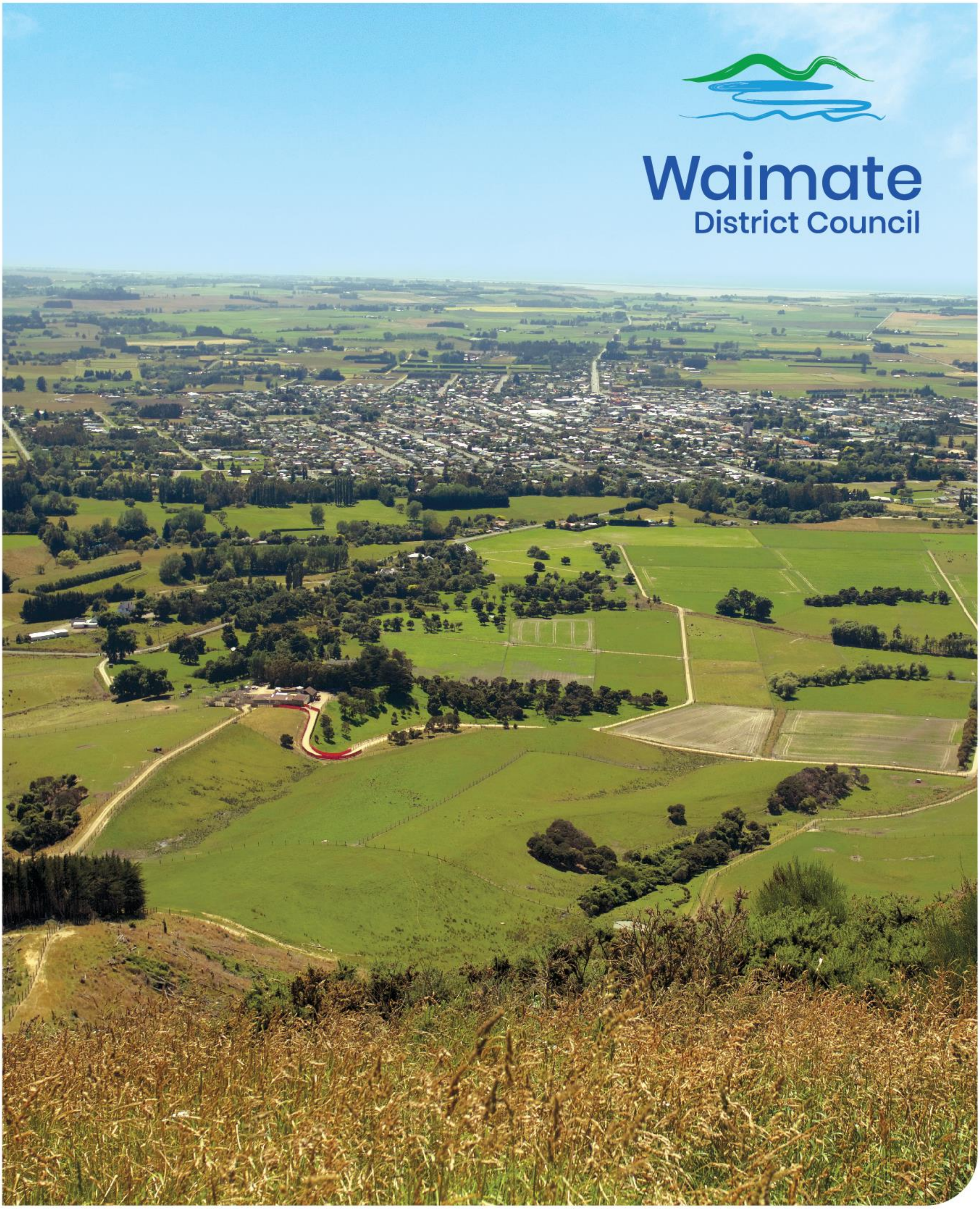


[Publish Date]

Financial Strategy

CONTENTS

FINANCIAL STRATEGY

1.0 Summary

Our Financial Strategy outlines how we will manage our finances over the next 9 years.

It sets out the principles we will follow and provides us with a guide for considering expenditure and funding proposals.

The strategy is a mix of forecast information about what could have a significant financial effect on the Council and expected capital expenditure in significant areas. The strategy also includes limits on rates increases and borrowing limits and assesses our ability to provide and maintain existing levels of service to meet additional demands for services within those limits.

Our Financial and Infrastructure Strategies provide the underpinning context for our Long Term Plan (LTP), to provide a sense of costs, risks and trade-offs that inform the expenditure programmes in the LTP. The LTP then provides the detail of the plan for our District's future.

The Financial Strategy is closely linked to our Infrastructure Strategy, which outlines how our infrastructure will be managed over the next 30 years. The 'rubber is hitting the road' with necessary upgrades and renewals building into an ambitious and significant capital expenditure programme – the largest we have seen. We need to undertake this investment to comply with legislation, and to also provide infrastructure that is safe and meets the community's needs. This investment means we will be increasing debt to an extent that has not previously been seen by our Council. Over the next 9 years our external debt is anticipated to reach $24.0 million in 2029 then reduce to $19.4 million in 2034. **We have set our debt limit as: Net Debt shall not exceed 175% of total revenue.**

Rates are projected to increase by 38.1% (including inflation) over the 9 years of the plan. **We have set our rates increases limit as: The Local Government Cost Index (LGCI) – Other Operational Expenditure BERL rate[1] plus 7.0%.**

The provision and maintenance of existing levels of service and additional demands for services can be met within these limits.

We've recognised that operating revenues are insufficient to meet operating expenses, but for the reasons explained in the balancing the budget section of this Strategy, we consider this to be prudent and adequate to meet the needs of current and future generations.

The Waimate District is comparatively small with limited ratepayers – and with that in mind we believe we have developed a low risk Financial Strategy for our LTP, building on our conservative platform laid from a prudent past, to maintain a strong financial position.

The goal of our Financial Strategy is to ensure Council remains financially stable, while financing key priorities.

For further details on our financial management, we suggest you read our other financial policies such as the Revenue and financing Policy, Investment Policy and Liability Management Policy.

