

FINANCIAL STRATEGY



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Responsible Department	Finance
Responsible Officer	General Manager Corporate Support
To be reviewed	As a part of the Long-term Plan process, or by 1 June 2028



Purpose

Under the Local Government Act 2002 (LGA), section 101A *“a local authority must as part of its long-term plan, prepare and adopt a financial strategy for all of the consecutive financial years covered by the long-term plan.”*

The financial strategy sets the guiding principles for managing the Council’s finances and making budgetary decisions. It tells the story about how the Council intends to fund both capital expenditure and levels of service. It helps to communicate the Council’s priorities to the community.

The financial strategy for the 2025-34 Long-term Plan (LTP) provides strategic control by allowing the Council to have self-set limits, reflect on the needs of the community on financial aspects, like rates and debt, and to deliver long term financial sustainability.

1. Overview

The key principles of the Council’s financial strategy are:

Achieving financial sustainability.

Ensuring the Council operates efficiently, effectively, and prudently.

To maintain the current levels of service that the Council provides.

To ensure that the Council’s debt is manageable and to allow some headroom to be able to respond to emergencies or opportunities that may arise.

The environment within which the Council operates has become harder and more challenging, due to:

The costs to maintain the current levels of service have increased more than what was projected.

The changing expectations of regulators has meant increased compliance costs, particularly in relation to drinking water standards and the treatment of wastewater.

The rapidly changing technology landscape means that the Council’s systems need to be more robust and future proof to deliver services to the standard that the community expects.

This strategy complements the Council’s Infrastructure Strategy, and both strategies should be read together. It relies on the reasonableness of the forecasting assumptions used, the asset management plans and activity budgets to provide context for how the Council intends to achieve their outcomes and address the challenges over the term of the LTP.

3 Waters reform – uncertainty and impact

Whilst it is clear that the future for water, wastewater and stormwater will be different, the Council does not yet have certainty what a future entity might look like, and with whom the Council may choose to enter into a joint entity with.

What is clear, is that this entity will not be operational before the start of the Council’s next LTP (2027-2037). With this in mind, the Council has made the assumption that the ownership and control will remain with the Council for the next nine years. The infrastructure strategy, asset management plans, and debt forecasting have all been calculated on this assumption.

The Council's previous financial strategies have been consistent for a number of LTP cycles. The focus was on having a self-imposed rates increase of less than 5%. With the unprecedented inflation that was experienced post-Covid, particularly in costs related to building infrastructure, this strategy has not been achievable and is no longer viable or financially prudent for the Council.

A focus on minimising the rates, and hence the direct financial impact on ratepayers, has had a significant impact on the Council's ability to maintain its infrastructure and facilities. Although maintenance was set as a priority, maintenance budgets were reduced each year, and often to a level that did not ensure that the Council's facilities met the community's expectations.

This approach to maintenance did not consider the impacts of the subsequent cost increases to future generations. In the past three years, the Council has elected to not fully fund depreciation. This approach was used as a mechanism to reduce rates.

The Council also chose to debt fund the operational costs of the proposed District Plan. The reason for this was that the plan has a multi-year life span, and is a significant investment required by the Council.

The impact of not fully rate funding depreciation and debt funding the district plan is that the Council has not adopted balanced budgets in the past few years. This means that there is an operating deficit that is funded by debt.

The Council has completed a number of significant projects including the East Gore Water Treatment Plant and Mataura Water Treatment Plant upgrade. These two projects were a crucial step in making sure that the Council is compliant with the new Water Drinking Standards.

One of the key challenges that the Council faces is affordability. The ability of our community to pay is constrained:

The district has an aging population. The number of residents 65 years and over has increased by 19% between the 2013 and 2023 Censuses.

The mean household income for Gore is \$103,013 as at 2024.

The cost of providing services and replacing assets has increased beyond what was previously projected. This means it is not possible to keep rates and fees and charges at the current levels.

The previous practice of not fully funding depreciation is only a short-term solution and should not be implemented long term as it has an impact on the ability of the Council to renew their assets. The Council's financial strategy for this LTP is to fully fund depreciation from the 2027/28 financial year. This is also consistent with the 3Waters legislation which requires councils to be financially sustainable by 1 July 2028.

