LONG TERM PLAN

Financial Strategy
2024-2034

WAIMAKARIRI DISTRICT COUNCIL

FINANCIAL STRATEGY

Introduction

This Financial Strategy outlines the key financial parameters and limits within which the Council will operate over the next ten years. It also provides a guide against which proposals for expenditure and funding may be considered, and gives a context for public disclosure of the overall effect of long term expenditure proposals on levels of service, rates, debt and investments.

Factors that will have a significant impact on the work programme and rating levels from 2024 to 2034 are set out in this Financial Strategy. An overview of key issues relating to each group of activities is described in this Long Term Plan (LTP) under each activity. The Council Infrastructure Strategy for the next 30 years to 2054 is also provided as a supplementary document to this LTP.

As identified in both the 2018–2028 and 2021–2031 Financial Strategy, the rating requirements over the next ten years are again influenced by both the consequences of recovering from the Canterbury earthquakes of 2010 and 2011, continuous population growth and demand for improved levels of service.

The regeneration programme has evolved from the earthquake recovery programme. The need to provide for growth is once again a significant factor over the next ten years as the District is expected to continue to be attractive for residential settlement and business investment. The following twenty years from 2035 to 2055 is also based on the assumption that there will be on-going growth and demand placed on Council's infrastructure and this is reflected in the 30 Year Infrastructure Strategy. The Infrastructure Strategy shows that the vast majority of the Council infrastructure is not due for renewal until nearer the end of the 21st century.

The Asset Management Plans and the 30 Year Infrastructure Strategy underpin the Financial Strategy. These documents have identified the on-going Levels of Service expectations that have been agreed with the community, any upgrades necessary to support infrastructure resilience or required by national standards (such as drinking water quality standards), any improvements to current levels of services and the extent of community infrastructure needed to accommodate growth.

Strategic objectives

This financial strategy is aimed at responding to the needs of the community in an affordable way, while funding long term projects so that future generations, who benefit from community infrastructure, pay their share. As the District's population grows, the demands for increased levels of service grow, as do the requirements of national standards. In recent times, the frequency of climate change related events has increased, as has the level of service expectations in response to these events. These cost drivers have a constant pressure on rates to fund these requirements. It is expected that net debt will continue to grow relative to growth, as the Council will be required to fund asset renewals to maintain levels of service, cater for growth, respond to community expectations, and meet the requirements of national standards. The key components of Council's strategic direction are:

- Restrict operating expenditure movements to the rate of Local Government Cost Inflation (LGCI), excluding catering for population growth and improved levels of service;
- To continue to progressively fund the cost of reinstating of the Council's community assets relating to the 2010 and 2011 earthquakes at levels that keep rates increases to a minimum and affordable;
- Maintain debt within policy limits, while maintaining headroom to recover from a significant natural disaster;
- Maintain the current prudent financial management while still providing high quality levels of service to both current and future generations.

Significant factors that have been considered within the Financial Strategy

Canterbury earthquakes

The financial effect of the Canterbury earthquakes and the associated rebuild programme are provided for in the LTP. Even though the majority of the earthquake reinstatement works have been completed, the repayment of the loans have been smoothed over 30 years in recognition that future generations will benefit from the reinstatement works and the red zone regeneration programme. Rates to fund the earthquake recovery are approximately 4.0% of total rates. To minimise the impact on rates increases, the rate is progressively increased by about 0.3% on total rates per annum in order to fund this expenditure. Since Covid-19, to keep rates lower, the amount progressively funded has been reduced slightly and funded over a slightly longer term and take into account the regeneration programme from earthquakes and Covid-19.

In 2012 the Council decided to reinstate a number of community facilities that had been damaged by the earthquakes including refurbishing the Rangiora and Oxford town halls, the Kaiapoi aquatic centre, and a complete rebuild of the Kaiapoi library and service centre.

Although some of the costs of these reinstatement works were met from insurance, other components of these costs were met from borrowing, and the ongoing servicing of these loans are also forecast to be met from rates throughout 2024-2034 LTP.

Growth

The estimated population of the District is expected to increase from 70,900 in 2024 to 83,275 people in 2034. The number of rateable properties in 2024 of 27,550 is forecast to increase to 32,500 properties by 2034.

The District is well placed to cope with growth over this period with upgrades to community water supplies complete across the District, sufficient zoned land for residential subdivision and planned roading upgrades during this LTP period. Most of the population growth over the next ten years is expected to be in the north-eastern area of the District.

Sufficient zoned land is included in the District Plan to accommodate the expected growth. This is further detailed in the 30 Year Infrastructure Strategy.

The model indicates that if growth varied each year over a ten year period by 1% to the growth forecast in the Long Term Plan for any unforeseen event, the effect in dollar terms in 2023/34 is about $40 to the average rateable property.

Significant current and future programmes

Natural Environment Strategy

With the constant changes in our natural environment and impacts of Climate Change, the Council has implemented a strategy that prioritises local responses that prioritise environmental health with action focused on Council owned land. This includes planting and developing more reserves in the District, enhancing the accessibility of natural environments by providing physical access and toilets and providing rangers to work with community groups, plant reserves and carry out pest and weed management. The $4.1m is allocated in the LTP over the 10 years, with approximately $8 impact to the average rateable property.

Community facilities

Our community is expected to grow by approximately 30,000 new residents by 2050. In order for our facilities to meet the needs of this future growth, $5.6m has been provided for over the next 10 years in the LTP to complete the development to the Southbrook Sports Club and Mainpower Oval and completion of the Community Facilities Network Plan.

The average rating impact over the 10 years is $7, and this is spread over a number of years.

Rangiora Library and Civic Centre

The District's growing population has put pressure on the available space at Rangiora Library, and provision of library services and collections. In the 2021-31 LTP the Council put aside funding to expand and upgrade the Trevor Inch Memorial Library and Rangiora Civic Building.

The LTP includes $21.4m for the extension of these facilities, and the rating effect is being managed by spreading the Council's funding costs out over a number of years and to match more closely the costs/benefits.

Flood infrastructure and resilience

In July 2023, the District experienced another significant rainfall event in which the Council received over 335 requests for service from affected residents. In July 2022, a more severe series of rainfall events resulted in over 800 requests.

The LTP includes the establishment of a permanent Infrastructure Resilience Team and Flood Recovery and Resilience Fund to address the recovery work required, as well as focus on implementing risk and resilience improvement projects and improving the Council's and community's readiness and preparedness for future events.

There has been $25.4m is allocated in the LTP over the 10 years, with approximately $42 impact to the average rateable property. The funding strategy is to fund the loan costs progressively over 10 years for the majority of the investment with the remainder rates funded over the 10 years in the LTP.

Rangiora Eastern Link

To help reduce the congestion as a result, the growth in Rangiora, the LTP includes $37.9m for the Eastern Link Road going east of Southbrook, providing another link to State Highway 1.

The average cost to each rateable property approximately $15.

