

Te Kaunihera-ā-Rohe o Ruapehu  
Ruapehu District Council



# FINANCIAL STRATEGY

## 2021-2031



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# FINANCIAL STRATEGY

## SUMMARY

This strategy outlines where Council currently is, where it is heading and how it is going to get there. Council believes that this Financial Strategy outlines a reasonable approach to Council's finances for the next ten years. We expect to be able to provide the finances necessary to carry out the works envisaged in the Infrastructure Strategy and provide the services the public expects whilst keeping our financial options open. Debt is forecast to exceed Council's conservative self-imposed limits, as explained in the Strategy, but other benchmarks are within acceptable limits. However this will not come without major challenges.

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 a number of our drinking water treatment plants have not been meeting drinking water standards, and significant investment is now also needed to improve wastewater treatment quality and minimise the impact of overflows to the environment.

Council now wishes to ensure that we are meeting our legislative, regulatory, and environmental obligations to our community and key stakeholders.

To get there, we will have to accelerate the investment programmes, mainly in water supply and wastewater, and significantly increase our projected debt levels.

It is expected that debt will rise markedly towards the end of the ten year period because of the expected need to improve water and sewage treatment plants. Without the receipt of grants from Central Government or other third parties, our debt is expected to grow to \$100M which will exceed Council's conservative self-imposed prudential borrowing limits. While the forecast debt level is affordable (but not ideal) for our community within the 10 year window of this LTP 2021-31, Council acknowledges that the *subsequent* 20 years covered by this strategy would need to be reviewed if debt continued to climb at the rate of the first 10 years. This would be further impacted by what the future of the 3 Water review would hold, and what subsidies and grants become available for investment in that space. It should be noted that the receipt of subsidies or grants from Central Government has not been modelled (with the exception of Waka Kotahi subsidy and the portion of the three waters stimulus funding for which we have a signed funding agreement in place) but would substantially reduce our future borrowing requirements.

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 minimize the debt burden on ratepayers, to the extent that it is able to do so while still meeting regulatory and legislative requirements. Finally, Council has a number of opportunities to review their financial position both in the Annual Planning cycle, and may need to consider revising its self-imposed debt limits at the next Long Term Planning cycle to ensure it is fit for purpose. In short, debt will not be allowed to continue climbing unabated past year 10 of the Plan, and it is anticipated that Council's efforts to obtain funding elsewhere will make the current forecasted 'worst case scenario' an unlikely outcome.

This financial strategy outlines how RDC 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 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. However, this result has still resulted in significant increases in our total borrowing and we are very aware that a good continued financial environment is not inevitable. It will require active management and oversight by Council and its executive team.

## INTRODUCTION

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

This financial strategy summaries the overall direction of Council as proposed in the LTP budgets. These budgets have been prepared in the context of the following policies.

The following policies also form part of the overall financial direction of Council. In the LTP and available on Council's website, or on request:

- (a) Revenue and Financing Policy,
- (b) Treasury (Investment and Liability Management) Policy,
- (c) Asset Management Policy.

The following related documents are also available on Council's website, or on request:

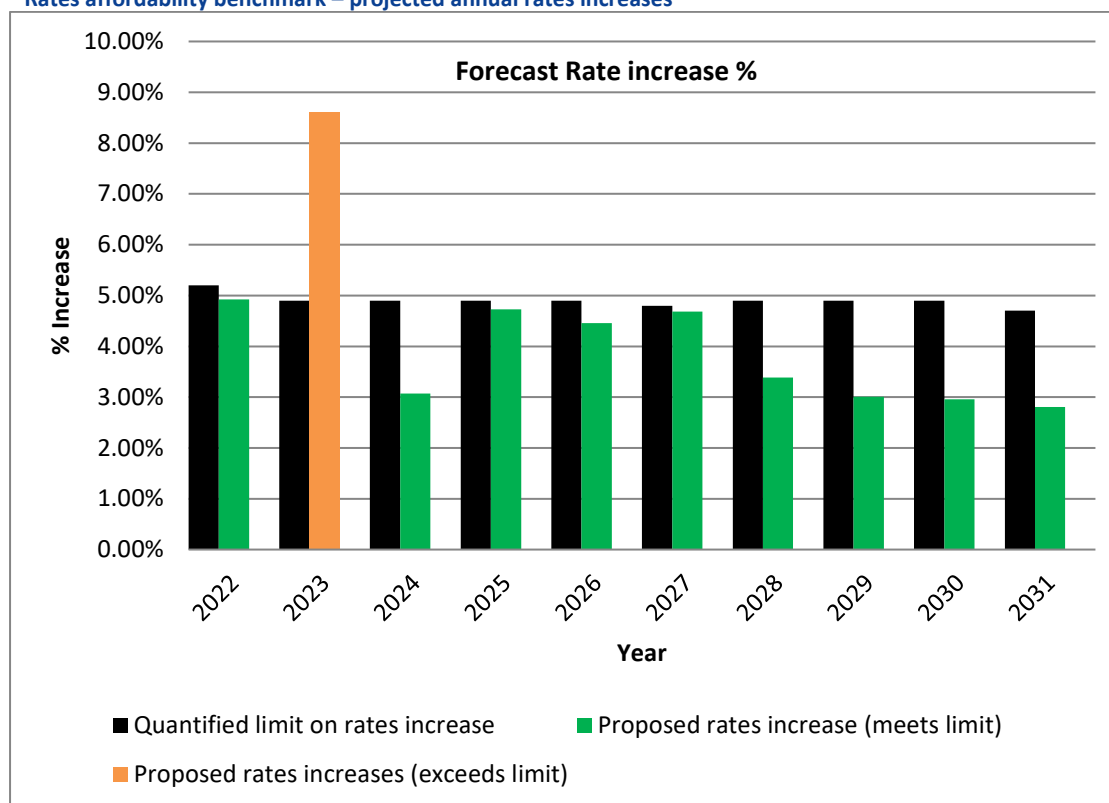
- (a) Rates Remissions Policies,
- (b) Rates Postponement Policy,
- (c) Rates Remission (Māori Freehold Land Policy),
- (d) Development Contributions Policy.

All financial information presented in our strategy includes inflation, except for the graphs which present the renewal and depreciation expenses. Inflation has been determined using the Local Government Cost Index (LGCI) prepared by BERL Economics 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 rates increase year on year at the Local Government Cost Index (LGCI) plus 2%.

**Rates affordability benchmark – projected annual rates increases**



Source: Council's LTP budget (as at June 2021)

The reason that the limit is more than zero is that Council must have some flexibility in organising its finances and that, historically, it has been called on to perform more and more functions. This demands a greater level of resource to finance.

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

We are forecasting to breach our quantified limit on rates in 2022 and 2023 due to a loss of revenue from DOC deciding to manage its own wastewater treatment plant in Whakapapa (in 2021/22), increasing compliance and regulation costs, and increased debt servicing costs associated with fast tracking of three water upgrades.

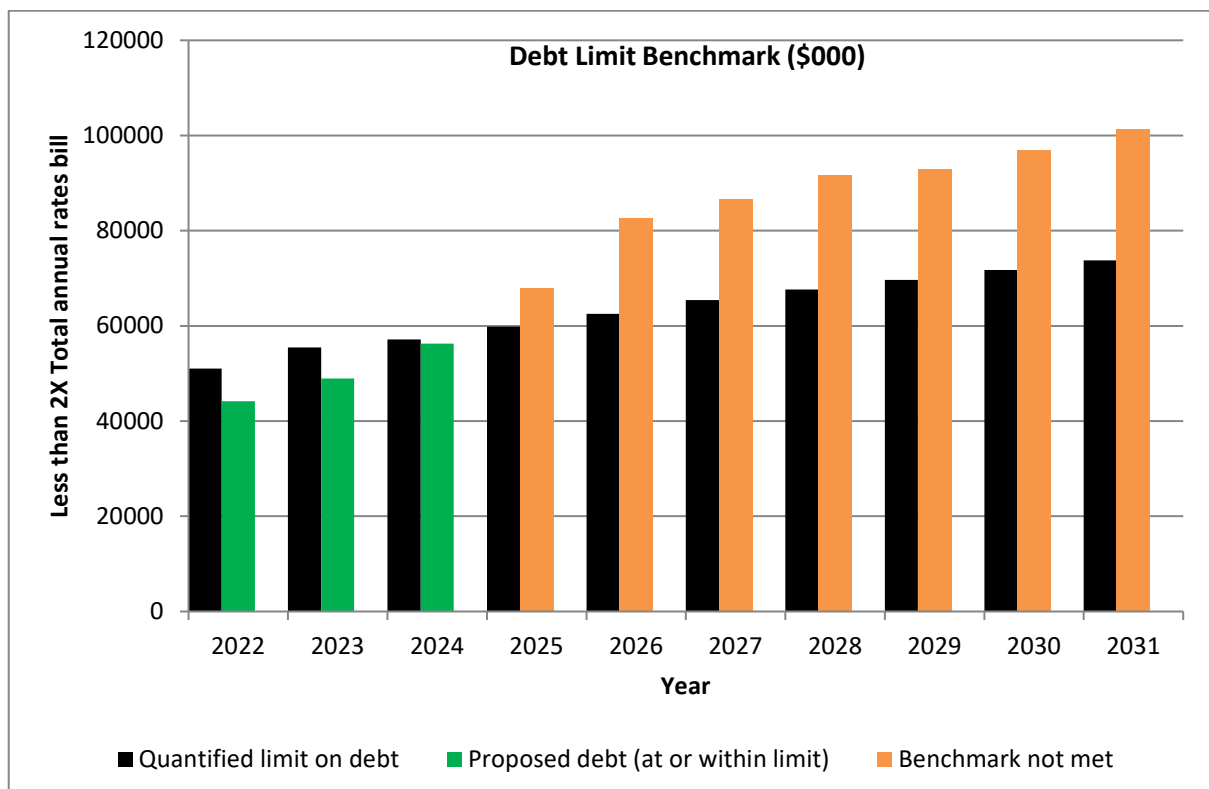
Rates and the incidence of rates are set out in the Revenue and Financing Policy.