The Council is currently dealing with pressures from changes in regulation and legislation. The changing landscape in 3Waters and resource management reform has proved to be resource intensive and challenging for the Council. Investment in the past has been made to ensure that the Council is on the pathway to compliance, however significant investment is still required in our 3Waters activities to maintain compliance and build resilience in the infrastructure networks.

A change to how the Council funds its operations is necessary to ensure long term financial sustainability. In the short term, the Council is intending to loan fund some operational expense however there is a plan to pay back that debt over the next nine to twelve years.

Approach Going Forward

Our community have frequently stated that they want the Council to get back to basics and to not indulge in any non-essential projects. This LTP only includes those capital projects that are essential for the maintenance of the Council's infrastructure network and planned renewals. The sections below provide additional information on how the Council intends to achieve this.

A "Balanced Budget" versus "Balancing the Books"

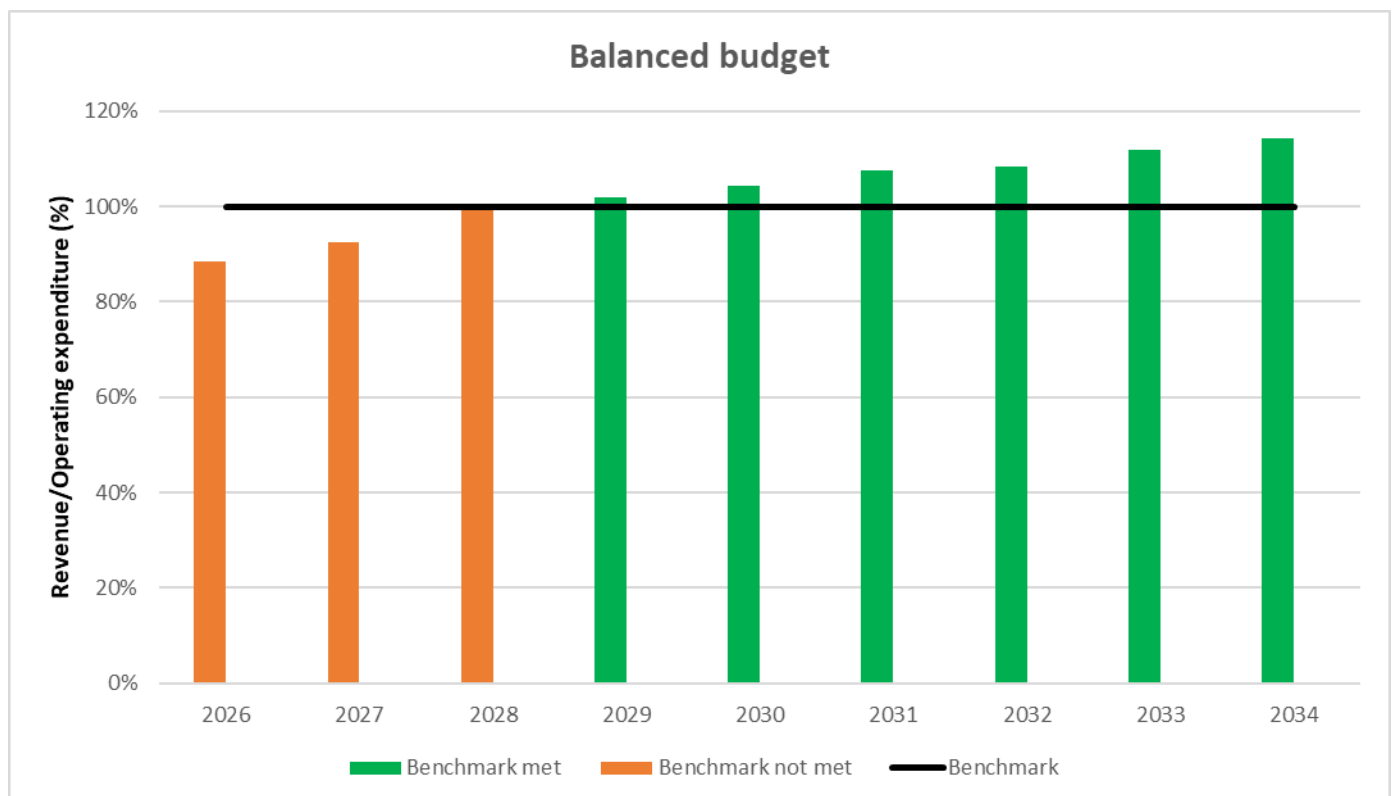
The Council is proposing to have an unbalanced budget for the first two years of the LTP. This is because the Council believes that it is financially prudent to do so and resolve this under the provisions of section 100(2) of the LGA 2002. By adopting an unbalanced budget in the short term allows for the estimated expenses of achieving and maintaining the levels of service provision, and maintaining the capacity and integrity of assets, as set out in the LTP, is more suited to the needs of the community. It also allows the Council to maintain affordability whilst reviewing the operations and focus more on financial sustainability over the longer term.

