



Section 2 Informing our planning

Rautaki Tahua

Financial Strategy

The Financial Strategy describes how we plan to finance our activities in a way that is sustainable over the long term and promotes community wellbeing. This provides the framework for delivery of the Long Term Plan 2024-2034 (LTP) and the 30-year Infrastructure Strategy. Debt and rates limits are tools that enable us to deliver projects and services through providing the financial resources, while also making sure that the costs are controlled and spread prudently. Prioritisation is the key to ensuring the community has the services it expects to have, in a way that balances affordability with delivery.

Financial Strategy

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The main story

We understand that times are tough, and we know that the cost of living crisis and other post-COVID economic and social factors are affecting our community in different ways. Council is not immune to this. However, we are fortunate to have a diverse economy and thriving communities across our district, which means we are well placed to successfully respond to current economic conditions.

There has been significant investment in infrastructure over the last 20+ years and we continue to grow, with new businesses and residents making the Western Bay of Plenty District home.

Council is committed to continuing to support community wellbeing, and this Long Term Plan (LTP) doesn't compromise our ability to do this. Our organisation is set up to support delivery on our strategic priorities. These are:

- Enabling housing
- Empowering communities
- Growing authentic Te Tiriti based relationships
- Providing resilient, well-maintained and efficient infrastructure
- Responding to climate change

Our focus from now through the next 10 years is on prioritising investment and resources towards delivering on these strategic priorities.

In this LTP, some difficult decisions have been made to balance the impact of things outside of our control, like increased inflation and interest rates, with the things that we can control, like our rates and debt levels. This means taking a close examination of how and when we deliver projects and services to our community over

the next ten years. Current economic forecasts are indicating a more positive outlook, but the exact timing and impact are uncertain, so we are mindful of this in our long term planning.

This 'main story' provides an overview of our proposed approach to the financial situation for this LTP. It's extremely important to us that as many people as possible understand our proposed approach and the reasons for it.

Where have we come from

When Western Bay of Plenty District Council was created in 1989 it had few financial reserves or investments and inadequate infrastructure to service its fast growing communities. Since then, Council has committed significant investment in infrastructure, including improving the quality of water supplies, establishing wastewater schemes, sealing roads and improving stormwater networks. Debt was used to pay for this infrastructure as a fair way of spreading the cost between current and future ratepayers.

From around 2013, a concerted effort to reduce debt and growth related debt interest, coupled with sound management of the capital works programme reduced debt from \$144 million in 2015 to \$75 million in 2021. This created a more manageable financial situation for the future. Implementing a cap on rates increases of 4% per

annum (including growth and inflation) in previous LTP's has for the most part been a successful way to balance delivery of services with the community's ability to pay. We have some large infrastructure projects planned over the next ten years and we can accommodate the additional debt required for these projects annum (including growth and inflation) in previous LTP's has for the most part been a successful way to balance delivery of services with the community's ability to pay. We have some large infrastructure projects planned over the next ten years and we can accommodate the additional debt required for these projects.



Photo by Marcia Martin capturing a manū competition at Matakana Island.

We have grown from a population of 30,000 in 1991 to nearly 60,000 people in 2024 and have steadily progressed development of infrastructure to support this growth. However high debt levels were a consequence of this investment and the impact of the global financial crisis reduced revenue from growth required to pay for this debt.

Our biggest financial challenges

In recent times New Zealand has seen significant increases in inflation. Interest rates have risen in an effort to combat high inflation. Rapidly rising inflation and interest rate costs, like for individual households, are things that Councils cannot control. We too are experiencing significant cost increases in contracts for the core services that we provide to our community and in the cost of borrowing money to pay for these core services. These economic conditions have compounded since 2022 when inflation and interest rates rose significantly beyond what was anticipated in 2021 when Council adopted its last Long Term Plan. Local Government New Zealand (LGNZ) recently published some helpful research for the sector which highlighted cost increases of 30% for some asset categories.