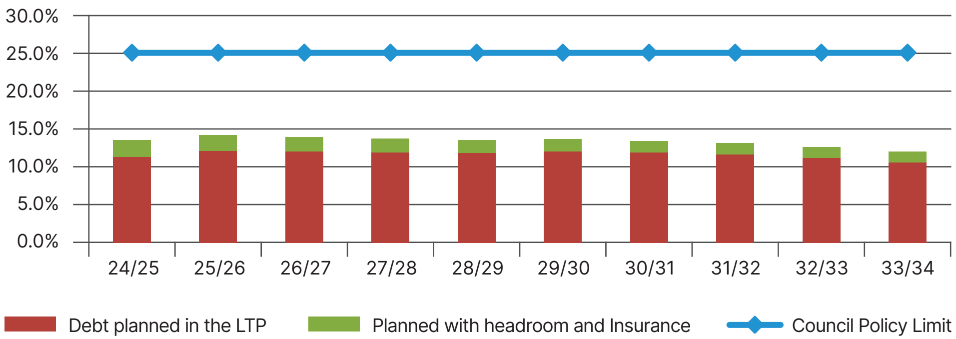
Budget provision to recover from another major natural disaster

Council has developed a Risk Assessment and Financing Strategy that considers the likelihood and severity of major natural disasters, and to assess how they would impact on Council's operations, and financial capacity to cope during the recovery phase. Council maintains borrowing "head-room" of up to $48m with insurance being available in the LTP, allowing for its share of funding of the estimated damage and repair cost of $315m in the event of a "worst credible disaster scenario" following a major event. This is not proposed expenditure for 2024 to 2054, but provision for borrowing capacity in the event of a worst case natural disaster in this time period. Although debt comes close to the self-imposed limits during three of the first six years of the LTP, the repayment programme in place brings debts well within the limits in later years.

Should a disaster occur the Council has the ability to cancel and postpone programmes and still be within policy limits.

Debt Comparison to Policy Limits

Table 1: Interest cost on debt as a percentage of rates revenue



Price level adjustment for inflation

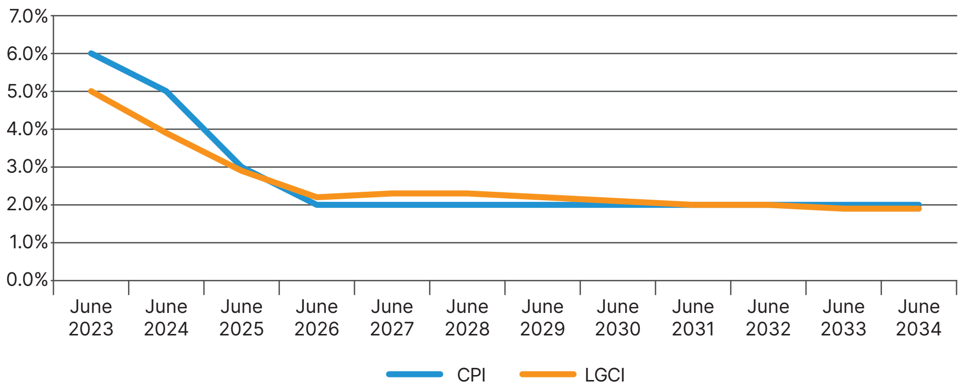
This Long Term Plan is adjusted for expected price movements over the next ten years. The price level adjustors have been derived from those recommended to local government from Business and Economic Research Limited (BERL). Given the Long Term Plan is forecast over 10 years, applying price level adjustor provides for inflationary movements, from which the rates and other revenue movements are derived.

It should be noted that the Consumer Price Index (CPI) is not a particularly helpful indicator for local government inflationary costs because construction and infrastructure costs are not incorporated into household expenditure when calculating the CPI.

Inflation forecasts for Council's capital expenditure are expected to increase at a faster rate than salaries and wages and the CPI on average, and this will place greater pressure on Council's costs and rates in future years.

The BERL 10 year LGCI average price movement to June 2034 is 2.2% as compared with the overall Consumer Price Index (CPI) of 2.1%. The cumulative effect over the 10 years is that the LGCI will rise 24.1% compared to the CPI of 23.1%. For the three years prior to the 2024 – 2034 LTP, BERL CAPEX inflation rate increased 18%, which has been an impact to the projections in the previous LTP. This is primarily due to factors such as Covid, however operating costs were kept to the levels outlined in the budget in order to maintain current levels of service.

Table 2: Annual movement LGCI compared to the CPI



Balancing the Budget

It is expected that operating expenditure will increase from $157m in the 2023/24 financial year to $202m in the 2033/34 financial year. This increase is due to a larger population, the demands for increases in levels of service, and the price level adjustment (which accounts for $25m of the projected increase). The LGCI price level adjustment for inflation is the largest increase at 71% of the total increase in rates over the ten years.

The following graph displays the Council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment). The Council meets this benchmark if its revenue equals or is greater than its operating expenses. In the first four years, revenue is less is due to earthquake debt is being funded progressively and the other is in relation to the depreciation funding policy, where the depreciation is not fully funded due to the depreciation fund being able to be invested at higher rates than inflation over the life of the asset.

