

Financial Strategy 2021–2031

Rautaki Whai Rawa 2021-2023

The Council's Financial Strategy aims to deliver a Long Term Plan that focuses on financial prudence and sustainability, keeping rates at an affordable level, managing long-term debt within determined limits while also taking account of intergeneration requirements.

This strategy is prepared pursuant to Section 101A of the Local Government Act 2002 and informs ratepayers, residents and other readers of the Council's Long Term and Annual Plan documents about the approach the Council will take and key self-imposed limits it intends to use to navigate its way through the next 10 years.

As a key part of Council's 2021–2031 Long Term Plan, this Strategy needs to be read in conjunction with other key documents:

- » Infrastructure Strategy
- » Revenue and Financing Policy
- » Liability Management Policy
- » Investment Policy
- » Development and Financial Contributions Policy
- » Rates Remission Policy

Overview

Asset management planning is a key tool in this strategy and forms the basis of the renewals and maintenance expenditure. Some changes to levels of service have been required in order to meet our ongoing infrastructure needs. Council is proposing that we remove the previous service of sealing 1km of road each year as it is not considered essential to road safety, we will stop mowing the berms in our urban areas, and will also close the Greytown recycling centre. It is not anticipated that any other levels of service will be affected.

Council's focus over the last two years has been on improving drinking water quality across our District. Water treatment plants have been upgraded to provide multi barrier treatment and will comply with National Drinking Water Standards by the end of 2021. Part of this upgrade has seen a Manganese Reduction Plant commissioned to enable chlorination of Martinborough's water supply.

Wastewater treatment plants in both Greytown and Martinborough were upgraded and network resilience improved. A solution for the Featherston treatment plant remains a focus for the current Long Term Plan.

Since the last LTP a new shared service in partnership with Carterton District Council has been implemented to deliver roading network. Ruamahunga Roads was formed in 2019 to provide synergies across the two Districts with one contractor, being Fulton Hogan.

Council also decided in 2019 to become a shareholder in Wellington Water Limited, a council controlled organisation, moving the management of our three water services to them. This enabled access to specialists able to assist with delivering the required levels of service across the 3 Waters network.

Long-term historic underinvestment in infrastructure in both Roothing and Water services mean this Long Term Plan will also focus heavily on investment in our critical infrastructure. Our failing water pipes require increased

renewal investment in order to maintain service levels. Similarly, our roading network requires increased investment to address a backlog of renewal and maintenance work.

Featherston Wastewater Treatment Plant will be an investment focus for the district through the next ten years. Complexities around location of the current plant, and increasing focus on environmental and climate change impacts, along with feedback from our community to find a solution that meets long term sustainability has caused a delay in this project. Wellington Water Limited and specialist advisors have supported Council in shortlisting options. There is still a high level of uncertainty around the best solution and affordability for this project. Consenting and investment to improve the current treatment plant have been built into this Long Term Plan however more investment will be required.

However, we need to balance this spend on infrastructure with improving our facilities and delivering on other social and community outcomes. Improvements have been made to the condition of our buildings, senior housing, and rental properties over the last two years. We need to continue this work but also focus on improving sport and recreational facilities and provide better open spaces for our communities. In 2020 Council decided to contribute funding to a full-sized gymnasium at Kuranui College. This will provide an invaluable indoor space for the community. Additional funds have been set aside in Years 2 and 4 of this LTP to purchase additional green space land with an Open Spaces Strategy to help us make decisions about the intergenerational requirements of our communities.

South Wairarapa is expected to see continued growth in all three towns over the next 30 years. Forecasts show an expected increase in the population from 11,512 in 2021 to 14,476 in 2051 while rating units are expected to grow 4.0% over the ten years of this Long Term Plan. Sustained growth means we need to think about what we want our towns and district to look like in the future. Funds have been allocated in the first three years to complete a Spatial Plan for our district. At the same time a review of the Wairarapa Combined District Plan is due to begin in 2022. Both of these projects will be funded from rates with the cost spread over the useful life of the assets.