Locally the flow on effect of these increases has hit us hard. Contract prices have increased substantially, particularly for roading which has been challenging for all councils. Costs have increased across all areas of Council, so affordability has been a significant consideration for this LTP. Interest costs for Council are linked to the Standard and Poors rating (through the Local Government Funding Agency). Many councils (including Western Bay of Plenty District Council) were given an outlook downgrade in their February 2024 rating. This is due to the repeal of the Three Waters Bill and councils still having full control of these activities (water supply, wastewater and stormwater) including the debt associated with them. For the purposes of this LTP, we have applied the assumption of the downgrade to our forecasted interest costs, which increases our overall rate requirement.

The Western Bay continues to be an attractive place to live. We have grown over the years and we are forecast to keep growing. In 2024, the estimated population of the Western Bay of Plenty District is nearly 60,000. This is projected to grow to 73,000 in 2054, bringing another 13,000 people to our district. While a growing population creates incredible opportunities including increased prosperity, the economic investment, community vibrancy and diversity, it also presents challenges. Our overall capital programme, of which 28% is growth related, impacts our overall debt levels

in this LTP (16% of the loan funded projects are growth related). New areas require investment in wastewater, water supply and stormwater infrastructure, roads and footpaths, reserves and community facilities. Key projects to enable growth include the Te Puke Wastewater Treatment Plant (Council share \$38m), Rangiuru Business Park and Ōmokoroa roading (\$131m) to unlock land for housing, commercial and industrial purposes.

While significant investment over the last 5-6 years has helped, there are still costs associated with growth (and with resource consent compliance for some of this infrastructure such as wastewater treatment plants). The “growth pays for growth” principle applies; however, this is not always the practical reality. Council is progressing further investigations on the options available for funding growth-related infrastructure.

The 2023 central government election has meant reform programmes across three waters, resource management and the future for local government review are not progressing as alternative approaches are being considered. There is still uncertainty while these changes are being worked through. Approximately 80% of our debt relates to wastewater, water and stormwater. It’s difficult to plan for the unknown, so assumptions are used to forecast what the future could look like and what this might mean for our community, for Council and our Financial Strategy.

What have we done

Ultimately, the decisions we make on the things we can control, have an impact on the services you receive in your community.

In preparing this LTP, we considered different scenarios to respond to and balance the challenges of affordability, growth, community expectations, sustainable asset management and levels of service.

We have gone through all aspects of our organisation in significant detail and:

- Challenged and considered the affordability and deliverability of the capital programme that delivers new and upgraded assets to the community.
- Applied a ranking to projects based on strategic priorities, community expectations, asset management requirements and compliance considerations.
- Reviewed growth uptake and looked at when the most suitable timing for capital investment would be.
- Reviewed projects that are needed because of population growth to ensure that the principle of ‘growth pays for growth’ is being applied and costs are appropriately apportioned.
- Reviewed non rates income opportunities e.g. user fees and charges.
- Reviewed all operational expenditure line by line, activity by activity, and checked against spend over the last three years.
- Looked at different ways of funding things like town centre developments, community roading projects and community/recreation facility proposals.
- Reviewed contracts and arrangements, for example the contract to build and maintain roads to seek financial and service delivery efficiencies and focus on local needs.

We have delayed some projects and operational spend to reduce and spread rates increases over time. These were not easy decisions but were deemed necessary to provide a better balance against affordability in the short term.



In addition, we have used financial levers including:

- Increasing our debt limit from 180% to 200% (based on our net debt to revenue ratio). This is below the 280% limit set by the Local Government Funding Agency. This is a sensible approach given increased debt largely due to inflation and interest rate increases, and to allow some headroom to respond to unplanned events and emergency situations should this be required.
- Adding inflation to our rates increase limits in case of future significant inflationary pressures (previously inflation was included in the rates cap Council set for itself). We use Local Government Cost Index (LGCI) as the most representative measure of the change in the cost of goods and services purchased by Council over time.
- Pushing out some capital projects to smooth rates requirements.