Table 3 Revenue as a percentage of Total Operating Expenditure

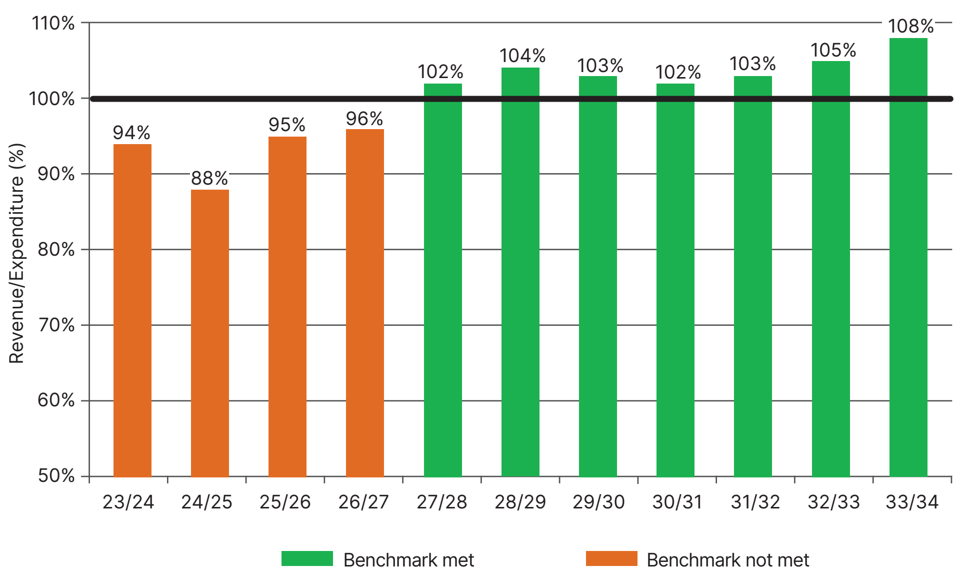


Table 4: Operating Expenditure

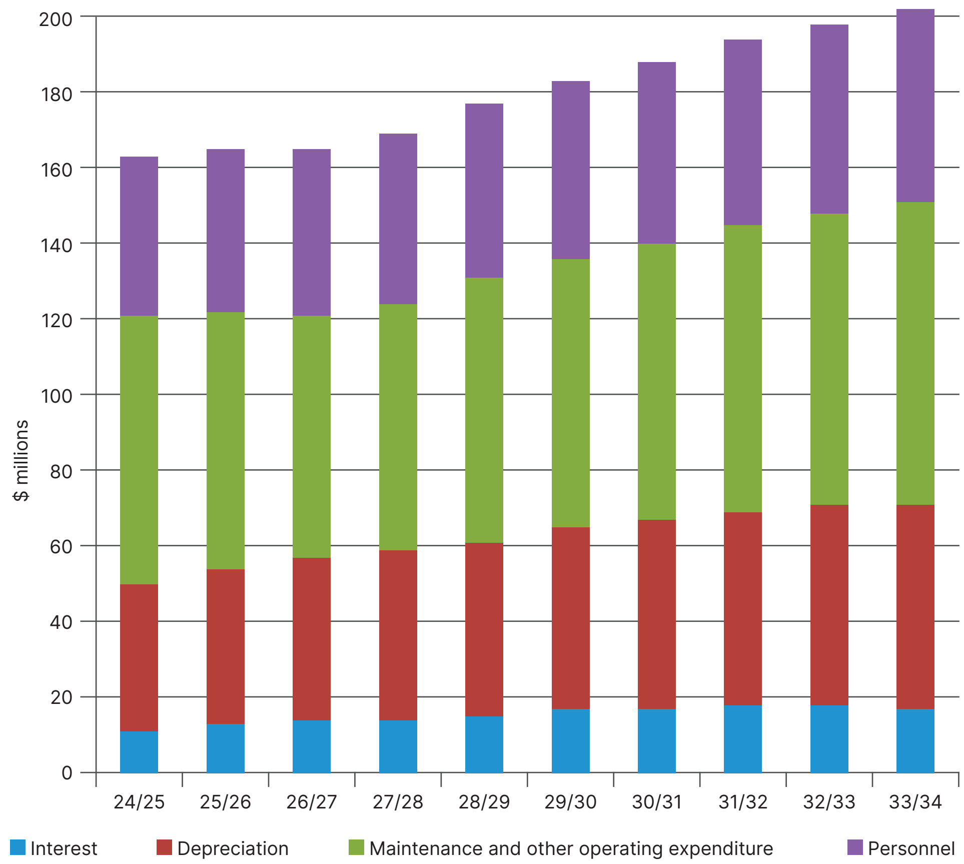
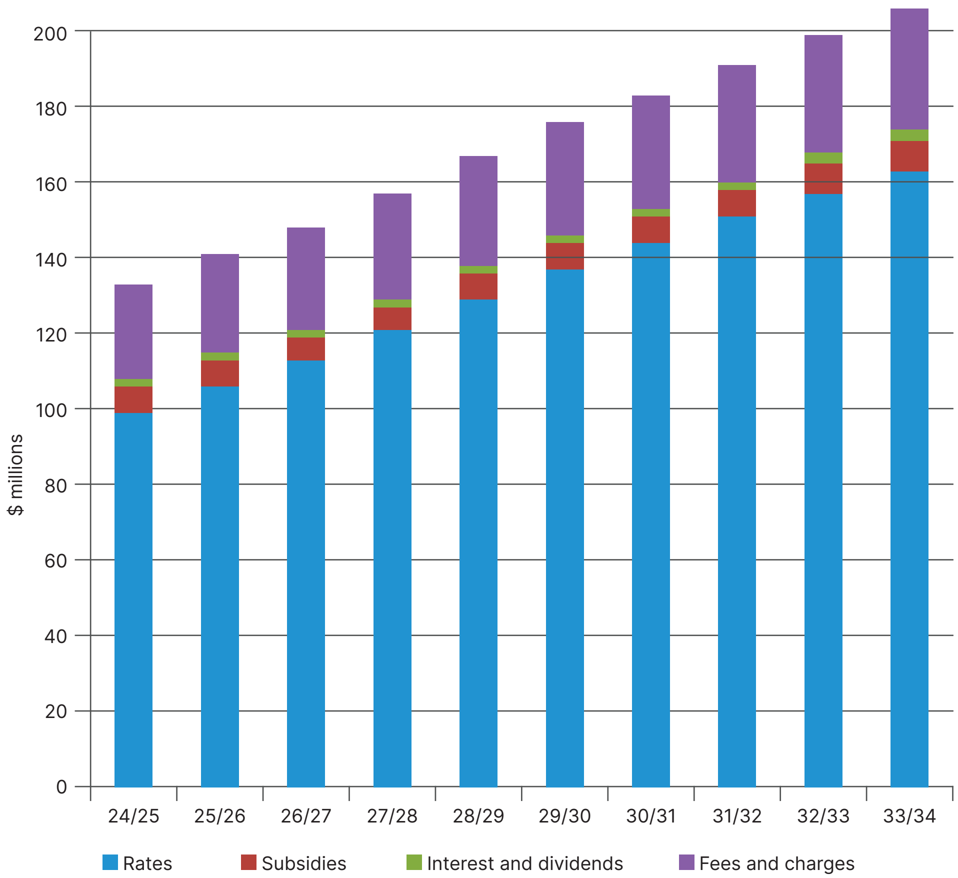


Table 5: Operating Revenue



Capital Expenditure Programme

In the previous 10 years forecast the Council has invested $529m into renewing, extending and improving core infrastructure. Within the next ten years of the LTP the Council is forecasting $734m investment into core infrastructure.

Renewal of Existing Infrastructure

$234m on replacement capital projects, 31% of which will be in the wastewater, stormwater and water supply areas, 47% on roading and 16% on Recreation, including Libraries and Aquatic facilities.

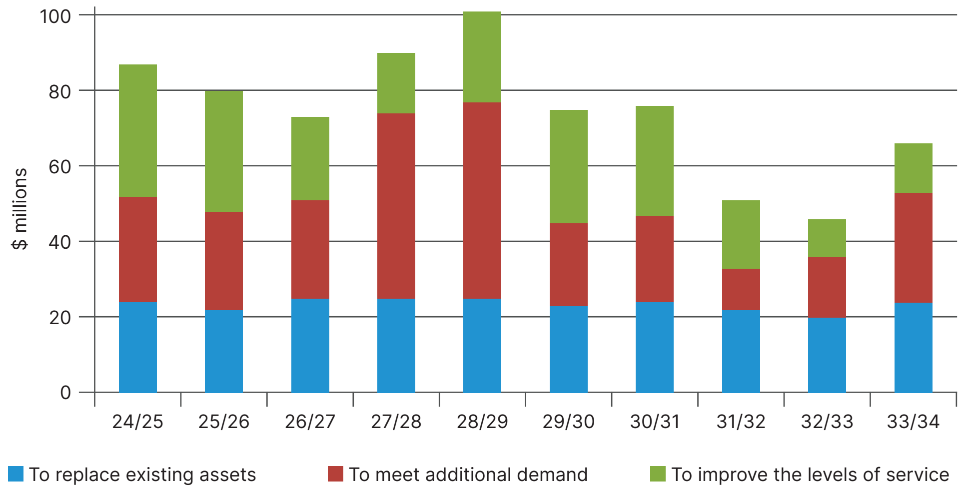
Improving Levels of Service

$218m on new Levels of service capital projects on meeting water quality standards, improving drainage, and other levels of service. 60% of which will be in the wastewater, stormwater and water supply areas, 22% on roading and 8% on Recreation, including Libraries and Aquatic facilities.

Additional Growth and Demand on Infrastructure

$282m on projects relating to growth, 32% of which will be in the wastewater, stormwater and water supply areas, 44% on roading and 19% on Recreation, including Libraries and Aquatic facilities.

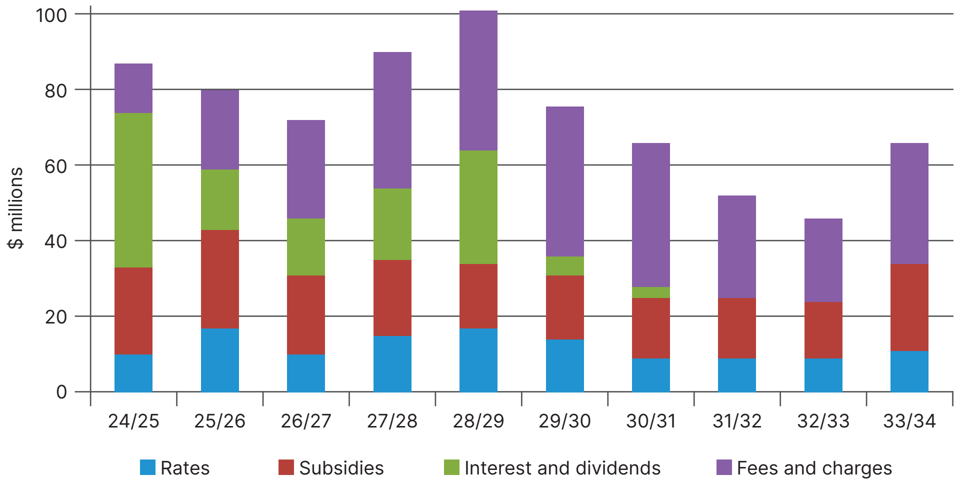
Table 6: Capital Expenditure over the 10 Years of the LTP



Capital Funding

The capital expenditure is to be funded from the following revenue source; Subsidies and grants $132m, Development Contributions $212m, Depreciation funding and reserves $298m, Debt funding $165m. Debt is used to fund any shortfall in funding.