Council raises and allocates debt on a project basis meaning the full cost of debt sits at the activity level it relates to. All long-term debt is interest only with interest costs funded from rates. Funds are also collected and accumulated in a Reserve to ensure the principal portion of the loans can be repaid at the end of the life of the associated asset. Some large capital expenditure items have been funded through new debt in this LTP include:

- » Featherston Wastewater Treatment Plant
- » Smartmeters to be rolled out over three years
- » Purchase of land for open spaces
- » Martinborough water source

The level of net debt is projected to increase from \$25M to a maximum of \$54M by Year 6 through Year 10.

In 2020 the Government launched the Three Waters Reform Programme, intended to reform the three waters service delivery arrangements undertaken by local government. The exact size, shape, and design of these entities is still being worked through, therefore we've planned for the three waters services on a 'business as usual' basis. We think this is the most prudent approach at this stage because firstly, our community will need water, wastewater and stormwater services, no matter who delivers them. Secondly, even if assets are transferred, the costs of maintaining them will still fall on the community in some form, so it's important to be clear about the ongoing costs.

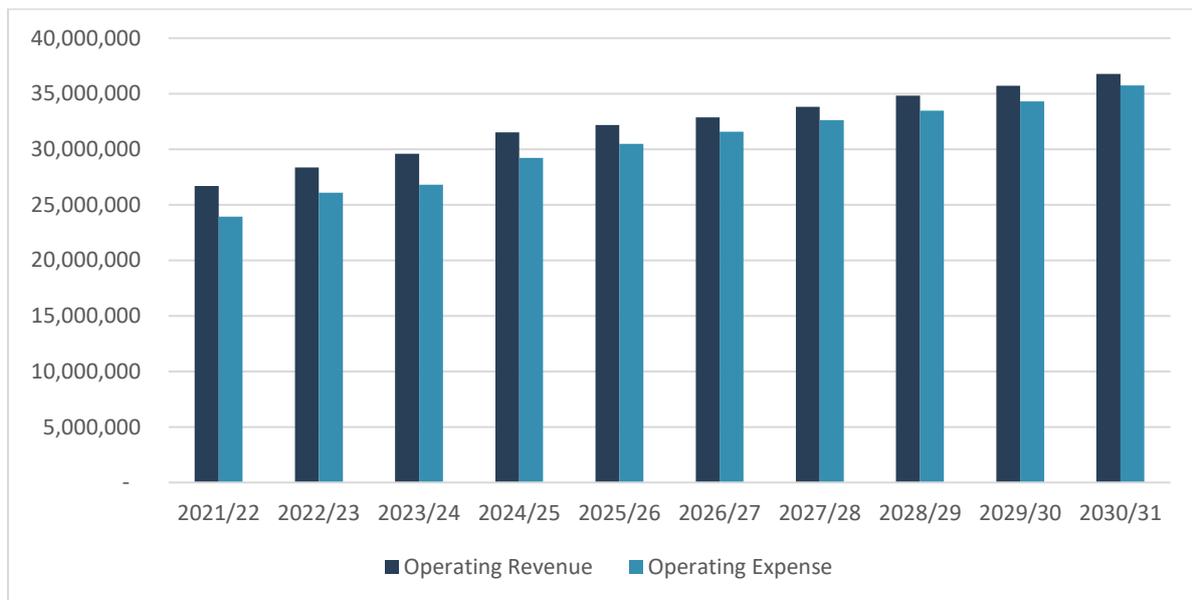
Balancing the Books

The Local Government Act requires us to run a balanced budget – a budget where operating income is greater than operating expenditure. This Plan achieves that requirement and shows consistent surpluses and cash reserves. There are accumulating cash balances through the ten years which are taken account of in reporting ‘Net Debt’. Reserves built up over the last ten years have been utilised where possible to offset the burden of increasing infrastructure investment on ratepayers.

In general, we do not fund all of the depreciation expense. There are a number of reasons for this, including choosing to fund debt repayment instead, deciding not to put aside depreciation funds on certain assets and relying on financial contributions income to fund infrastructure renewals. Also, our planned use of carried forward funds and reserves for some operating costs means we risk not achieving the balanced budget. Depreciation on roading assets is only the portion of depreciation not ‘funded’ by NZTA through capital subsidies is collected through rates.

Assets are revalued every three years. Over the period of the LTP, revaluation of infrastructure assets has been allowed and adjusted based on the BERL Local Government Cost Indices.