What we're maintaining

- The levels of service we provide to our people and communities - but we are seeking community feedback on the timing of projects that deliver on our levels of service.
- The way we look after our assets and manage risk, but we are looking to extend our asset replacement approach where possible to get the most out of existing pipes, roads etc.
- A commitment to delivering our strategic priorities over the 10 year period, as they reflect the key issues our community have told us are important to them.

Where we have landed

The average rates increase is proposed to be 13.47% in 2024/2025, and 10.13% in 2025/2026 and remaining years between 6.91% and 9.86%. This excludes metered water and penalties. This sits within the rates affordability benchmark limit which is equal to the average LGCI of the 10 years of the LTP of 2.49% plus 6.5%

Due to a period of increased interest and inflation rates, and significant investment in infrastructure projects required to provide capacity for growth and replace/upgrade existing assets, our debt increases over the LTP to peak at \$387 million in 2030.

The LTP approach has resulted in:

- Projects being pushed out to later years such as the Te Puke swimming pool development which has moved from delivery in 2026 in the last LTP to 2030 in this LTP (\$16.8 million).
- Projects being moved outside the ten year budget such as the Northern Harbour boat ramp (\$5.5 million).
- Project costs and scope being reduced such as our budget for development of walkways and cycleways which we have reduced from \$18m to \$6.5m to find some savings and to recognise that council has made significant progress in development of this network over the last five years.
- New projects included where there is an existing commitment in place such as new playground for Kiokio Reserve in Maketu (\$188,000 in 2027).
- New projects not being included as not a funding priority such as district wide floodlights for sports fields (\$75,000 per annum).
- Maximising value from external funding through the Local Government Funding Agency and a strong credit rating.

We have done what we can to reduce financial impacts while continuing to deliver services, provide for growth and look after our assets, but the rates increases, and debt levels are still high compared to previous LTPs.

You will still see things happening in your community, but just not as much as we would have liked to do, particularly for things that are not directly aligned to our strategic priorities or a defined level of service. These projects and activities we think can be pushed out, as the risks of not doing them now are low.

The rest of the Financial Strategy

We provide further details on our:

- Financial assumptions
- Proposed rates increases and rates limits
- Proposed debt profile and debt limits
- Proposed capital and operational expenditure

Then we have detail on prudent management of our finances, how we respond to the unexpected, financial policies and investment holdings.

September 2024 Waka Kotahi funding update

The transportation budget in the draft 2024-2034 LTP included an assumption that a Waka Kotahi funding subsidy of 51% is provided and that the requested amount of Waka Kotahi funding is available for various transportation activities. Council funding via rates and loans and the Waka Kotahi subsidy are key funding sources used to deliver our transportation programme of capital projects, levels of service, renewals and roading improvements.

On 3 September 2024 we received certainty from Waka Kotahi on the funding subsidy, amount provided and funding priorities for 2024-2027. This is set in accordance with the Government Policy Statement on land transport 2024. The amount approved is less than what we requested, and the priorities have changed.

Over the first three years of the LTP, we received 61% of the funding requested from Waka Kotahi for our capital and operational programme. We did not receive any funding towards our improvement projects (of which we requested \$10 million) as this did not meet the threshold for this funding subsidy.

This is a significant change that has been received too late in the LTP process to enable significant rework of budgets and further meaningful community consultation. We need to be transparent with our community so they can fully understand the impact of these changes now and on an ongoing basis. Detailed analysis will take time. It's not something that can be rushed given the importance of this core infrastructure to our community and economy.

Our course of action for the 2024-2034 LTP in response to this funding change for transportation is as follows:

- Continue to fund Council's share of the transportation activity work programme.
- Endeavour to maintain agreed levels of service through further efficiencies and improvements to our delivery approach.
- In 2024/2025, commence detailed analysis of implications and options based on the Waka Kotahi funding changes.
- In 2025/2026, discuss options and potential level of service changes with the community.
- Continue to respond to future central government funding opportunities as they arise.
- Revise our external funding assumption to reflect this change in funding amount (noting that the 51% remains the same).