Table 7: Capital Funding sources

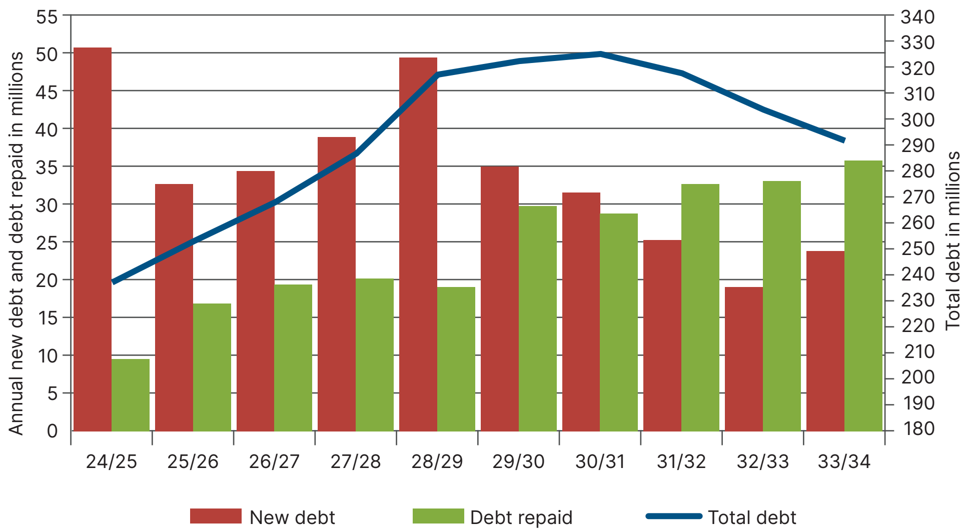


Debt Management

The Financial Trends section of this strategy provides the extent of capital works and the funding sources.

The Council Treasury Policy provides for risk management of its liabilities and investments. The Council generally raises and makes budgetary provisions within the LTP for the repayment of debt depending on the average weighted life of the assets up to 50 years. Although the Council will be raising new debt to fund the proposed capital programmes, over the next 10 years the Council is making provision within the LTP to repay $187m of debt raised. The maximum amount of debt that is maturing in any year can generally be no more than 33% of total debt. The following table shows the summary profile of total debt, new debt and the provision made for annual repayment of debt.

Table 8: Total Borrowing and Repayments



Debt outstanding over the ten years to 2033/34 will increase by $60m from $236m in June 2025 to $291m by June 2034. Debt is still within the self-imposed policy limits by Council, which includes sufficient headroom to fund a significant events such as an Alpine rapture. The worst case scenario of an additional $84m requirement is maintained lower than self-imposed limit over the ten years.

Security on Borrowing

The Council generally does not offer its assets as collateral on borrowing. Rather it secures its borrowing from the Local Government Funding Agency or its creditors with a charge over the Council's rates and rates revenue which means rates can be set to repay outstanding loans.

Depreciation Funding Policy

The Council's Depreciation Policy is to fund depreciation that provides for the replacement of the asset over the life of the assets.

The Waimakariri District has been experiencing consistent growth over the last 40 years and therefore has had significant community infrastructure vested into Council ownership over this time from developers. It is expected that another $170m of assets will be vested into Council ownership in the next 10 years of the LTP. Modelling of the infrastructure asset replacement cycle shows significant capital replacement expenditure beyond the mandatory 30 year infrastructure strategy period. The Council's depreciation policy was modified from 1 July 2015 to ensure funding provisions were being put aside to enable the long term renewals of assets. This policy takes into consideration the inflationary effect on the assets replacement cost and investment rate that is applied to any depreciation provisions that are invested. Replacement provisions are held in an interest earning special replacement purpose accounts to fund asset renewals in the future. Modelling has shown by adopting this approach, sufficient funds will be available to fund the renewal of assets.

Table 9: 150 Year Renewals Model (no adjustment for inflation)

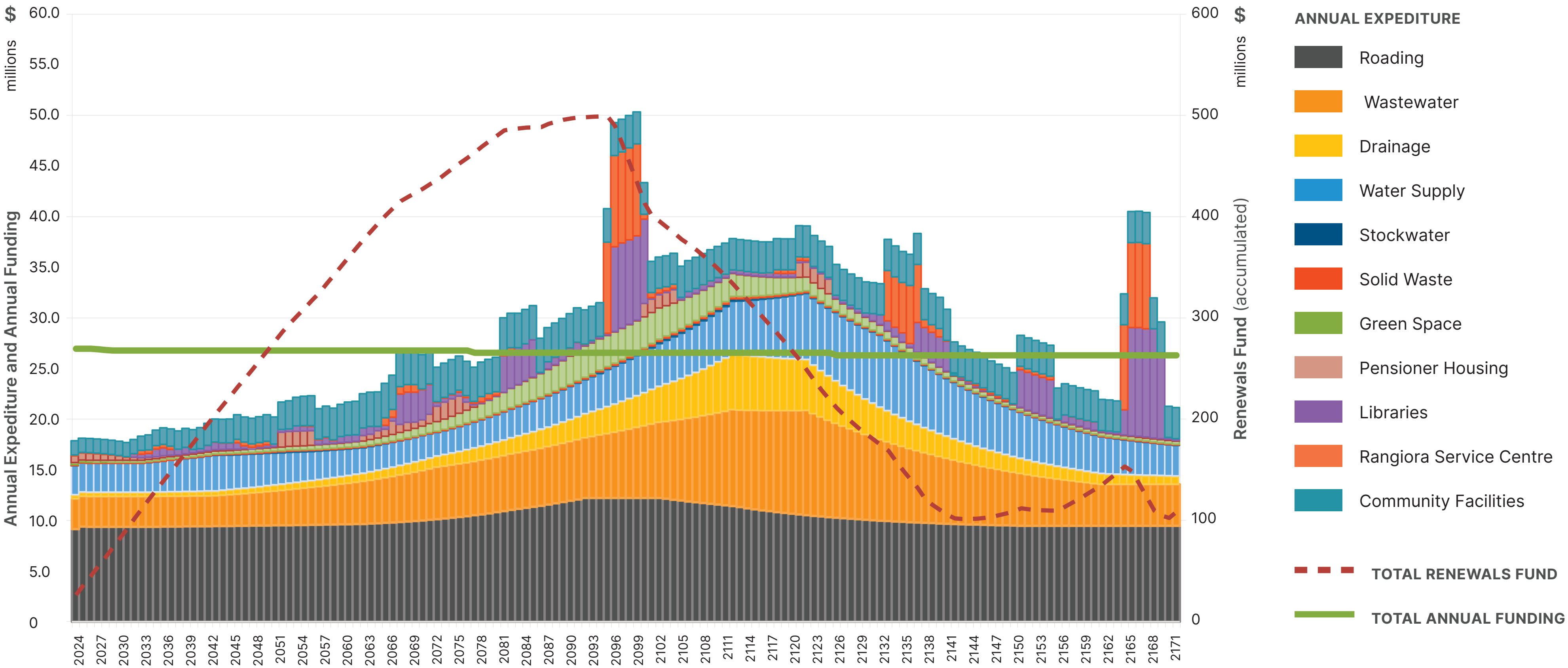


Table 9 identifies the significant renewal programme that starts impacting on work programmes in later years and depleting built up depreciation funding reserves. The renewal programme significantly accelerates from 2054. The graph demonstrates how the renewal programme is able to be financed from depreciation reserves, built up from early years. In non-inflated figures the reserve fund in the outer years from 2054 will be required to fund $25-$30m per annum of the replacement programme. At its lowest point the accumulated reserve fund will be about $26m. This graph displays the importance of establishing depreciation replacement funds now so that renewal programmes and current levels of service are still able to be provided and affordable for future generations.

