Draft

FINANCIAL STRATEGY 2024–2034

tasman district council

Te Kaunihera o te tai o Aorere

FINANCIAL STRATEGY

SUMMARY

This strategy outlines our approach to managing the Council's finances and provides guidance for making spending decisions.

We are facing significant costs pressures which are impacting all councils and communities across New Zealand. Like many households we are dealing with rising inflation, insurance and interest costs, severe weather events, supply chain issues, and regulatory changes from central government. Despite these pressures we must ensure we stay on track financially while taking care of our District and its people. In doing this we need to balance community wellbeing and affordability alongside our aspirations for growth and sustainability.

The Council's asset base continues to increase with investment in infrastructure assets being the key driver. This in turn, results in increased costs to maintain and renew these assets throughout the next 10 years.

The Financial Strategy has been developed in response to these challenges, the Council has introduced a debt to revenue limit to reflect its increased borrowing programme over the 10 years. Those limits are lower than that set by the main lender to the Council, the New Zealand Local Government Funding Agency (NZLGFA). That means the Council can increase its borrowing if necessary to respond to emergencies like severe weather events.

Our annual rates revenue rise cap will become a dynamic cap. Made up of the Local Government Cost Index (LGCI) plus 3% per annum as an allowance for unfunded mandates imposed by the Government, as well as responding to the needs and wants of our community. The average rates increase to existing ratepayers will be 4.6% a year over the next 10 years. It should be noted that the dynamic rate cap will be breached in Years 1 and 2 and the dynamic debt cap will be breached in Years 9 and 10 of the 10-year Plan.

The Council's everyday expenditure should be met by everyday income. In this Financial Strategy we have been unable to achieve that goal for five years of Tasman's 10-Year Plan. This decision arises from Council balancing the rating demands and its expenditure along with the impact this has on community well-being.

THE SITUATION

LARGE DISTRICT WITH DISPERSED POPULATION CENTRES

Tasman District Council is responsible for serving a dispersed population in a large District. The district has 15 main settlements with many more people living in rural areas, covering an area of 9,635 km². The Council has a small rating base to fund the significant amount of infrastructure required to service this area, including 1,700 km of roads. Due to the multiple, centres of population, the Council supplies infrastructure to serve the same purpose in several different locations and often uses varying technology and methods based on the size and topography of the areas concerned, as a result the cost per household for critical services is relatively high.

RATES INCREASES AND OUR FINANCIAL APPROACH OVER RECENT YEARS

Over the past six years, the Tasman District Council has seen a considerable variation in the levels of rating increases, ranging from 0% in 2020-2021 to 8.57% in 2023-2024. In particular, the last two years have seen the Council having to increase rates higher than planned and exceed its rate revenue increase cap. Just like households' the Council has seen a marked increase in its costs of borrowing, insurance, regulatory changes from Central Government and providing for the wear and tear on its assets.

A FINANCIAL STRATEGY TO SUPPORT THRIVING AND RESILIENT TASMAN COMMUNITIES

This Financial Strategy aims to support our community through well managed and sustainable funding.