## DEBT LIMIT BENCHMARK

Council uses debt to account for intergenerational equity. This means that Council considers that future ratepayers should pay some of the cost of services and infrastructure they will use. Due to increasing level of service expectations, particularly in relation to investment in three waters infrastructure to meet new regulatory requirements, Council is planning to make much greater use of debt in this Long Term Plan than it has in the past.

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 the total annual rates bill for the long term plan period.

### Quantified limit on borrowing – projected debt levels and benchmarks



Source: Council's LTP budget (as at June 2021)

Our modelling predicts an increase in debt from a current level of \$29m to \$100m over the ten years, which will see us exceed our limit on borrowings. We will however continue to remain within the financial covenants imposed by our lenders.

Much of this rise in debt is expected to be offset by government subsidies for Water and Wastewater Treatment Plants. Careful consideration will be necessary to decide what projects will then proceed, and the impact and likelihood of council receiving these grants is outlined in Grants and Subsidies Section.

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

- (a) It may be increased to spread out "rates shock" that may occur for various reasons,
- (b) It will increase markedly when large projects are built,
- (c) It may decrease as Council accumulates funds for future projects,
- (d) It may decrease if Council is successful in obtaining grants or subsidies from third parties (e.g. central government),
- (e) It may increase when a project is delayed,
- (f) It may increase because of natural disasters. The ability to raise debt is one of Council's mitigations against unexpected events. Council maintains a \$3m 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 shocks.

## **LEVELS OF SERVICE**

Managing levels of debt, rates affordability, and levels of service is a careful balancing act that makes tradeoffs against each element against the other. 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 that 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 long term plan (other than increases required by legislative change).

In general, we plan to maintain existing levels of service. Additionally, this plan proposes a number of projects in which we plan to improve the levels of service that we provide to our community. These changes in Level of Service will include some of the "Spade Ready" projects and other funding for projects that RDC has received from Central Government (for example cycle ways). Council expects to improve its services in the following areas:

- (a) Urban revitalisation in the centres of its main towns.
- (b) Water and Wastewater treatment plants are likely to have to be upgraded as resource consents are renewed and many must be upgraded to meet increasing regulatory enforcement and standards.
- (c) More tourist focused infrastructure such as car parking and toilets are likely to be required.
- (d) Housing.

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 RDC's 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.

## INCREASES IN OPERATION COSTS FROM MANDATED IWI RELATIONSHIPS

RDC is aware of the financial challenges that will need to be met as RDC works towards the concepts describe in the Local Government Act (put in act) in our relationships and engagement with iwi at both the operational and governance levels. To manage this within the rate increase limits, described in this Strategy, Council will work with Central Government on funding to achieve this.