The financial graphs throughout this strategy and the LTP do not reflect the implications of the reduced Waka Kotahi funding due to this information being received so late in the process leaving insufficient time to completely rework the budget to accommodate this change.

The financials continue to include Council's share of the transportation activity funding as consulted on with the community in May/June 2024 (subject to any changes through the deliberations process). Therefore the rates portion does not change as an outcome of the reduced Waka Kotahi funding.

Where we are heading

In the medium to longer term, we anticipate that the economy will improve (based on assumptions e.g. reducing inflation). We are fortunate to have a diverse economy and strong rural sector that was cushioned from some of the impacts of COVID-19. We expect to see continued population growth due to the district's natural appeal and attraction to internal migrants. We expect continued economic growth in terms of jobs and output.

While Council has a principle that growth pays for growth, we use financial contributions to pay down debt relating to growth projects. Over time project costs may be higher than initially budgeted for, and assumptions such as inflation, interest costs and the rate of growth may also differ. This could mean that the Financial Contributions that we receive falls short of what is required to cover the growth-related debt. Traditionally we have only focused on scheme debt, but our desire to manage this differently moving forward has resulted in a 25-year historical review of all projects. This deep dive review is showing that we do potentially have some residual unfunded growth debt. Once this full review has been completed, we will consult with the community on how we fund this balance either through an Annual Plan or Long Term Plan process.

We recognise that decisions made today may create issues down the track, but we have sought to reduce any 'bow wave' of projects in future LTP's, reduced reserve funding for the unexpected and decreasing community satisfaction with levels of service as there are less things being done in our community or things take longer to happen (for example, expectations regarding implementation of Council's Walking and Cycling Action Plan).

Climate change is a strategic priority for Council, and we continue to focus on building resilience as our risk profile has increased, particularly for our coastal communities.

We are committed to moving our district forward and delivering on our strategic priorities. As an organisation we are committed to continuing to explore ways we can do things more efficiently and effectively in the future, including the potential for in-house contracts and enhancing our project management approach for capital project delivery.

Financial Assumptions

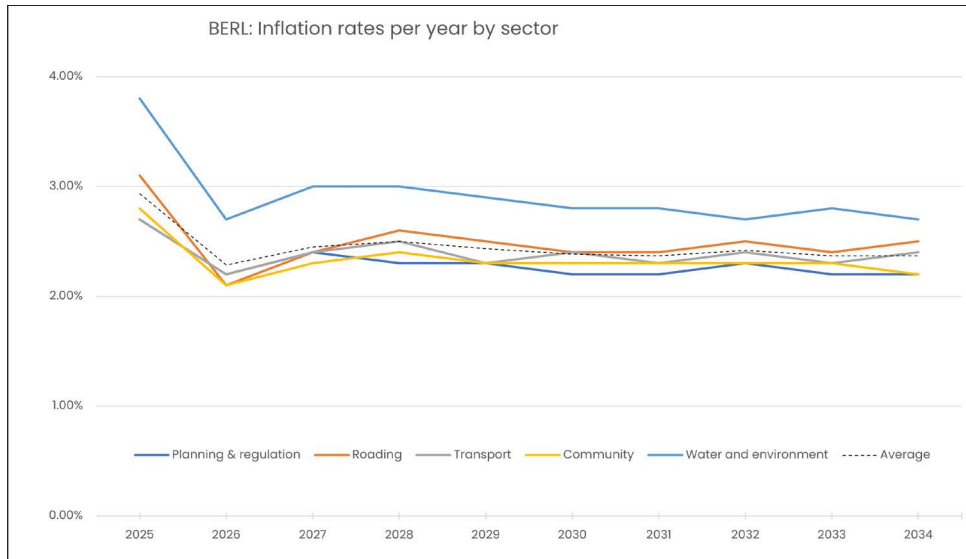


Figure 1: BERL Inflation Rates per Sector

Inflation

Inflation continues to be both a challenge and an unknown over the coming few years. The local government sector uses Business and Economic Research Limited (BERL) inflation adjustors (Figure 1) as the basis for forecasting inflation impacts on our activities.