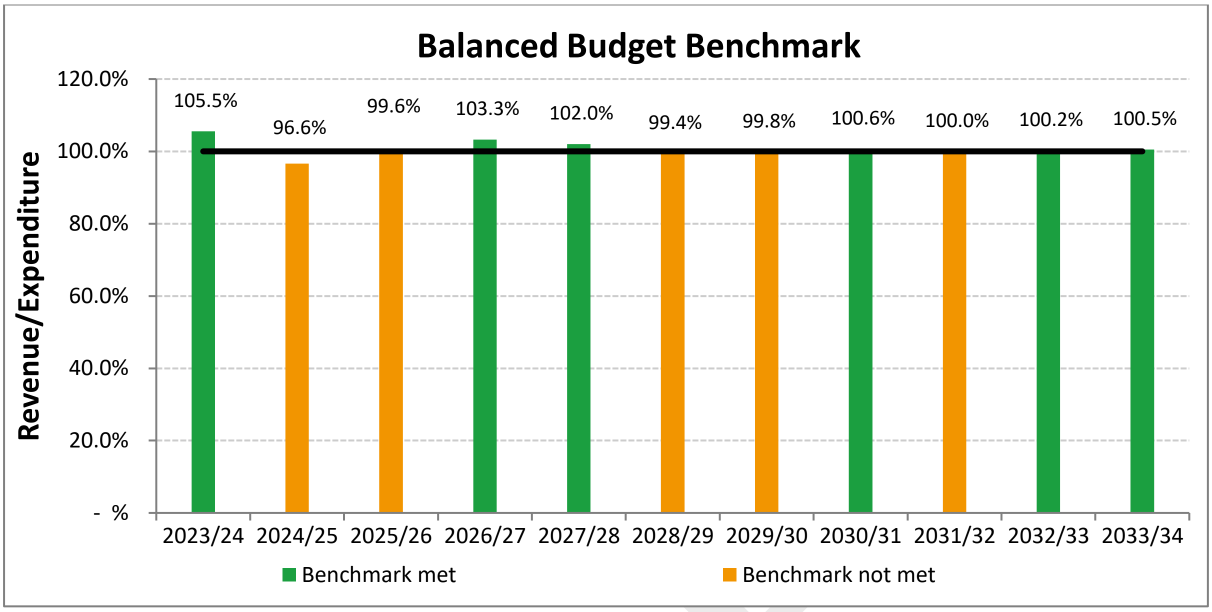
PAYING FOR THE DISTRICTS EVERYDAY COSTS

Everyday costs should be paid for from everyday revenues. When this is not possible these costs are funded by debt. This means existing ratepayers are not paying for some of the services and amenities being provided to them which pushes the cost onto future ratepayers with interest. This could be considered to be neither prudent nor sustainable. However, we have not achieved this goal, where:

- some operating expenditure has an enduring benefit and we have chosen not to fund this from rates, eg the Digital Innovation programme; or
- we are transitioning to fully funding the wearing out and obsolescence of assets; or
- we are balancing expenditure and rating demands with the impact this has on community well-being.

For these reasons, our budget is not balanced for five out of the next ten years.

Chart 1 – Balanced Budget Benchmark



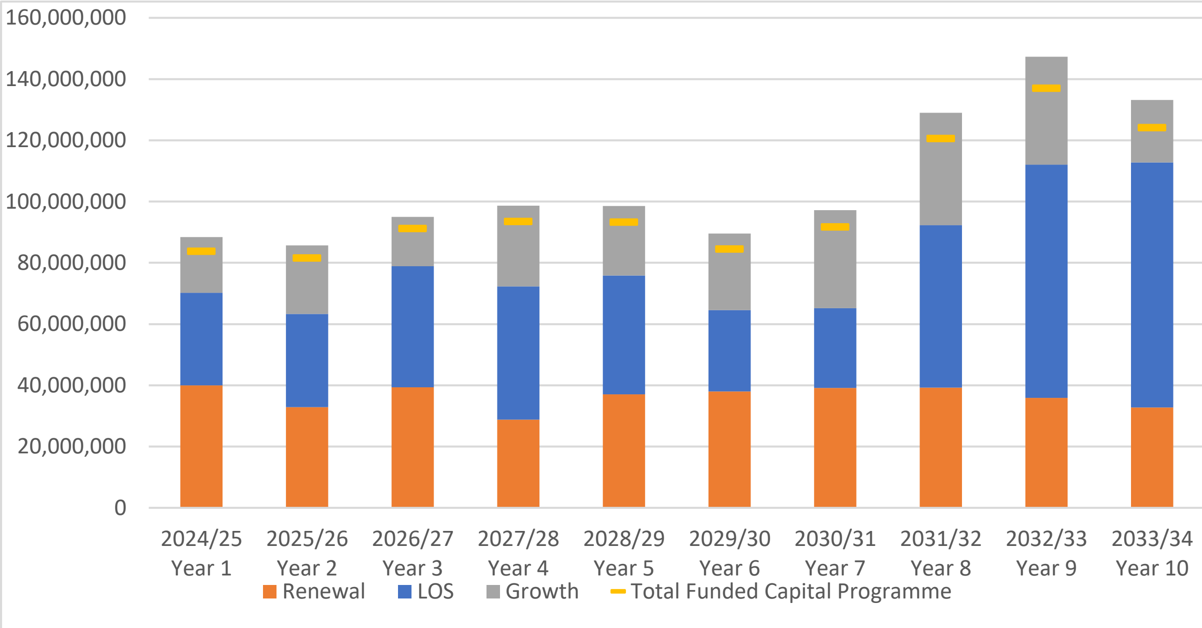
We prefer to operate with surpluses to be able to repay debt and continue to invest in the District's future by maintaining existing assets and building new infrastructure.

