



**SOUTH WAIRARAPA
DISTRICT COUNCIL**
Kia Reretahi Tātau

Financial Strategy 2025/2034

Date of Approval

xx June 2025

Next Review

30 June 2027

Financial Strategy 2025/2034

This strategy is prepared in accordance with Section 101A of the Local Government Act 2002. It informs ratepayers, residents, and other readers about the Council's Long Term and Annual Plan documents. The strategy outlines the Council's approach and the key limits it intends to use over the next nine years, showing the impacts both with and without waters where it is important to do so.

As a key part of Council's 2025/2034 Long Term Plan, this Strategy needs to be read in conjunction with other key documents:

- Infrastructure Strategy
- Revenue and Financing Policy
- Remission of Rates Policy
- Remission and Postponement of Rates on Māori Freehold Land Policy
- Treasury Management Policy
- Development and Financial Contributions Policy
- Postponement of Rates Policy

Local Water Done Well and the Financial Strategy

Water service providers face significant challenges in delivering drinking water, wastewater and stormwater services in New Zealand. We need to work together to ensure that water infrastructure is developed, maintained and operated for the long-term benefit of consumers.

Local Water Done Well (LWDW) is the central Government plan to address New Zealand's water infrastructure challenges. The provision of reliable and safe water services to communities will be done within a new regulatory framework, focused on meeting economic, environmental and water quality needs.

New regulations are being put in place that require water service organisations to generate sufficient revenue to meet the costs of delivering water services (financially sustainable), are separate from other Council activity (ring-fenced), meet new standards, and protect the ownership of water services assets against privatisation.

Water Services Delivery Plans

Water Services Delivery Plans (WSDPs) are a requirement under the Local Government (Water Services Preliminary Arrangements) Act 2024 (the Act). Through the delivery of these one-off Plans by 3 September 2025, councils will provide an assessment of their water infrastructure, how much they need to invest, and how they plan to finance and deliver it through their preferred water services delivery model.

We are purposefully keeping our water investment programme in our strategy for the whole nine years to ensure we are clear with our community about the size and complexity the infrastructure issues the district needs to deal with.

WSDPs are a way for councils to certify their commitment to deliver water services that meet regulatory requirements, support growth and urban development, and that are financially sustainable. Financial sustainability means water services revenue will be sufficient to meet the costs

of delivering water services. The costs of delivering water services includes meeting all regulatory standards, and long-term investment in water services.

Water service delivery plans can be developed by individual councils, or joint with other councils if they propose delivering water services through a joint arrangement. The proposal being put forward by this council for consultation alongside the Long Term Plan is to become part of a multi council joint arrangement.

New wastewater standards and the development of Water Services Delivery Plans

Water Services Delivery Plans need to be prepared based on an assessment of councils' current or future regulatory compliance. The assessment of future regulatory requirements is limited to foreseeable requirements, particularly those that will impact on investment requirements.

In our case this includes the renewal application for the Featherston Wastewater Treatment Plant and investment in the Martinborough and Greytown Wastewater Treatment Plant's to meet existing consenting requirements. The imminent demand for water services infrastructure investment and renewal is the reason we have chosen to show water services in the capital infrastructure aspect of the Long Term Plan. The associated costs with this essential water services infrastructure are included for the full nine years, even though transfer to a new entity is highly likely in July 2026. This allows the community to see the detail that will form the underlying discussion in the consultation for Local Water Done Well and the indicative pricing that the modelling produces.

Choosing a water services delivery model

Local Water Done Well recognises the importance of local decision making and flexibility for communities and councils to decide how their water services will be delivered in the future.

The Act provides several model options for Councils to choose from. It requires that the existing service delivery approach is compared with another water services delivery model option (or more if appropriate) which could be:

- In-house – this is not an option for SWDC due to financial sustainability
- Multi council-controlled organisation – proposed option in the LWDW consultation document
- Independent consumer trust - Not a viable option as it does not give access to the required debt funding and remains financially unviable.
- Single council-controlled organisation – Mirrors the existing approach which is not financially sustainable.

The Government has recognised that current Local Government Funding Agency (LGFA) debt ceilings mean that long-term borrowing is difficult for consistent infrastructure investment. In response, the single council-controlled organisation and the multi council-controlled organisation models will be able to access additional debt financing from LGFA equivalent of up to 500% of operating revenues (subject to council guarantee or uncalled capital). This is a significantly higher borrowing facility than an individual council can access.

Either a single or multi council-controlled organisation will be the future for this Council.

Financial Strategy

Based on the above legislative change, this strategy aims to:

- Achieve a balanced budget each year, ensuring that projected operating revenues are set at a level sufficient to meet that year's projected operating expenses.
- Ensure that no more than 85% of revenue will come from rates, with the balance coming from other sources such as subsidies from Government agencies including Waka Kotahi, and user fees and charges.
- Limit annual overall rates increases to Local Government Cost Index inflation (LGCI) plus the percentages outlined in the table below.

Year of the LTP	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Limit on overall rates increase	LGCI plus 2.0%	LGCI plus 4.0%	LGCI plus 6.0%	LGCI plus 9.0%	LGCI plus 6.0%	LGCI plus 7.0%	LGCI plus 6.0%	LGCI plus 5.0%	LGCI plus 3.0%

- Council's financial strategy is guided by prudent fiscal management. This strategy is based on debt covenants, set by the Local Government Funding Agency, that limit debt levels to 175% of revenue for an unrated Council. If a credit rating is obtained, this level can be increased to 280% of revenue.
- Our capital programme will result in these limits being exceeded during the LTP timeframe. Council has maintained the capital programme due to assumptions that, under the Local Water Done Well legislation, there will be a transfer of water, wastewater, and stormwater operations to an asset-owning Council-Controlled Organisation (CCO) on 1 July 2026.
- This transition results in a significant reclassification of assets and associated liabilities, which negates the impact of the current debt ceiling. Council is committed to managing this transitional phase responsibly, ensuring ongoing compliance with legislative requirements while maintaining sustainable financial practices and continued investment in essential infrastructure.
- Maintain interest costs at less than 20% of total revenue, and less than 25% of total rates revenue. This is impacted by projected future interest rates and the above impact of the capital programme for waters.

Overview

Following the change in Government and the coalition agreements that formed the basis for the new Government direction, there have been several key changes that Council has had to navigate as part of the preparation of this Long-Term Plan. Council has acknowledged the historic underinvestment in infrastructure in both Roding and Water services which means this Long-Term Plan will focus on investment in our critical infrastructure. As outlined at the start of this strategy, the cancellation of the Affordable Waters initiative, and creation of the Local Waters Done Well legislation, requires Council to work towards a Water Service Delivery Plan by September 2025. It is anticipated that any Water Services Entity that could be required to deliver the Water Service

Delivery Plan could be operational by July 2026 but to ensure that we provide the best information possible, we have planned to model this strategy with information relating to Water Supply, Wastewater, and Stormwater (Waters) in for the whole nine years but also model the debt related implications of removing it from 2026/27.

Our roading network requires increased investment to address a backlog of renewal and maintenance work. Council applied for investment in maintaining and renewing our roads at a higher level than the 2021/31 Long Term Plan to improve resilience and address the impact of three years of high inflationary increases in material and labour costs. However, the change of direction set by the Government has meant that the requests for work categorised as “low cost/low risk” (LCLR) was not approved and a change of focus for the work plan towards fixing potholes and resilience resulted in a slight pivot in planning our roading budgets.

Other than the above issues, it is not anticipated that any other levels of service will be affected.

The approach for the 2025/2034 Financial Strategy is to:

- Work alongside local, regional, and national partners to deliver infrastructure projects that are intended to improve the district’s future resilience.
- Maintain core services as cost-effectively and efficiently as possible, prioritising operational efficiencies.
- Continue investing in the improvement of core processes and tools to enhance infrastructure and service investment decisions and delivery across the short, medium, and long-term.
- Replace or renew infrastructure assets where it is reasonable and economically viable to do so.
- Use borrowing to spread the cost of new capital expenditure over time to ensure that the cost of infrastructure today is spread equitably between the ratepayers of today and tomorrow.

Towards affordability and enabling growth

The overall focus of our Financial Strategy is financial sustainability and affordability within the context of working towards growth in the district and transitioning water services to a new entity.

Council acknowledges that increasing rates places additional financial burdens on ratepayers and has worked hard to ensure that the Governments directive to focus on core services and to review budgets has been the foundation of this plan.

It is also the reason that we have decided not to use rates as an alternative funding method in the outer years of the plan when the debt ceiling is breached. Given the transfer of waters to a new entity, it would be misleading to suggest high future rate increases that are unlikely to be part of this Councils charging methodology. Future charges for water related costs would come from the new entity and the indicative pricing is included in the consultation document for Local Water Done Well proposal for a Wairarapa – Tararua entity.

In developing this Financial Strategy, Council reflected on several challenges the district faces:

- The convergence of the Local Water Done Well legislative process with this Long-Term Plan
- The need for investment in infrastructure to encourage economic growth.
- Better asset management leading to enhanced delivery of core infrastructure.

- Providing infrastructure and services in a way that is affordable to the district's ratepayers.

Although we recognise that it may not be possible to resolve all of these issues, and that progress is likely to be lengthy.

