Financial Strategy

Proposed commencement: 01 July 2024

Proposed review date: 01 July 2027

Overview

This Financial Strategy sets out how Council plans to fund its operations and what the impact will be on rates, debt, and level of service. It outlines our overall approach and how Council is demonstrating prudent financial management. Once adopted, the Financial Strategy acts as a reference guide when we make decisions.

Kaipara District suffered major, long-lasting damage to its critical infrastructure during the extreme weather events, significantly lengthening the recovery phase for Kaipara, which is anticipated to take many years. A central Government emergency recovery order means we are one of eight councils around Aotearoa New Zealand who are able to adopt a three-year, unaudited plan with a focus on recovery.

Council is also operating in an uncertain and challenging environment, with increasing inflation, central government reforms and continuing supply chain disruptions.

Central Government has repealed the Water Services Act and replaced it with their own Local Water Done Well policy. This changing legislative environment means three waters services are now to be included in Council activities.

With three waters services now being retained, and the impact of recovery from the extreme weather events, time and funding have been the core constraining items in the LTP.

Strategic direction 2024-2027

- Completion of critical repairs to roading and resilience of the roading network. The focus of this three-year plan is recovery from the extreme weather events. In offering the emergency recovery order, government could see that a ten-year plan would not be accurate as many of the repairs required are longer term, and staff are not in a position to understand the extent and value of the remediation work from Cyclone Gabrielle and the other weather events.
- Focus on the roading and transport programmes over the next three years is recovery, adjusting costs to include inflation and each year minor level of service improvements. Further increased funding of roading budgets to ensure a more resilient roading network and increase in Level of Service from current to meet the new emphasis from Council, to have Dependable Roading. The key challenge is firstly to ensure there is provision to get our roads repaired and rehabilitated and then ensure we maintain our levels of service, having increased resilience built into the network.
- Increase investment in infrastructure for three waters services, and extending asset lives. Much of our infrastructure needs upgrading as a result of growth or as in the case of many of our wastewater treatment plants, needs to be upgraded to meet technological and environmental standards. With the Three Waters Legislation being repealed, Council is in unfortunate position, where investment over the next three years has been significantly reduced to ensure rates remain affordable. Many of the assets will have their lives extended in use where possible.
- Additional investment in parks maintenance is a response to the backlog caused by the storms, growth in Mangawhai and a prior deficit in funding throughout other parts of the district. Renewals and upgrade in level of service are planned for non-growth areas infrastructure in Council open spaces and public toilets.
- Key strategic projects are planned for areas of growth, with new community hubs (which include library services) planned for Mangawhai and Dargaville, and new Mangawhai Pensioner housing units being completed.
- A key focus of this Council is economic development and it has recently appointed an adviser to lead this process. The economic development strategy will be developed first so that any future projects can then be identified.

Key points of the Financial Strategy 2024-2027

To support this strategic direction, the financial strategy:

- Recognises debt is being used to fund approximately 20% of the capital projects as there is very little external funding apart from roading subsidies available to Council.
- Recognises external debt is limited through negotiated funding limits at $100 million.
- Determines Councils net loan interest will be no more than 15% of its total revenue.
- Determines liquidity has to be greater than 110%
- Manages debt to achieve intergenerational equity and manage repayments of principal.
- Maintains a balanced budget.
- Works towards increased funding of depreciation of all assets with the exception of transportation assets (which for the most part is funded by general rates and NZTA subsidy) to 100% so that renewals can be funded. Parks assets, open spaces assets, facilities and district leadership assets are funded to 50%.
- Ensures we continue to do the basics; we maintain and renew our assets across the existing transport and waters networks. Specifically, Council has put more funds into roading as our community has told us this is important to them. At the end of the three-year period the level of service should have noticeably improved for roading and be back to pre-event funding.
- Considers affordability to ratepayers. Council needs to absorb around 40% in increased costs that has occurred over the last two years in roading alone. A large increase in the average rates rise in the first year reflects this. Continued growth in the district will aid in helping to reduce rates as well. Council knows this first-year increase will be difficult for its ratepayers but recognised the Council does not want to go backwards with its service levels.
- Maintains and provides for renewal of our existing assets, as this is an important focus of our Infrastructure Strategy. This does have a direct impact on rates increases to get to the correct base level of expenditure in the first year.
- Ensures development contributions are set to recover the cost of growth.
- Considers other sources of revenue to fund projects where this is possible. Eg grants, subsidies, and Investments.