PROVIDING FOR GROWTH

The population of Tasman is expected to continue growing. The Council anticipates the population will increase by 7,400 residents between 2024 and 2034, reaching 67,900. To provide for this, the Council is planning for a further 4,200 houses and 13 hectares of commercial or industrial business land. Ongoing housing growth creates demand for additional services and facilities, especially in areas with higher growth like Richmond, Motueka, Brightwater, Māpua, and Wakefield

We plan to invest in the required services like roading, water, wastewater and stormwater. We will borrow to fund this work and repay the loans mostly through charging developers over several years. Examples include the Motueka Wastewater Treatment plant and Stormwater capacity upgrades in Richmond. Many planned growth projects will provide capacity for growth over a period of up to 30 years. The growth costs associated with these projects are funded by developments that occur over that time. At the end of the 10 years of the LTP, the Council will have growth related debt associated with these projects of $115m. This will reduce over time as more development occurs. The chart below shows the planned capital expenditure driven by growth, service improvement and renewals.

Chart 2: Total Capital Expenditure by year by Type with scope adjustment



Note: The total funded capital amount is lower than the sum of the renewal, levels of service and growth capital because for the Water, Wastewater and Stormwater activities, we have made an overall downward adjustment to the Capital Programme of 10% per year. This adjustment accounts for uncertainties in scope risk and programme delivery.

Included within the proposed capital expenditure above is expenditure on network infrastructure, flood protection, and flood control works that is sufficient to maintain the existing levels of service. Details of this expenditure can be found within the respective Activity Management Plans.

RESPONDING TO CLIMATE CHANGE AND NATURAL HAZARDS

Tasman District is susceptible to a wide range of natural hazards and has over time felt the impact of natural hazards such as earthquakes, landslides, floods, coastal erosion, inundation, drought, and wildfire.

In Tasman's 10-Year Plan 2024 – 2034, the Council assumes it is not possible to reduce the mid-century warming, due to the amount of carbon dioxide already accumulated in the atmosphere – i.e., that the projections for mid-century are already 'locked in'. A changing climate will increase the frequency and severity of weather-related natural hazard events (such as droughts, floods, landslides, coastal erosion and inundation) in addition to increasing temperatures and rising sea levels. See the 'Forecasting Assumptions' section of the Plan for further, detailed information about the assumptions that the Council has made relating to climate change and natural hazard risks.

Adaptation planning will help the District become less vulnerable and more resilient to natural hazard events and a changing climate. The Council will have to make difficult decisions on how to best allocate resources towards resilience and adaptation projects and balance this against community expectations. The Council also acknowledges that large-scale infrastructure resilience projects may be unaffordable for ratepayers. External funding for these is essential.

The Council has already taken several steps to support climate change action, including collaboration initiatives and joint projects with Nelson City Council. In Tasman's 10-Year Plan 2024 – 2034, we have included funding for projects that will contribute to meeting the goals in the Tasman Climate Response Strategy and Action Plan. In most cases, funding is embedded in the Activity Management Plans for the activity concerned.

UNPLANNED EVENTS

In Tasman's 10-Year Plan 2024 – 2034, the Council is not planning to make contributions to its emergency funds by collecting revenue ahead of an emergency event taking place to create reserves to use in response and recovery.

The Council expects a level of Central Government support will be available to help in the recovery from substantial emergency events. However, it plans to have the resources to be able to contribute to the recovery itself. Following a substantial emergency event, the Council anticipates re-prioritising its planned work programmes and services and borrowing to support recovery. Where existing funding from other activities is reprioritised towards recovery efforts, this may decrease the levels of service of those activities. The plan calls for substantial net debt headroom to be maintained (above the self-imposed dynamic debt cap) to enable the Council to borrow in these circumstances. In the years following an emergency event, it may be necessary to increase rates (and other forms of revenue) to service the loans used to fund the recovery.

Tasman's 10-Year Plan 2024-2034 provides for the maintenance throughout their lifetime and renewal of assets at the end of their economic life. Unplanned events require earlier than planned investment to respond to and recover from Civil Defence emergencies (e.g. earthquakes, landslides, floods, coastal erosion, inundation, drought, wildfire). Unplanned events can result in significant operating and capital costs, however the Council has processes and plans for such events.