Figure 1: Balancing the Budget



Statement of the Factors that are Expected to have a Significant Impact on South Wairarapa District Council

In most areas the 2021-31 Long Term Plan will be based on the existing service delivery model. However, there are some levels of service that we propose to reduce, being rural road seal extensions, and stopping mowing of urban berms.

One of the key pressures facing all local authorities is the level of borrowing. Council is very conscious of the long term impact of debt, and has policies in place to ensure debt is managed to prudent levels.

Council continues to ensure cash reserves will more closely match the total of “special reserves”, trust funds and depreciation reserves.

Land Transport

Land Transport is Council’s largest, by dollar value, output.

Council policy is to only fund those activities that attract a subsidy from New Zealand Transport Agency (NZTA), however there is a need to improve kerb and channelling and this cost will be collected from rates.

The two key factors impacting the land transport output are oil prices, and availability of roading contractors to deliver services.

This LTP has used the BERL cost indices to inform increased cost of delivering the land transport programme (which includes projected oil prices, and contractors’ costs). Costs for delivering the roading programme is estimated to increase by an average of 2.09% each year for the term of this LTP.

The NZTA subsidy for local roads is currently 53%. NZTA have revised the subsidy rates on Local Roads which will see a decrease to 52% in 2021/22, and then to 51% from 1st July 2022.

NZTA have indicated their intention to remove the full subsidy on the Cape Palliser special purpose road (SPR). From 2024 funding for the Cape Palliser Road has been reduced in-line with the Local Roads subsidy rates. Based on current financial forecasts this reduction in subsidy is expected to increase costs to ratepayers by \$494K per annum.

Water Supply

As mentioned previously, a significant amount of work has already been completed on the water network. However, there is still more to do. We need to identify an alternative water source for Martinborough and costs for this have been factored into this LTP along with the roll out over three years of smart meters.

Wastewater

Featherston Wastewater Treatment Plant

Following the government National Policy Statement (Freshwater) signalling discharges to freshwater systems needed to be reduced and eliminated over time, the 2018 LTP indicated Council's intention for all wastewater to be irrigated to land. A new consent was submitted however this was later withdrawn due to difficulty achieving acceptable levels of water treatment along with feedback from the community asking Council to scope all possible options. As a result, the treatment plant is operating on a lapsed 2012 consent and as such is a significant risk to Council. We have been working closely with Wellington Water, industry experts, key stakeholders and the wider community to identify a short list of preferred options. There is still considerable work needed to fully understand the feasibility and affordability of these options.

What we do know is that there are significant improvements that can be made at the existing plant while a new resource consent process can be established. Costs have been built into year one to five of the LTP to take account of consenting costs and plant improvements.

Open Spaces

The current and projected growth in population in the South Wairarapa district is putting increasing pressure on the open spaces available for community use. This is being addressed in the short term through allocation of costs to purchase additional land in Year two and Year four. A long-term Open Spaces Strategy will take into account anticipated population growth and will inform the intergenerational requirements of our communities.

Debt Levels

Current forecast will result in increases in debt levels for the first five years of this LTP. Debt levels will be within SWDC debt cap which states interest expense cannot exceed 12% of rates revenue. The total quantified debt cap is estimated at \$128M by year 10 of the plan and assumes an average debt interest rate of 2.5%.

With high uncertainty around the level of debt required to complete the Featherston wastewater treatment plant project Council has taken a cautious approach to new debt and deferred unnecessary operating and capital expenditure while maintaining current levels of service for infrastructure assets. We are limiting network renewal budgets in other areas of wastewater and water supply and proposing savings relating to berm mowing in urban areas, and stopping the 1km per year seal extensions on our roading network.

Climate Change

Greater Wellington Regional Council has provided the climate change assumptions for the Wellington region and Wairarapa combined. Physical risk to Council is anticipated to be driven by sea level rise, increased frequency of severe weather events causing flooding, droughts, extreme winds. We have considered the impact of climate change on the wellbeing of our community and the services we provide and have subsequently built contingency into our asset plans and budgets. Council also continues to build its Roding Reserve to help offset the cost of increased emergency works.

Water Reform

In 2020 the Government launched the Three Waters Reform Programme, intended to reform the three waters service delivery arrangements undertaken by local government. The exact size, shape, and design of these entities is still being worked through, therefore we’ve planned for the three waters services on a ‘business as usual’ basis. We think this is the most prudent approach at this stage because firstly, our community will need water, wastewater and stormwater services, no matter who delivers them. Secondly, even if assets are transferred, the costs of maintaining them will still fall on the community in some form, so it’s important to be clear about the ongoing costs.