The depreciation and renewals funding policy is an important part of the funding strategy for Council. Modelling of the effects of inflation on the replacement programme increases the non-inflated annual renewal cost from about $22m to $74m in year 2073 and in year 2171 reaches to over $919m. Holding and investing the renewal fund in restricted reserves allows for the affordable renewal of essential assets for both current and future generations.

Rate Movements

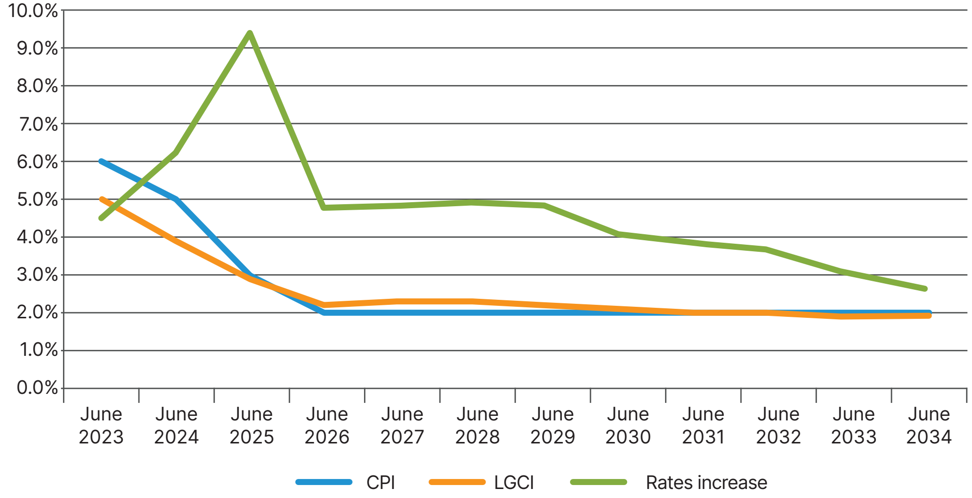
Rate movements have been affected by a number of factors. These are primarily due to the following:

- The impact of the Canterbury earthquakes, where the funding of the costs are being spread over 30 years and the repayment provision is progressively funded which adds about 0.3% to rates per annum over this period;
- Price level adjustments that are required to be accounted for in the forecast. Local Government New Zealand engaged BERL to provide these price level adjustments that are applied to the forecast budgets;
- Growth – while Development Contributions fund much of the growth, additional developed land and services need to be maintained and add to the Council's operational expenditure. The growth forecasts applied have been based on the medium to high forecasts provided by Statistics New Zealand;
- Level of service increases – for some services, such as a new library extension or for flood mitigation and resilience, a greater total rates take will be required to fund the debt and additional operating costs;
- Depreciation and interest payments – the significant capital investment post-earthquake means there is a corresponding increase in depreciation and interest;
- Depreciation Funding Policy takes into account the whole of life of all assets vested and commissioned by the Council. The amount of depreciation funded equates to the long term cost to replace the asset and investment rate that is applied to the depreciation fund invested;
- An element of rates "smoothing" has been used within the 2024-2034 LTP to progressively fund new levels of service over a number of years rather than whole cost impacting on rates in one year;
- The funding costs relating to the earthquakes of 2010 and 2011 and regeneration programme are being progressively rated for over the 2024-2034 LTP and have an effect on rates of about 0.3% (about $18) per annum.

Table 10 shows the overall rate movement that is expected over the next ten years of the LTP. In 2024/25 the average property rate is expected to increase 9.39%.

The following five years from 2025–2030 average rates increases are signalled to range between 4.0–5.3%. The remaining years of the ten year plan range between 2.7–3.6%

Table 10: Rates movements compared to the CPI and LGCI movements over the 10 years of the LTP



The average district wide rate is forecast to increase from $4,007 in the year 2024/25 to $5,780 over the next 10 years. Over the next ten years the $1,773 increase is rates is made up of the following: 51% LGCI inflation 49% other activities and changes in levels of service.

District–Wide and Targeted Rates

Council's rating strategy is provided in the Revenue and Financing Policy. Charges and rates are targeted where there is a close correlation between the level of service received and those that benefit or receive that service. Other services that do not have a close correlation are charged based on the property values and a uniform annual general charge (UAGC).

District-wide rates are those rates that are charged on all properties for district-wide services, including libraries, swimming pools and community facilities. Some differentials or targeted services may apply.

Targeted rates are used when the properties receiving the benefit of the service are charged for that service. For example, the District has 16 different community water supplies and Council has an ongoing program to ensure all community supplies comply with the Drinking Water Standards for New Zealand. Upgrades are made progressively and each upgrade impacts the rates on properties that receive the benefit of the upgrade. Accordingly a water rate for an Oxford property will be different to a Rangiora property as they are on separate schemes, where the costs are accounted for separately to the users.

Financial Position

Council's financial position is very sound, as supported by our Standard and Poor's AA credit rating that was reaffirmed in 2024. Since the 2010 and 2011 earthquakes the Council has had to borrow to fund its recover and regeneration programme, however amidst high levels of pre and post-earthquake growth has been able to sustain its levels of service and work programmes. Debt is being maintained within policy limits as identified Local Government (Financial Reporting Prudence) Regulations 2014.

The Long Term Plan provides for a programme that introduces further new levels of services, such as the Drainage Network Consent Implementation Works and Provision for Flood Response Works within the limits of the policy. In year 2034 the financial is forecast is to again be in a strong position, through applying good policy decisions and prudent financial management.

Equity Investments and Other Interests

The Council has equity investments in three companies and interests in four Trusts. The primary reason for holding equity in these entities are principally to achieve efficiency and community outcomes and not for financial return on investment.