Council is committed to:

- making sure the community is aware of the investment needed for water infrastructure,
- careful decision-making and collaboration across all district and regional partners and
- listening to stakeholders, and residents and ratepayers.

Where possible, this strategy ensures that:

- Revenues are sufficient to cover operational expenses.
- Current service level targets are achievable within the funding available, excluding water.
- Subsidies and grants are used effectively to complete projects that benefit the community.
- Funding allows for major capital projects the community wants, within reason.
- The needs of current and future ratepayers have been considered.

Council acknowledges that:

- With affordability a big issue for many, ratepayers cannot afford continuing escalating costs.
- The cost of providing services will not reduce without intervention. For this reason, the full information for waters investment has been included to provide the underlying information for the Local Water Done Well discussion.
- Council will continue to make difficult trade-off decisions and consider those projects identified as 'nice to haves' to ensure essential services are provided and costs are kept down.
- The information provided in the Long Term Plan relating to water related assets beyond 2026/27 is indicative of the investment programme that a new entity would need to consider.

Although we acknowledge that there is a lot of work to be done, we consider this Strategy to be a solid starting position, and prudent given our current situation and our over-riding position of transparency with our community.

Council is very aware of the current impact that the capacity constraints in relation to both Martinborough and Greytown wastewater treatment plants is having on future growth. It is noted that 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 11,811 in 2023 to 14,811 in 2052 while rating units are expected to grow 11% over the nine years of this Long-Term Plan. Being clear in our infrastructure plan on the need for investment in the above plants is a key reason for including the water information in the plan.

Table 1: Forecast Rating Units by Year

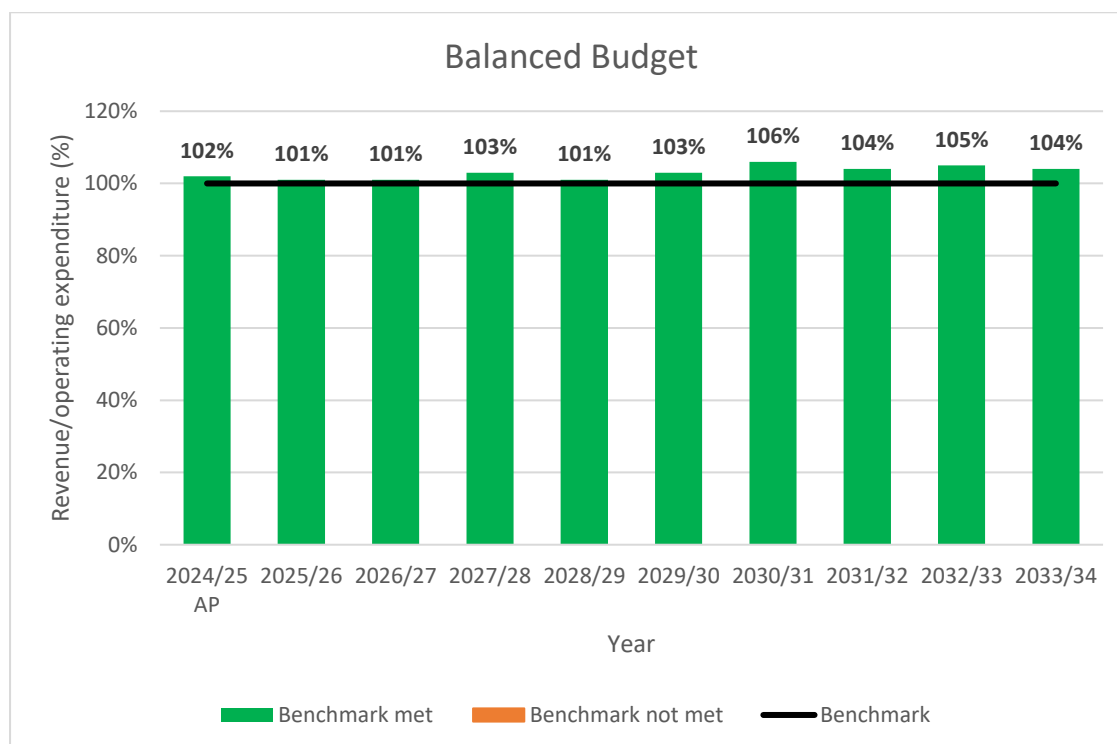
YEAR	FORECAST ANNUAL GROWTH IN DWELLINGS	FORECAST RATING UNITS
2024	1.1%	7,494
2025	1.1%	7,577
2026	1.1%	7,661
2027	1.0%	7,738
2028	1.0%	7,816
2029	1.0%	7,895
2030	1.0%	7,975
2031	1.0%	8,055
2032	1.0%	8,136
2033	1.0%	8,218
2034	0.9%	8,289

Balancing the Books

The Local Government Act requires us to run a balanced budget – a budget where operating income is sufficient to fund operating expenditure. Reserves built up over the last ten years have been utilised where possible to offset the burden of increasing infrastructure investment on ratepayers.

A strategic decision taken by Council is to not fund all of the depreciation expense. This is a strategic decision which will ensure that future replacement of some assets is based on need and affordability at that point in time. Depreciation on roading assets is only the portion of depreciation not ‘funded’ by NZTA through operational and capital subsidies, this “local share” element is collected through rates or borrowing capacity.

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

Figure 1: Balancing the Budget

Increases to rates

Due to the cost of infrastructure and service provision, which continues to rise faster than general inflation, Council assumes that its costs will increase in accordance with the Local Government Cost Index (LGCI).

In recent years, Council has made deliberate and necessary rate increases to address historic underfunding of infrastructure and to keep pace with inflationary pressures. The rates funding requirement increased by:

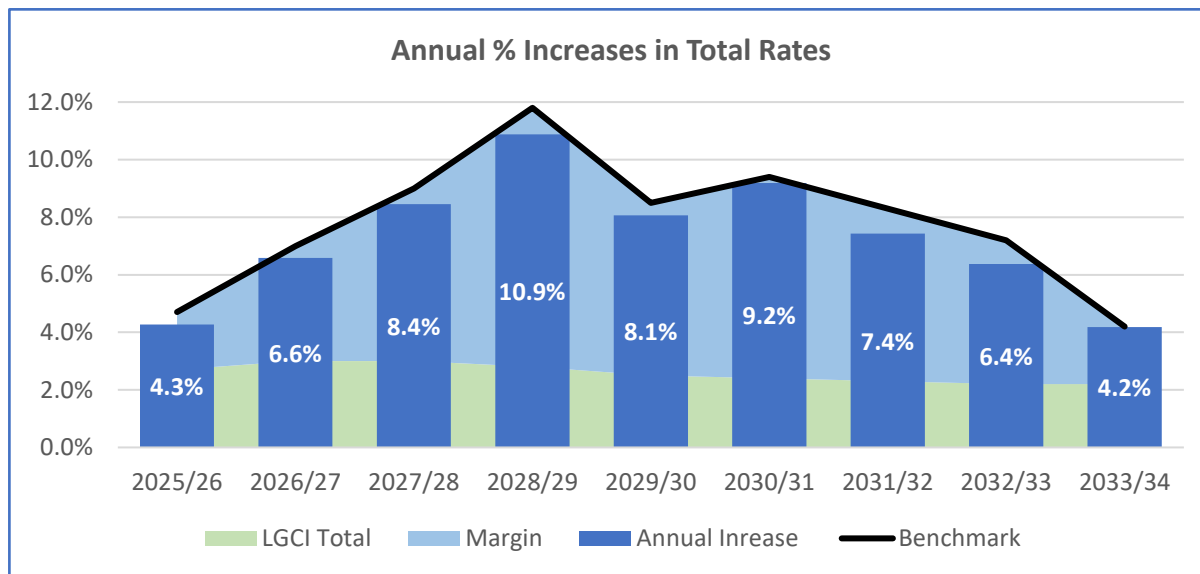
- 2021/22: 17.9%
- 2022/23: 6.6%
- 2023/24: 19.8%
- 2024/25: 14.7%

These increases were essential to catch up on past underinvestment, particularly in core infrastructure such as water, wastewater, stormwater, and roading. As a result, South Wairarapa District Council is now in a stronger financial position, with a more sustainable funding base that allows for lower projected rate increases compared to other councils in the region.

For the 2025–2034 Long-Term Plan (LTP), Council intends to limit annual rate increases to LGCI plus an additional margin ranging from 2% to 8%, as shown in the table below. This reflects a shift from catch-up funding to long-term financial prudence, balancing affordability for ratepayers while ensuring continued investment in essential services and infrastructure.

Year of the LTP	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Limit on overall rates increase	LGCI plus 2.0%	LGCI plus 4.0%	LGCI plus 6.0%	LGCI plus 9.0%	LGCI plus 6.0%	LGCI plus 7.0%	LGCI plus 6.0%	LGCI plus 5.0%	LGCI plus 3.0%

By taking a responsible financial approach, Council has stabilized its funding position and reduced the need for sharp rate increases in the future. This means that future rate increases will be lower than in recent catch-up years while still enabling Council to maintain and improve infrastructure and



services in a sustainable manner. The impact of Local Water Done Well will also reduce the increases in the outer years as water provision transfers to some form of new entity.