The Council can call on additional funding from the LGFA above its self-imposed debt cap. It can urgently reprioritise and reduce capital spending, community levels of service spending and utilise collective council-shared insurance programmes. These programmes will fund some operational costs (e. g. business interruption) and capital costs where a claimable event occurs. All councils in the group have material damage insurance and infrastructure insurance using a maximum probable loss approach rather than reinstatement value for all properties. These policies have the benefit of spreading risk across a wider geographical area. Maximum probable loss is the anticipated value of the biggest monetary loss that might result from an event, whether natural or otherwise.

RENEWING AND UPGRADING OUR AGEING INFRASTRUCTURE

The Tasman District Council is responsible for $2.2 billion worth of assets. Once an asset is worn out or becomes obsolete, it requires renewal or replacement. We have been focusing on renewing assets with shorter lives and minimizing our investment in maintenance to keep rates increases low. We have now reached the point where we need to invest more and deal with growth and replacing some longer life assets. In developing the Activity Management Plans staff have assessed that we are able to provide and maintain existing levels of service and meet additional demands for services within our financial limits. Example of projects include the Tapawera Water Treatment Plant upgrade and work on Brightwater reticulation. To ensure that the current ratepayers contribute their fair share towards obsolescence and the wear and tear on our assets (intergenerational equity) the Council is moving towards these costs being fully funded each year. The Council started this 10-year transition in 2015. To reduce the impact on rates the 10-year transition has been extended by five years to 2030. This decision will result in higher borrowing and additional costs for future ratepayers.

INVESTMENTS IN COMPANIES

We are an equity holder in four companies. The principal reason for holding an equity interest in these investments is to ensure efficiency and community outcomes rather than for the sole reason of a financial return on investment. We hold shares in the companies in the table below. There are no plans to change our shareholdings, however, following good practice, this is reviewed regularly.

COMPANY	SHAREHOLDING	PRINCIPAL REASON FOR INVESTMENT	BUDGETED RETURN
Infrastructure Holdings Ltd	50%	Economic development	$2. 8m pa
Local Government Funding Agency Ltd	18. 65%	Borrowing	$91,000 pa
Waimea Water Ltd	72%	Economic development and Water security	NIL
Civic Financial Services Ltd	Nominal	Superannuation	Nil

PROPERTY INVESTMENTS

Property investments are divided into two categories:

1. Enterprise Activity - investment property

Budgeted rate of return on property value for investment property is 5%.

2. Other Property

This property is held to facilitate the delivery of council services and to support local communities. This includes the Council's investment in community property which is rented out at below market rates but with income sufficient to cover costs and maintain the units in a good state of repair.

WHAT ARE OUR GOALS?

The Council will continue to focus on the following:

ESTABLISH A SUSTAINABLE FUNDING MODEL WITH PARTNERS

The Council's finances are feeling the effects of the wide range of unitary council responsibilities, rising costs in general, higher insurance levies, an accumulation of unfunded mandates from Government and a growing population. The current methods of funding, which place the burden largely on property owners (ratepayers) and those paying directly for our services, are becoming prohibitive. To address this lack of future sustainability in our funding arrangements we aim to work with Government and other partners to establish a more enduring way of funding our services to the wider community.

PROVIDE GOOD STEWARDSHIP OF COMMUNITY RESOURCES

The Council is the steward of the community resources purchased and developed over many years. We are entrusted with managing those resources in a careful and responsible way for both our current and future communities. Our goal is to continue taking care of and protecting those resources so they continue to benefit the District in years to come.

DELIVER VALUE FOR CURRENT AND FUTURE RESIDENTS

Our goal is to provide the best value to our residents for the money the Council invests on their behalf. We aim to work with our communities to help them flourish and maintain their resilience, while maintaining the overall affordability of rates. Rates affordability and a sustainable level of rates funding level is a key issue for our communities, particularly those property owners on lower and fixed incomes.

While we aim to invest sufficiently to maintain the assets and services of importance to our communities, we need to fund this in a way that is financially sustainable in the long term.

Alongside this Strategy, the Council also prepares an Infrastructure Strategy which identifies the key issues relevant to the provision of infrastructure, and the options and plans for addressing those issues for the next 30 years. Infrastructure expenditure forms a large proportion of the Council's spending being 32% of operational expenditure and 90% of capital expenditure over the next 10 years. The two strategies are closely linked to ensure the right balance is struck between providing the agreed levels of service for infrastructure assets within the agreed financial caps.