[1] Source: Cost Adjusters 2024 final update, BERL, October 2024

2.0 What have we considered?

In arriving at our financial forecasts, we have ultimately considered what we are required to deliver to ensure we comply with legislation, and to meet the needs of the community.

We don't have a crystal ball, so have had to make assumptions in a variety of areas to inform our forecasts including inflation and interest rates, how long our assets are going to last, how their values are expected to change along with many other assumptions. Our significant forecasting assumptions can be found in our LTP.

The following are some of our further considerations:

Changes in Population

The Waimate District has a history of small but stable population growth, with our usually resident population growing an average of 0.7% per year from 2006 to 2022. While we expect to continue to grow, the rate is anticipated to slow, with the average annual growth forecast at 0.4% from 2022 to 2053.

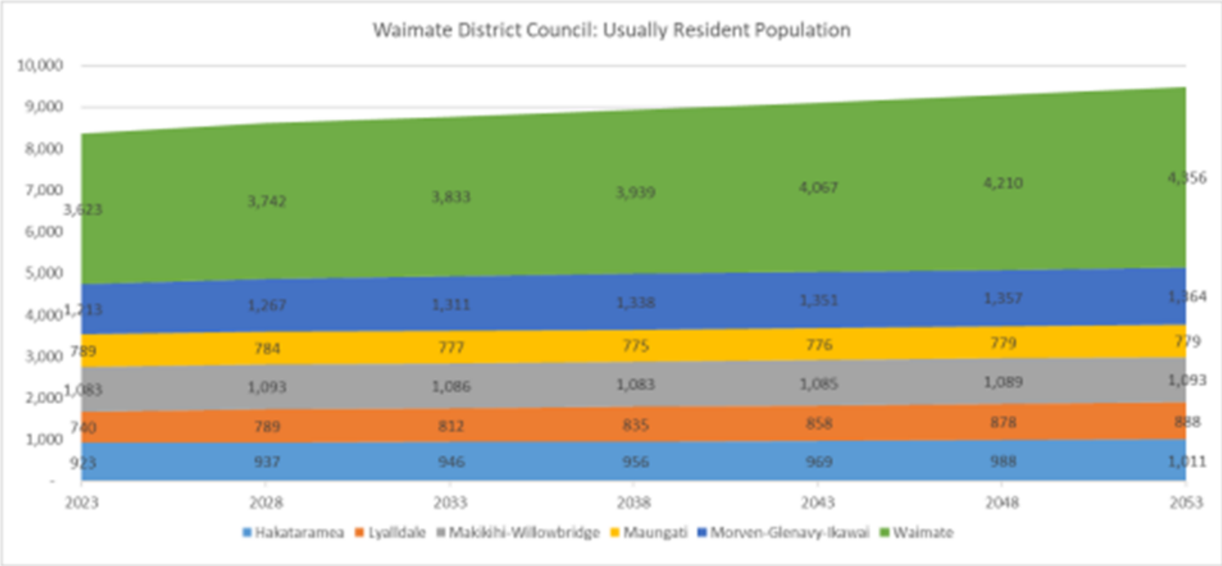
More directly related to the period of this LTP, we are forecasting a gradual increase of 4.7% between 2023 and 2033. We are expecting a correlating impact on the quantity of dwellings and rateable properties, with household numbers expected to have a relative and minor increase.

Population growth has a natural impact on demand for services. With our district's small population base and modest anticipated increases, demand for additional services is expected to be limited, thereby limiting the costs directly related to population growth.

Much of our infrastructure has capacity to cater for the growth anticipated, with the managing of expectations of Level of Service a greater challenge. Our aging population is a catalyst for specific infrastructure improvements, with development of the District's footpaths an example of an area of continued focus.

Our primary focus remains on replacing and improving existing infrastructure. Some planned work programmes assist in extending the useful life of the network assets and provide additional capacity to manage growth. This includes the urban water supply hydraulic rearrangement and pressure management.

A small – and aging – population means funding infrastructure investment is a significant and complex challenge for a limited number of ratepayers. Affordability is front of mind with opportunities to scrutinize alternative funding structures for our Three Waters activities as we consider Local Water Done Well and our Water Service Delivery Plan, due September 2025.



Changing Land Use

Historically, changes in land use in our District has been largely due to the expansion and availability of irrigation. The impact of those land use changes have recently increased visibility with elevated nitrate levels in our potable water supply a challenge, requiring the exploration of a solution and the related investment to implement.

While dealing with the outflow of past changes will continue to provide challenges, at this time we do not anticipate significant further change in the District's land use.

We continue to monitor trends as there is a potential impact of the national freshwater management and environmental sustainability objectives that could require farming practices - and land use – to adapt. If this resulted, for example, in an increase in carbon farming, this could lead to less traffic movements on rural roads, requiring less investment for roading maintenance, along with increased fire risk impacting emergency preparedness.

We are mindful also that more intense weather events could influence the changing of farming practices.

We will continue to monitor and understand changes in land use to best inform future investment.

Investments

Our objectives for holding and managing financial investments and equity securities and their targets for returns on those investments and equity securities are explained below. Where our financial investments create a return, this can be used to pay for services and reduce rates. Our anticipated investment returns have therefore been considered in our financial forecasts.

- Equity Investments

  We own 7.54% of the shares in Alpine Energy Limited. A key objective for holding this investment is that Council's investment helps to ensure a secure power supply necessary for the development of our district. While we have received a commercial return by way of dividends in the past which has been used to reduce rates, Council has assumed there will be no dividend forthcoming for the duration of this LTP.

  We also own a small number of low value equity investments for which the reasons for holding are primarily incidental, such as related to purchasing benefits. Council does not have a target return for these investments, as any financial return is incidental to Council's reasons for ownership.

- Forestry

  We own approximately 150 ha of forestry primarily to generate income and Carbon Credits for Council but also to provide some economic development benefit to the district. Council proposes to continue to maintain the forest investment to maximise commercial returns. Where a viable return is possible it may consider the disposal of these assets via the open market.

  Council expects to have harvesting occur from 2026 to 2027 and the return from the sale of trees will enable repayment of external debt. Unless forest assets are sold, Council will continue to replace forest stock as trees are felled.

- Property

  Council owns a number of properties for operational or community purposes that are not considered investment properties as any financial return is incidental to the reasons for ownership.