Debt, interest, and internal funding

Council remains committed to prudent debt management, ensuring that borrowing is used strategically to fund long-life infrastructure in a way that spreads costs fairly between current and future ratepayers.

Council's debt limits are set in line with the covenants placed upon Council by our lender, the Local Government Funding Authority (LGFA). These limits currently restrict debt to 175% of revenue, the level for councils without a credit rating. Obtaining a credit rating would allow the debt ceiling to increase to 280% of revenue but this is a costly exercise for a small council, especially when the future transfer of the provision of the waters to another entity would result in Council remaining within the 175% limit.

Council is concurrently consulting on options for the future delivery of waters services under the Local Waters Done Well reform. It is clear that we can't continue to deliver water services in the way they are delivered now and that a new entity of some form will be required to enable the future investment required by our district.

Council's water services will transition to a Water Services Council-Controlled Organisation (WSCCO), either as part of a group of councils or as a single council. As outlined, this will remove a significant

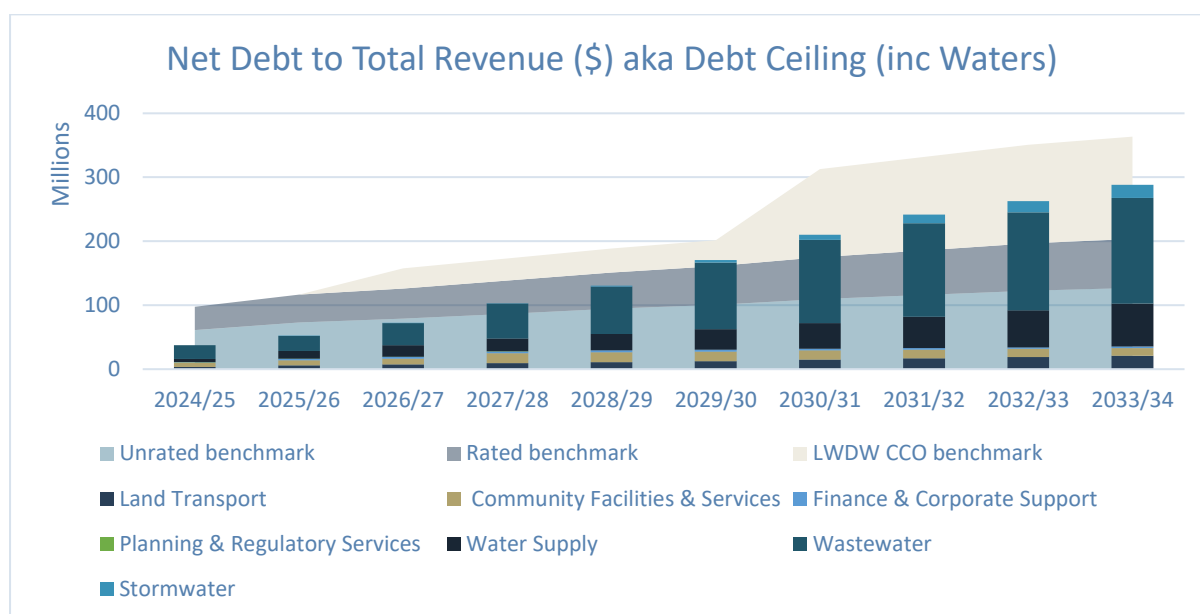
portion of Council's debt associated with water infrastructure, ensuring that the projected breach does not occur.

Water Services Council Controlled Organisations (WSCCOs) have debt ceilings set up in a slightly different way. Instead of a simple debt-to-revenue ratio, their financial covenants require Free Funding from Operations (FFO) to be between 8% and 12% of debt. This equates to a comparable debt ceiling of 500% of operating revenue. As a result, from transition (expected 1 July 2026), the applicable debt ceiling would shift to a net debt limit 350% and after the realisation of efficiency gains would increase to 500% of operating revenue. This has been outlined in the higher debt ceiling labelled LWDW CCO benchmark chart below. This means that by the time the 280% ceiling is reached in 2030, water services would already be delivered by a CCO, and the need to reprioritise the capital programme would no longer be necessary.

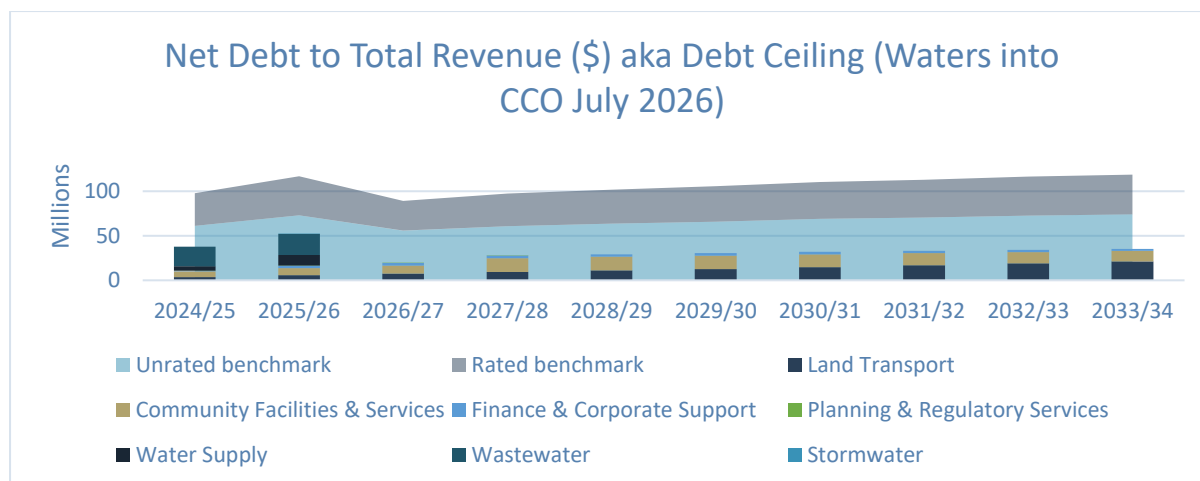
Council is committed to continuing to monitor and refine its capital programme to maintain financial sustainability, balancing investment in essential infrastructure with responsible debt management.

The charts below compare net debt to revenue.

The first chart highlights the impact that waters would have on council's debt ceiling if waters were to remain with Council. As Council will have to transition waters to a CCO model before 2029/30 it will remain within debt ceiling allowed.

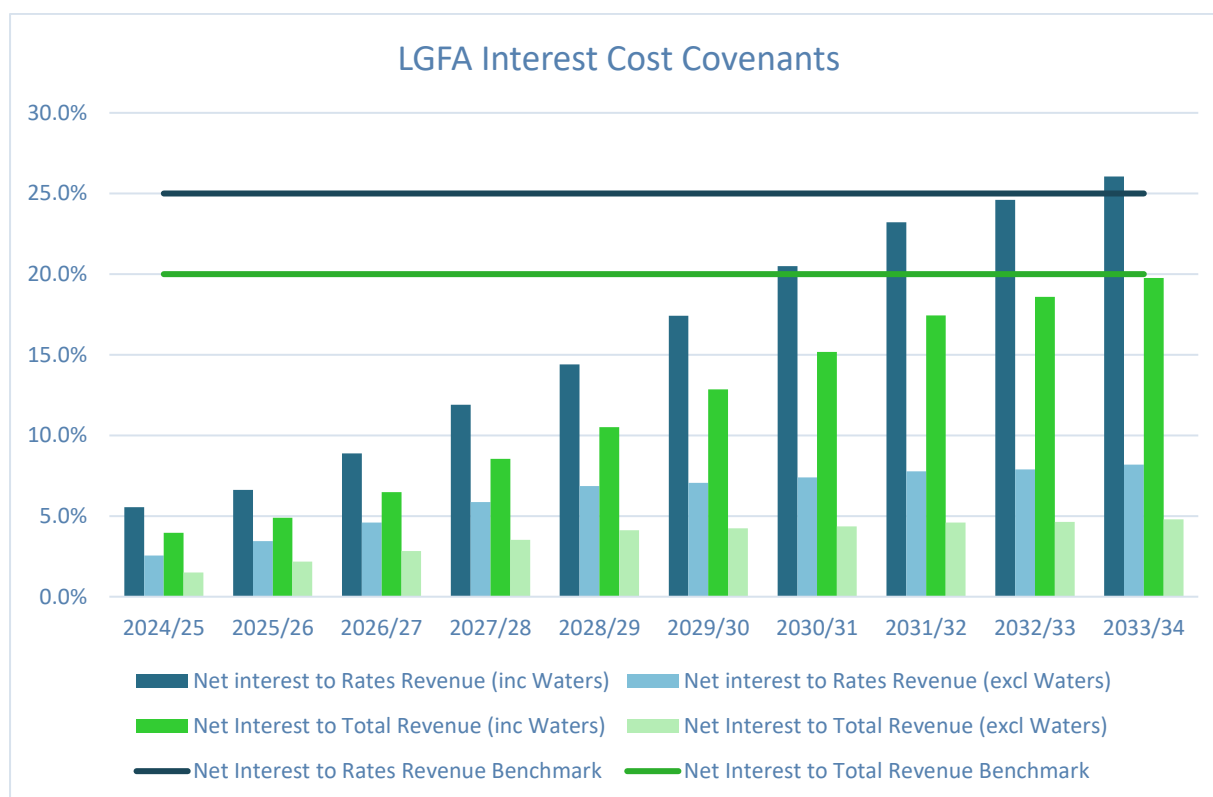


The second chart shows the impact of removing waters from Council and transferring to a new Waters entity. This chart clearly shows that the need for a credit rating would no longer be required, and that Council would not breach its debt ceiling if the transfer of waters to a CCO takes place in June 2026.