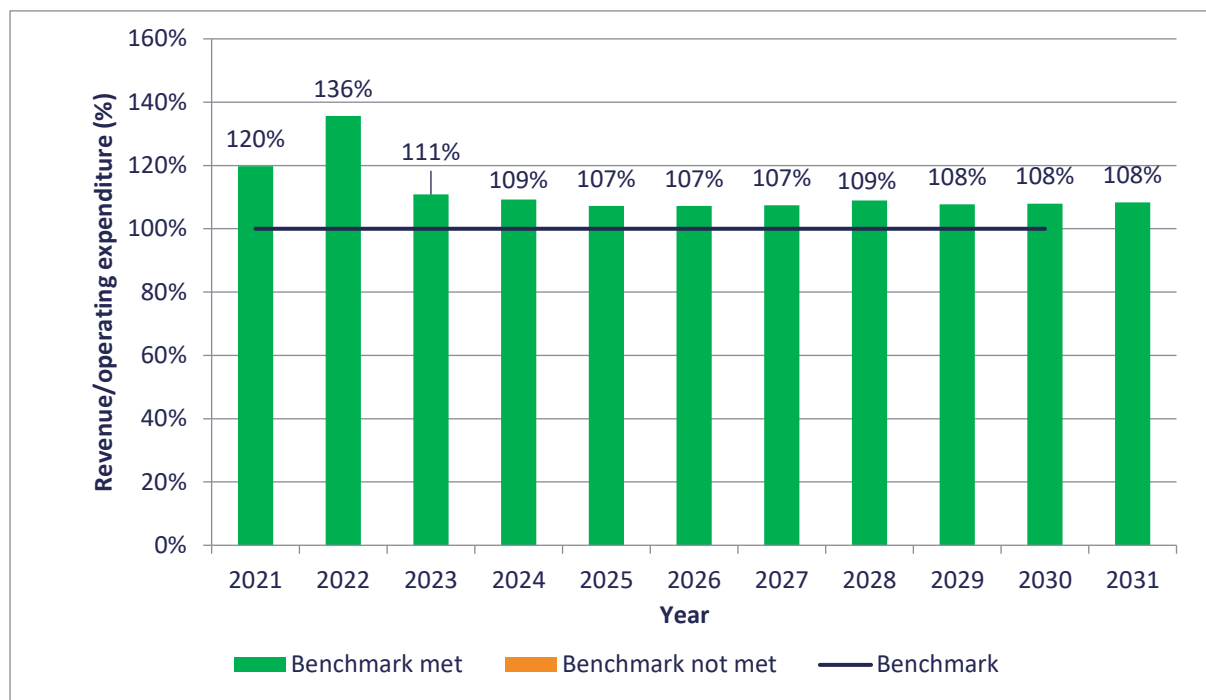
## SUSTAINABILITY AND AFFORDABILITY

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



Source: Council's LTP budget (as at June 2021)

The sustainability and affordability of the District is of the utmost importance to Council. To achieve this, we will balance the desirable Infrastructure investment with the debt levels and rates income we can afford, while taking into account the uncertainties government subsidies for the Water and Waste Water investment necessary.

Council is confident that in the long term the economy of the Ruapehu is fundamentally sound and that it will be possible to 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 significant forecasting assumptions outline in detail all of the significant assumptions. The following summaries those assumptions that are most significant to Council's financial strategy and why.

### COVID-19

During the past year New Zealand has faced the challenges of dealing with a global pandemic. New Zealand's response so far has focused on insulating the country from the virus through strict border control and intermittent restrictions on personal movement. While this has largely protected the country from the health impacts of the virus, it has had clear impacts on both domestic and international tourism (the latter being almost entirely absent).

Ruapehu District Council currently collects 70% of its operational revenue from rates, and 20% from grants. While this insulates 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. This may require consideration of potential hardship leniency from Council.

### THREE WATERS

The government has embarked on a major programme or structural and regulatory reform of the delivery of three waters (drinking water, wastewater and stormwater) services, which is likely to have major impacts on the Council, and in particular:

- The establishment of Taumata Arowai, the water services regulator, and impacts of the Water Services Bill is likely to result in a significant uplift in operating costs and investment requirements in the district. In this LTP Council is fast tracking investment in three waters assets to ensure that it is able to meet the required standards.
- The potential structural reform could have significant impacts on council's income, expenditure, balance sheet, and resources. At this stage it is unclear what structural reform may look like, and it is unlikely that it will have any impact in the next three years.

### CLIMATE CHANGE

Climate change is a major management issue facing all infrastructure providers and the built environment. Ruapehu District is tested further as it has physical constraints / natural hazards including the Mountain 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 ability to deliver our needed 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, which will help to offset projected increases in debt.

There is less risk with Waka Kotahi NZ continuing to provide us with subsidised funding for the land transport network. This is an established and mature process and allows plenty of opportunities to negotiate.