Issues having a significant impact on Council

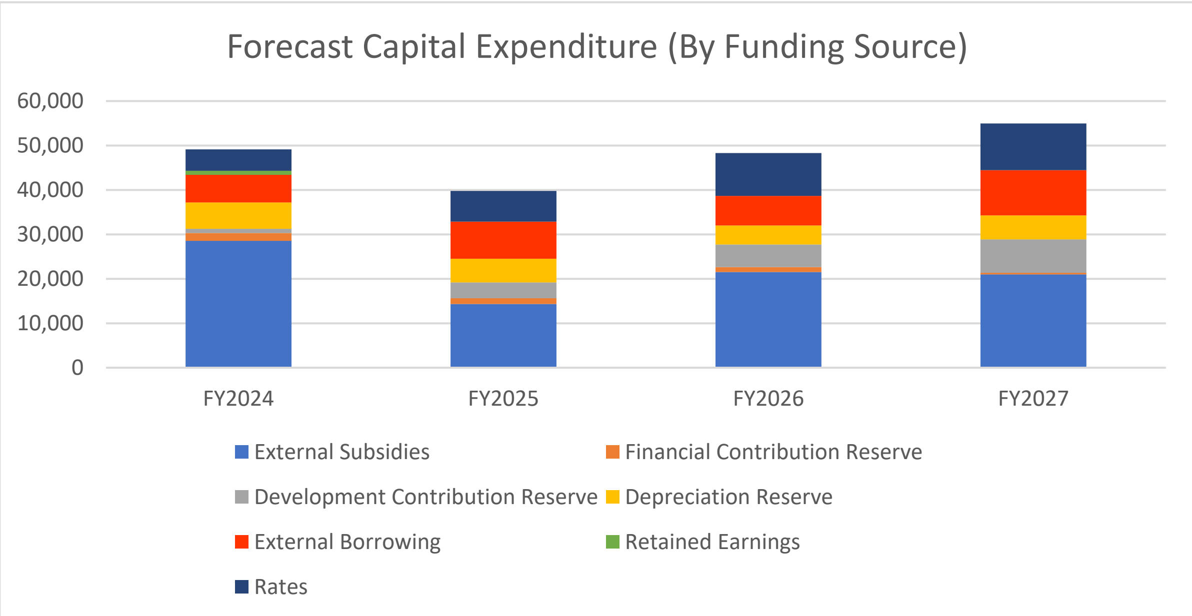
Capital expenditure with emphasis on roading recovery