Financial sustainability is a core principle for the Council, and to achieve this the Council must return to achieving operating surpluses. For transparency, the Council now measures operating performance after excluding external revenue that pays for infrastructure or community assets. For example, capital grants received from the government, financial contributions and any other grants received from external parties that pay for capital projects.

This operating performance measure is referred to as "balancing the books."

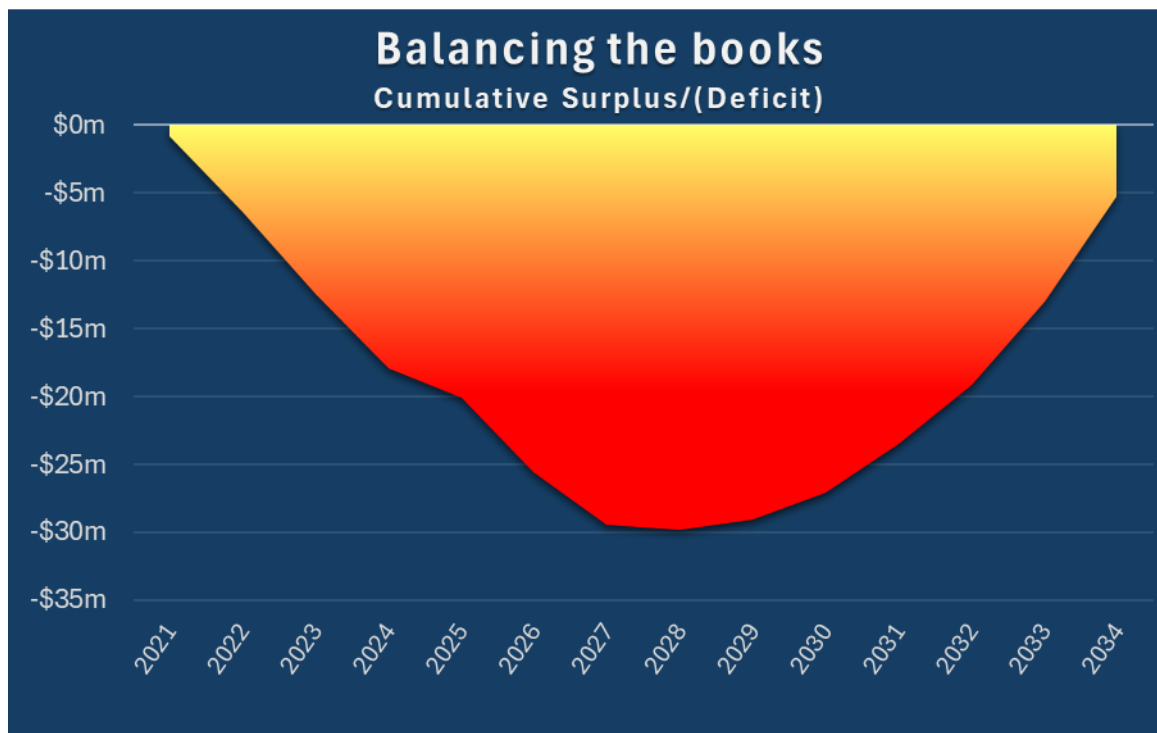
The following graph illustrates that the Council is planning to have a balanced budget from the 2028/29 financial year.