Table 11: Council Shareholdings and Council Controlled Organisations

Company	Shareholding	Principal reason for Holding	Budgeted return
Transwaste Canterbury Limited	3.9%	Develop and operate the regional land facility at Kate Valley	$735,000 pa
Local Government Funding Agency	0.4%	Borrowing	Nil
Civic Assurance	0.8%	Insurance and risk management	Nil
Trusts	**Trustees appointed by Council**	**Principal reason for Holding**	**Budgeted return**
Te Kōhaka o Tūhaitara	50%	Environment and recreation	Nil
Enterprise North Canterbury	50%	Economic Development	Nil
Waimakariri Art Collection	33%	District Art	Nil
Waimakariri Public Arts	100%	District Art	Nil
Waimakariri Libraries	100%	District Libraries	Nil

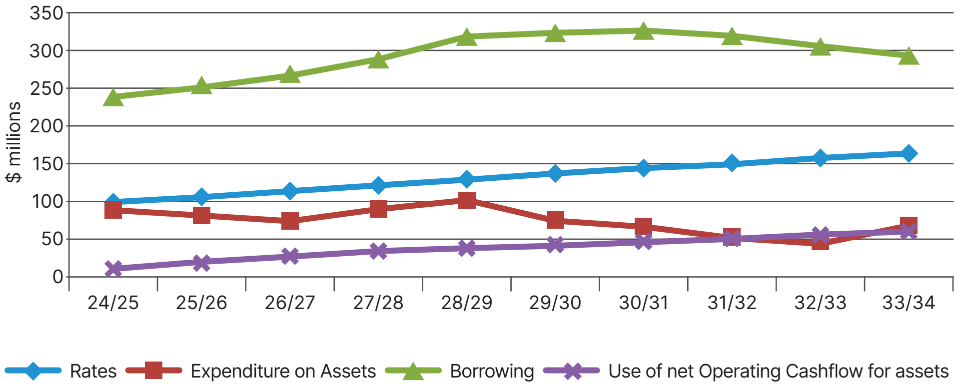
The Council has no plans to change its shareholdings.

APPENDIX TO FINANCIAL STRATEGY

Overall Financial Trends

This table shows the trends over the next 10 years for rates, borrowing and capital expenditure.

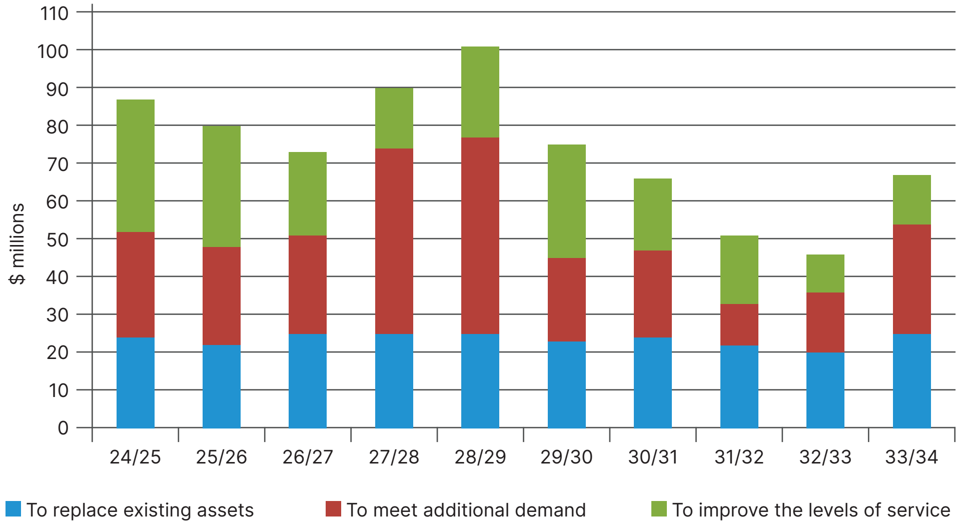
Table 1: Rates, Borrowing and Capital Expenditure



Capital Expenditure

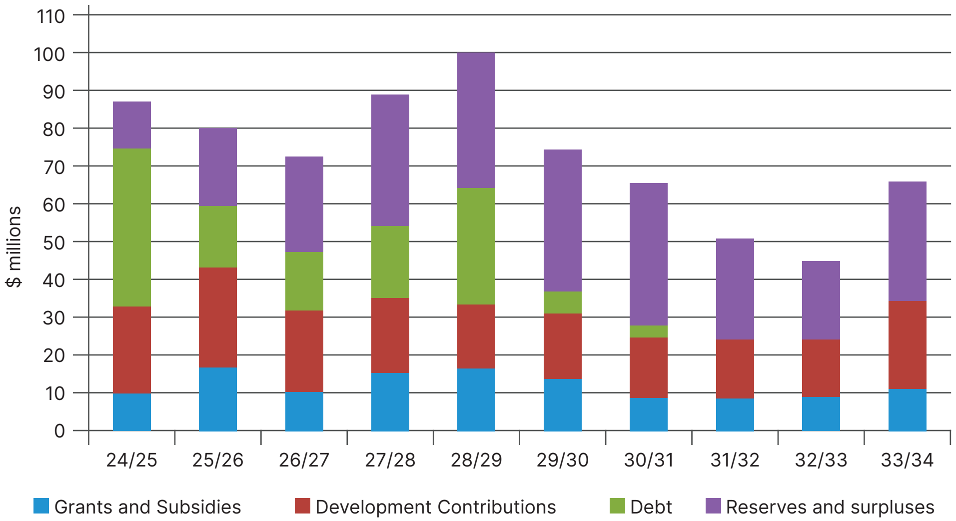
This table shows the amounts being spent on each capital expenditure category over the LTP.

Table 2: Spending on Assets by Category



Capital Funding Sources

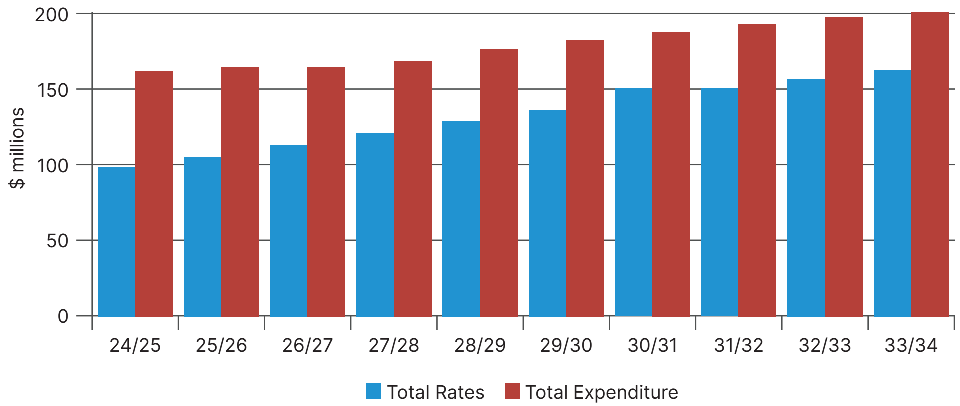
Table 3: Capital Funding sources



Operating Expenditure

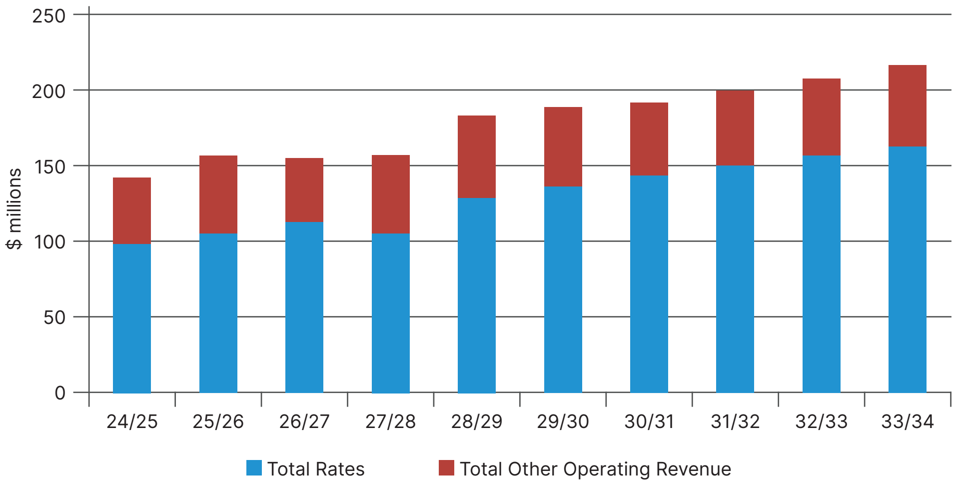
Operating expenditure will rise from $157m in 2023/24 to $202m in 2033/34.