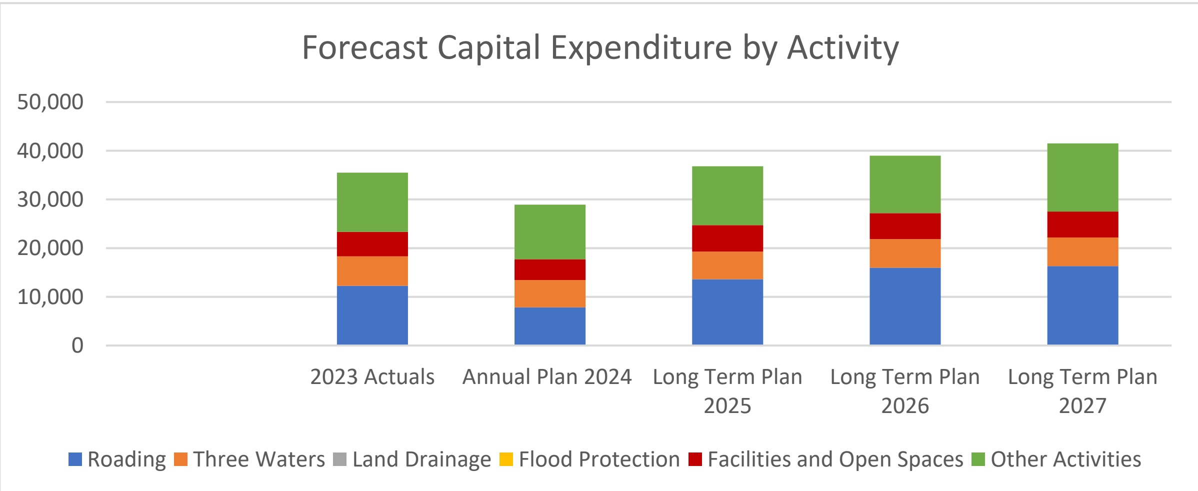
The focus for this Long Term Plan 2024 – 2027 is on recovery activities and building resilience in our network. Since the 2023 extreme weather events Council has been rebuilding damaged three waters infrastructure with funding coming from insurance, the Local Government Flood Resilience Co-Investment Fund, and where possible, Council's own surplus funds. Our roading network repairs in the first year subsequent to the storm were100% subsidised by New Zealand Transport Agency (NZTA).

Aside from roading work or work identified as a carry over, most infrastructure damaged in the extreme weather events has been repaired and upgraded. Any ongoing roading repairs needed as a result of the extreme weather events are eligible for a higher NZTA subsidy of 82%.

While funding from the government covers a significant portion of emergency works, Council must still make up the shortfall (from 0% to 18%).

There is still some stormwater and flood protection capital works to be completed in the first year.



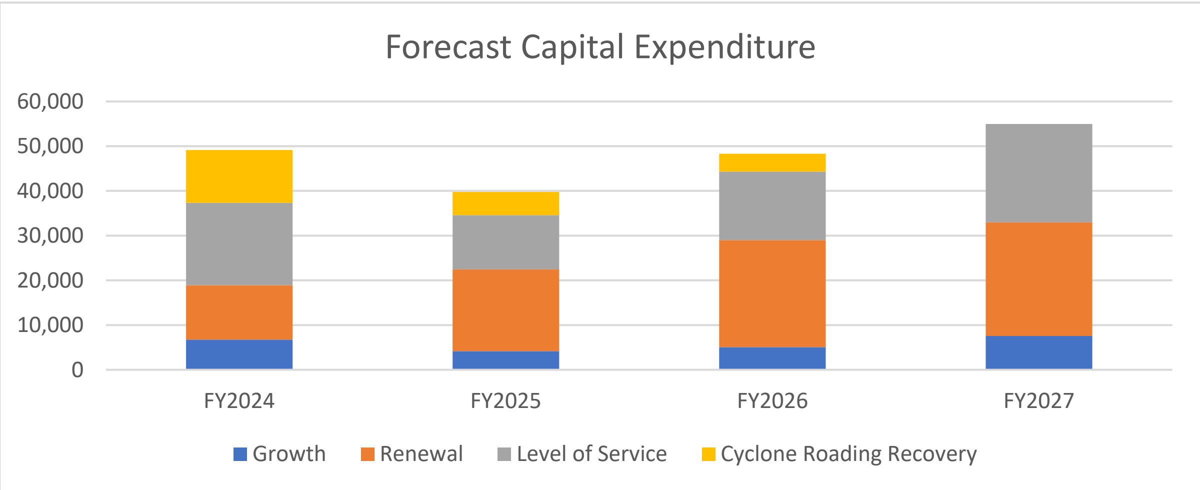


Underinvestment in infrastructure - Level of Service

Much of our infrastructure needs upgrading to meet new environmental standards as resource consents fall due, and there has been historic underinvestment in network renewals. Grants released from the previous government funded some of Councils' capital asset replacements, primarily three waters. For this LTP period Council is looking at better utilisation and spending marginal costs to take advantage of what's in place already. Our base asset information has improved and Council knows what has to be replaced but this is tempered by the limited ability of the community to fund the investment required. Council will maintain the same level of service for water supply, wastewater and storm water. It will continue to meet Taumata Arowai standards for clean drinking water. Council is looking to central Government to tell us what Local Water Done Well is going to look like as this Council is struggling to make the reinvestment required in this area.