We will need to be very selective and only invest in things that make the most positive difference to the well-being of the District. With community well-being in mind, the Council is investing not only in utility and roading infrastructure, but also in community infrastructure.

It is important that affordability is not only considered for current ratepayers, but also future ratepayers. Decisions made now will affect rates affordability in the years ahead, meaning there is potential to pass rate burdens on to future generations if we do not invest in infrastructure and services now with the right funding for these.

PRINCIPLES

To support further investment in the District's future, the Council is proposing to change its approach and move from static to dynamic financial caps. Dynamic financial caps are ones that move in relationship to other financial metrics, particularly increases in income.

It is not possible to maintain services at their existing levels and take the steps that are needed now to provide benefits for the future, while retaining the rates increase and net debt caps previously adopted in the 10 Year Plan 2021-2031. In deciding how to go forward, the Council has applied the following principles in this Financial Strategy 2024 – 2034:

- Continuing to be financially and environmentally sustainable
- To provide for financial resilience
- Focusing on both the medium and the long term
- Understanding trade-offs or benefits across all well-being domains (social, environmental, economic, and cultural)
- Responding to changes in the wider economic environment
- Making the most of Government and other external funding sources where they benefit the community
- Improving the resilience of our communities against climate change.

FINANCIAL CAPS

To help achieve the right level of re-investment into our existing assets and selectively making improvements for the future the Council has needed to raise its financial caps in its 10-Year Plan 2024-2034.

RATES REVENUE INCREASE CAP

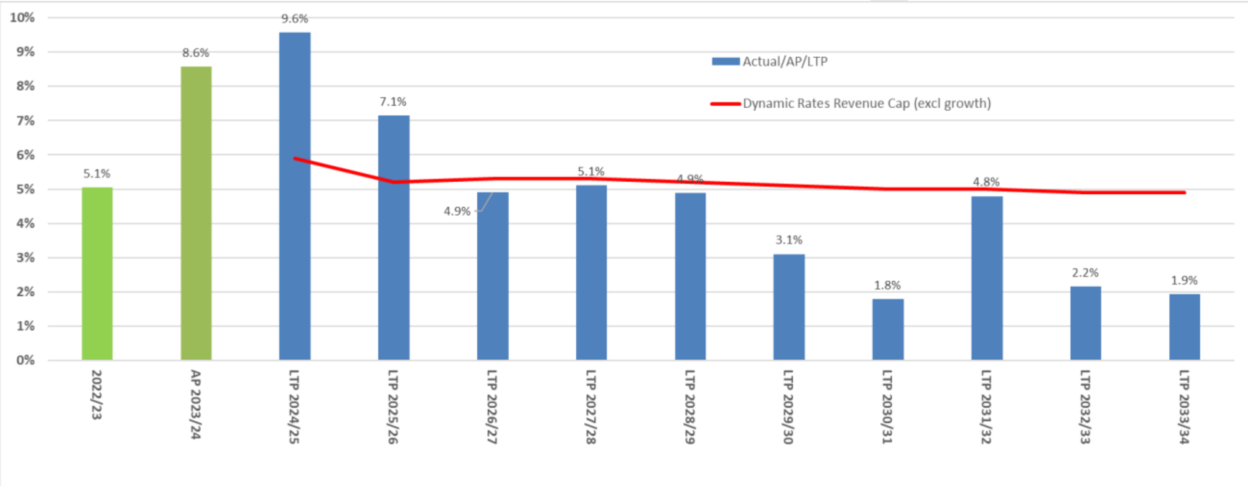
The Council will continue to consider affordability and sustainability issues each year when setting rate revenue levels. The Local Government Act 2002 requires a statement on the quantified cap on rates increases.

The Council has operated a fixed rates revenue increase cap for at least ten years. However, it has exceeded the cap in the 2021/2022 and 2022/2023 years. This has prompted a change of approach to setting its rates revenue increase cap. In future the rates revenue increase cap (excluding growth) will be established as a relationship to the inflation rate the Council is expected to experience (LGCI) and an adjustor for service changes (currently set at 3% pa). The adjustor for service changes provides some capacity to respond to further unfunded mandates imposed by the Government, as well as respond to the needs and wants of our community.

The Council will limit the increase in the Council's 'Total Rate Requirement[1] ' to no more than the forecast percentage increase in the Council's costs measured by the Local Government Cost Index (LGCI)[2] plus 3% in each of the 10 years as an allowance for increases in levels of service. This cap is in addition to the rates revenue increase as a result of growth.