However, while there is a level of uncertainty regarding Council's ability to successfully gain the full three waters stimulus grant that has been applied for from the Government for upgrading water standards and wastewater assets across the District, we are planning to undertake these upgrades regardless of the success of the funding application (a portion of this funding has already been secured through a signed funding agreement and has been included in our financial projections for year 1 of LTP). It is untenable for Council not to comply with the Drinking Water Standards. Council will be

exploring alternative funding options and will investigate opportunities to alter scope and timing to reduce this risk. We therefore expect that we likely need to consult with the community through exceptions to future Annual Plans.

A high-level assessment of the levels of uncertainty for gaining external funding and delivering the capital programmes is summarised in the following table.

**Impact of reliance on grant funding**

Activity	Is this require (i.e. must do)	Grant funding source	Third party investment certainty	Potential Debt impact	Chance of practical delivery	Comments
Water supply	Yes	DIA / MIBE	Moderate	High	Moderate	There is a strong chance that funding support from Central Government will be available to fast track drinking water reform changes. However, this Long Term Plan cannot include this possibility with key assumptions due to timing of any such announcements.
Wastewater	Yes	DIA / MIBE	Low	High	Moderate / low	There is also support for the idea that drinking water outcomes will be prioritised, and imminent funding support announcements for wastewaters appear a little further off
Stormwater	Yes	DIA / MIBE	Low	Moderate / low	Moderate	Long Term Plan does not make any assumptions around possible funding opportunities in support of Storm Water. Environmental standards continue to shift the focus and outcome requirements in this space, and planning with certainty is quite challenging
Land transport	Yes	Waka Kotahi	Very high	Limited	High	Well established supply chain and committed funding. There is potential that some bridge work not covered by Waka Kotahi will require Council to fund which it would do through debt. These are one off items in what is otherwise a very stable work programme.
Community Facilities (Town Revitalisation)	No	Varied/ both Public and private investor potential	Moderate/Low	Moderate/High	Moderate/High	LTP includes a number of Township Revitalisation outcomes that are to be debt funded to account for intergenerational equity. These would go ahead in consultation with community regardless of external funding, but Council is very open to using proposed budgets as 'seed funding' with other partners to deliver further value than forecast. However, 3rd party investment cannot be assumed in this LTP, and as such counts as 100% RDC investment. Practical delivery will have strong political and community support, and supply chain issues are somewhat lessened in this activity due to lower competition for resources from out of district or competing priorities.

## **GROWTH AND DEMOGRAPHIC CHANGE**

Over the next decade Council's long term growth projections suggest the number of jobs in traditional occupations of the usual resident population of Ruapehu will continue to decline. Over the same period the number of tourist related jobs was expected to increase. Taking account of the effects of Covid19, this is expected to slow down, in the short term, but resume in later years. With this increase and the number of tourists, Council has assumed that the cost of providing its services will increase. These assumptions and their impact on each service is outlined in each AMP. The number of visitors also challenges and puts pressure on Council's assets. This is most obvious in the water and sewage treatment services. The amount of refuse and recycling collected is another good indicator of tourist sector growth. Council needs to consider the visitor industry when setting its levels of service and assets development.

This LTP allows for this growth with major projects that can be divided into two categories:

- The first is the need to cope with larger volumes for water supply and effluent disposal in the tourist hotspots, principally Ohakune. These are counted as growth projects.
- The second is the continuing project to revitalize our town centres, to make them the focus of growth in vibrant and diverse living spaces. Significant capital works are proposed for Town Centre Revitalisation in the next ten years.

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.

The 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.