The emphasis for investment in the next three years is on our roading and parks network. There is still less expenditure in bridges, drainage, reseals and rehabilitation work than Council requires even though the investment required has increased.

The investment in parks has been to clear the backlog of vegetation management and maintenance from the disruption of storm damage and to lift the level of service. Increased expenditure has now been provided to fund more frequent mowing and vegetation clearance along with tree trimming. In Mangawhai there is a growth in open spaces areas as Council has to provide for this as the population grows.



Investment in our Communities

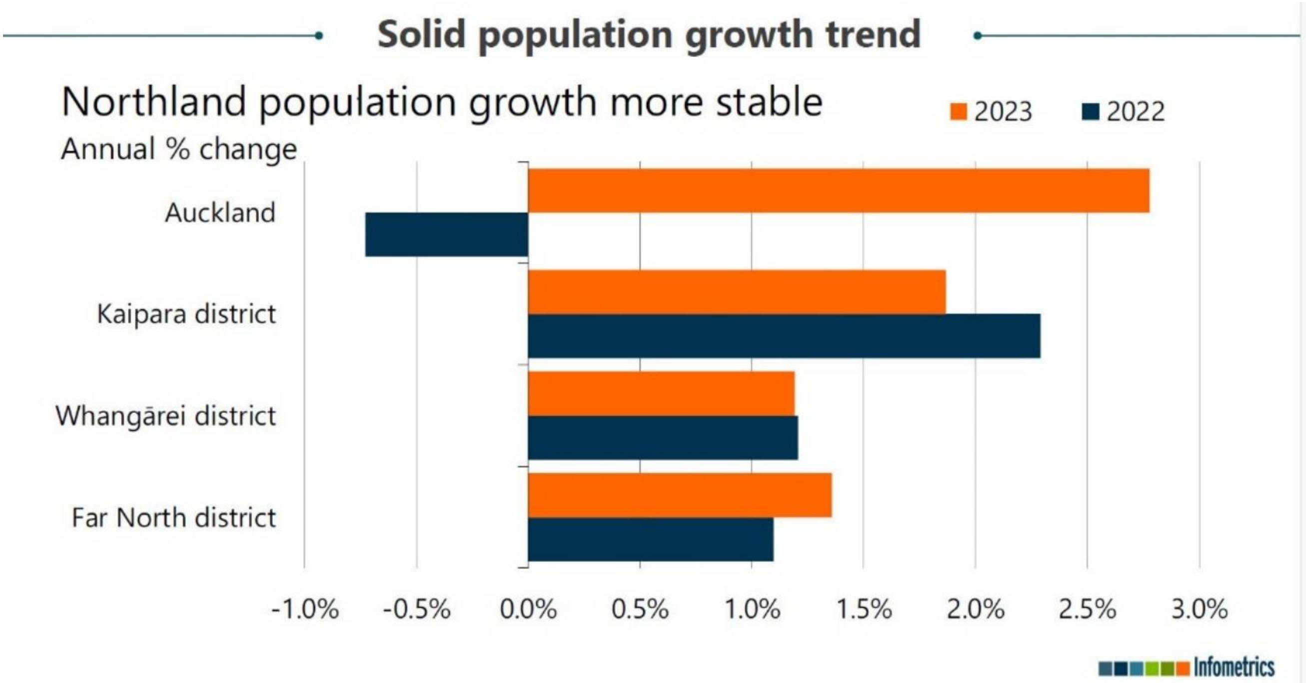
Council has a large capital expenditure programme to progress which will continue to be challenging to complete. Much of the programme is for renewals and there is some provision for new initiatives and growth. The programme for Three Waters has been reduced from that provided to Entity A as it is unaffordable for our ratepayers. In the past, operational surpluses have resulted because we have not been able to deliver all of our capital works programme.