Expected Changes in Population (Growth)

Census data shows that the population in the district increased by 11% from 9,800 in 2013 to 10,900 in 2018. This represents an average annual change over the 5-year period of 2.2%. By comparison, population projections used for our last LTP indicated an average annual change of 1.2% over the period. Population data from Infometrics notes that growth has been strong over the last decade, aided by significant net migration flows in the past five years. Growth slowed from 2017 (2.4%) with a spike in 2020 of 2.7% likely due to New Zealanders returning due to COVID-19. Statistics New Zealand estimates the 2020 annual change to be made up of 17% natural increase, with 47% net internal migration and 37% net international migration.

We have obtained population projections for the period 2019 to 2051 from Infometrics. Forecast information projects how the population, age structure and household types will change between now and 2051. The projections were compiled in July 2020 and took into account the impact of COVID-19 in its economic and population forecasts. Due to the rapidly changing economic and social environment, in November 2020 Infometrics provided refreshed projections for population and household numbers, incorporating revised migration forecasts and population estimates from Statistics New Zealand.

The number of rateable properties is assumed to be 7,967 by 2030; this is an average growth rate of 0.4% per year from the 2020 year (6,558).

Table 1: Forecast Rating Units by Year

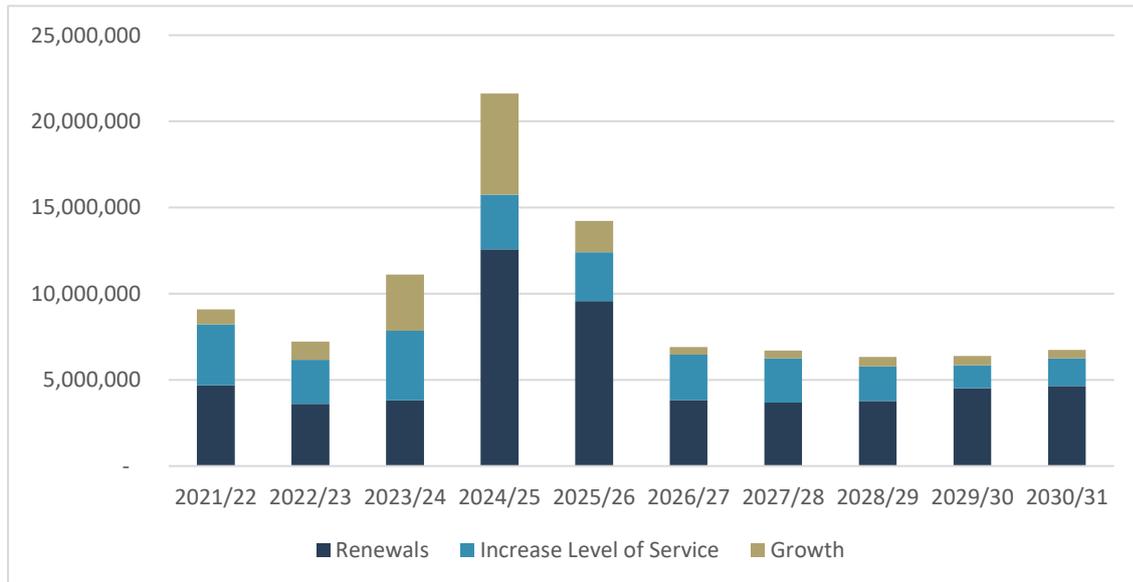
| YEAR | FORECASTING RATING UNIT |
|------|-------------------------|
| 2020 | 6,588 |
| 2021 | 7,015 |
| 2022 | 7,094 |
| 2023 | 7,173 |
| 2024 | 7,267 |
| 2025 | 7,380 |
| 2026 | 7,503 |
| 2027 | 7,630 |
| 2028 | 7,752 |
| 2029 | 7,864 |
| 2030 | 7,967 |

Land Development for Growth

The South Wairarapa district has seen a recent change in demand for land and housing. In previous years development had been restricted to dairy conversions and rural subdivisions which put less pressure on infrastructure. While rural subdivisions are still occurring at an increasing rate, Featherston, Greytown and Martinborough townships are now being affected by the wider Wellington market, with limited land available to accommodate growth. The National Policy Statement on Urban Development Capacity 2020 requires Council to provide sufficient development capacity to meet the different needs of people and communities which is why a Spatial Plan is currently being prepared which will look at growth options for all three towns and provide direction for the next 30 years. While this Spatial Plan has not yet been completed, it is anticipated that 1,425 new households will be required within the next 30 years. These households will place additional demand on or infrastructure.