Table 4: Total Rates and Operating Expenditure



Operating Revenues

Table 5: Total Rates and Other Operating Revenues



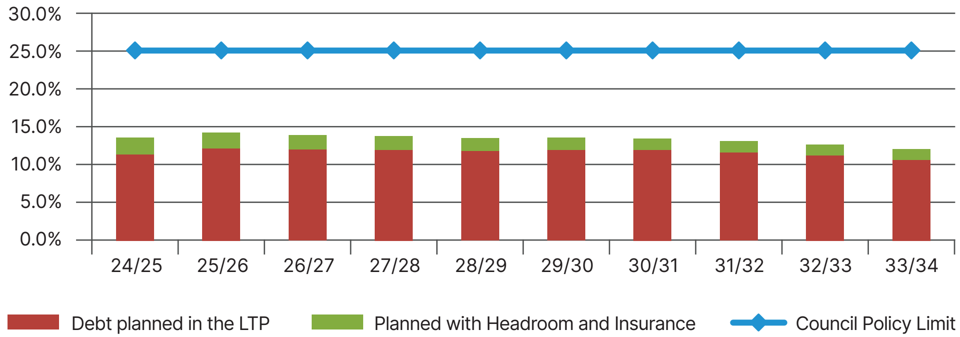
Debt Levels and Interest Costs

The following outlines Council's policy limits and shows that debt levels and interest costs are within the Council's policy limits.

Policy Limits

- Local Government Funding Agency (LGFA) Policy interest as a maximum of 25% of rates revenue.
- Net debt as a percentage of operating revenue will not exceed 250%.
- Gross interest paid will not exceed 15% of gross operating revenue.
- Net cash inflow from operating activities exceeds gross interest expense by two times.
- Net debt as a percentage of total assets will not exceed 15%.
- Liquidity ratio of greater than 110%.

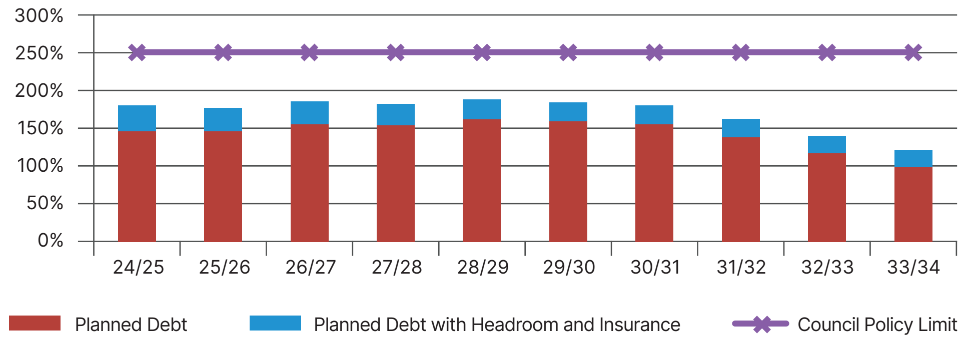
Table 6: Interest Cost on Debt to Rate Revenue



This table demonstrates that Council is operating well within the limits of the policy. As a member of the Local Government Funding Agency (LGFA), Council achieves a lower cost of funding debt than through conventional lending institutions.

Net debt is forecast to reach $209m in 2024/25 which is well within policy limits. Council adopts a long term approach when borrowing for long life assets of 25 years with an interest rate budgeted at 4.6%. If a better interest rate is able to be obtained, the savings are passed on in lower rating charges. Debt is forecast in 2034 to be $290m.

Table 7: Net Debt to Total Revenue Ratio



Benchmark Information

LTP Disclosure Statement for the Period Commencing 1 July 2024

The purpose of this statement is to disclose the Council's financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

The Council is required to include this statement in its LTP in accordance with the Local Government (Financial Reporting Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

Rates (increases) Affordability

The following graph compares the Council's planned rates increases with a quantified limit on rates increases included in the FS included in this LTP. The quantified limit is the Local Government Cost Index (LGCI) plus the rate effects from the earthquakes plus increases for higher levels of service.The following graph excludes the rating impact from optional waste bins.

Rates for the Ashley Water Supply are excluded from this benchmark, under a memorandum of understanding dated 10 May 2021, Hurunui District Council (HDC) set rates which is collected by WDC from 1 July 2021. WDC pays the full amount of rates to HDC. The water consumers in the area still deal with HDC for any operational issues with the water supply in accordance with the 1989 Local Government Reorganisation Order.

Table 8: Rates (increases) affordability

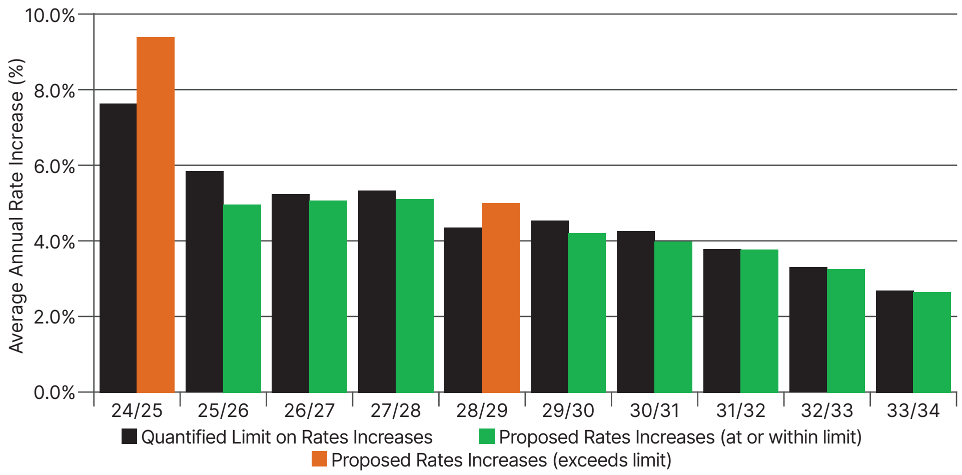


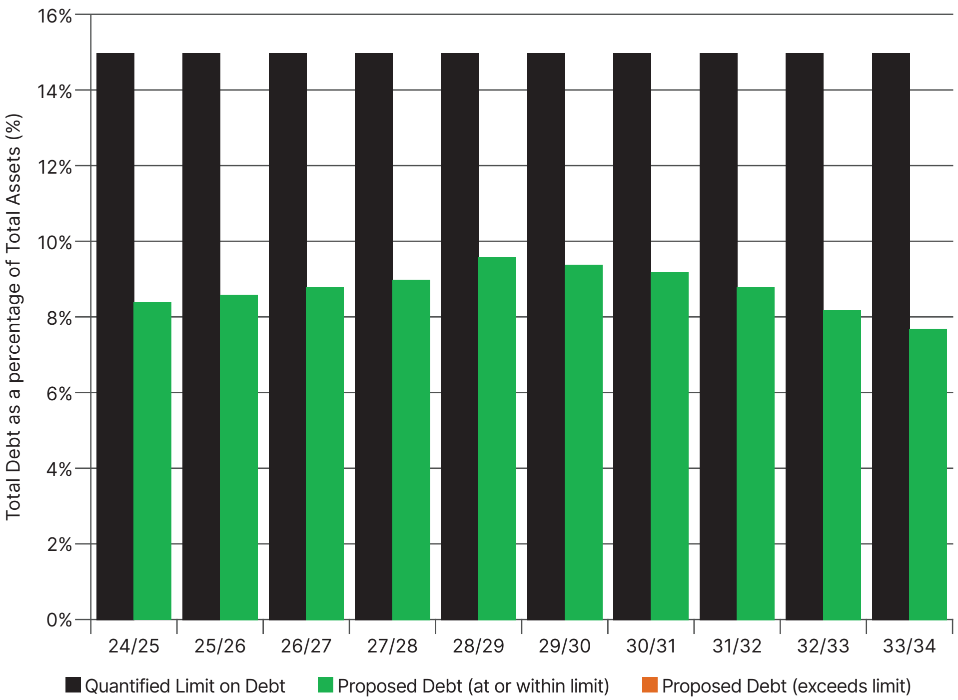
Table 8 shows that the rates increases for 2024/25 are over the quantified limit on rates increases, as Roading costs have increased 25% over the past 3 years. The Roading operational expenditure budgets have been updated for 2024/25 to maintain current levels of service.

