



Draft Long Term Plan

Financial Strategy

2024-2034



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FINANCIAL STRATEGY

SUMMARY

This strategy outlines where Ruapehu District Council (Council) currently is, where it is heading and how it is going to get there.

The key strategic challenge facing Ruapehu District Council is one of affordability. Council has been managing key infrastructure assets within financial constraints for a number of years. There has been a significant increase in costs since the last LTP and this has further constrained the amount of work that is able to be done with existing levels of funding.

Council has previously had two key limits to operate within. The first is that total debt will be less than twice the amount of rates revenue. This limit is forecasted to be exceeded in the first year of the Long Term Plan (LTP) but then will come under the limit. The second is a limit on rates increases is currently 2% plus Local Government Cost Index (LGCI). We are proposing to increase this limit to 3%. Council will still exceed that limit in the first 3 years of the LTP.

Council also needs to be mindful of debt servicing benchmark which is part of the financial prudence regulations. This benchmark states that borrowing costs for the year must be less than 10% of revenue.

To date Council has taken a prudent approach to ensure that the debt levels were kept within the financial benchmarks. This ensured that the ten year investment programmes were affordable for our community. However, in doing so, some of our drinking water treatment plants had not met drinking water standards. Significant investment was necessary to improve wastewater treatment quality and minimise the impact of overflows to the environment.

Council in recent years has invested significantly in the three waters to ensure that we are meeting our legislative, regulatory, and environmental obligations to our community and key stakeholders. Previously it was assumed that we would receive a payment from Central Government to repay the debt raised for this, but after the recent announcement on local water done well this is unlikely to happen.

As part of our financial strategy, Council will continue to pursue all available opportunities to receive grant funding to minimise the burden on ratepayers. Where grant funding is not forthcoming, Council will seek to actively manage the scope and timing of investment to minimise the debt burden on ratepayers, to the extent that it is able to do so while still meeting regulatory and legislative requirements.

This financial strategy outlines how Council will fund its services and activities prudently and sustainably for the benefit of both current and future residents.

The main challenges will be:

- Managing the trade-off between rates and services
- Managing the balance between debt and rates, and hence causing and resulting in the trade-off between generations
- Securing appropriate subsidies.

We believe that our modelling has produced the best outcome that we are able to achieve within the current environment, while still delivering our key investment priorities and maintaining levels of service for our communities. Council will need to maintain a prudent approach to debt and rates to ensure affordability for current and future generations.

INTRODUCTION

Council's financial strategy will assist to deliver on Council's vision while providing for an affordable and financially sustainable organisation, delivering good quality services while promoting growth.

This financial strategy summarises the overall direction of Council as proposed in the LTP budgets. These budgets have been prepared in the context of the following policies which are available on Council's website, or on request:

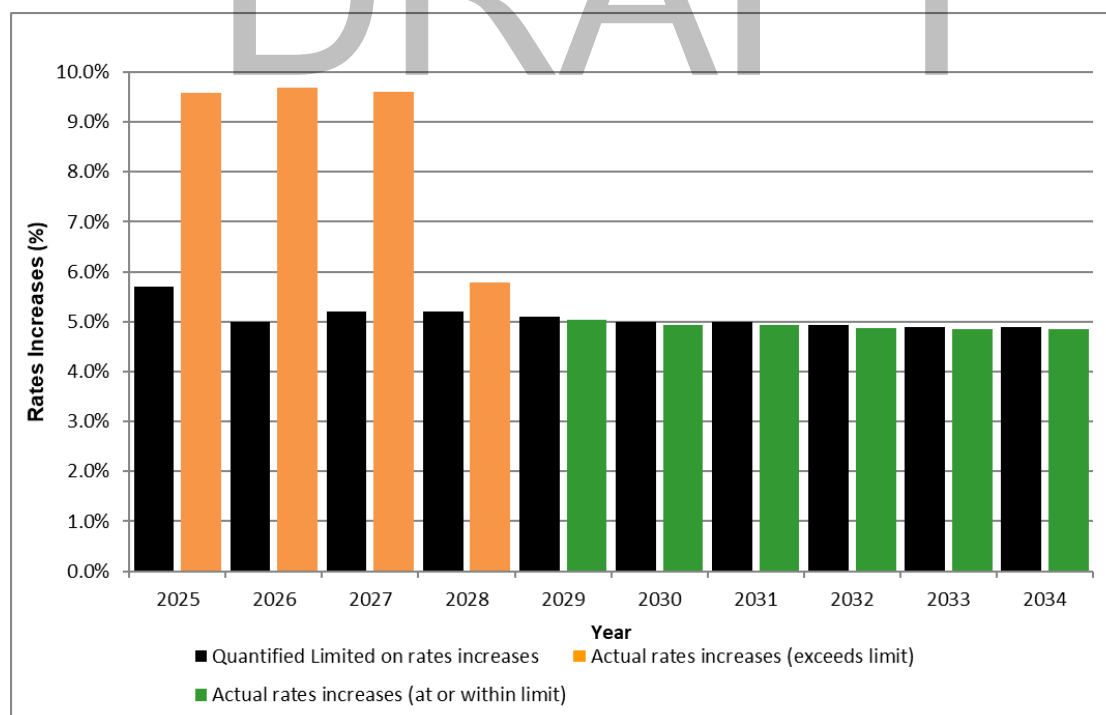
- a. Revenue and Financing Policy.
- b. Treasury (Investment and Liability Management) Policy.
- c. Asset Management Policy.
- d. Rates Remissions Policies.
- e. Rates Postponement Policy.
- f. Māori Freehold Land Rates Remission Policy.
- g. Development Contributions Policy.