Council plans to continue to secure its borrowing and interest rate risk management instruments against rates and rates revenue as this lowers the cost of borrowing. Council minimises its financing costs as a member of the Local Government Funding Agency (LGFA). This means that we can borrow at better rates than those available through direct lending from trading banks or issuing bonds directly into the market.

The 2025/34 Long-Term Plan assumes an interest rate averaging 4.7%. As part of treasury management, Council seeks to reduce overall interest costs by using funds held in reserve. Where Council has a cash surplus, rather than hold funds on deposit and borrowing all funds needed for capital works, reserve funds are used as short-term funding. Internal interest is not charged for this funding.



The same assumptions that have been discussed throughout this strategy apply to interest cost covenants. Without the transfer of three waters to a Council-Controlled Organisation (CCO), interest costs would exceed the covenant limit of 25% of rates revenue in 2033/34. However, as Council will

be transitioning its water services to a CCO—either as part of a group of councils or as a single council CCO—water-related debt and associated interest costs will shift to the CCO. This transition, in line with the Local Waters Done Well model, will ensure that Council remains within its financial covenants while maintaining investment in other essential infrastructure.

Fees and charges

Most fees and charges will be adjusted annually to align with the Local Government Cost Index inflation factor (LGCI). In some areas, actual costs will be recovered in accordance with the Revenue and Financing Policy. This may exceed the rate of LGCI. All fees and charges are reviewed annually.

Subsidies

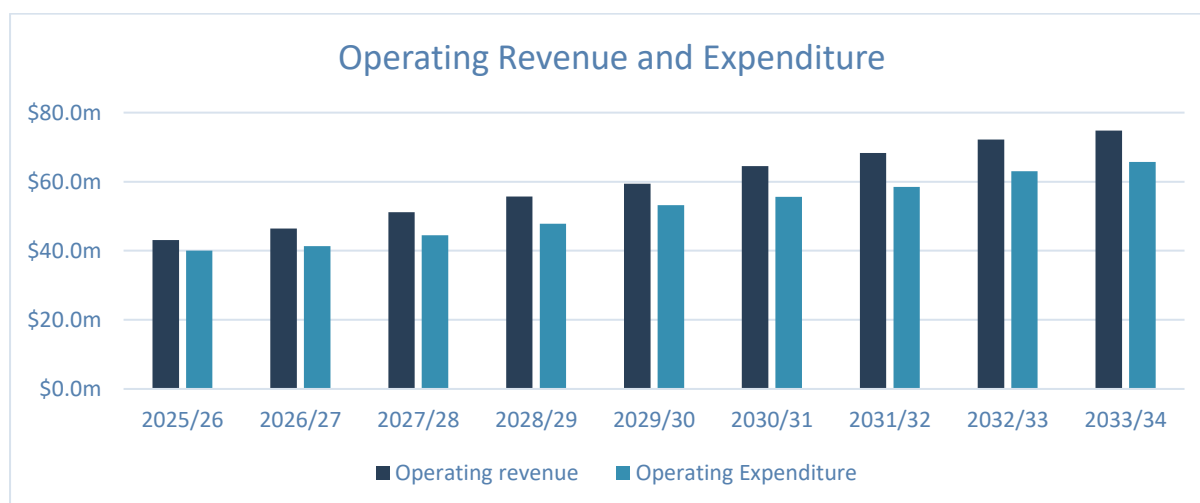
Government subsidies via NZ Transport Agency – Waka Kotahi provide a significant source of funding for our transportation activities. In 2025/26 we expect to receive operating and capital subsidies of \$4.9 million, representing 43% of the gross cost of both operating and capital expenditure on a wide range of approved items. NZ Transport Agency – Waka Kotahi has signalled that there is an intention to remove the 100% funding for the Special Purpose Road (SPR) from July 2027. Current budget projections in this plan indicate this and is reflected by the steep rate rise in 2027/28. Council will continue to discuss this with the funding agency with a view to extending the support or phasing the reduction in subsidy, but these options have not been modelled as they are highly uncertain.

Financial Contributions

Financial contributions, relating to resource consents are collected and placed in a reserve fund. The use of this fund could include some operating costs. The Council does not currently take development contributions.

Operating revenue and expenditure

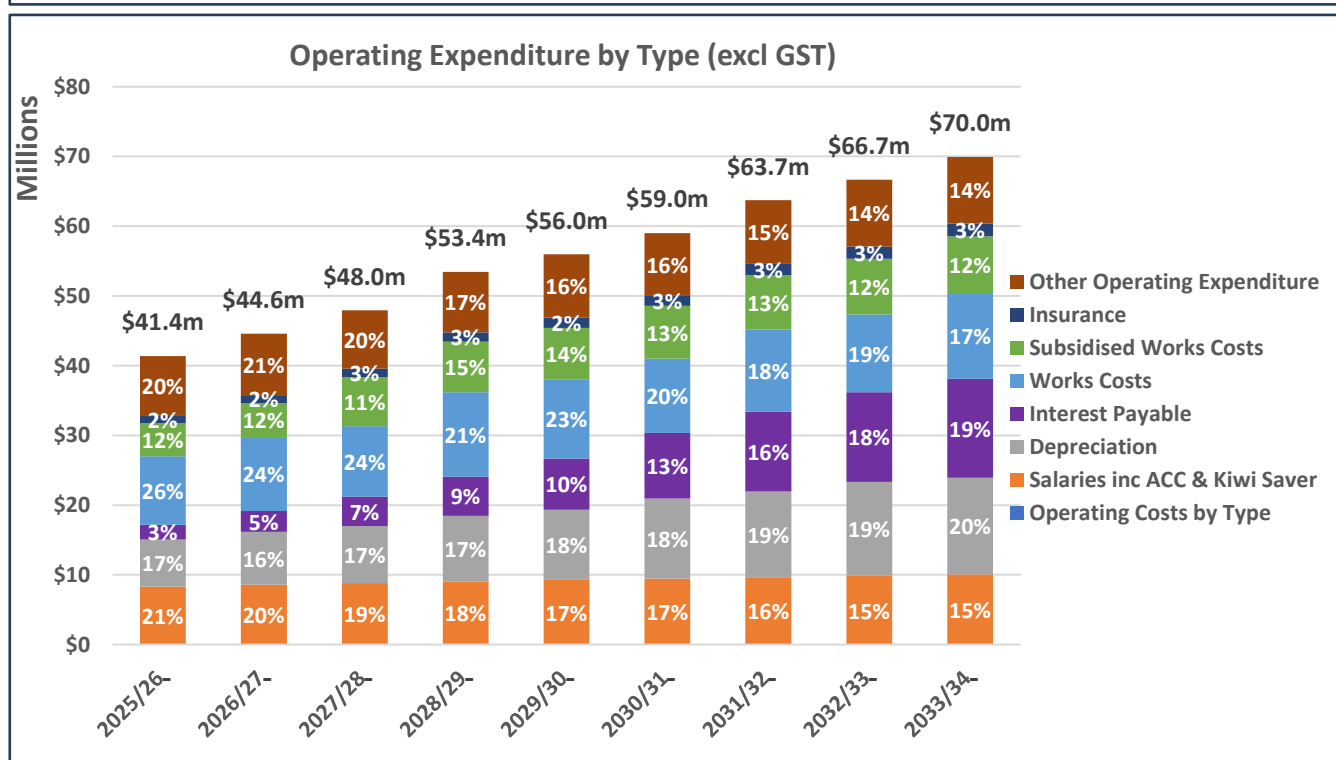
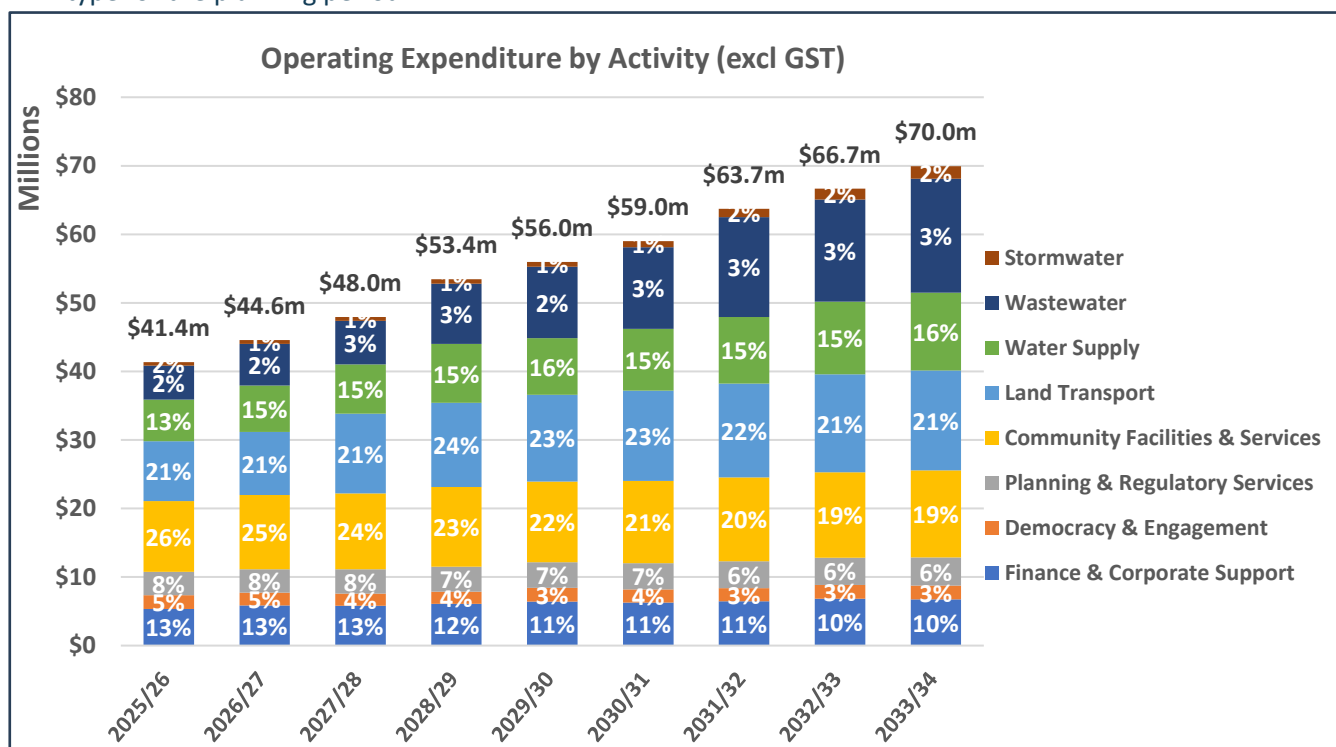
Note that total operating expenditure is net of remissions which range from \$130k to \$154k annually over the 9 years of the 2025/34 LTP. This expenditure is netted against rate income.