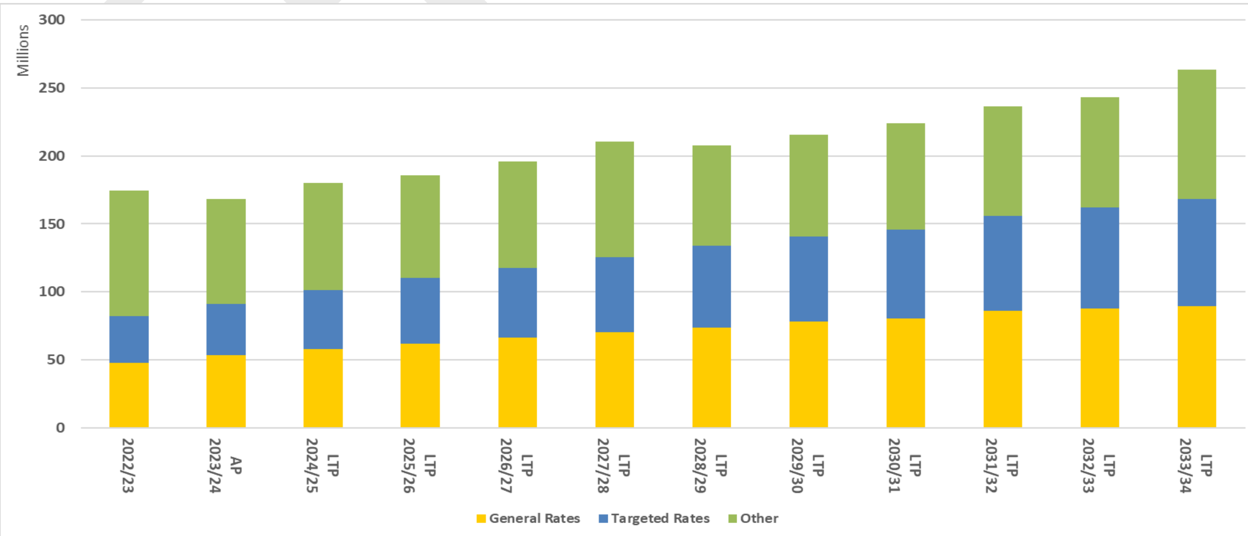
Using the LGCI rather than Consumer Price Index is considered more realistic as LGCI better reflects the types of goods and services the Council purchases and better reflects local government costs realities i.e., the cost of the Council doing business.

Chart 3: Projected Rates Revenue Increases and Rates Cap



The reason for the breach in year 1 and 2 relate to the need to accommodate the impact of higher inflation, higher interest costs, the funding of depreciation and higher costs in roading and river maintenance spend.

Chart 4: Make up of Revenue



[1] The 'Total Rate Requirement' includes both general and targeted rates such as water, wastewater, stormwater, and flood protection.
[2] As provided by Business and Economic Research Limited (BERL)

The prospective Statement of Comprehensive Revenue and Expense shows a large accounting surplus in every year of Tasman's 10-Year Plan 2024 – 2034. This reflects the fact that the Council receives a significant amount of income that is used to fund capital expenditure. Due to accounting standards the related capital expenditure does not appear in the prospective Statement of Comprehensive Revenue and Expense. Income sources include the Waka Kotahi/NZTA roading subsidy, central government funding, development contributions and reserve financial contributions.