The chart below estimates new capital expenditure of \$110M over the period of this Long Term Plan to service this growth.

Figure 2: Capital Expenditure on Infrastructure



Purchasing and Maintaining Infrastructure Assets (2021—2031)

Growing our Assets

Most capital expenditure over the next 10 years is driven by increased renewals and maintaining levels of service in the three waters and roading. Growth has put pressure on our water network and additional investment is required for Greytown and Featherston.

Demands on spending as a result of growth will be funded through a combination of development contributions and debt funding.

Levels of Service

We are planning on providing the same level of service at the same standard across most of our activities, but there are some areas where we will be reducing our service and other where we are investing in assets. Adding to our assets will increase operating costs while reductions in levels of service are aimed at reducing costs.

As previously mentioned significant investment is required for the Featherston Wastewater Treatment Plant. A review of the two water race systems, Moroa and Longwood, is being undertaken and additional funds have been allocated to implement the strategy in year three of this LTP. Water assets will also see investment with a rollout of smartmeters across the network along with additional upgrades to the Greytown water supply.

We are proposing to reduce the level of service we previously provided in the following areas:

- » No longer sealing 1km of road each year (this activity is not subsidised by NZTA)
- » Stop mowing urban berms

How much will it cost?

Council sets limits on rate increases. While the Local Government Rates Inquiry suggests that around 50% of a council's operating revenue should be taken from rates, Council draws about 71% from rates because it does not have alternative revenue streams; for example, significant financial investment funds or investments in corporate enterprises, and has taken a fairly low risk approach to borrowing.

In order to balance rates affordability challenges with the need to provide services to our community, Council has set the following limits on rates for the duration of this LTP.

- » Council's Rates Revenue will not exceed 75% of Total Revenue

Growth Adjusted Rates increases will not exceed the mid-scenario Local Government Cost Index plus 2%.