Figure 0.1: Balanced budget



Contrast this to the graph below which shows the balancing the books view over the life of the LTP.

Figure 0.2: Balancing the books



The balancing the books graph is different from the balanced budget graph as it has different components that are taken into consideration. It looks at the dollar impact of sustainable operating and removes capital subsidies from the calculation (which is included in the balanced budget graph).

Once equilibrium is reached, the historic operating deficits can be addressed. Forecasting a surplus should position the Council to be financially sustainable and able to respond to future challenges and maintain a level of control over debt. The graph at figure 4.2 shows the impact of balancing the books and starting to pay back debt associated with historic deficits.

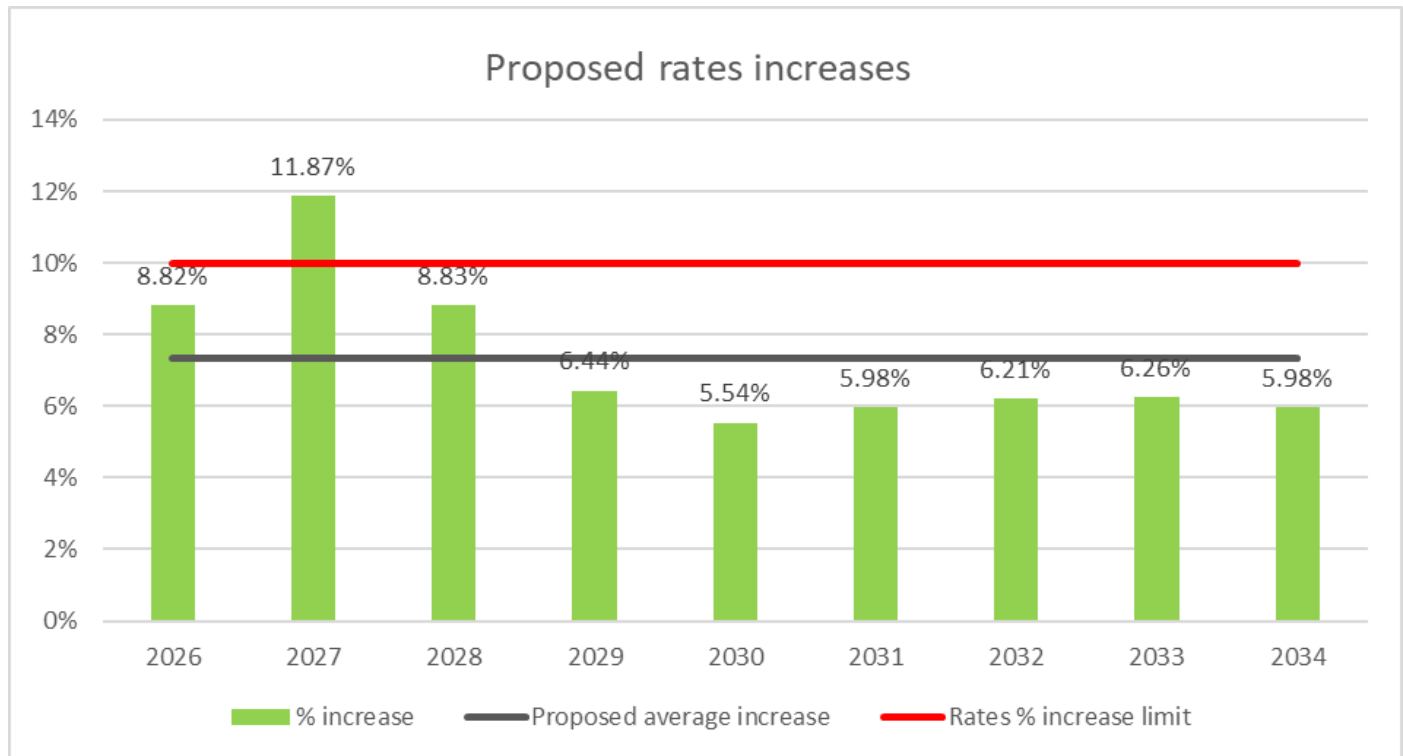
The Council has made a conscious decision to smooth rates increases by debt funding a portion of operational expenditure, as they are aware that the community cannot afford the rates increase it would require to provide the current level of service. Expenditure items that will be debt funded include (but are not limited to) depreciation, district plan costs and IT projects that shift key software platforms to the cloud.