All financial information presented in our strategy includes inflation. Inflation has been determined using the Local Government Cost Index (LGCI) prepared by BERL (Business and Economic Research Ltd) for Taituarā – Local Government Professionals Aotearoa. A table of these inflation factors can be found in the significant forecasting assumptions section of the LTP.

RATES

After consideration of the challenges facing Council, ratepayer affordability, and the trade-offs between rates and levels of service, Council has set a limit for the maximum annual rates increase year on year at the Local Government Cost Index (LGCI) plus 3%.

Rates affordability benchmark – projected annual rates increases



The reason that the limit is more than LGCI in the first three years, is due to the rapidly increasing costs of continuing our business as usual. Council historically has been called on to perform more and more functions which increases costs.

Setting rates increases at this level ensures that we are able to continue to balance the books, and to provide the levels of service expected of us by our communities and regulators.

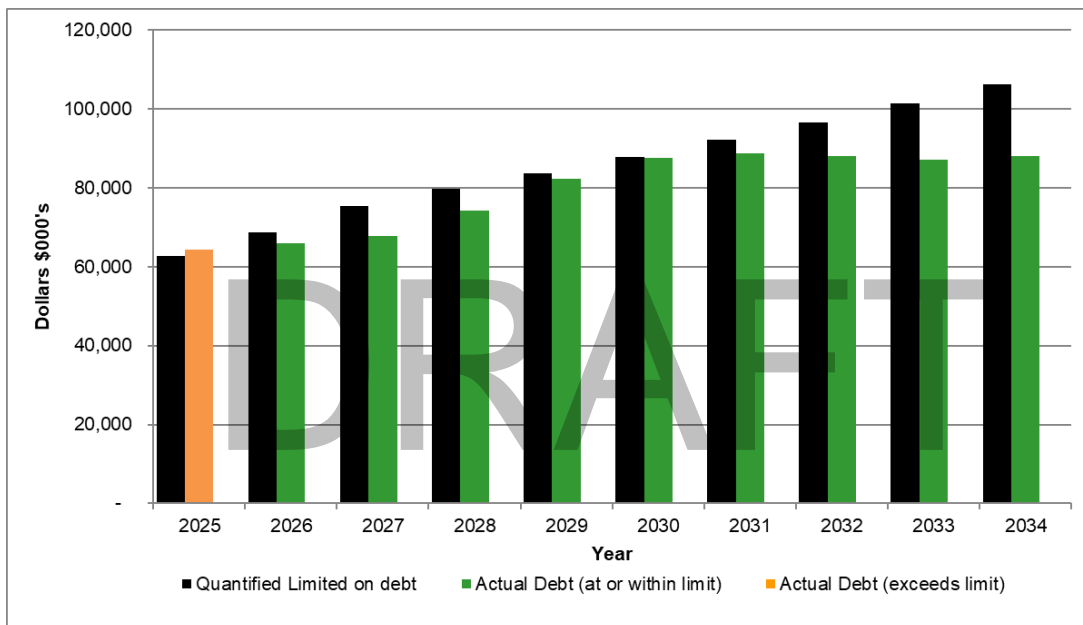
Rates and the incidence of rates are set out in the Revenue and Financing Policy.