DYNAMIC NET DEBT CAP

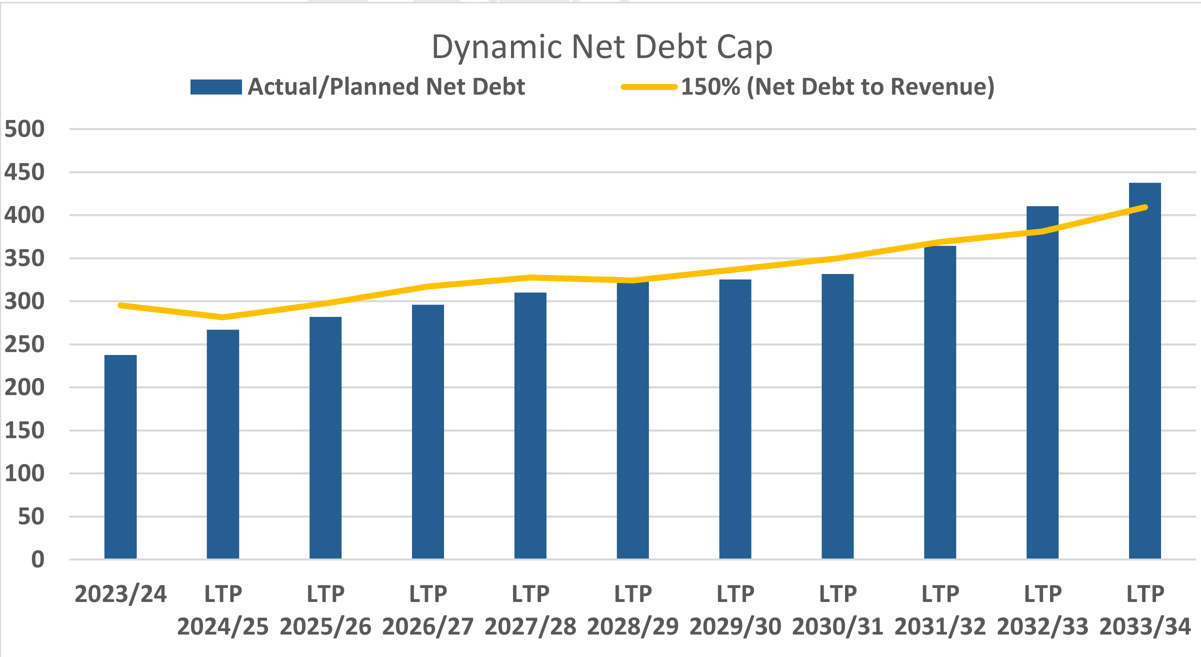
In the 10 Year Plan 2021-2031 the Council increased its net debt cap 25% from $200 to $250 million.

The current net debt is budgeted to be $249. 86 million on 30 June 2024 i.e. , slightly below the 10 Year Plan 2021-2031 cap level. This level is projected to rise a further 79% to $437. 6m during the 10-Year Plan 2024 – 2034. With the continuing uncertainty about the funding and operation of the three waters we have reconsidered how to state the net debt cap. The Council's ability to borrow and to service loans is heavily dependent on its ability to raise revenue. As a result, the Council has decided to establish its new net dynamic net debt cap at 150% of its annual operating revenue.

The application of this ratio means that the net debt cap increases each year to keep pace with Local Government cost inflation and to match any other expected changes in the Council's future revenue requirements.

To deliver the proposed Plan, net debt increases across the ten years. Net debt per household is projected to grow by 25% in real terms or in other words, when adjusting for the impact of inflation. A proportion of this debt relates to infrastructure for housing and business growth and will be repaid by payments from developers. The remaining increase in debt however means that a larger share of the revenue collected from rates will be used to repay borrowing in the future.