The Council plans to start on the pathway of achieving a sustainable operating position over time. The current position of debt supporting operating expenditure is not sustainable in the long term.

Rates

The primary source of revenue for the Council is from rates. It accounts for around 76% of the Council's revenue. The Council has proposed an average district wide rates increases of 8.82% in year one of the LTP.

Figure 0.1: Proposed rates increases



These forecasts are based on current expert analysis of significant variables, including inflation and interest rates. Outcomes may be materially different and could impact the Council's rating decisions in the future.

The Council has proposed a rates increase limit no larger than 10% in any one year, with the exception of year two where an 11.87% increase is proposed. This is to assist the Council to get back to a sustainable position more quickly.

The Council recognises that cumulatively these are large increases, but significant increases in legislative compliance, unavoidable infrastructure capital projects, insurance costs, recent high inflation, and the need to restore operating surpluses are driving these increases. The Council will continue to look for savings and ways to improve efficiency over the coming years.

The LTP budget proposes an average rates increase of 7.32% over the next nine years. Total rates revenue is forecasted to increase from \$29.553 million in year one (2025/26) to \$51.228 million in year nine (2033/34).

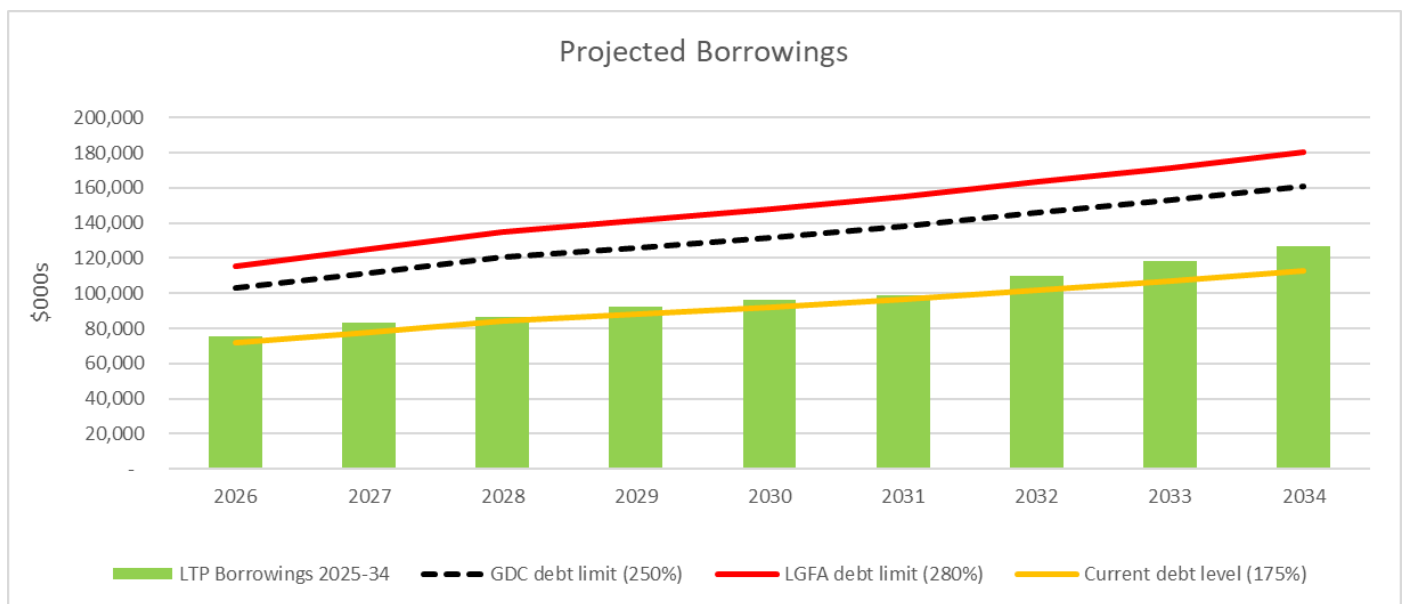
2. Debt

Debt management is a key part of the Council's financial strategy. Debt is necessary for the Council to be able to pay for multi-generational infrastructure and community assets. By debt funding these assets it ensures that ratepayers share the cost and benefit of the assets over the life of the asset.