Operating expenditure

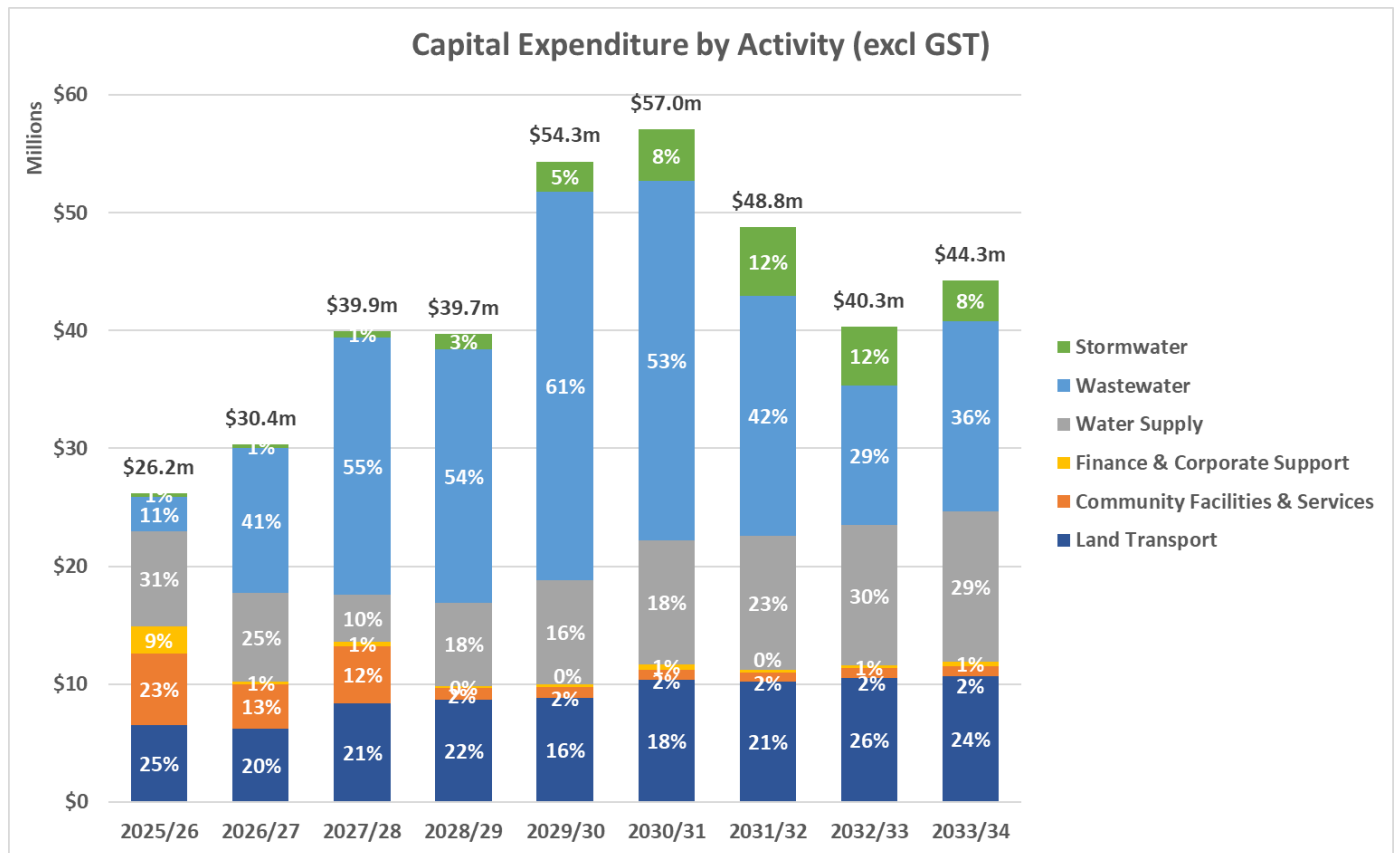
Total annual operational expenditure is forecast to increase from \$41.3million in 2025/26 to \$70.0 million in 2033/34.

The forecast levels of operating expenditure and revenue across the nine years of the Plan are shown in the table above. This provides for an operating surplus in every year of the Plan sufficient to balance the budget in accordance with Section 100 of the Local Government Act 2002. The following tables show the split of total forecast operating costs for each activity and expenditure type for the planning period.



Capital expenditure

Total annual spend on capital projects ranges from \$26.2 million in 2025/26 to \$57.0 million in 2030/31.

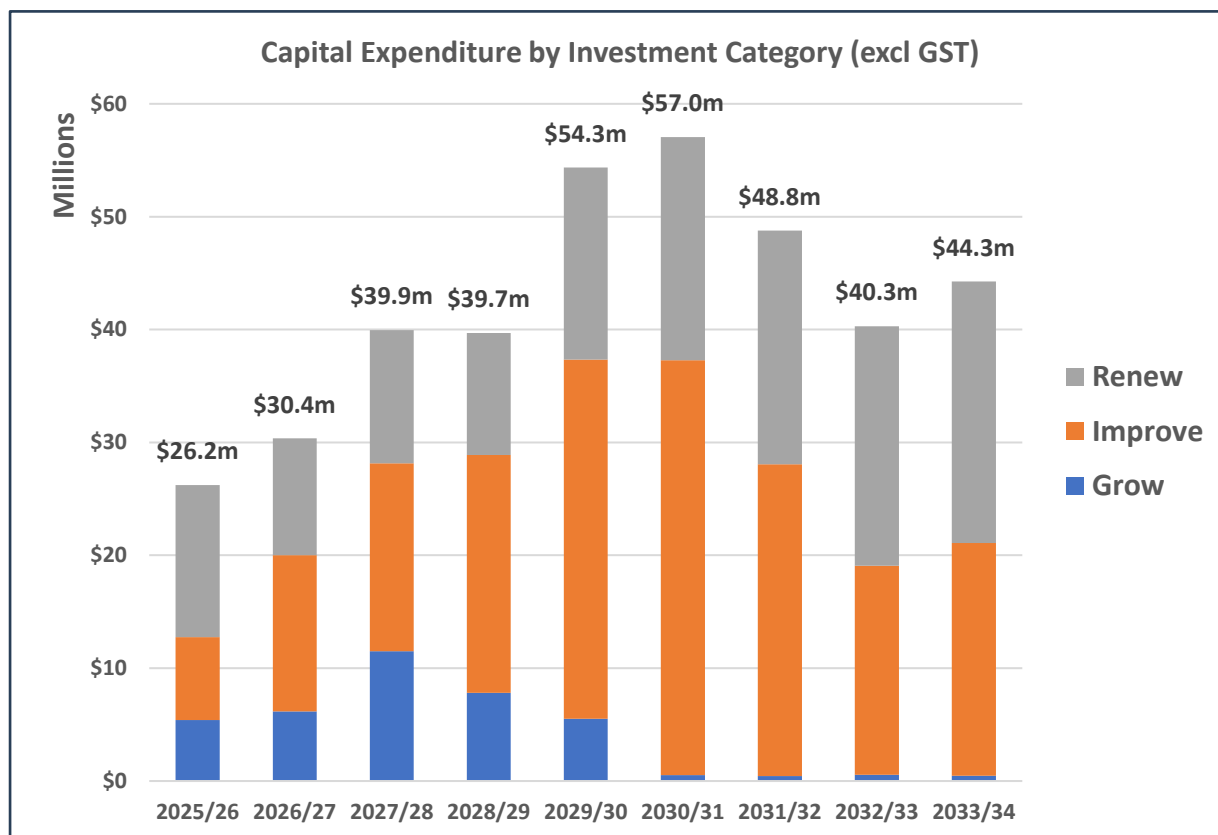


Expenditure is funded by:

- a combination of operating surpluses.
- rates collected for depreciation; and
- Government subsidies and debt.