Rating of Depreciation

Council has in previous years funded 100% of depreciation on all assets, excluding roading. Council has this year decided to fund only 50% of the Parks and Open Spaces Facilities along with those assets classified as District Leadership (vehicles, IT and buildings). This is to reduce the cost to ratepayers, but it was recognised Council needed to fund its depreciation on other key infrastructure (Three Waters).

Population Growth

There have been no revised census figures since 2018, however Infometrics have provided updated forecasts (based on medium series) for Council for the next three years which confirms further growth in Kaipara District continuing. Kaipara is one of the fastest growing districts and the latest comparisons with other areas of the upper North Island is shown in the following graph, provided recently by Infometrics.



The ongoing projected population and housing growth creates demand for additional capacity in our infrastructure. Council is estimating there will be an increase in the population of 2,414 (5 years) from a base in 2022 of 27200, and a further 1,087 households (5 years) in the district off a 2022 base of 11,282.

Medium Series Projection			
Population - June	**2025**	**2026**	**2027**
Kaipara Coastal	4,389	4,413	4,436
Maungaru	2,012	2,020	2,029
Dargaville	5,415	5,462	5,504
Ruawai-Matakohe	2,856	2,872	2,887
Otamatea (Kaipara district)	2,028	2,043	2,056
Maungaturoto	1,515	1,533	1,551
Kaiwaka	2,824	2,864	2,905
Mangawhai Rural	3,345	3,463	3,582
Mangawhai Heads	2,978	3,044	3,108
Mangawhai	1,472	1,515	1,557
Total	**28,834**	**29,230**	**29,614**

Medium Series Projection			
Household - June	**2025**	**2026**	**2027**
Kaipara Coastal	1,826	1,832	1,837
Maungaru	809	812	814
Dargaville	2,179	2,193	2,205
Ruawai-Matakohe	1,177	1,182	1,186
Otamatea (Kaipara district)	864	870	876
Maungaturoto	594	602	610
Kaiwaka	1,137	1,156	1,175
Mangawhai Rural	1,473	1,533	1,594
Mangawhai Heads	1,316	1,348	1,379
Mangawhai	655	674	694
Total	**12,029**	**12,203**	**12,369**

There is a disparity in growth areas with the eastern part of the district growing significantly faster than in the west and the north. Investment in new assets will need to be made in the areas of growth.

The adopted spatial plans provide the blueprint for sustainable growth not only in Mangawhai, but also in new areas that are developing, such as Kaiwaka, Maungatūroto, and Dargaville. Some funding has been provided to ensure growth is supported. The cost to ratepayers has been minimised as much as possible by using development contributions to fund new infrastructure capital costs. This is a measured approach as Council wanted to avoid the risk of investing well ahead of the predicted growth. Growth is over 1% and every new ratepayer helps to reduce the overall costs to current ratepayers.