There is a limit to how much debt the Council can borrow. The limit is imposed by the Council's primary lender, the Local Government Funding Agency (LGFA), and is also constrained by the revenue that the Council earns. The limits are put in place to endure that the Council does not end up in a position of financial difficulty.

The Council's projected borrowings over the life of the LTP are illustrated in the graph below:

Figure 6.1: Projected borrowings



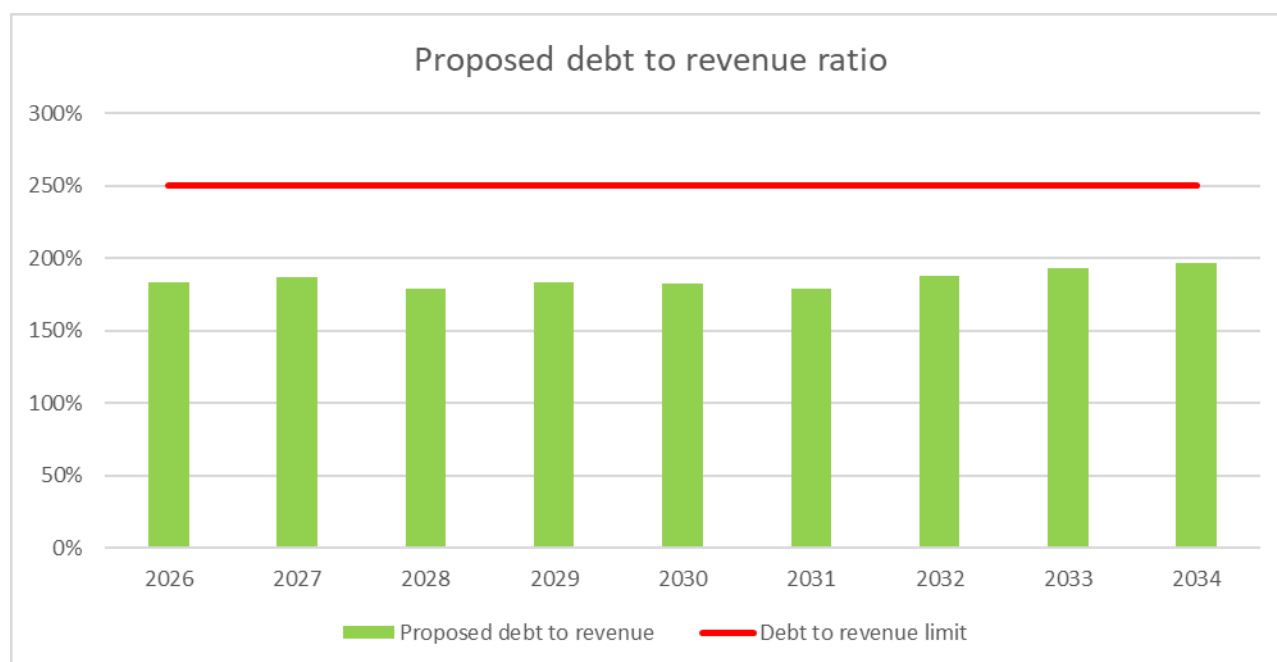
At the time of drafting the LTP, the Council's LGFA debt limit is that net debt cannot exceed 175% of the Council's revenue. The Council is close to this debt ceiling and does not have the headroom needed in case of an emergency. For this reason, the Council has applied to obtain a credit rating, which will allow the Council to borrow up to 280% of revenue. Whilst the Council could borrow up to 280% of revenue, it has set itself a self-imposed limit not to borrow more than 250% of revenue.

