internal loans, funded from depreciation reserves, which totals approximately \$1.5 million. The interest rate for the internal loans is determined annually based on investment rates.

Council is intending to borrow a further \$6.0 million over the next three years to complete the replacement water pipes which began in 2022.

Council's limit on borrowings for the period of this Long Term Plan is "total debt won't exceed 50% of Council's fixed assets or that the interest expense won't exceed 10% of total annual revenue". Council's projected borrowing is well within these limits. The security for any external loan raised will be over future rates.

## Financial and Equity Security Investments

It is anticipated that at 30 June 2025, Council will have cash totalling \$3.5 million (including short term deposits). These funds are both general funds and depreciation reserves which will be used to fund programmed asset renewal. These assets are critical to enabling Council to continue to provide current levels of service.

Interest earned on invested depreciation reserves is credited to the depreciation reserve account, so that sufficient funds are available when the assets require renewing.

Council also invests surplus general funds at various times throughout the year. The interest earned is used to reduce the amount required for rates. Council has budgeted to earn \$85k in interest for 2025/26.

Council invests funds in accordance with its investment policy. This stipulates where funds can be invested and limits the amount which can be invested in a single institution. The anticipated average return is 2.28% per annum, over the nine years, ranging from 1.9% to 2.7%.

Council also holds equity securities in Civic Assurance (31,161 shares) and BOPLASS Ltd (5,091 shares). The reasons for holding shares in these organisations are to allow Council to participate in their operation and to benefit from the advantages of being a shareholder. Also, Council will have \$200k in bonds at 30 June 2025 which is required when borrowing funds from LGFA. Interest is earned from these funds and Council is anticipating it will invest a further \$400k in bonds over the next nine years.

## Operating Expenditure

Operating expenditure covers Council's day-to-day services and operations, from collecting rubbish and providing street lighting to maintaining gardens and issuing building consents. The majority of operating expenditure is used for roading, followed by parks and reserves, wastewater and water.

## Capital Expenditure

Capital expenditure can be categorised into two categories, renewals being replacement of existing assets and new assets being a service improvement or additional for growth. The key priority in this financial strategy is on renewals, as Council has additional infrastructure capacity within current infrastructure.

Council at 30 June 2024 had non-current assets worth \$111.8 million. It plans during the next nine years to undertake renewals of \$41.9 million. Asset management plans are in place for each asset category. These are key planning tools to ensure maintenance and future renewals are done to meet required levels of service. The Long Term Plan identifies how the planned expenditure will be met.

Council's asset renewal programme assumes that all projects will be completed in the scheduled year. However, a number of factors can cause delays. Renewals that are delayed in one year will be completed in the following year.



Asset renewals are generally funded from depreciation reserves or loans. The depreciation reserves are set at a level to ensure they are adequate for the purpose. This is an important inter-generational issue. Given that both current and future ratepayers benefit from the use of an asset, both should therefore contribute toward the cost of its renewal.

The continuation of the water pipe replacement programme (a further \$9.4 million over the next four years) will be funded from external loans and depreciation reserves. The loans will be repaid over the life of the assets thereby ensuring there is intergenerational equity.

Most roading renewal expenditure receives a New Zealand Transport Agency subsidy. The subsidy rate is 75 percent for the Long Term Plan period 2025 to 2034.

Council has not budgeted for any significant capital projects to provide increased levels of service or catering for growth apart from the development and sale of Council land, particularly the Stoneham Park subdivision. The district has excess capacity in its infrastructure which can accommodate at least the projected level of growth over the next nine years.

Council has asset management plans for: roading, water supply, stormwater and wastewater. Condition assessments have been conducted for these activities.

### Asset expenditure by activity group

Year	2025/26 \$	2026/27 \$	2027/28 \$	2028/29 \$	2029/30 \$	2030/31 \$	2031/32 \$	2032/33 \$	2033/34 \$
Economic Development	42,300	12,560	12,910	13,230	13,550	13,840	14,140	14,430	14,710
Roading	543,180	555,030	763,620	774,810	780,520	1,051,210	1,062,620	1,068,220	1,367,310
Stormwater	0	0	0	0	0	0	0	0	0
Water	2,228,840	*3,985,550	2,798,410	2,842,120	211,490	183,110	187,950	386,120	197,170
Waste Management	1,742,400	1,973,790	1,814,150	1,382,680	1,682,030	1,324,710	1,381,410	1,439,050	1,570,250
Leisure & Recreation	392,690	409,280	358,720	232,700	264,430	290,320	295,730	308,190	245,290
Overheads	101,450	552,850	558,700	118,240	91,760	58,100	59,300	60,500	130,840
Plant	157,490	136,280	160,940	139,060	183,020	285,110	204,250	169,180	111,240
Buildings	39,240	41,810	39,360	52,510	45,040	44,430	43,140	48,020	44,940
<b>Total</b>	<b>5,247,590</b>	<b>7,667,150</b>	<b>6,506,810</b>	<b>5,555,350</b>	<b>3,271,840</b>	<b>3,250,830</b>	<b>3,248,540</b>	<b>3,493,710</b>	<b>3,681,750</b>

\*Includes \$1,072,400 for improvement to water supply

## Uncertainty and Risk

In preparing the Long Term Plan 2025-2034 there are forecasting assumptions made, which are detailed under the Significant Forecasting assumptions section of the Long Term Plan. It is important to read these assumptions in conjunction with the financial strategy.

A particular area of uncertainty is with regards to Local Water Done Well and impacts of the legislative changes regarding water services delivery. The Long Term Plan has been prepared on the basis of Council delivering water services through an in-house business unit.

## Changes from LTP 2021 - 2031

There are no significant changes to this Long Term Plan when compared to the Plan for 2021 – 2031.

Other changes made, relate to estimates and assumptions based on revised data. Council has planned for a gradual increase in the targeted rates for water and wastewater services. Also, a 3% increase in the funding of depreciation for Strategic Assets is planned for each year of the LTP.