- Cash

  Council holds cash for the purpose of operating and maintaining stable cash flows. These funds are invested in internal borrowing or deposits as provided by Council's Investment Policy. The return on net cash investments is budgeted between 2.38% - 3.77% over the 9 years of the LTP.

Climate Change

Climate change is primarily affecting our infrastructure through more frequent extreme weather events, for example, intense rain falls overwhelming stormwater and wastewater systems resulting in flooding. The impacts of extreme weather events and the resilience of our infrastructure have been considered in our Asset Management Plans and Infrastructure Strategy, with projects to mitigate incorporated into our financial forecasts.

Local Water Done Well

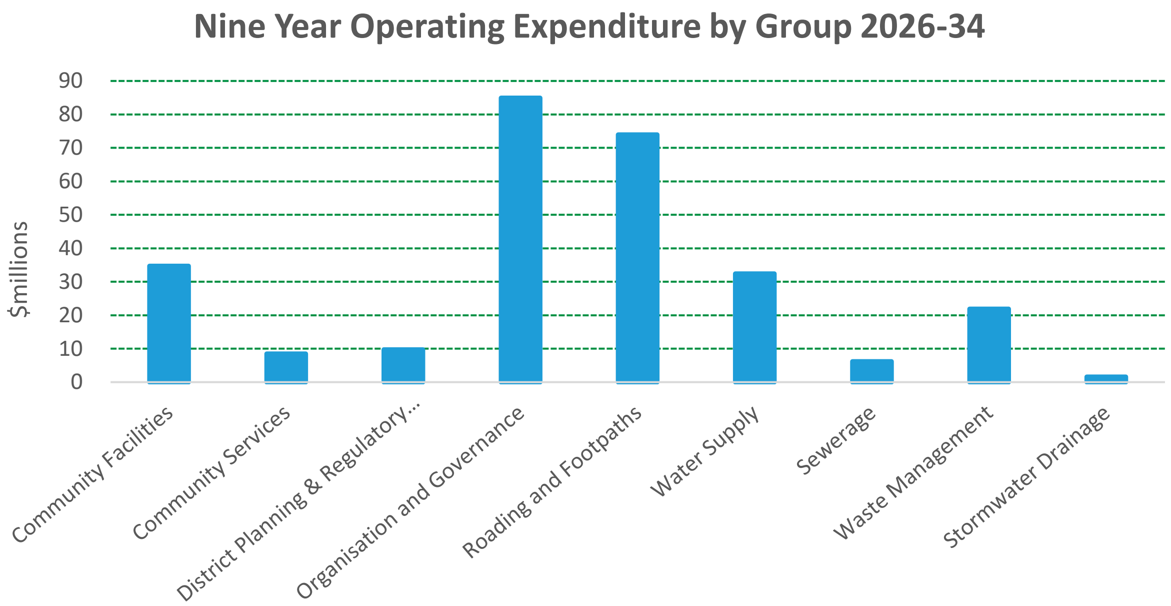
"Local Water Done Well" is the Coalition Government's plan for managing water services delivery and infrastructure following the repeal of Water Services Reform legislation (Three Waters) in February 2024. The "Local Water Done Well" policy framework aims to address concerns about New Zealand's water quality and water services' infrastructure investment, while keeping control over water services and assets local.

We need to develop our Water Services Delivery Plan by 3 September 2025. This plan will include baseline information about our water services operations, assets, revenue, expenditure, pricing, and projected capital expenditure, as well as necessary financing arrangements. The content of the plan touches on many areas of our financial strategy with the resulting plan having potential implications across all of these categories. These implications are not yet fully understood.

At this time, Council has not made any substantive decisions regarding the future of water services but is responding to the legislative requirements. We will be performing an extensive review of alternative water service delivery options with the goal of providing the best outcomes for the district while ensuring financial sustainability. The impact from the outcome of the review will feature in our future Financial Strategy.

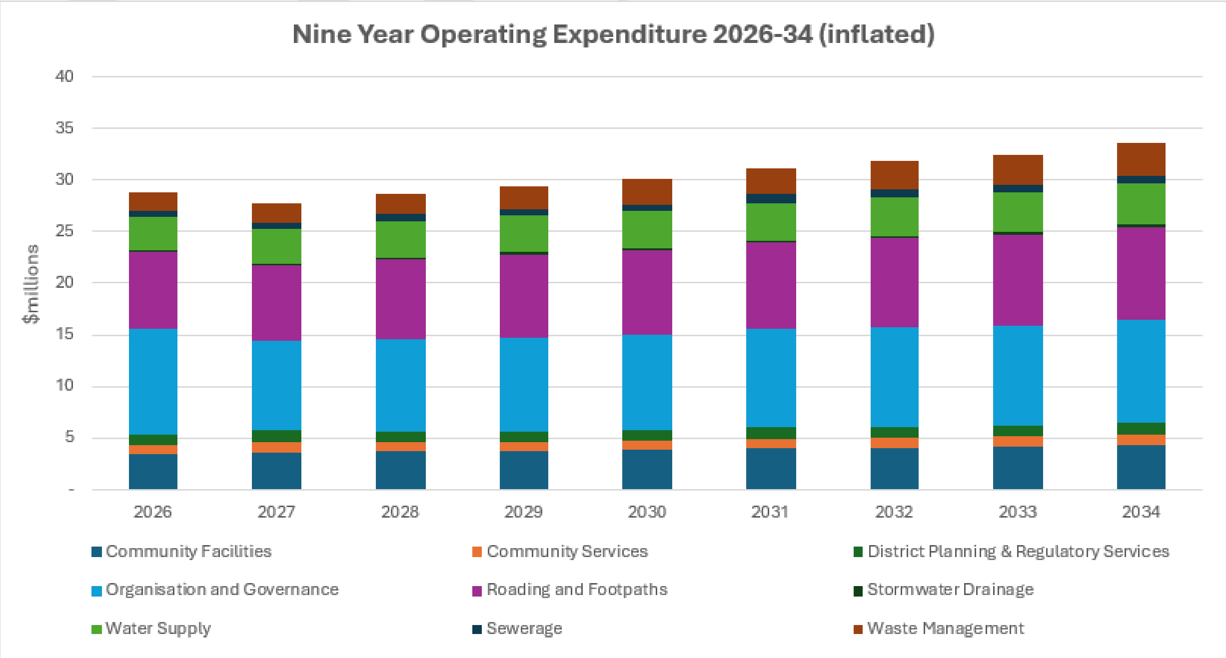
3.0 What do we need to spend?