The assumption that has been applied throughout the financial forecasts is that the credit rating will be obtained by 30 June 2025, and the Council will have access to that funding.

One of the benefits of obtaining a credit rating is that the Council can access a lower interest rate from the LGFA for any future borrowing.

The graph below shows the Council's net debt as a percentage of revenue over the period of the LTP.

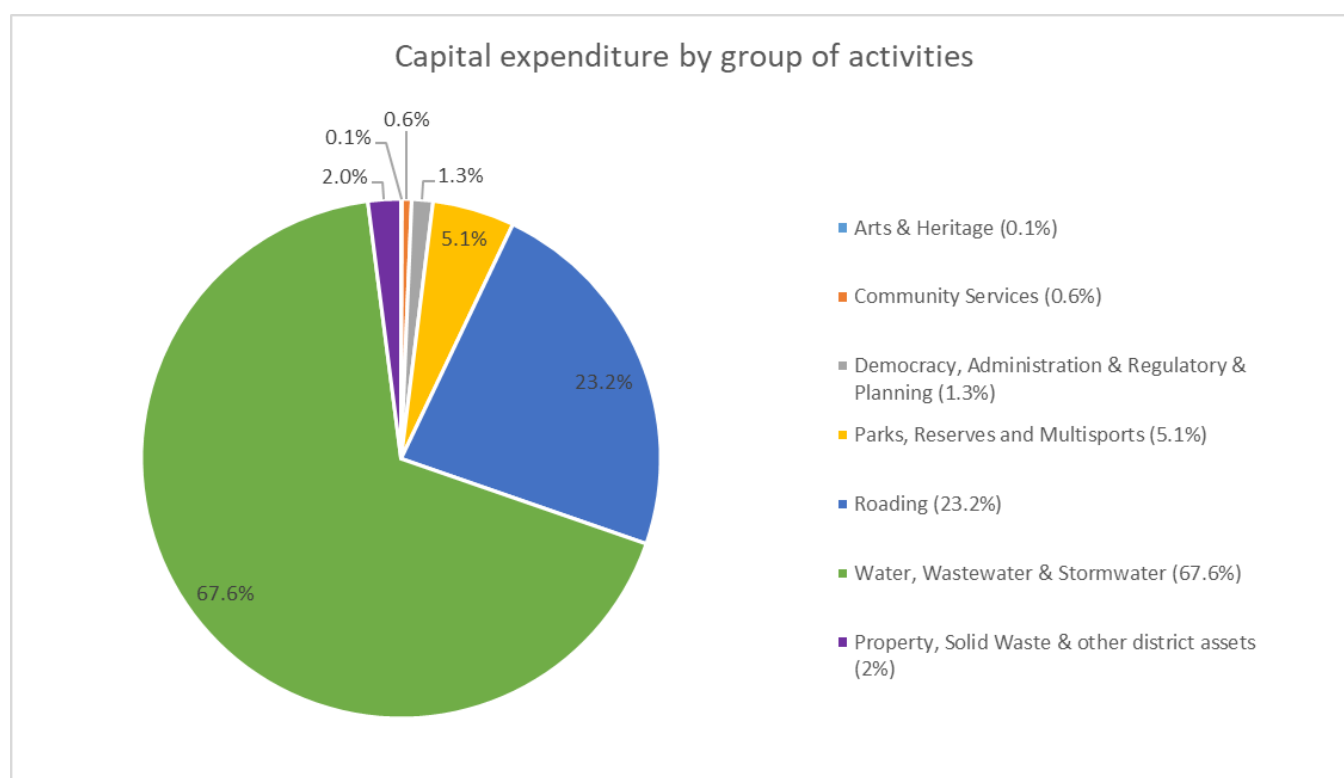
Figure 6.2: Proposed debt to revenue ratio



3. Capital Expenditure

The Council has forecasted to spend \$183 million on capital projects over the nine-year period. Of this forecasted expenditure on capital projects 89% (\$163 million) is on 3Waters and Roading projects. The Council has an aging infrastructure network and wastewater consents that are due for renewal.