Figure 3: Future Rates Required

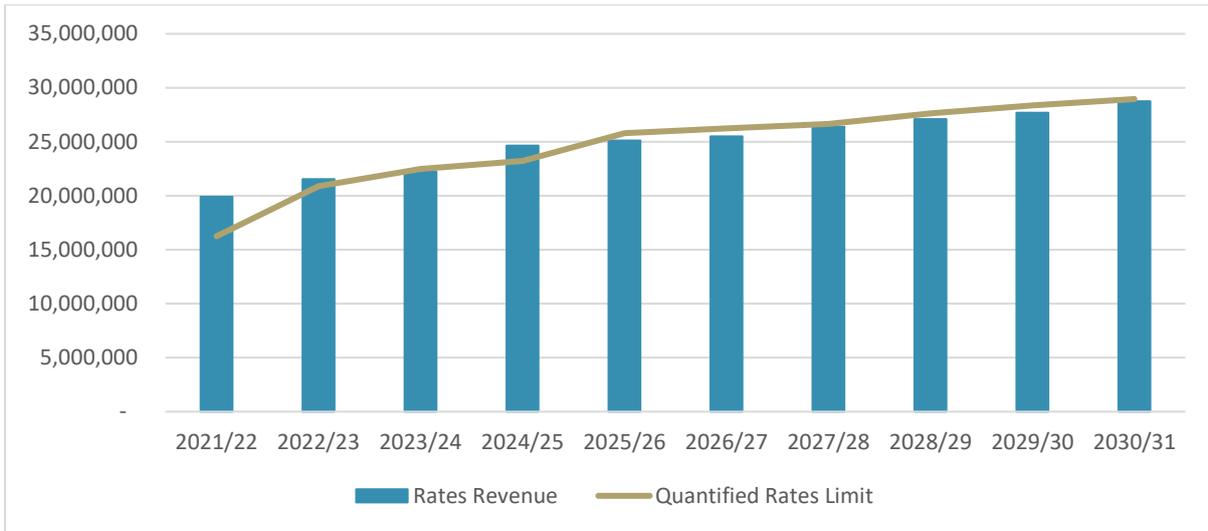


Figure 4: Rates (Income) Affordability

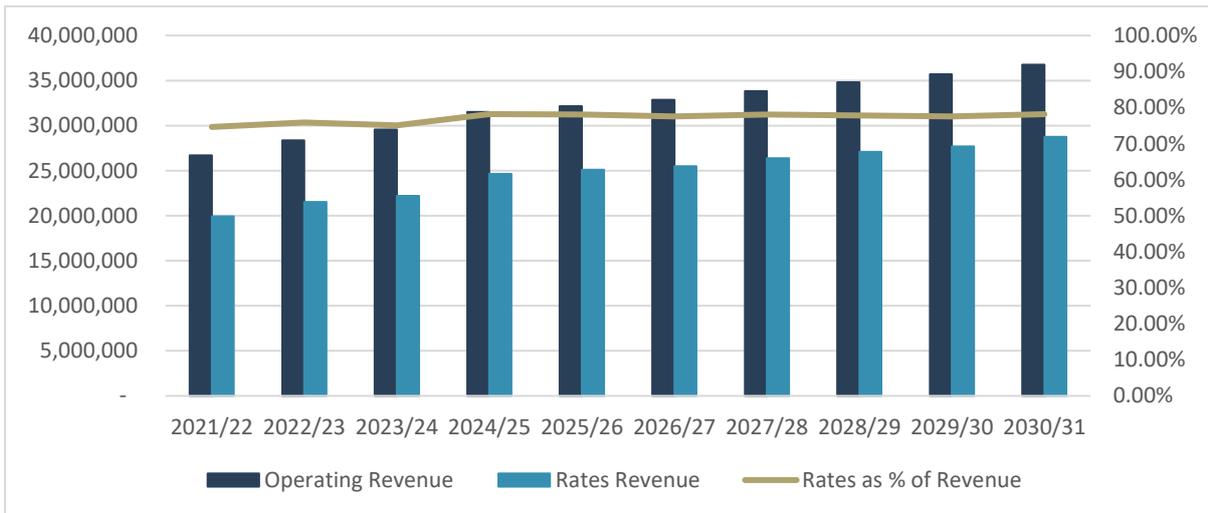
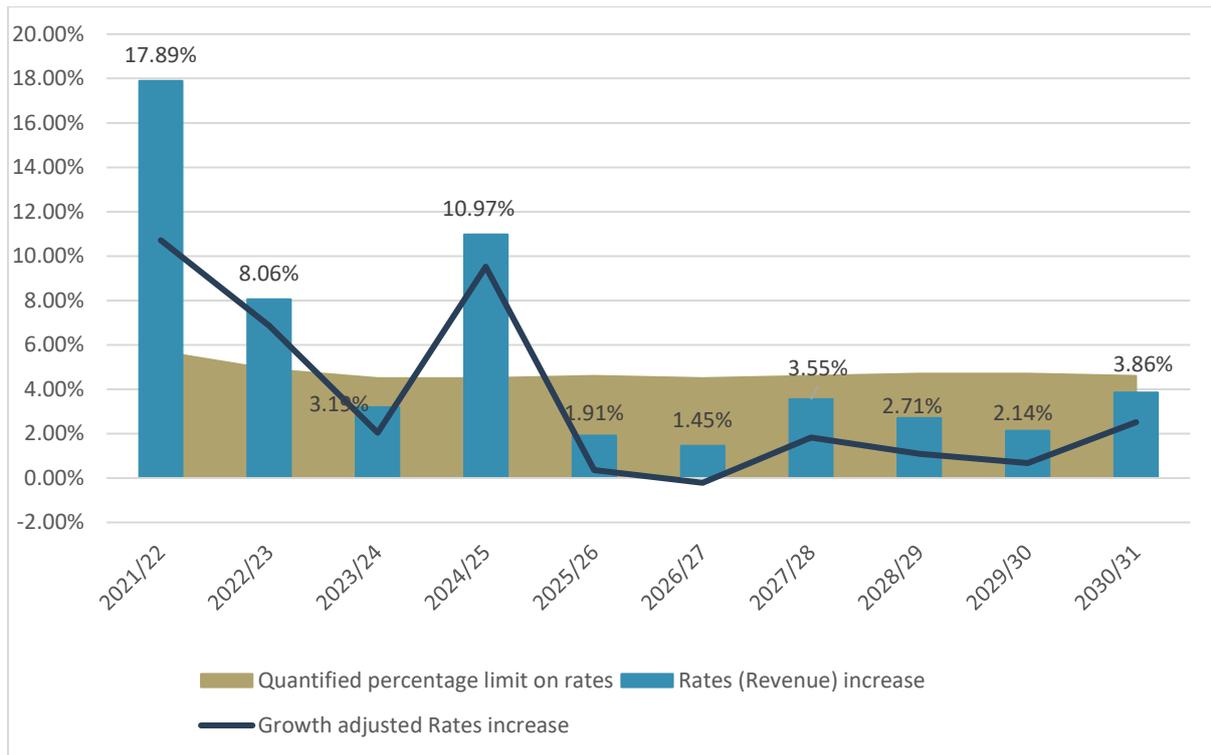