Our financial forecasts for operating expenditure have been prepared based on achieving agreed levels of service for each activity, which are set out in detail in the group activity plans. The total cost of delivering this program is forecasted to be $273.6 million over the 9 year period. The total cost by activity group is shown below:



Note: Internal expenditure has been eliminated so some activities may not necessarily align to the activity sections of the LTP. More information on what activities are in each group and expenditure details can be found in the activity sections of the LTP.

The following details the total cost for each of the 9 years, categorised by activity group:



Operating Expenditure Increases

Council is forecasting that the annual operating costs to deliver its activities and services will increase from $28.8 million in 2026 to $33.6 million in 2034.

Many of the cost increases that your regular household bears are also felt by Council, along with those that are related to the specialised services that Local Government is required to provide.

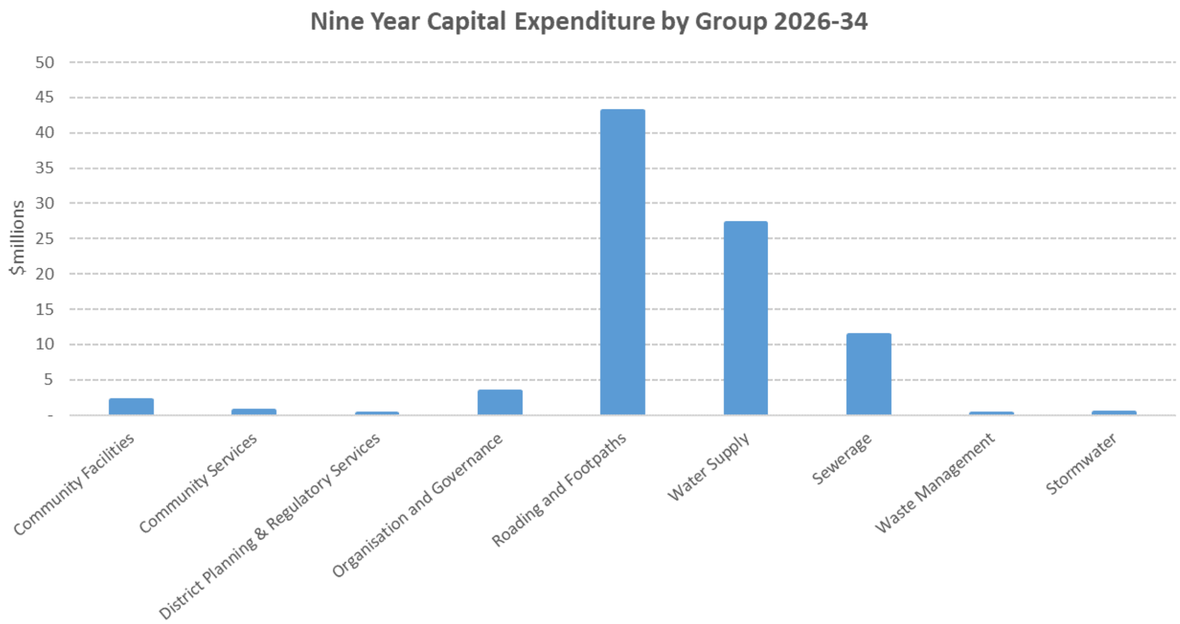
Cost increases are driven by price increases for goods and services, for example, contract fees, wage increases, price of materials used, insurance costs and inflation. The requirement to externally loan fund the new capital initiatives, particularly in the Water Supply, Sewerage and Stormwater activities results in increased interest costs to Council.

Council is constantly reviewing its costs and the way it delivers its operations to ensure it is undertaking the activities in a way that is most cost effective for its community.

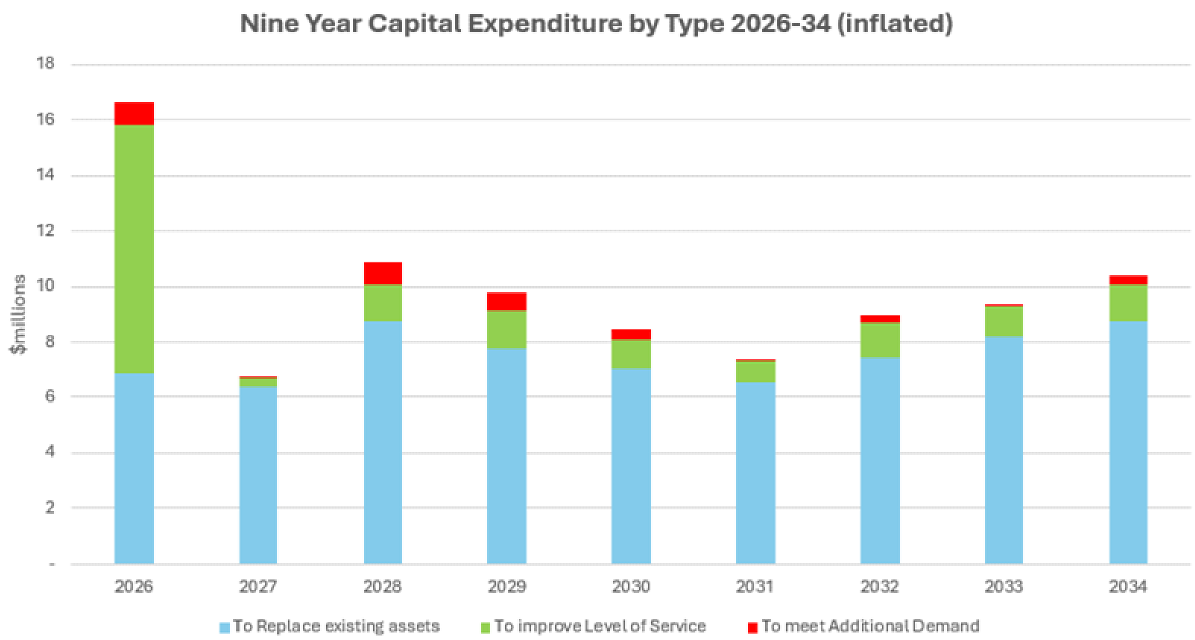
Capital Expenditure Requirements

Over the next 9 years, Council is forecasting capital expenditure of $88.6 million. Capital spending commits the district to increased and sustained depreciation charges which require funding to ensure there are sufficient funds for the assets eventual replacement. New and additional projects which add to our infrastructure, adds to our costs.