DEBT LIMIT BENCHMARK

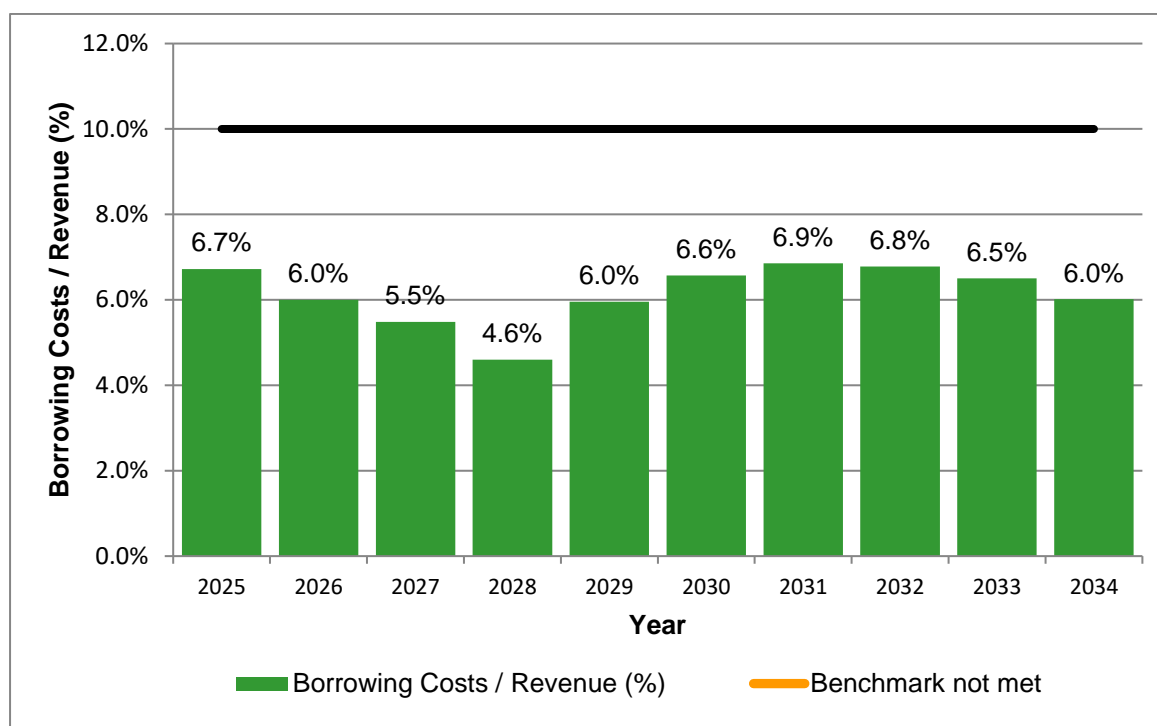
Council uses debt to account for intergenerational equity. This means that Council considers that current and future ratepayers should pay their fair share of the cost of services and infrastructure they will use.

After considering the role of debt for our communities, current borrowing costs and our investment needs, Council has set its limit on borrowings to be no more than twice annual rates revenue.

Quantified limit on borrowing – projected debt levels and benchmarks



Debt servicing benchmark



Our modelling predicts debt will change from a current level of \$60m to \$80m over the ten years. Council will remain within the financial covenants imposed by our lenders.

Council's net debt position will also vary for operational reasons, e.g.:

- It may be increased to spread out "rates shock" that may occur for various reasons.
- It will increase markedly when large projects are built.
- It may decrease as Council accumulates funds for future projects.
- It may decrease if Council is successful in obtaining grants or subsidies from third parties (e.g. Central Government).
- It may increase because of natural disasters. The ability to raise debt is one of Council's mitigations against unexpected events. Council maintains a \$5m overdraft facility to this end.

MANAGING BORROWING RISK

Council plans to continue to use the Local Government Funding Agency (LGFA) to reduce the cost of long term debt and reduce its vulnerability to financial challenges.

LEVELS OF SERVICE

Managing levels of debt, rates affordability, and levels of service is a careful balancing act that causes tradeoffs between each elements. Changes to levels of service will have a consequential impact on debt or rates which must be carefully taken into account.