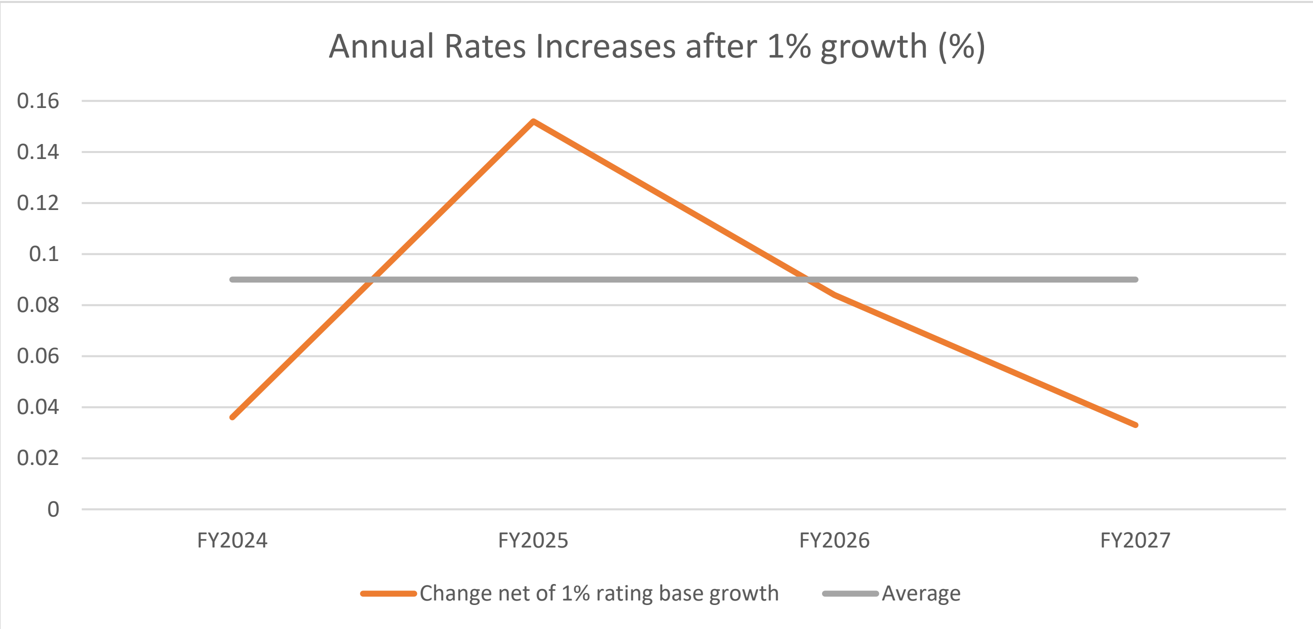
Change in land use

Kaipara has a great deal of highly productive land and it is envisaged will continue to produce primary produce, particularly in the north of the district. The residential areas will continue to grow as more holiday makers recognise our many open spaces and water areas to play.

Rates Revenue and Forecast Movements

Rates are projected to increase an average of 8.9% pa after growth over the next 3 years. The impact of rates is reduced by the increase to actual ratable properties. One of the main drivers for this is absorbing inflation which has been far higher than the CPI on infrastructure projects and assets. Recovery after the COVID 19 pandemic has meant inflation and interest rates have continued to rise. The impact on suppliers' costs and the on charge has been significant. Council wants to continue to do the same volume of work and improve on this. Council felt it was important to adequately account for inflation increases and not fall behind as we have done in the past as this detrimentally impacts on the future condition of our assets, predominantly roading. Council has not set any rates limits but has instead tried to adjust to an improved level of service for roading which is where the majority of ratepayer complaints are about.

This LTP is only for 3 years and limiting rates does not make sense for this recovery budget. In the last LTP the limit on rates was 6% and the rates forecast for 2024-2027 are above this level.



The rates increases will put more stress on our residents however it reflects an improved sustainable funding base for roading and parks renewal expenditure. This means financial resilience is increased and the Council is facing up to the true cost of delivering services.

Prudent Financial Management

Council will ensure it has a balanced operating budget, although, it won't be till 2027/28 that Council is fully funding depreciation expense. Depreciation funding on three waters services will be fully funded but that on other depreciation items will only be funded to 50% in the first year of this Long Term Plan. The annual depreciation expense does not cover renewals work to be completed so Council has to either push these renewals out further or fund them by bridging debt. There is some debt funding required – so we are paying for the annual renewal costs. This is needed so Council can provide good stewardship of its infrastructure assets.

Council will ensure it complies with legislative limits and benchmarks for financial reporting and prudence, and report on these to Council, as part of the Annual Plan and Annual Report process. Debt will continue to be kept at a level well within the many debt ratios.

Affordability of Rates

Council has struggled to reduce rates increases as it needs to adequately provision for the maintenance and renewals on the assets it currently has. The extreme weather events have put Council back many years in its roading programme. Council is in catch up mode trying to recover from the storm damage. This means the rates and water by meter charges may be problematic for sectors of our community. Rates affordability is an issue because we have a fast-growing population but a number of people in the community at retirement age and on fixed incomes. Councils' goal is to provide the best value to residents for the money Council invests on its behalf.