Council has undertaken a comprehensive review of all funding mechanisms (including rates).

The graph below illustrates planned capital expenditure over the 9 years of the Plan of \$381 million. 38% of total expenditure is for the renewal of existing assets, with 62% for improving levels of service and growth

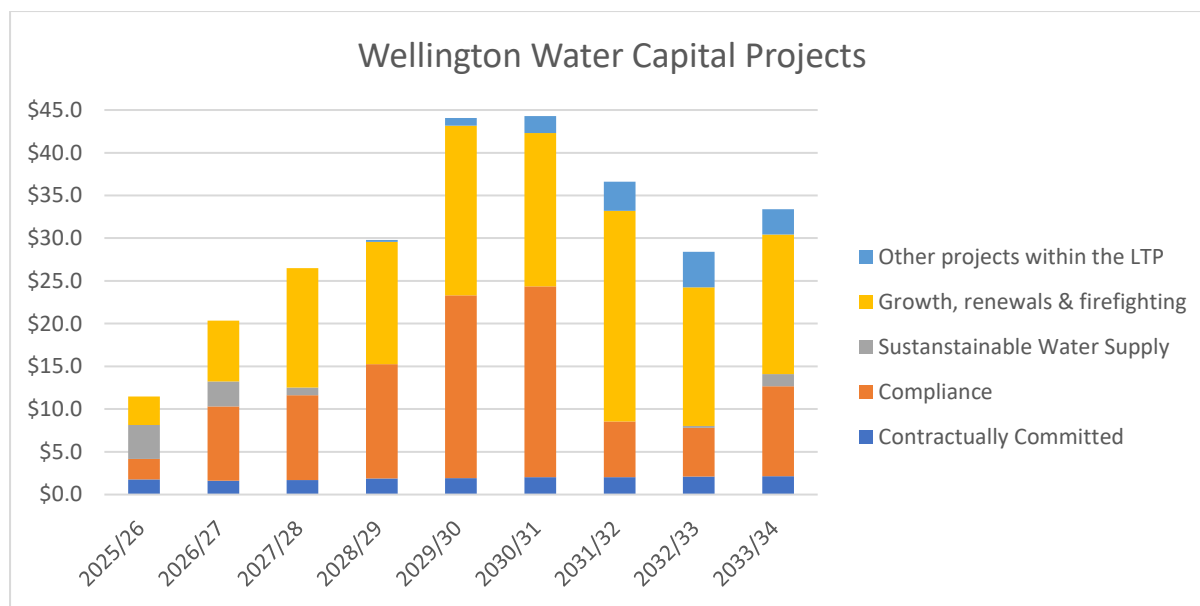


Limiting our capital works programme

Council remains committed to strengthening its capacity and capability to maintain and renew assets, to ensure the continued provision of effective service now and into the future. The capital works programme included in the underlying information contains water infrastructure.

Council's commitment to capital works delivery is an average annual programme of \$41.6 million in the 9 years of the plan across network infrastructure groups including water investment, which will transfer to a new entity in the future.

Our capital programme for Water Supply, Wastewater, and Stormwater has been categorised into priority areas, with the highest priority given to projects which have already been contracted, then those which are required to comply with regulations, followed by those which improve the sustainability of water supply. After these are projects related to growth, renewals, and other projects. If the result of LWDW consultation is that SWDC continues to deliver its capital programme under the existing model our capital programme would be prioritised by Council to stay within our debt limits. We have shown the full programme here to give the full picture of what it recommended, and so that the consultation for LWDW is based on the same capital investment programme.

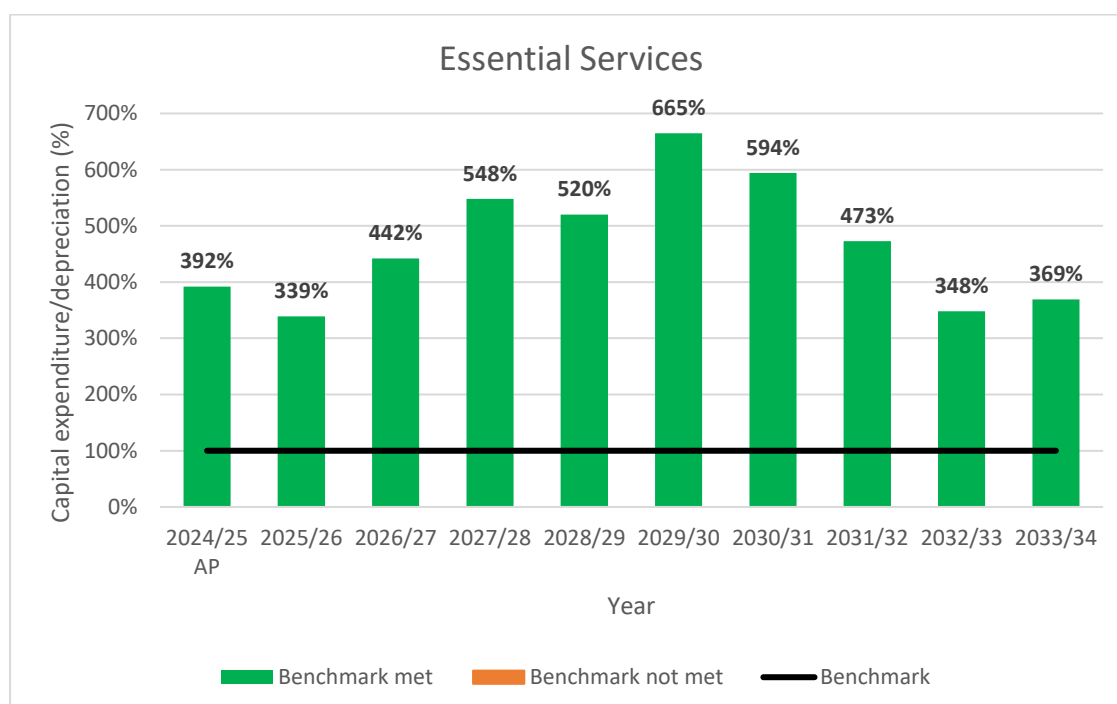


Renewals and depreciation

Council recovers some of the expense of depreciation through rates. The depreciation expense is determined by spreading the value of the asset being depreciated across its useful remaining life. For complex assets such as a wastewater system, depreciation is calculated for each category of the component parts that make up the complete system, as each category of component asset may have a different useful life. Council maintains its assets on an annual basis and periodically renews (replaces or overhauls) the assets that make up the component parts of the larger systems so that, generally, the asset is kept in a condition to provide the required level of service over the long term.

Renewals to depreciation

The below chart shows the average ratio of capital expenditure to depreciation on infrastructure network assets is expected to be 478% for the 9 years of this Plan.



Capital expenditure by activity type is allocated as shown in the following table. This shows that over the 9-year period 94% of capital expenditure is focussed on network infrastructure (73% on waters, 21% on Land Transport). It is also recognised that our community facilities such as playgrounds and reserves are important to our District. To that end, our proposed capital expenditure includes Community spend of 90% of the remaining total capital budget in the 'other' category

Activity	\$m	
Stormwater	24	6%
Wastewater	170	45%
Water Supply	82	22%
Total water investment	276	72%
Land Transport	80	21%
Total Infrastructure Expenditure	357	94%
Community Facilities & Services	16	4%
Finance & Corporate Support	4	1%
Total Capital Expenditure	377	100%

Major Capital projects – including investment required on water assets that would transfer under LWDW

Project	Total Capital Investment (\$m)	
Land Transport		
ECOREEF Extension	10.3	
Cape Palliser retaining wall & road bridge improvements	2.8	
Te Awaiti (Glue Pot) Road stabilisation	1.6	
Community Facilities & Services		
Greytown greenspace	2.7	Carried over from LTP21-31
Greytown wheels park (stages 2 to 4)	3.7	Stages 2, 3, & 4 are to be funded by community donations & sponsorship.
Playground upgrades & renewals	2.6	Featherston, Greytown, Martinborough, Ngawi, & Lake Ferry

Water Supply		
Boar Bush main and reservoir outlet	1.8	
Featherston watermain renewals	8.2	
Tauwharenikau pipeline crossing	1.7	
Potable water tanker fill points	2.2	
Water treatment plant wellfield security	1.8	
Waiohine water filtration	1.6	
Water treatment plant upgrade	5.1	Greytown & Waiohine
Wastewater		
Martinborough treatment plant	45.7	Compliance upgrades
Greytown treatment plant	26.1	
Featherston treatment plant	23.1	Consent and plant upgrade
Featherston pressure system	9.0	
Greytown Papawai Road upgrade	4.1	
Featherston treatment plant	2.1	Start of long-term consent and upgrade 2

Minimising risk

Council carries comprehensive insurance for reasonably foreseeable risks for infrastructure including underground assets. The premiums remain high, and we have a \$100,000 excess for flooding-related events to help keep the premiums more affordable. The minimum claim for underground water & wastewater assets is \$400,000.