The levels of service provided by Council have been set in cooperation with the community and through various consultation processes over a number of years. We consider the levels of service that we provide are consistent with other local authorities of our size and scale, and therefore do not propose any increase or decrease to levels of service in this LTP (other than increases required by legislative change).

In general, we plan to maintain existing levels of service. In the first 3 years of the LTP expenditure to increase levels of service has been constrained. The major projects planned in those years are upgrades for Ōhura, Waimarino and Ōwhango water treatment plants as well as the Raetihi Hub in year 4. In year 4 there is also significant expenditure in Land Transport for the Mangateitei Bridge

replacement, Te Hangaruru Stage 2 and the Matahiwi suspension bridge. All 3 of these projects are expected to be fully funded externally and will be applied for in future years. If funding does not become available then these projects will be put on hold for further consideration.

Where Council invests in increasing levels of service, or providing new services, it is likely that there will also be increases to the ongoing (operating) costs to maintain these assets/service levels.

As part of Council's financial strategy, we apply for operational costs along with capital costs for Government subsidised projects.

Investment in level of service enhancing assets is typically funded through debt, with Council actively also seeking subsidies and grants from Central Government and other third parties.

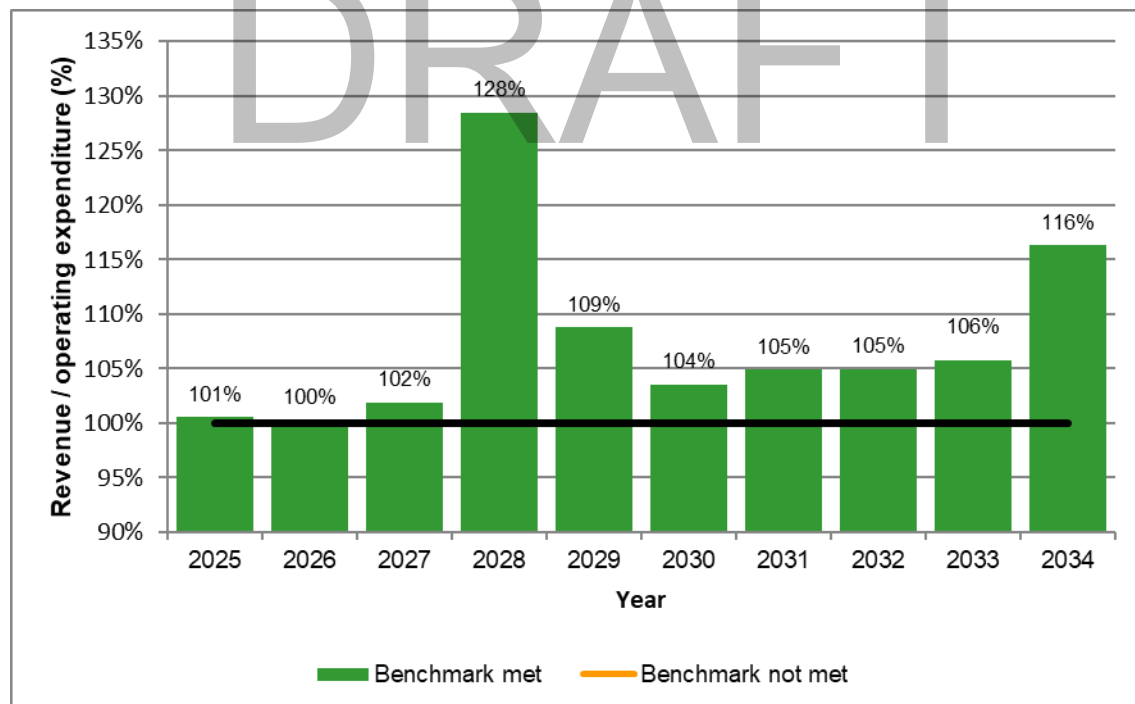
SUSTAINABILITY AND AFFORDABILITY

Ensuring a financially sustainable council requires us to ensure that we cover our normal operating expenditure with normal operating revenue. That means ensuring that we collect enough revenue from rates, fees, and charges to cover our operating costs.

Balancing our budget means that we only borrow to cover investment in assets that improve levels of service or service growth.

Council plans to maintain a balanced budget throughout the period of this LTP, as shown in the chart below. This includes, where appropriate, increased operating costs associated with planned increased levels of service.