The following shows our capital expenditure broken down by activity group:



The following shows our capital expenditure planned for each of the next 9 years, categorised by the renewal of existing assets, providing increased levels of service or spends required to meet additional demand:



What services are planned to improve?

Community expectations are prioritised with focus on those that sustainably support the ability to deliver services to meet the social, cultural, environmental and economic wellbeing needs of the District.

In addition, the government and other regulatory bodies impose requirements to provide increased or improved services and often it is a statutory obligation that we must meet, for example, meeting drinking water standards.

These projects often result in a change in the level of service provided to the community and may increase operating and capital expenditure. Council proposes to leverage its balance sheet to draw down funds to support these long-term asset investments. The following are the major planned level of service improvements:

- **Water Supply – Drinking Water Standard Upgrades**

  Cannington, Hook-Waituna, Waihaorunga and Waikakahi 2026

- **Urban Water**

  High Street Rising Mains 2027 to 2029

- **Stormwater**

  Various Projects 2026

- **Roading (2026-2034)**

  Continued investment in minor improvements, seal extensions and developments

Note: Further information on these projects can be found in the Council's Asset Management Plans for its activities and Council's Infrastructure Strategy.

What services are we planning to maintain?

Like other Councils throughout the country, we have aging assets, many of which are well through their expected useful lives. Assets simply wear out over time and need replacing. Each year we need to ensure that enough work is done to maintain these assets and eventually we will need to spend significant amounts to rebuild or replace them. If the assets are not maintained to the same level each year this may result in a decline in the level of service.

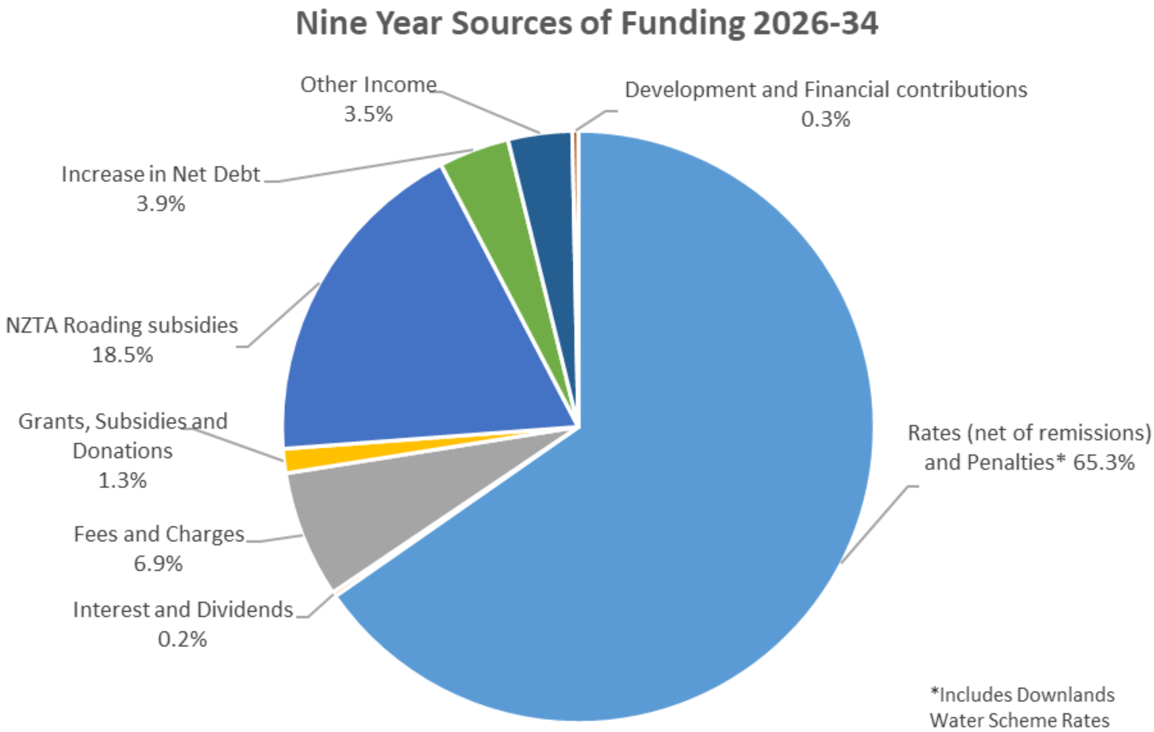
The following are the major planned projects to maintain levels of service:

- Waimate Urban Water Renewals (2026-34)
- Rural Water Supply Renewals (2026-34)
- Sewerage Renewals (2026-34)
- Roading Renewals (2026-34)

Note: Further information on these projects can be found in the Council's Asset Management Plans for its activities and Council's Infrastructure Strategy.

4.0 How will we pay for it?

The total cost of council activities and the services we deliver are funded from a number of sources. The graph below shows key sources of funding that the Council intends to use to fund this plan. While rates are the funding stream of last resort with all other funding sources explored as a priority, rates remain the major source of funds for Council.



Rates Increases

While it's not easy, Council aims to strike a balance between delivering on its legislated obligations, the demands and expectations of the district, and the rates required to fund this work.

We are mindful of the demographics of our Community and the significant income variation within the District. Council actively encourages low income ratepayers to apply for relief through the Rates Rebate Scheme. We are also aware that rates in our District are generally lower than the NZ average.

For this LTP, Council is proposing increases of:

- **9.2% for 2026,**
- **5.2% for 2027,**
- **6.8% for 2028, and**
- **an average of 2.8% per annum for the remaining 6 years of the LTP.**

Rates limits

In our 2021-31 LTP, we proposed that rates increases be limited to not more than 10% for each of the first 3 years and not more than 8% for the remaining 7 years of the plan.