For significant storm related roading damage, we are generally able to access emergency funding through central government which helps to offset the costs of restoration and rehabilitation, but there can be substantial delays in receiving funds and they are not always enough to return services to the state they were in before the event.

In 2024/25, Council prudently decided to rate \$300,000 for emergency related works, and that rate has been continued in this plan, inflated each year. The funds raised contribute to the emergency roading works subsidy received, and where possible, provide funds for replacement of other damaged assets. Where costs arising from a major event exceed available funding, we re-prioritise our work programmes as necessary to address the shortfall.

Long Term Plan disclosure statement for period commencing 1 July 2025

What is the purpose of this statement?

The purpose of this statement is to disclose the Council's planned financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

The Council is required to include this statement in its Long Term Plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the Regulations). Refer to the Regulations for more information, including definitions of some of the terms used in this statement.

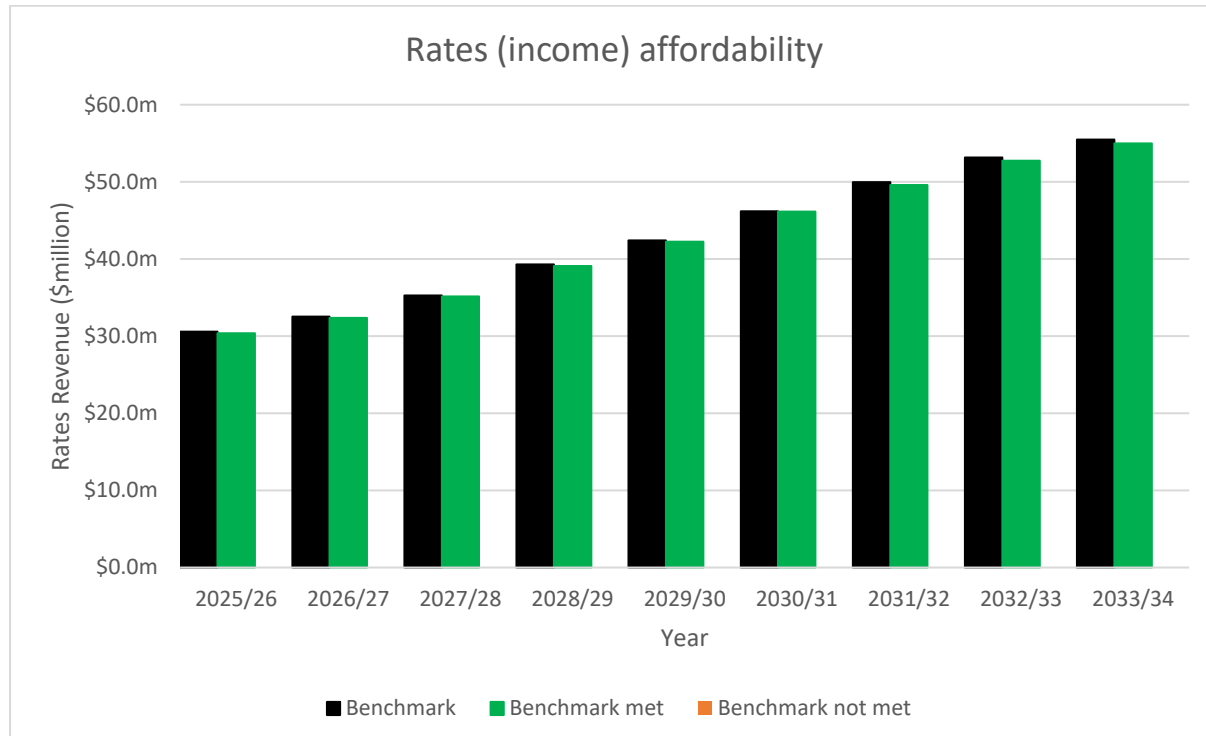
Rates affordability benchmarks

The Council meets the rates affordability benchmarks if:

- its planned rates income equals or is less than each quantified limit on rates; and
- its planned rates increases equal or are less than each quantified limit on rates increases.

Rates (income) affordability

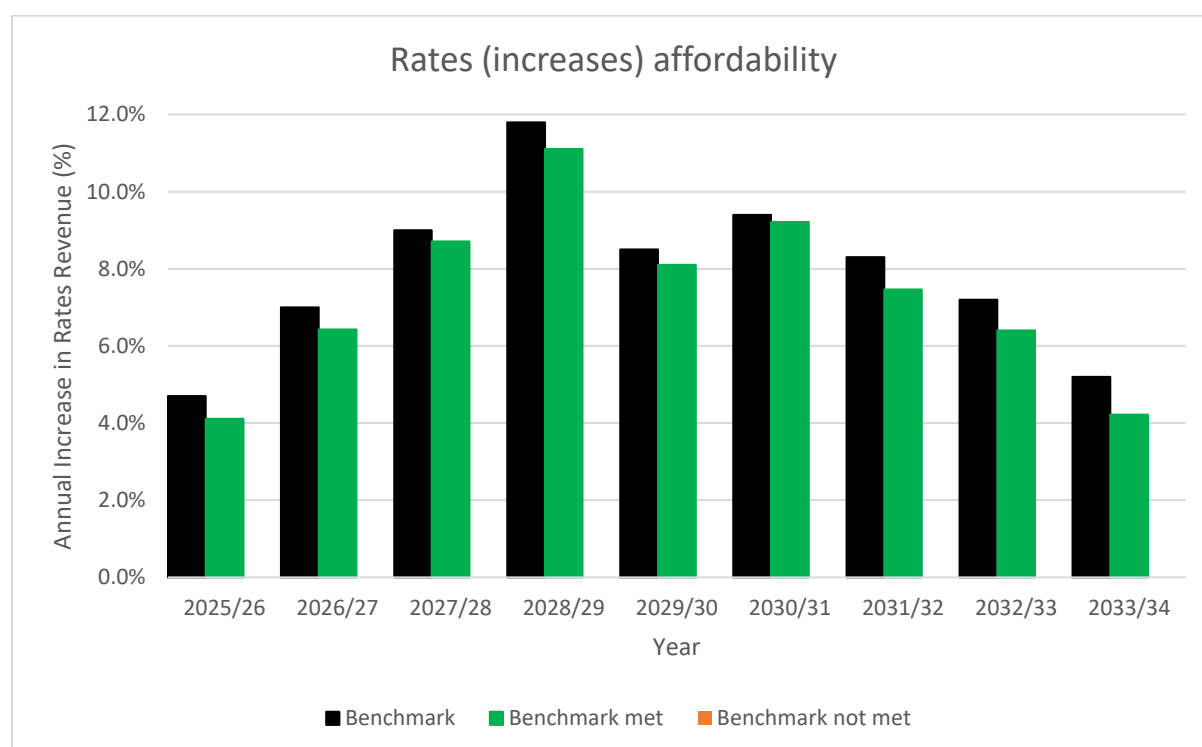
The following graph compares the Council's planned rates with a quantified limit on rates contained in the financial strategy included in this long-term plan. The quantified limit is based on rate revenue increasing by no more than the margin percentage above the BERL "overall Local Government Cost Index" as set in the financial strategy.



Rates (increases) affordability

The following graph compares the Council's planned rates increases with a quantified limit on rates increases contained in the financial strategy included in this long-term plan. The limit on annual overall rates increases is Local Government Cost Index inflation (LGCI) plus the percentages outlined in the table below.

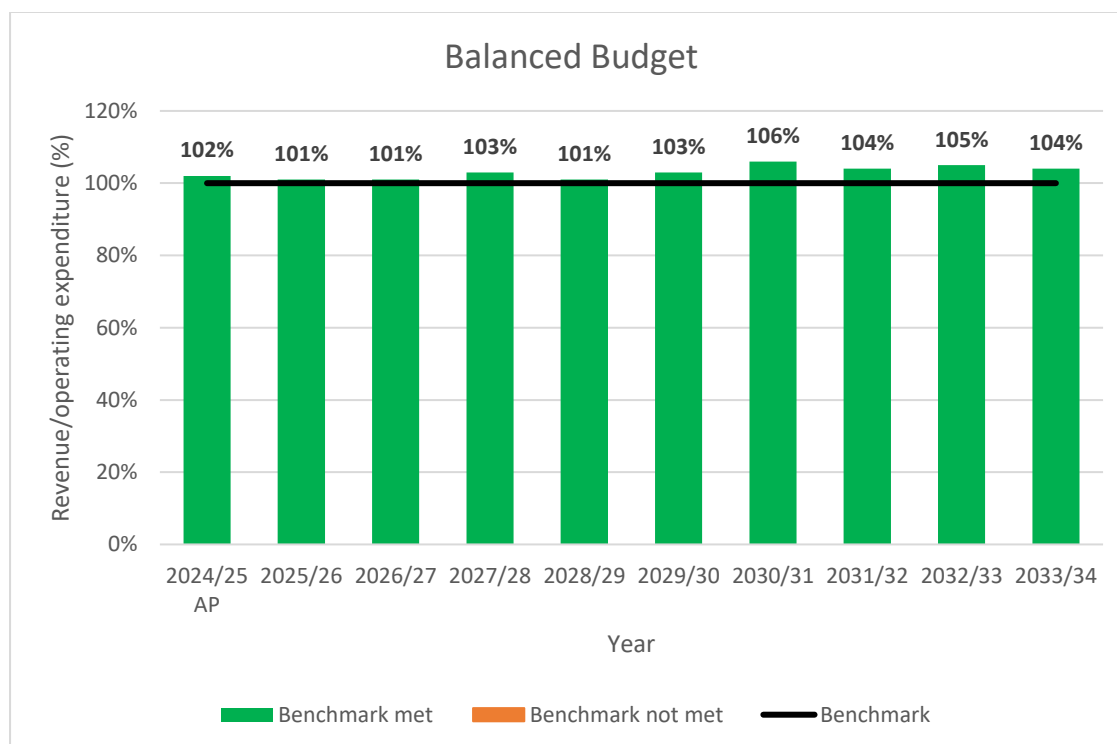
Year of the LTP	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Limit on overall rates increase	LGCI plus 2.0%	LGCI plus 4.0%	LGCI plus 6.0%	LGCI plus 9.0%	LGCI plus 6.0%	LGCI plus 7.0%	LGCI plus 6.0%	LGCI plus 5.0%	LGCI plus 3.0%