Balanced budget benchmark – total revenue divided by total operating expenditure



The sustainability and affordability of the District is of the utmost importance to Council. To achieve this, we will balance desired infrastructure investment with the debt levels and rates income.

Council is confident that the economy of the Ruapehu District will remain fundamentally sound and that it will provide services at a reasonable cost over the next 10 year period, with active management and oversight from Council.

CURRENT CHALLENGES AND UNCERTAINTIES

This LTP is being prepared at a time of significant uncertainty. The Provided Forecasting Assumptions outline all of the significant forecasting assumptions in detail. The following summarises those assumptions that are most significant to Council's financial strategy with reasoning.

Council currently collects 72% of its operational revenue from rates, and 18% from grants. While this shields us from the direct effects of economic downturn in the region, the impact of any recession or fall in employment in the region will have an impact on the affordability of our rates for our community.

WATER SERVICES REFORM (THREE WATERS)

There has been considerable uncertainty about the final outcome of the three waters reform over recent years. The adoption of new legislation regarding compliance requirements has required significant additional investment which has increased our debt levels. Before the repeal of the current legislation we were expecting to receive a significant payment from Central Government to repay our debt which related to three waters. With the additional compliance requirements and the expectation of a payment, we accelerated some of our planned expenditure. For the first three years of this LTP, the budgeted expenditure on three waters has been reduced to an affordable level whilst still intending to meet the compliance requirements.

CLIMATE CHANGE

Climate change is a major management issue facing all infrastructure providers and existing infrastructure assets. The District is tested further as it has physical constraints / natural hazards including Te Kāhui Maunga, and is subject to intense weather events that need to be considered in the context of climate change impacts. It is also exposed to a variety of natural hazards including earthquakes and volcanic eruptions.

The impacts of climate change have been considered in more detail, and are embedded throughout, our Infrastructure Strategy and Asset Management Plans, which outline the ways in which planning for climate change is driving our investment needs. Responding to the effects of climate change and managing our carbon emissions, will continue to be a driver of investment over the long term.

SUBSIDIES AND GRANTS

The most significant areas of uncertainty are Council's reliance on grants and subsidies which impact our ability to deliver necessary capital works and maintain debt at an affordable level. Our financial strategy requires us to pursue all opportunities to obtain funding from Central Government and other third parties to offset projected increases in debt.

There is risk with Waka Kotahi NZ Transport Agency continuing to provide us with subsidised funding for the land transport network although this is an established and mature process and allows plenty of opportunities to discuss and agree on the subsidised programme.

There are several key projects included in the LTP for which external funding has been assumed. If that funding does not eventuate, then those projects will be put on hold for further consideration. Those projects are:

- Tātai Tāngata ki Raetihi - Town Revitalisation Raetihi service hub
- Raetihi Swimming Pool
- Mangateitei bridge
- Te Hangaruru Stage 2
- Matahiwi suspension bridge

BORROWING FOR CAPITAL AND IMPACT ON DEBT

Council accesses borrowing through the Local Government Funding Agency (LGFA). The borrowing limit set by LGFA is 175% of all Council revenue. Council's self-imposed debt limit is twice the amount

of rates revenue which is less than the LGFA limit. So funding from LGFA should be able to be accessed at the required levels into the future.

GROWTH AND DEMOGRAPHIC CHANGE

The District is home to a resident population of around 13,000 (Infometrics, 2023). The District experienced population decline between 2001 and 2016 and began to show signs of recovery in 2017. The resident population is predicted to have a modest increase overall between 2023 and 2043 under either of the low, medium, and high growth scenarios.

PROJECTED GROWTH: RUAPEHU DISTRICT URP 2020 - 2054											
	2020	2021	2022	2023	2024	2029	2034	2039	2044	2049	2054
HIGH	12,950	13,000	13,000	13,123	13,171	13,416	13,653	13,889	14,181	14,485	14,715
MEDIUM	12,950	13,000	13,000	13,123	13,166	13,371	13,531	13,662	13,796	13,904	13,947
LOW	12,950	13,000	13,000	13,123	13,161	13,324	13,404	13,421	13,388	13,290	13,139

The District's population increases dramatically with visitor numbers. The main holiday towns are National Park, Ohakune, Raetihi and Rangataua.