Figure 7.1: Capital Expenditure by group of activities



The graph shows the forecasted capital expenditure over the life of the LTP. The ability to achieve this programme of work can be impacted by a range of factors and this in turn will have an impact on both the

financial and infrastructure strategies. For the financial strategy, project delays can have an impact on borrowing, cashflow, depreciation and external funding (where applicable). This may result in the repayment of debt that is reliant on project completion or sale proceeds from a project (like the Matai Ridge subdivision) may require additional debt to cover other projects, potentially changing the net debt/revenue ratio.

At times there are reasons why the priority of a project may be reassessed by the Council. This could result in a project needing to be brought forward or alternatively delayed depending on the circumstances. These assessments will be undertaken as required and will be as transparent as possible.

The funding for our capital projects comes from these main sources:

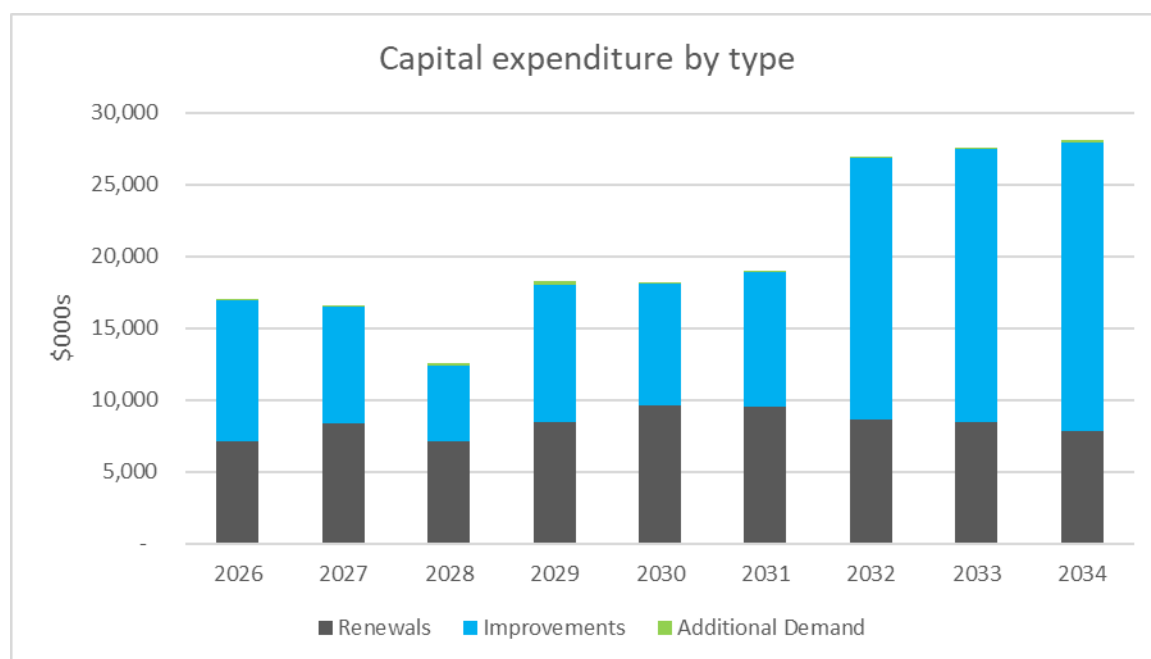
External funding from government agencies (for example roading subsidies)

Debt funding for growth and level of service improvement projects

Fully funding depreciation through the collection of rates to pay for renewals (enable existing assets to be replaced or restored to good working condition).

With the Council not predicting an increase in population, there are very little growth (or additional demand) projects planned. The majority of projects are either renewal or level of service.

Figure 7.2: Capital Expenditure by type



Funding Services

The Council does not have any investments in trading operations such as a Council controlled organisation. The Council has modest reserves which are set aside for specific purposes and are not available as a general funding mechanism.

The Council charges fees for certain activities. The Council's Revenue and Financing Policy sets out how much each of the Council's activities are funded by fees and charges. The fees and charges are reviewed and adopted by the Council annually.

Figure 0.2: Proposed funding sources