Figure 5: Quantified Limit on Rates



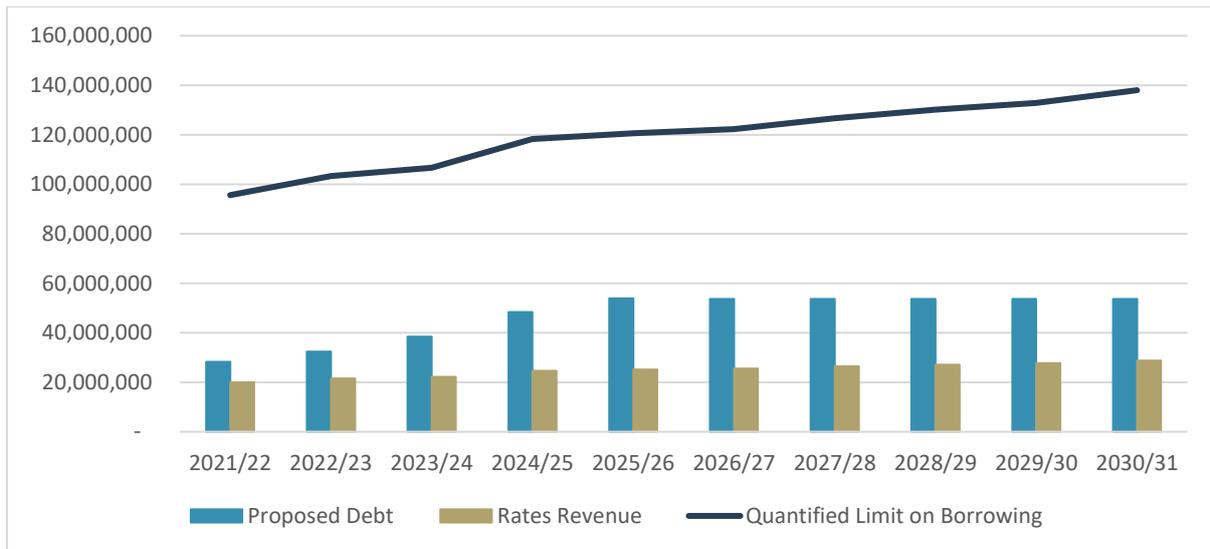
Council sets its quantified limit on the average level of rates increase over the plan. The average rate increase over the 10-year period is 4.8% which sits at the upper quantified limit. There will be three instances of exceedances in the quantified limit Council has set in the first four years of the 10-year plan. All are due to an uplift required on the water network and also phasing of some programmed work.

Borrowings

As with rates Council is required to set a limit on borrowings for the duration of this LTP. Council has capped the debt limit at an interest cost no greater than 12% of rates revenue. The graph below assumes an average borrowing rate of 2.5%.

Council does not offer assets as security for borrowings.

Figure 6: Quantified Limit on Debt



Investments

Refer to Council’s Investment Policy for the objectives for holding and managing financial investments.

Council holds financial investments for the purposes of operational liquidity and for the long term accumulation of funds held in Special Reserves. Additions and withdrawals from these Reserves have been accounted for each year throughout the Plan.

Council holds a very limited portfolio of equity investments. These are held for strategic purposes only and are not held for specific investment and as such no quantified target has been set.