The District's age distribution is skewed reflecting residents, tourists, and holiday homeowners' profiles. Key trends in service age groups that need to be considered with our planning are:

- The District continues to have a higher proportion of children aged 0 to 11 when compared nationally.
- The 18 to 24 age group continues to decline and remain lower than the national average and is expected to continue to do so.
- The young workforce aged 25 to 34 proportion of the population is expected to remain constant.
- The population is aging and expected to continue:
- Empty nesters and retirees (aged 60 to 69) significantly increasing in number and this trend is expected to continue.
- Seniors (aged 70 to 84) are steadily increasing in number and following the significant increase of empty nesters and retirees, is expected to continue to slowly, yet steadily, increase.
- The number of elderly (aged 85 and over) is expected to remain steady.

Significant uncertainty relating to the future of Ruapehu Alpine Lifts (RAL) has arisen due to the announcement of liquidation. Options for the future operation of the infrastructure on the ski fields are still being worked through. Pure Tūroa have applied for a 10-year concession to operate the Tūroa Ski Area. If the ski fields are not able to operate in the future, this will impact tourism and economic development within the district.

Investment in infrastructure to service growth will be funded primarily by debt and some development contributions.

NATURAL DISASTERS

Council has taken into consideration the impact of any possible natural disaster, e.g., lahar, floods, eruption, earthquake, and other possible civil defence incidents. The financial strategy needs to be flexible to allow for these types of incidents.

Financial flexibility has been provided by an overdraft facility and ensuring our total borrowing remains sufficiently within the financial covenants imposed by our lenders to enable further borrowings in the event of a natural disaster.

CHANGES OF LAND USE

Council is not expecting any changes to land use over the term of this LTP in the District.

Some Council infrastructure assets are located on land that are currently part of Treaty Settlements. There is uncertainty with this current state and a pragmatic mechanism is required for dealing with these

assets. The location of these assets may need to be considered in future as they are replaced / upgraded.

CAPITAL DELIVERY

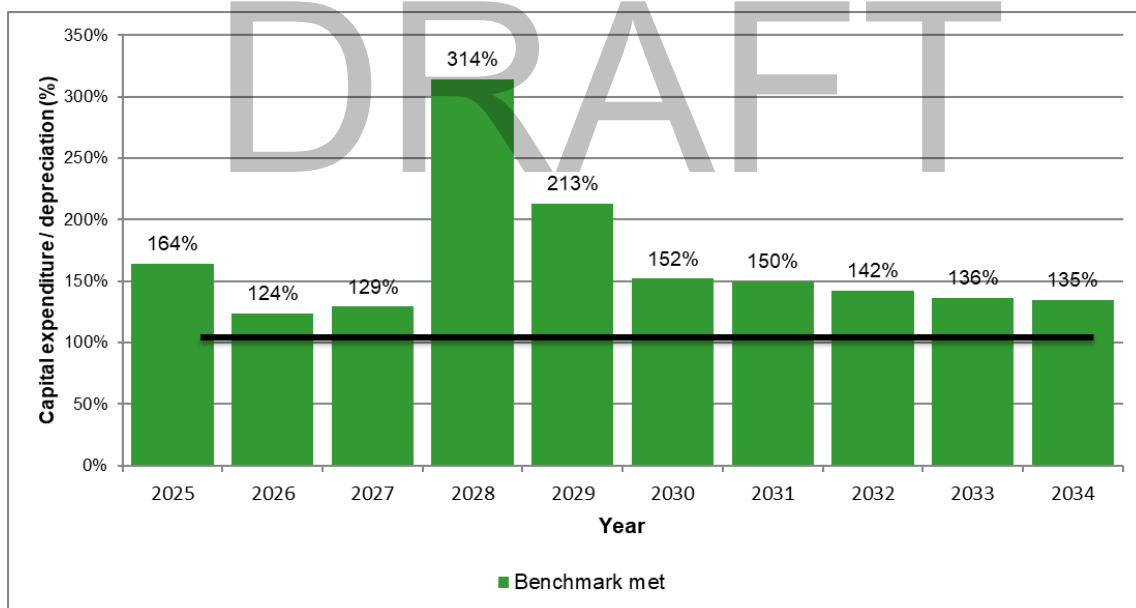
Council has committed to a capital programme that we believe is affordable and deliverable. Since the last LTP Council has established a project management office, adopted a project methodology and trained staff in how to use it.