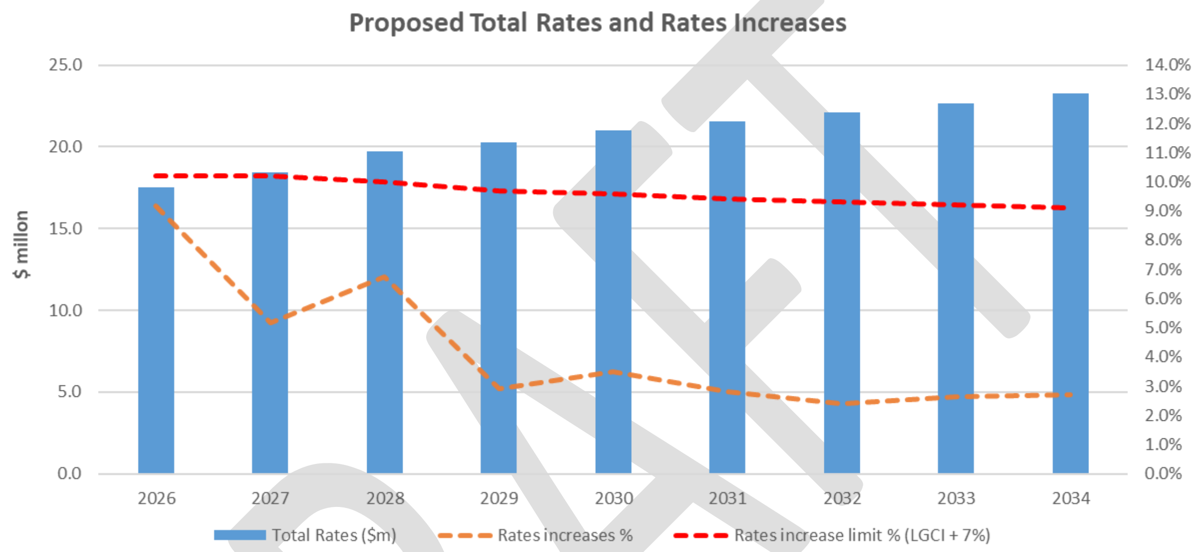
We have decided to take a slightly different approach this LTP, in recognition of the impact of inflation on Council costs in recent years.

We have set our rates increases limit as the Local Government Cost Index (LGCI) – Other Operational Expenditure BERL rate[2] plus 7.0% for each year of this 9 year plan.

The following are the rates limits for each year of the plan:

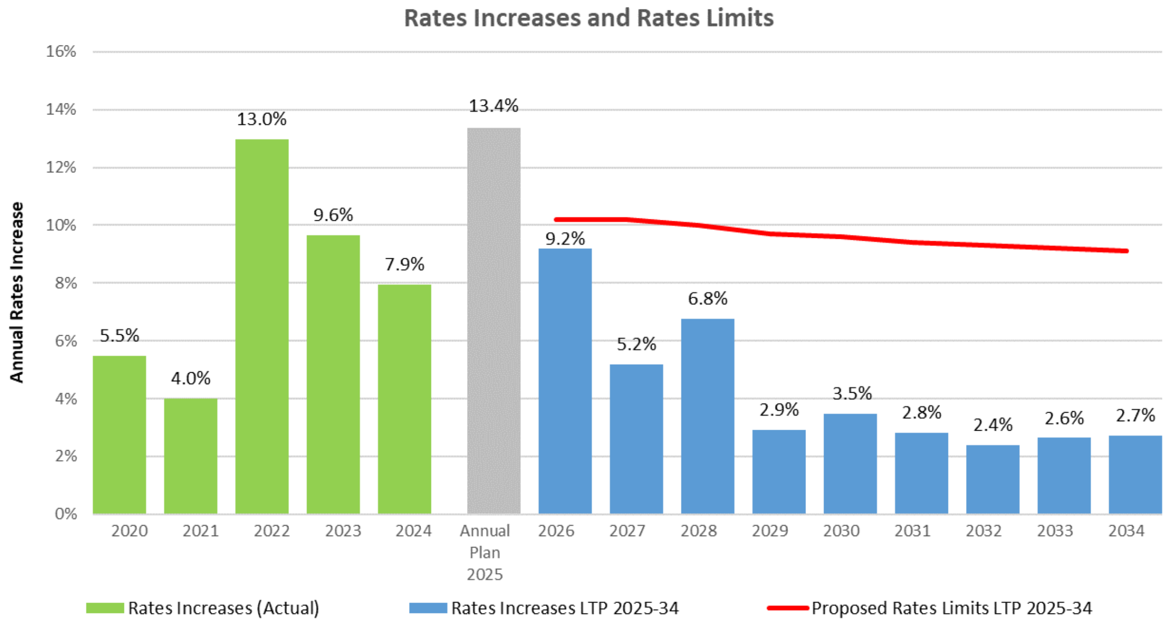
	2026	2027	2028	2029	2030	2031	2032	2033	2034
Rates Limit	10.2%	10.2%	10.0%	9.7%	9.6%	9.4%	9.3%	9.2%	9.1%

It is Council's view that it can deliver and maintain the levels of services and additional demand proposed in the LTP within these limits, with our compliance illustrated below:



The following compares actual rates increases for the last 5 years with the projected increases for the next 9 – further confirming our forecast increases are within the limits set:

[2] Source: Cost Adjusters 2024 final update, BERL, October 2024

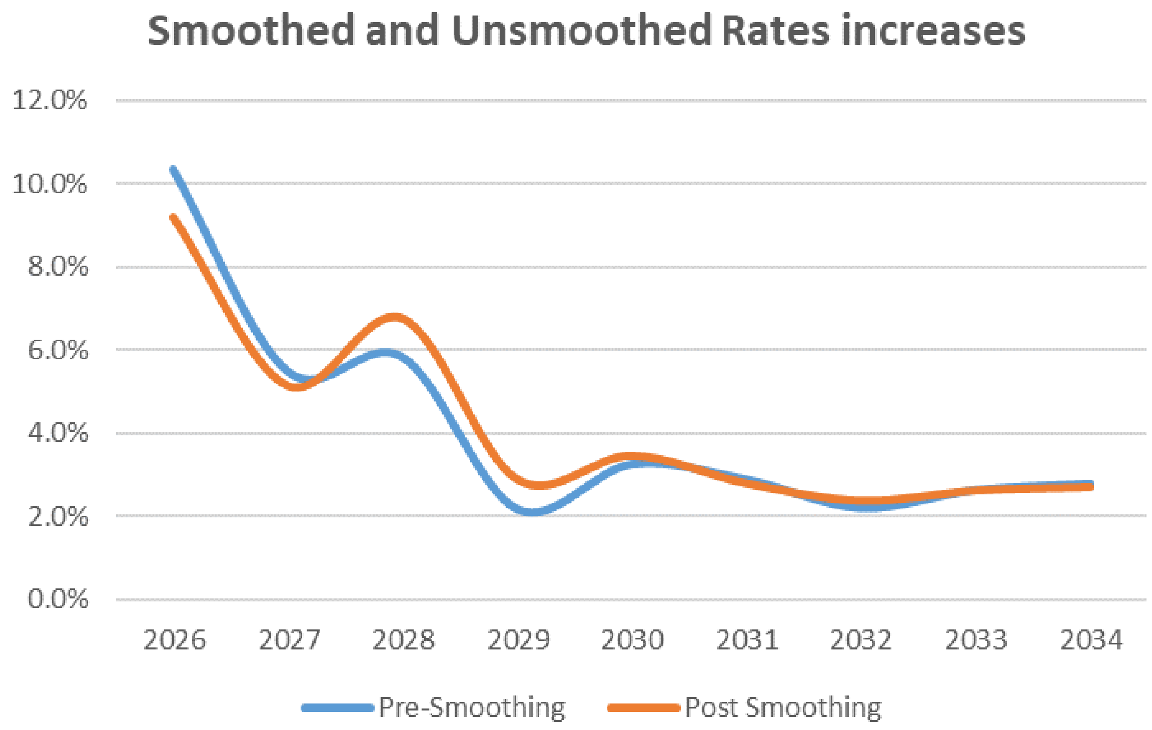


Rates & debt

With a hefty work programme planned early in the LTP, heavily reduced investment income, cost escalation in some activities and increased borrowings, these changes can cause sharp rates increases when they all occur together. We are mindful of trying to balance proposed rates increases against the impact and affordability for our community, recognising that ratepayers benefit from having less fluctuation and volatility in rates requirements.

In the past we have used internal and external borrowings to smooth the impact of these types of challenges over a number of years. Borrowings come at a cost however - the longer the smoothing, the higher the cost.

For this LTP, we have smoothed the cost of a variety of larger projects (such as the District Plan review) along with increases for our Water Schemes with only a minor impact (as illustrated in the following graph), and decided that no further smoothing is required. This alleviates further 'cost of smoothing' which saves ratepayers in the long run.

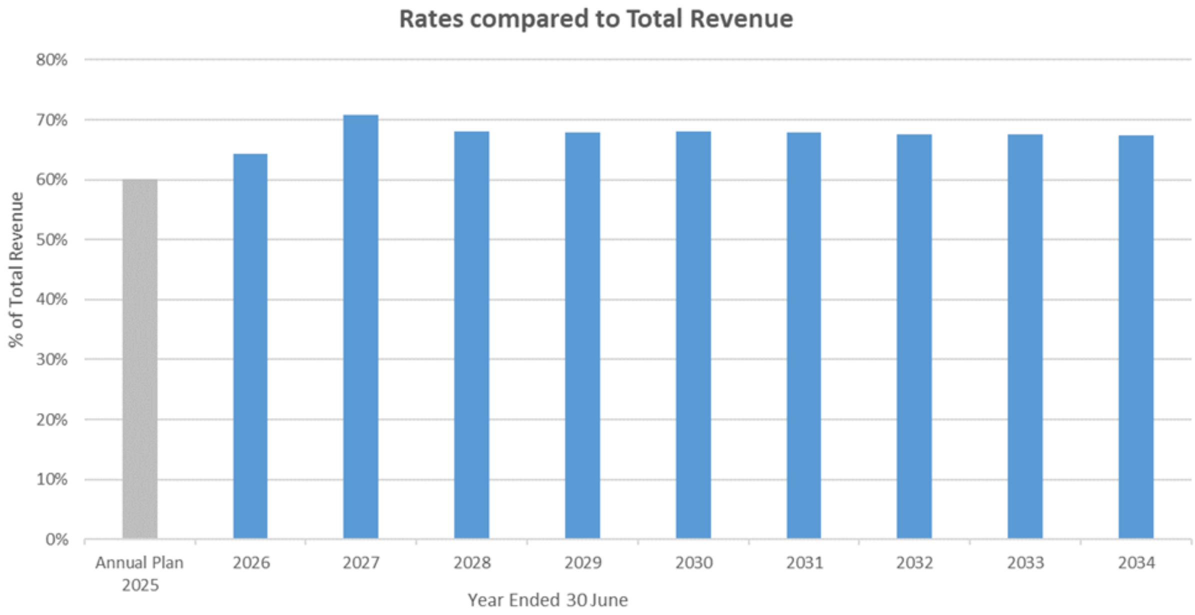


Other Sources of Revenue

As mentioned earlier, before utilising rates income, Council's first priority is to explore all available funding streams and where-ever possible, allocate a fair cost to the recipient of the service where they can be identified. Council has a number of sources of revenue aside from rates, including fees and charges, funding assistance from the New Zealand Transport Agency Waka Kotahi and investment income.

In this LTP, the economic downturn for the Building Control activity is anticipated to continue for 2026 and 2027 and is an example of a negative impact on fees and charges. On the positive side, the indicative 2024-27 National Land Transport Programme funding allocation has increased for 2024-27 compared to 2021-24, with the subsidy rate that we receive increasing from 64% to 68%. Our Revenue & Financing Policy details how all our other revenue streams contribute to all the services we provide.

The following graph illustrates the proposed proportion of rates to overall revenue. The ratio varies over the 9 years, starting at 64% in 2026, an increase to 71% in 2027, a consistent 68% from 2028 through to 2033 and concluding with 67% in 2034. This compares to the 60% forecast for the 2025 Annual Plan.