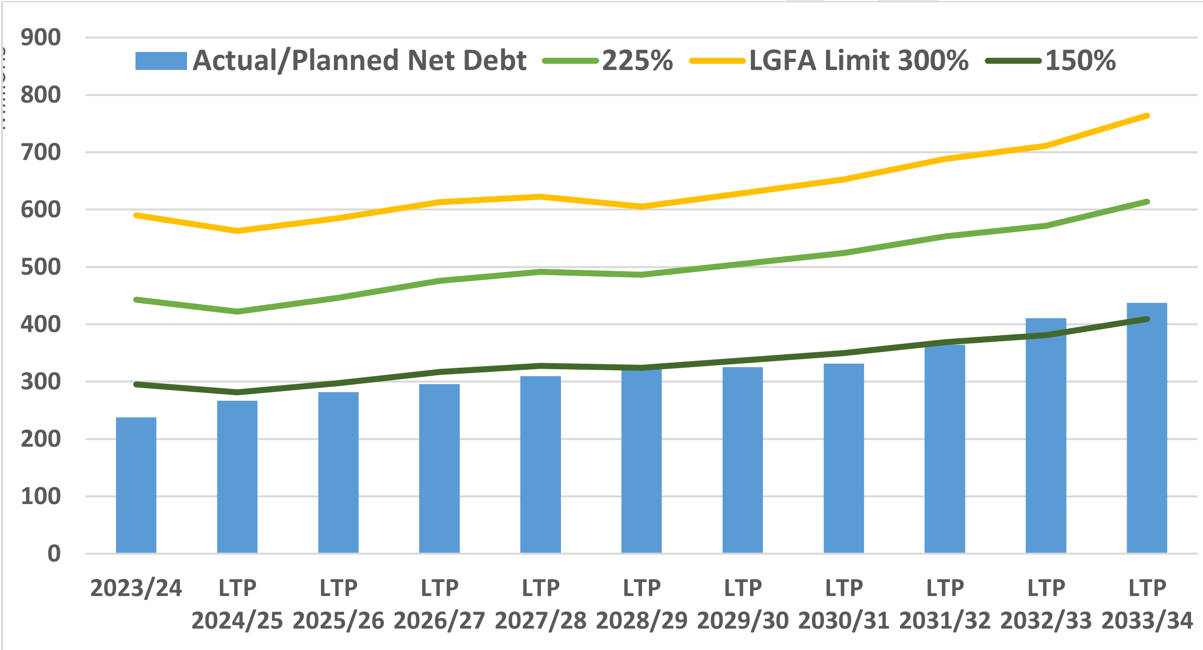
Chart 5: Net Debt



Net debt levels are projected to stay within the new dynamic cap for much of the 10 Year Plan period but exceed this level in the last two years as it becomes necessary to renew some expensive wastewater treatment plants. The budgets included for these projects are realistic at this stage of the planning, but we will explore options to reduce their costs as the planning advances to remain under the debt cap. The Council has worked hard to plan a programme of investment that addresses the key infrastructure issues and makes meaningful impact on the well-being of residents, while remaining within the financial caps.

This net debt cap will likely be exceeded if the Council needs to respond to any significant emergency events particularly those arising from climate change. The Council has borrowing headroom above its dynamic net debt cap but below its Treasury Risk Management Policy which limits the ability to borrow further if necessary to help fund recovery from an emergency event.

Chart 6: Net Debt Cap and Treasury Management Policy Limits



The NZ Local Government Funding Agency (LGFA) stipulates several financial limits or covenants, which are repeated at the same or a lower level within the Council's Treasury Risk Management Policy. Not exceeding these limits is considered best practice in the local government sector. If the Council exceeds these LGFA limits it will trigger default events in the Council's borrowing arrangements. It is likely that the cost of borrowing will increase significantly, and we would have difficulties sourcing replacement and future borrowing.

While the Council is increasing its net debt cap in this Financial Strategy, it has selected a level that is lower than the maximum limit provided for in its Treasury Risk Management Policy (and by the LGFA). This is to ensure we have some borrowing headroom, if necessary, to fund the recovery from a natural hazard or emergency event and to moderate the impact on rates levels. The LGFA policy limits are;

- Net Interest on External Debt/Annual Rates Income <30%
- Net External Debt/Total Operating Income <300%
- Net Interest on External Debt/Total Operating Income <20%.

We have reviewed how we provide funds for future emergency events and won't be investing in an Emergency Fund for the full period of this 10 Year Plan. This decision will be reviewed annually as part of the Annual Plan process.

The Council has several other prudential limits for monitoring net debt, set out in its Treasury Risk Management Policy. The Council net debt must remain within these limits. The limits within this policy also assist us in ensuring the overall net debt remains within prudent levels.

Financial projections show net debt will peak in 2033/2034 at $437.4 million.

2023 TREASURY RISK MANAGEMENT POLICY (INCLUDING LIABILITY MANAGEMENT AND INVESTMENT POLICIES)

TREASURY RISK MANAGEMENT POLICY LIMITS

The Council has set itself a series of borrowing limits in its 2023 Treasury Risk Management Policy. These have been established to ensure that we only borrow to prudent levels and have sufficient rates and other income to service the loans.

INVESTMENTS

Council holds investments in companies, property and cash as per Councils investment policy these are detailed above.

OTHER INVESTMENTS

As part of borrowing from the Local Government Funding Agency, we are required to invest in financial bonds with the agency. We will receive interest on these bonds.

The Council's Investment policy can be found in 2023 Treasury Risk Management Policy (Including Liability Management and Investment Policies).

POLICY ON SECURITIES

To borrow cash, we must offer our lenders security, just like residents do with their mortgage. Like most councils, our debt is secured against rates income. Lenders like this as security and it helps keep our interest rates low. Giving rates as security means that our lenders can make us charge ratepayers more to repay debt. That is why it is important to keep our debt at a sustainable level. Further details on the Council’s policy on securities is set out in our 2023 Treasury Risk Management Policy (Including Liability Management and Investment Policies).