LTP CAPITAL EXPENDITURE

Council's planned capital expenditure programme for the LTP period is summarised in the charts and table below and detailed in our Infrastructure Strategy and Asset Management Plans.

Council plans to spend more on capital projects for infrastructure assets than its annual depreciation cost for every year of the LTP. This is shown by our performance against the essential services benchmark shown below.

Essential services benchmark (capital expenditure on infrastructure assets divided by depreciation)



The majority of this investment is being applied to the renewal of our existing assets, which ensures that we are able to continue to provide existing levels of service. Levels of service investment is driven predominantly by legislative and regulatory compliance, and community expectations.

Breakdown of forecast capital expenditure by activity and capital expenditure driver

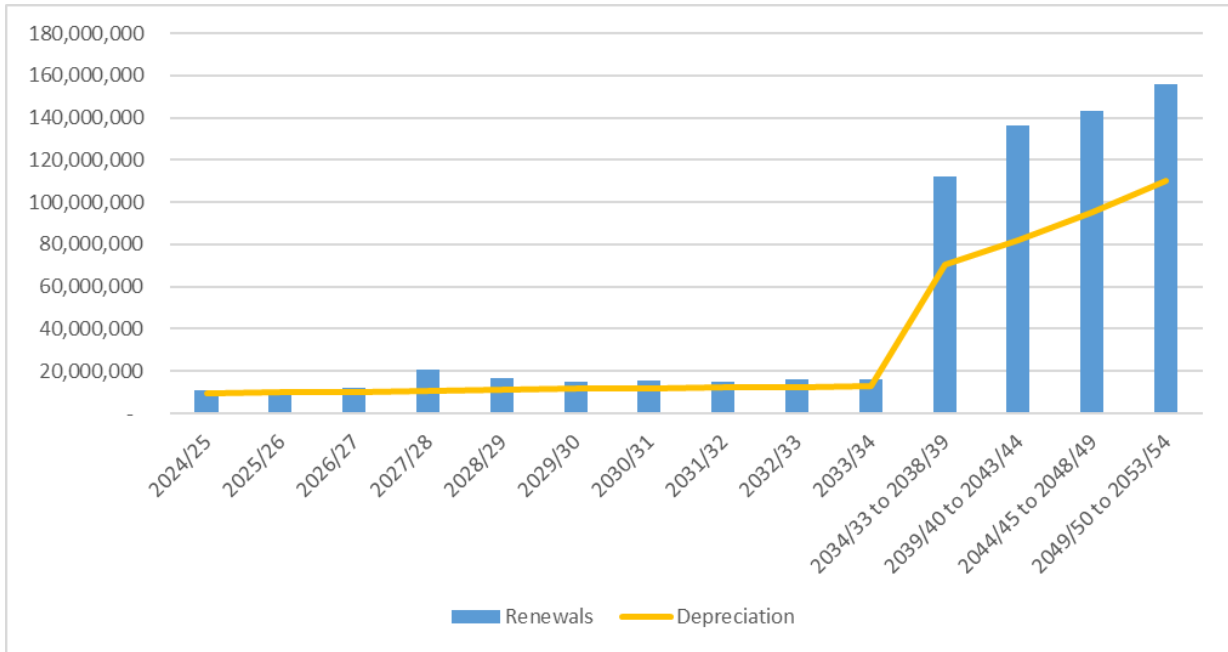
10 year Forecast CAPEX Spend (\$'000)					
	Growth	Level of Service	Renewal	Total	% of total
Land Transport	676	23,674	106,467	130,817	59%
Water supply	0	6,217	20,754	26,971	12%
Wastewater	856	6,141	19,401	26,397	12%
Community Facilities	0	14,169	2,154	16,323	7%
Waste Management	0	5,711	1,120	6,832	3%
Stormwater	0	0	2,590	2,590	1%
Regulation	0	623	0	623	0%
Community Support	0	750	2,145	2,895	1%
Leadership	0	1,250	96	1,346	1%
Organisational Support	0	1,593	4,750	6,342	3%
Total Forecast Spend	1,532	60,128	159,476	221,137	100.00%

RENEWALS

Renewals are where we replace assets (or parts of assets) as they start to age and fail. This is funded primarily through rates via the depreciation calculation, and grant funding from Waka Kotahi NZ Transport Agency. Renewals are the largest part of the capital expenditure and enables Council to keep its infrastructure and services at the current level. It does not allow for improvements. Where renewal work exceeds funded depreciation levels in a given year, debt may also be used. Examples of this would be bridges that create 'peaks' in capital work forecasts.