Council did consider changing to a capital value system but felt charging by targeted rates was more indicative of where the costs should lie rather than the highest value land values picking up more of the costs. The parks and libraries targeted rate is proposed for this year. Ratepayers may need help to have a payment plan.

Council has lowered the rates increases by reviewing funded depreciation on other assets, primarily open spaces facilities, to 50% rather than 100% this has saved approximately $800,000.

A review of the staff structure by the Chief Executive has also led to cost reductions. Council is aware household incomes have fallen in real terms and has reviewed its budget on a line by line basis.

In addition to the LTP 2024-2027 being produced this year, property revaluations have also been carried out by Quotable Value (QV) for rating purposes (this happens triennially, once every three years). The relative changes in property values between different areas and different types of property causes fluctuations in the incidence of rates between different ratepayer categories. Consistently the values of residential households have seen higher increases than land used for horticultural or pastoral use. This is a further burden on these particular ratepayers.

QV has advised the following movement in valuations for 2023 which can ultimately impact on rates affordability. Council rates for general rates based on land value so the higher the percentage change in relation to other categories the more an increase in rates will occur on those particular properties.

Revaluation Overview

Sector	No. Assets	2023 CV	CV % Change	2023 LV	LV % Change
Dairy	600	$1,606,806,500	34.3%	$1,263,878,500	42.8%
Pastoral	943	$1,537,714,300	40.1%	$1,287,497,300	47.7%
Horticultural	122	$145,887,500	15.1%	$90,849,000	19.3%
Specialist	8	$7,710,000	32.4%	$4,115,000	50.2%
Forestry	199	$250,299,500	45.2%	$223,125,000	53.8%
Mining	14	$5,585,100	30.4%	$4,544,100	34.7%
Lifestyle	5,531	$4,829,828,600	37.0%	$2,654,275,000	45.5%
Residential	7,414	$6,223,885,500	36.9%	$3,758,043,000	69.5%
Commercial	306	$354,304,000	24.6%	$153,760,000	59.4%
Industrial	217	$206,234,000	37.1%	$82,049,000	72.2%
Other	832	$397,468,800	44.3%	$206,741,400	56.2%
Utilities	48	$260,783,000	22.2%	$10,779,000	66.9%
TOTAL	**16,234**	**$15,826,506,800**	**36.4%**	**$9,739,656,300**	**54.4%**

Council is aware that it might not meet its capital programme this year and this has a major impact on debt levels and also interest costs.

Council will review the capital programme in April 2024 before finalising the LTP as it sees this could affect the rates downward and will have more accurate information on year end expenditure to do this, during the consultation process.

Investments

Council has minimal investments but intends to hold up to 75% of the balance of Financial Contributions and Depreciation Reserves in cash deposits as these are being used as a regular funding tool. As well a requirement of our borrowing is to hold 10% of our borrowings in cash deposits.