We have applied the relevant BERL inflation adjustors to our activities and services. We see inflation starting to decrease over the next two years, with a slow down in inflation as the government looks to achieve its longer term objectives of 2-3%. The accumulation of inflation and interest rate increases from the last 2-3 years result in higher project costs now and in the longer term pushing up our overall debt requirements.

We understand that business and economic forecasts fluctuate as the economy itself shifts with time. We have reviewed our assumptions throughout this LTP process and consider that these assumptions remain valid at this time.

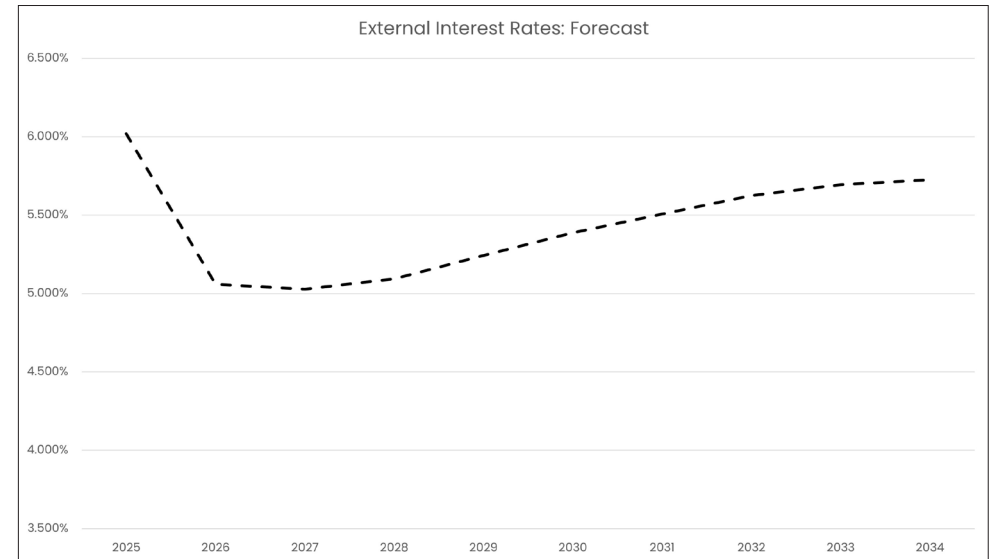


Figure 2: Bancorp External Interest Rate Forecast

Interest Rates

Standard and Poors has acknowledged that rising infrastructure budgets and responsibilities are increasingly weighing on the finances of the local government sector and that further policy uncertainty is elevated.

Council received a rating outlook downgrade from AA stable to AA negative in February 2024. Our interest rate costs are driven from the Standard and Poors rating and a downgrade means Council will pay a higher interest rate on our debt. Updated interest rates include the impact of the credit rating downgrade for this LTP. Of the 23 councils with Standard and Poors, 17 received a downgrade.

Interest rates as a result of inflation remain high over this LTP (Figure 2). As a result we anticipate experiencing interest costs over \$20m in the later years of the LTP, but we will remain within Council's policy limit threshold of 20% (finances costs against rates income).

Proposed rates over the next 10 years

It is important that we can achieve the community’s aspirations in a fiscally responsible way, through balancing delivery of services that people want, with the community’s ability to pay for these services. The planned average rates increase across the district is included in Figure 3.

- It’s planned rates income equals or is less than each quantified limit on rates,
- It’s planned rates increases are equal or less than each quantified limit on rates increases.

We’ve set rates increase limit in the Financial Strategy that is equal to the average LGCI of the 10 years of the LTP of 2.49% plus 6.5%. The first three years exceed the average LGCI of the LTP of 2.49% plus 6.5%, however they remain within the strategy as the limit is set on an average over 10 years.