The level of renewals set for this Long Term Plan is less than desirable and has been set at this level to keep our rates increases to 9% for the first 3 years. Renewals particularly for Land Transport then increase from year 4 and there should be limited effect from deferring this maintenance. Over the next 2-3 years, we intend to thoroughly assess our infrastructure assets and, in collaboration with our community, make some tough decisions about their future.

Combined renewals and depreciation 2024-54



POLICIES ON LENDING AND INVESTMENTS

Council's policies on issuing securities for borrowings and its objectives for holding and managing investments are outlined in its Treasury Policy (Investment and Liability Management) which is available via Council's website, or a hard copy will be supplied upon request, and summarised below.

POLICY ON GIVING SECURITIES

Security will be provided over rates revenue (per section 115 of the Local Government Act 2002) unless special circumstances require security over assets or specially deemed rates. Security will not be given over one or more of Council's assets without prior Council resolution.

Where borrowing is by way of finance lease or some other form of trade credit under which it is normal practice to provide security over the asset concerned, Council may offer security over the asset.

OBJECTIVES FOR HOLDING AND MANAGING INVESTMENTS

Council is a risk adverse entity and therefore takes a prudent approach to managing its investments. Council seeks to maintain diversity in its investment portfolio to spread and minimise risk.

Council generally has three types of investments:

- (a) Strategic Investments - investments made or held in alignment to Council's strategic direction and typically retained on a long term basis. These include property investments - i.e. land and buildings (including subdivisions) – quarries, forestry and property vested in the Council.
- (b) Equity Investments - equity (ownership) participation in a private (unlisted) company (including Council Controlled Organisations) or a start-up (a company being created or newly created). Such investments may not necessarily provide a financial return to Council, and may be held for wider social, tactical and/or economic reasons. Notwithstanding, Council will continue to actively seek opportunities for a financial return from all such investments.
- (c) Treasury Investments – short to medium term financial investments that maximise financial return but ensure an appropriate level of liquidity for forecast expenditure.

KEY LIMITS

Measure	Limits
Rate Charges	Rates increase less than LGCI index plus 3% over ten years limits reviewed every three years.
Debt	Less than twice annual rates revenue.
Balanced Budget	Council's revenue exceeds operating expenditure as defined in the Local Government (Financial Report and Prudence) Regulations 2014.

KEY FINANCIALS FOR LTP PERIOD

	23/24 AP \$m	24/25 LTP \$m	25/26 LTP \$m	26/27 LTP \$m	27/28 LTP \$m	28/29 LTP \$m	29/30 LTP \$m	30/31 LTP \$m	31/32 LTP \$m	32/33 LTP \$m	33/34 LTP \$m
Rates Levied	28.6	31.3	34.4	37.7	39.8	41.9	43.9	46.1	48.3	50.7	53.1
Total Revenue	51.9	51.5	57.5	63.2	80.0	70.2	69.8	72.0	74.7	77.5	86.2
Operational Expenditure	47.4	51.1	57.2	61.9	62.2	64.4	67.2	68.5	71.0	73.2	74.0
Capital Expenditure	21.9	17.3	14.3	16.0	37.4	27.7	22.2	19.6	18.5	19.1	29.0
Total Borrowings	60.8	64.3	65.9	67.9	74.3	82.4	87.7	88.9	88.6	87.7	88.7

FUNDED DEPRECIATION

Council has not fully funded depreciation on the following assets for reasons as stated below.

Activity	% depreciation unfunded	Reason for not fully funding
Pensioner Housing	100%	These assets are unlikely to be replaced
Community Halls	100%	These assets are unlikely to be replaced
Land Transport	72%	Council only funds depreciation on subsidised Land Transport assets to the level which is funded by Council as it is assumed that future replacements will continue to be funded from NZ Transport Agency
3 Waters	63%	Significant new assets were created since the last LTP which were funded by grants from Central Government. As they are unlikely to need replacing in the near future, the decision for the 2023/24 Annual Plan was to not fund depreciation on those assets as it was expected that they would move to the new 3 Waters entity. This decision has been carried forward for this LTP, but we will need to transition to fully funding this depreciation in the future.