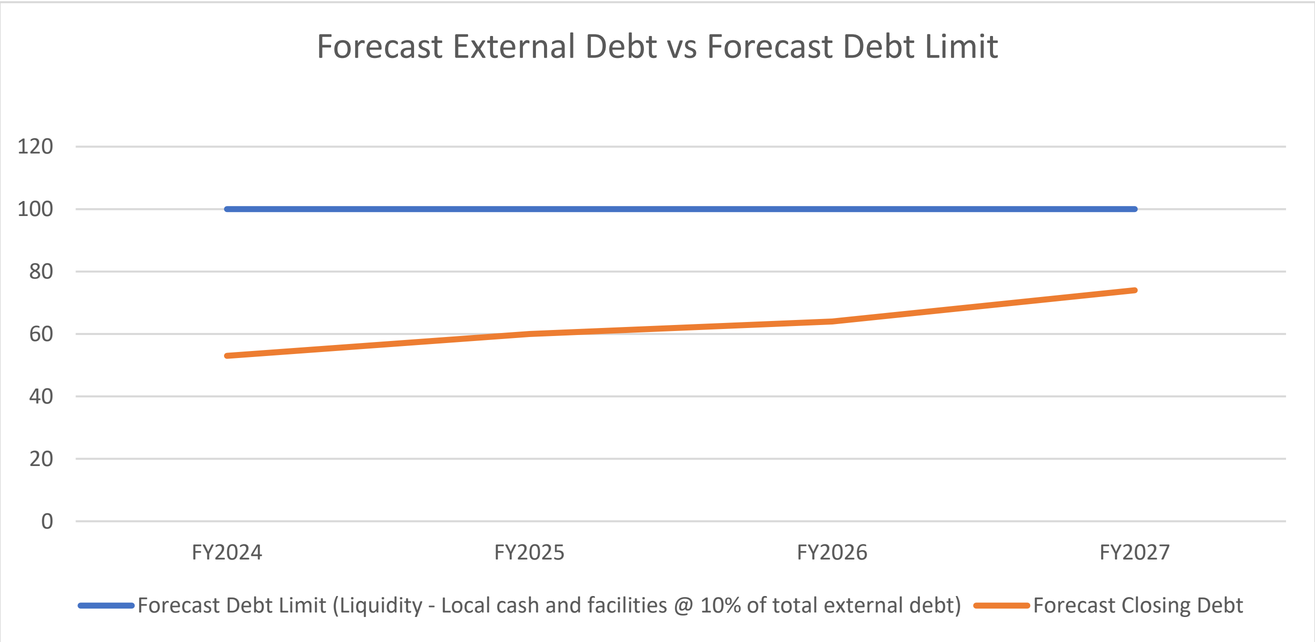
Use of debt

A key funding stream for investment in infrastructure is by way of borrowings/debt. The use of debt allows the costs of infrastructure to be spread over the life of the asset and paid for by all users of the assets across generations. The management of debt to ensure sustainable financial management still presents a major challenge.

The capital programme being underspent has meant Council has not had to borrow as much as planned. External debt has stayed at a consistent level of $44 million for the past few years. Debt is forecast to rise markedly but still keep within its allowable maximum debt levels. The previous focus in the last Long Term Plan was on keeping debt to a lower level. Debt is projected to rise to $72.5 million through this LTP period, with road sealing, two community hubs, Mangawhai pensioner housing replacement and development of a new Mangawhai waste transfer station, and Dargaville and Mangawhai wastewater upgrades being debt funded.

Council secures its borrowings against rates revenue as provided in its Debenture Trust Deed. The Council has negotiated debt funding with NZ Local Government Funding Agency, Bank of New Zealand, and ANZ.

Interest rates have increased and this has had a negative impact on Council costs.



Responding to Climate Related Matters

The key hazards for our Council of the impact of climate related matters:

- is sea level rise which can lead to coastal flooding and coastal erosion.
- Is extreme weather events which could be through drought, or cyclones/storms which cause landslides and river flooding.

Work needed to mitigate climate related hazards and support Council infrastructure to be more climate resilient is detailed under each Activity for both operational and capital works to be undertaken.

Like many other councils across Aotearoa New Zealand, Kaipara District Council is currently working to better identify and understand risk.

Council has been prudent in providing for the protection and resilience of its assets, and where it can protect residents' properties. Eg Large capital works in Ruawai for the Raupo drainage scheme. Council will look to access external funding to accelerate future stopbank schemes in other areas.

Council is conscious a more resilient water source for Dargaville is needed and is investigating possibilities. Council will be actively seeking external funding.

Council has yet to set emissions targets or reduction plans, or adaptation response support for the organisation or the district. Failure to establish strong adaptation and mitigation action could expose Council to political and reputational risk.

Government have established the Climate Change Response Act which places obligations on sectors to manage and report emissions. Government is about to introduce five (5) yearly carbon budgeting for key sectors that would require the disclosure of emissions and will set five (5) yearly targets for sectors to reach. This will impact on the carbon intensive aspects of Council's activities and holding companies and the economic activity in the region.

Council is working with NRC on climate mitigation for Dargaville and Council is funding flood control climate resilience projects in the district.
Council takes a balanced remediation view on climate resilience and is conscious of building resilience in at the time of construction of assets.