Balancing the Budget

We are required by legislation to ensure that the operating revenue forecast is sufficient to meet our operating expenditure each year (a balanced budget) – unless we decide it's financially prudent not to do so. For this LTP we are proposing an 'unbalanced budget' for the first two years. This is largely due to rates smoothing, reserve movements, forecasts for non rateable activities and a conscious decision to not fund all depreciation as follows:

- Roading Infrastructure – the capital program is funded instead
- Waimate Event Centre – the loan is funded
- Various Parks and Property assets - unfunded

5.0 What does this mean for our debt?

Through careful financial management we have had a history of low borrowings and a strong financial position, meaning we have current capacity to increase debt. Through the development of our Financial Strategy, we have identified the need to increase our debt over the life of the LTP to deliver on our planned expenditure and to meet our community wellbeing outcomes. We recognize that the level of debt needs to be carefully managed, so we have set limits on borrowing, which are used to guide the limitations of work programmes and budgets.

There are key ratios set by the Local Government Funding Agency (LGFA) which have been used as a guide to setting our debt limit:

- Net interest payments to service external debt must be less than 20% of our total revenue (excluding vested assets, infrastructure revaluations and other gains).
- Net interest payments to service external debt must be less than 25% of total rates for the year.
- Net debt shall not exceed 175% of total revenue.

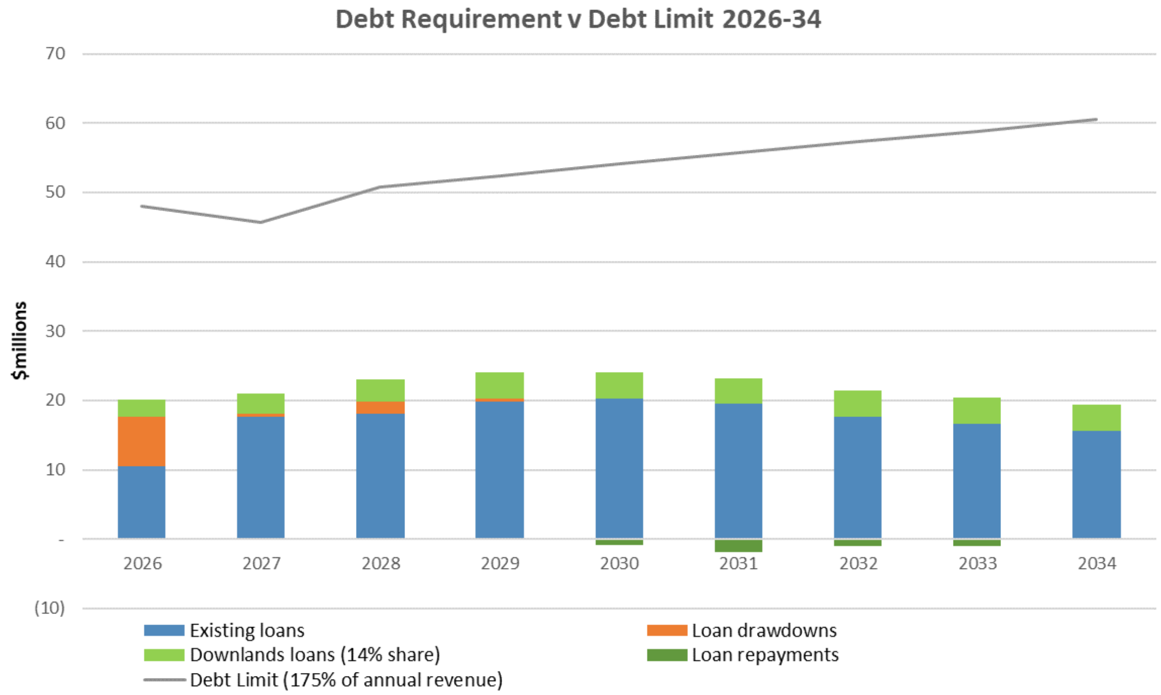
Additionally, there's the requirement for Council to maintain access to liquidity of not less than 110% of projected core debt.

Council has resultantly set its debt limit for the 9 years of the LTP as: **Net Debt shall not exceed 175% of total revenue.** For the purposes of this calculation, net debt represents external borrowings less cash and cash investments.

The following are the debt limits for each year of the plan:

$ millions	2026	2027	2028	2029	2030	2031	2032	2033	2034
Debt Limit (175% of annual revenue)	48.0	45.7	50.8	52.4	54.1	55.7	57.3	58.8	60.6

Based on our forecasts, we will have a comfortable level of debt headroom to provide flexibility should it be required. Our anticipated compliance with this debt limit is illustrated below:



Our debt level is predicted to peak in 2029, reducing thereafter with programmed repayment of debt.

Council borrows externally to meet cash flow requirements, as it's required. As well as external borrowing we have used internal funding where cash resources permit, to internally fund expenditure. This reduces the net cost of the borrowing and eliminates the lender's margin.

Council infrastructure and facilities are long term assets that provide benefits across multiple generations. The use of debt assists with spreading the cost equitably over those who benefit. Intergenerational equity allows us to deal with necessary maintenance and development of our infrastructure, rather than waiting for the funds to be collected.

Management of our external debt is regularly monitored, with advice provided by our Treasury Advisor, as applicable.

Securities for Borrowings

We provide our lenders with security on its borrowings through a debenture trust deed. This gives our lender a charge over our rates income. In practice, the ability of local authorities to set rates means it's very unlikely that a local authority would default on its obligations. In the unlikely event of Council defaulting on a loan, the lender can require a rate to be set to recover the outstanding amount owed. This security is viewed favourably by lenders, assisting with managing the interest rates our lenders charge. This approach maximises our access to capital needed for providing services to the community – at the lowest cost possible.

6.0 Document Control

Document owner:	Corporate Services Group Manager
Effective: (via adoption of LTP 2021-2031)	[Publish Date]
Approved for Consultation	1 April 2025
Previous review date(s):	1 July 2018 1 July 2015
Next review date:	June 2024
Policy can only be amended by:	Resolution of Council
Council resolution number:	[Enter resolution number]