Debt affordability

The quantified limit for the graph (Table 9) is total debt as a percentage of total assets will not exceed 15%.

The Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing. This graph compares the Council's proposed borrowing with a quantified limit on borrowing stated in the FS included in this LTP.

Table 9: Debt as a Percentage of Assets



Balanced budget benchmark

The following graph displays the Council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment). The Council meets this benchmark if its planned revenue equals or is greater than its planned operating expenses.

Table 10: Revenue to Operating Expenditure

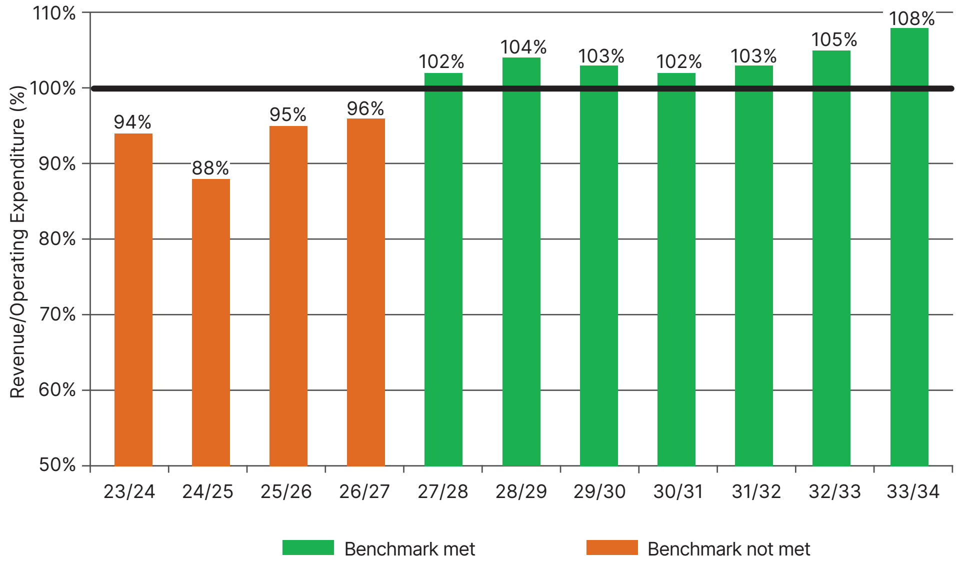


Table 10 shows that the Council is not meeting the benchmark of planned revenue being greater or equal to planned operating expenses in the first four years of the LTP. In the first four years, planned revenue is less than planned operating expenditure due to earthquake debt being funded progressively and the other is in relation to the depreciation funding policy, where the depreciation is not fully funded due to the depreciation fund being able to be invested at higher rates than inflation over the life of the asset.

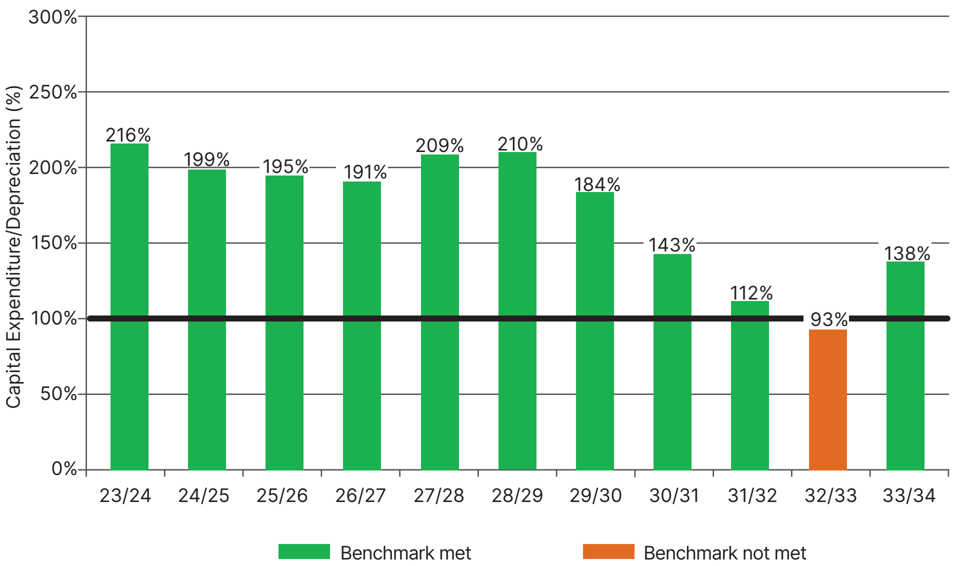
Essential services benchmark

The following graph displays the Council's planned capital expenditure on network services as a proportion of depreciation on network services.

The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.

Network services are classified as water supply, sewerage and the treatment and disposal of sewage, stormwater drainage, flood protection and control works and the provision of roads and footpaths.

Table 11: Essential Capital Expenditure as a Percentage to Depreciation

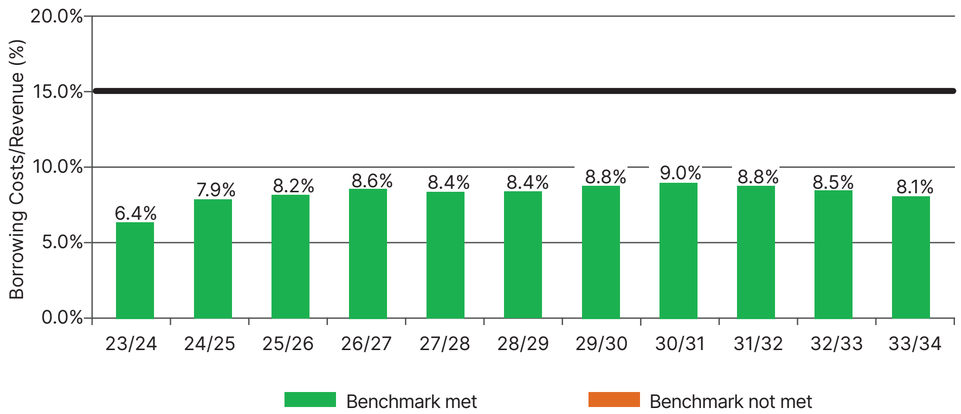


Capital expenditure meets the required benchmark over the LTP with the exception of 32/33 due to low expenditure during this period after critical projects are prioritised earlier in the LTP. Over the 10 year period as a whole we have achieved expenditure above the benchmark.

Debt servicing benchmark

The following graph displays the Council's planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment). Because Statistics New Zealand projects the Council's population will grow as fast as, or faster than, the national population growth rate, it meets the debt servicing benchmark if its borrowing costs equal or are less than 15% of its planned revenue.

Table 12: Interest on Borrowing as a Percentage of Revenue



Financial Strategy
2024-2034

WAIMAKARIRI
DISTRICT COUNCIL