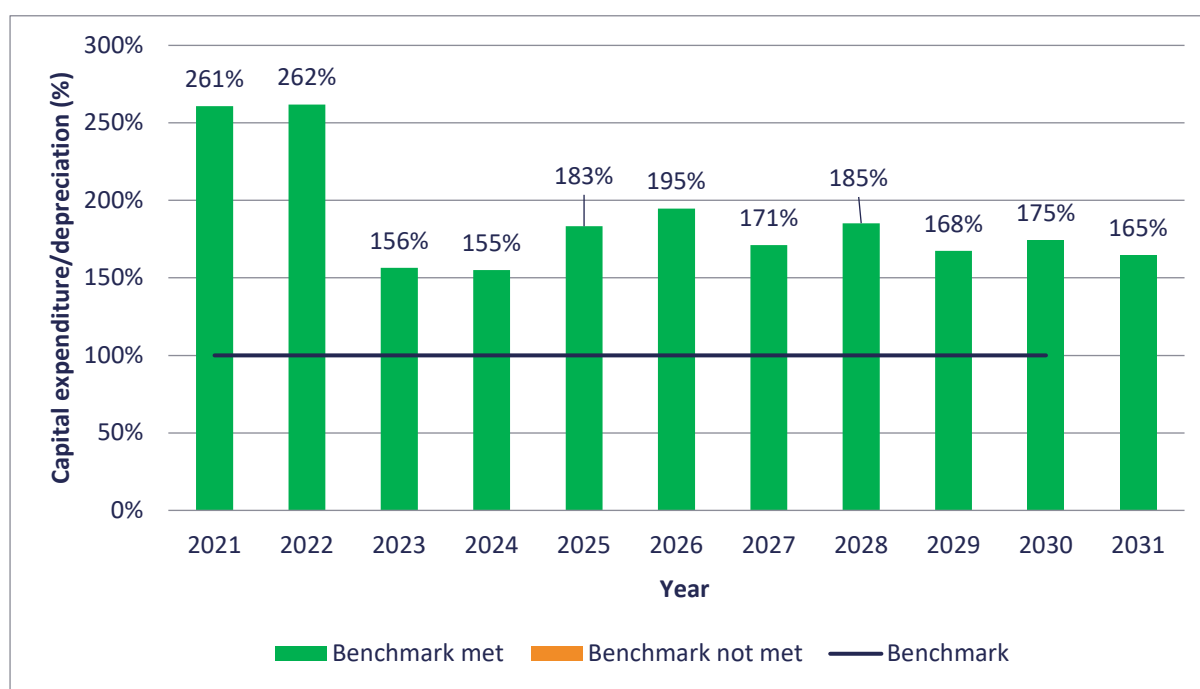
Some Council infrastructure assets are located on land that are currently part of Treaty Settlements. There is uncertainty with this current state and a pragmatic mechanism is required for dealing with these assets. The location of these assets may need to be considered in future as they are replaced / upgraded.

## 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 long term plan as shown by our performance against the essential services benchmark shown below.

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



Source: Council's LTP budget (as at March 2021)

The majority of this investment (63%) is being applied to the renewal of our existing assets, which ensures that we are able to continue to provide existing levels of service. Level of service investment is driven predominantly by legislative and regulatory compliance in 3 Waters, and community expectations around Township Revitalisation outcomes.

### Breakdown of forecast capital expenditure by activity and capital expenditure driver

	10 year Forecast CAPEX Spend (\$000)				% of total
	Growth	Level of Service	Renewal	Total	
Land Transport	936	29,058	92,165	122,159	51.8%
Water supply	2,037	18,316	30,447	50,800	21.6%
Waste Water	2,419	7,707	16,735	26,862	11.4%
Community Facilities	9,154	7,971	1,366	18,391	7.8%
Stormwater	644	2,612	2,905	6,161	2.6%
Community Support	-	402	808	1,209	0.5%
Waste Management	178	846	-	1,024	0.4%
Regulation			7	7	0.0%
Support and Overhead	-	3,341	5,703	9,044	3.9%
<b>Total Forecast Spend</b>	<b>15,368</b>	<b>70,232</b>	<b>150,051</b>	<b>235,651</b>	<b>100%</b>

Source: Council's LTP budget (as at June 2021) – inflated

## 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. 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 or 3 water plant renewals that create 'peaks' in capital work forecasts.

Depreciation provisions have been set by Industry standards rates that have remained constant for many years until recently. RDC has been gathering data on its life cycles and decided to extend the life cycles for it's in ground pipe assets.

	2015 – 25 LTP	2018 – 28 LTP	2021– 31 LTP
<b>Water Supply Pipes</b>	40 – 80 years	60-110 years	60-110 years
<b>Wastewater Pipes</b>	50 – 80 years	60 -92 years	60 -92 years
<b>Storm water Pipes</b>	50 – 60 years	70 – 92 years	70 – 92 years

Because much of our underground pipe asset is less than 50 years old this does not affect immediate Expenditure but does affect our long-term modelling.

This is discussed in more detail in the Infrastructure Strategy and the relevant AMPs.

## 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
<b>Rate Charges</b>	Rates increase less than LGCI index plus 2% over ten years Limits reviewed every three years.
<b>Debt</b>	Less than twice the annual rates bill.
<b>Balanced Budget</b>	Council's revenue exceeds operating expenditure as defined in the Local Government (Financial Report and Prudence) Regulations 2014.