Balanced budget benchmark

The following graph displays the Council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment).

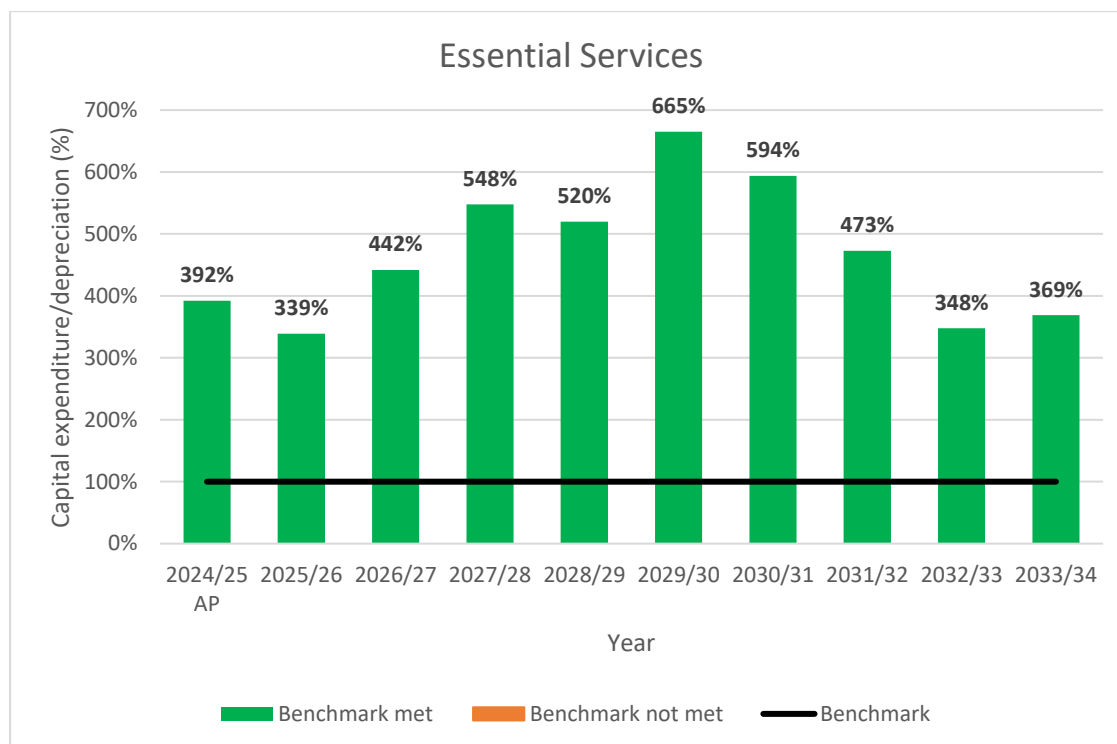
The Council meets the balanced budget benchmark if its planned revenue equals or is greater than its planned operating expenses.



Essential services benchmark

The following graph displays the Council's planned capital expenditure on network services as a proportion of expected depreciation on network services. The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.

Essential services are roading networks, and systems for water supply, wastewater, and stormwater.



Note: Many essential services assets have long lifespans and are at various stages throughout those lifespans. The Council's replacement and renewal expenditure does not automatically follow the accounting measure of decline in service (depreciation). The Council's asset management plans for each service outline the renewal and replacement programs for each component of the assets employed to deliver the services.

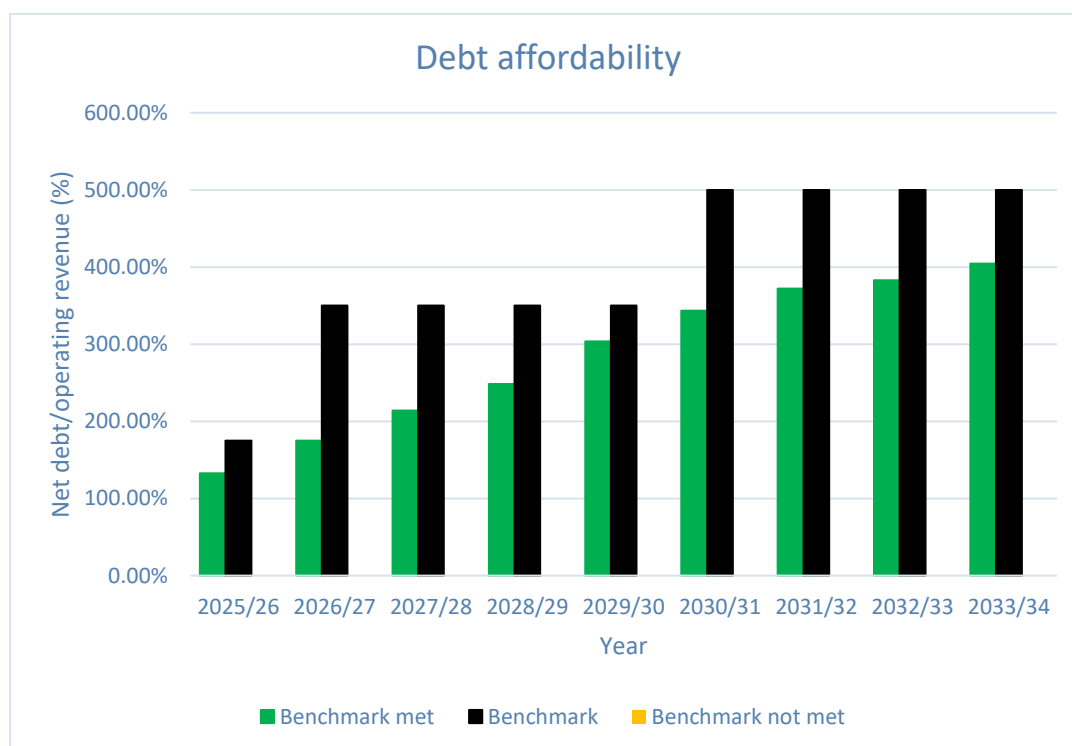
Debt affordability benchmark

The Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing.

The following graph compares the Council's planned debt with a quantified limit on borrowing contained in the financial strategy included in this long-term plan. The quantified limit is based on the covenant that net debt will be no more than 175% of operating revenues, unless a credit rating is obtained, in which case the limit will be 280% of operating revenues.

Council's debt limits are set in line with the covenants placed upon Council by our lender, the Local Government Funding Authority (LGFA). As stated above these limits currently restrict debt to 175% of revenue, the level for councils without a credit rating. Obtaining a credit rating would allow the debt ceiling to increase to 280% of revenue but this is a costly exercise for a small council, especially when the future transfer of the provision of the waters to another entity would result in Council remaining within the 175% limit.

Under the LWDW CCO rules, the CCO responsible for delivering the Council's water services would have access to a debt ceiling of 350% of operating revenues increasing to 500% after efficiency gains had been realised. By the time the 280% ceiling of operating revenue is reached in 2030, the Council's water services would be delivered by a CCO—either as part of a group of councils or as a single council CCO. This means that while Council debt is projected to exceed the 280% ceiling available to councils with credit ratings, this would not be considered a breach for the CCO, as it operates under the higher 500% threshold.



Debt servicing benchmark

The following graph displays the Council's planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment).

Because Statistics New Zealand projects the district's population will grow more slowly than the national population is projected to grow, it meets the debt servicing benchmark if its planned borrowing costs equal or are less than 10% of its planned revenue.

While the planned capital programme would put pressure on this limit in the later years of the Long-Term Plan, Council's transition to a Council-Controlled Organisation (CCO) for water services—either as part of a group of councils or as a single council CCO—will significantly reduce Council's debt obligations related to three waters infrastructure. This transition, in line with the Local Waters Done Well model, will ensure that water-related debt and associated interest costs are transferred to the CCO, reducing the pressure on Council's interest costs and allowing it to remain prudent.