The current measure used to describe rates affordability is the Rates Affordability Benchmark (Figure 4). The Financial Strategy sets in place the limits that this benchmark is assessed against. Council meets the rate affordability benchmark if:

Consultation on the LTP helps assess the community’s willingness to pay the rate increases (to achieve the delivery of services). Then Council determines the appropriate level of increase that ratepayers could absorb. Rates income is limited to a maximum of 80% of total revenue, with the balance derived from other sources. Council is required to include a disclosure statement in the Annual Report on the financial performance of these benchmarks.

Council is required to ensure that its planned income for the year is matched against its planned expenditure for that year (i.e. achieving a balanced budget). We have been able to achieve this across the full ten years of the LTP as shown in Figure 5.

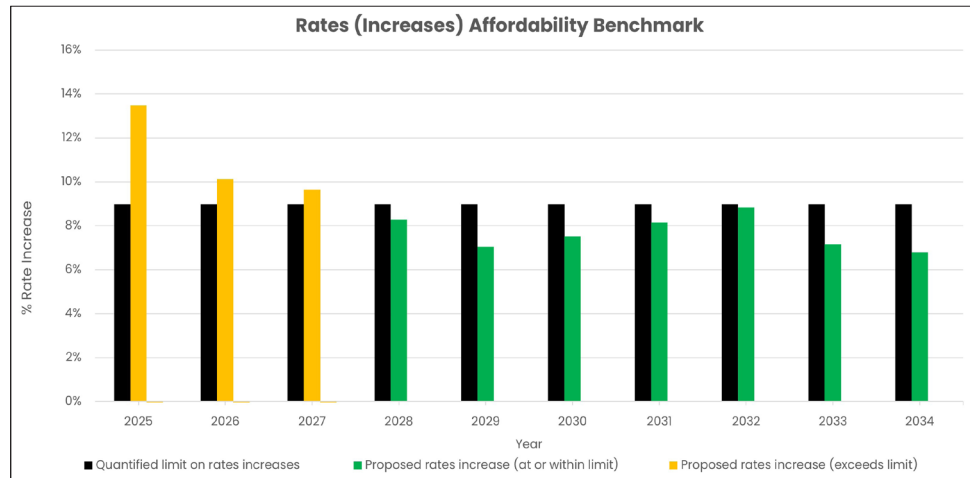


Figure 3: Rates increases 2024 - 2034

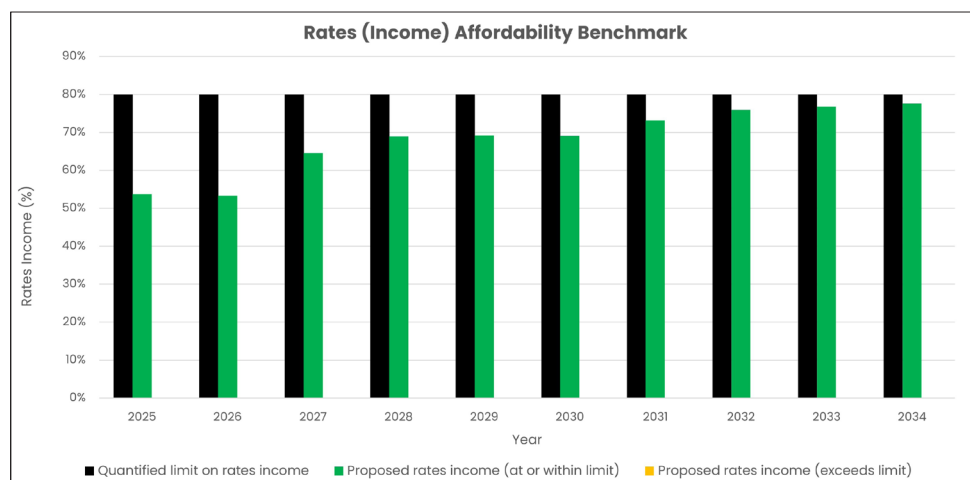


Figure 4: Maximum Rates Income Limit

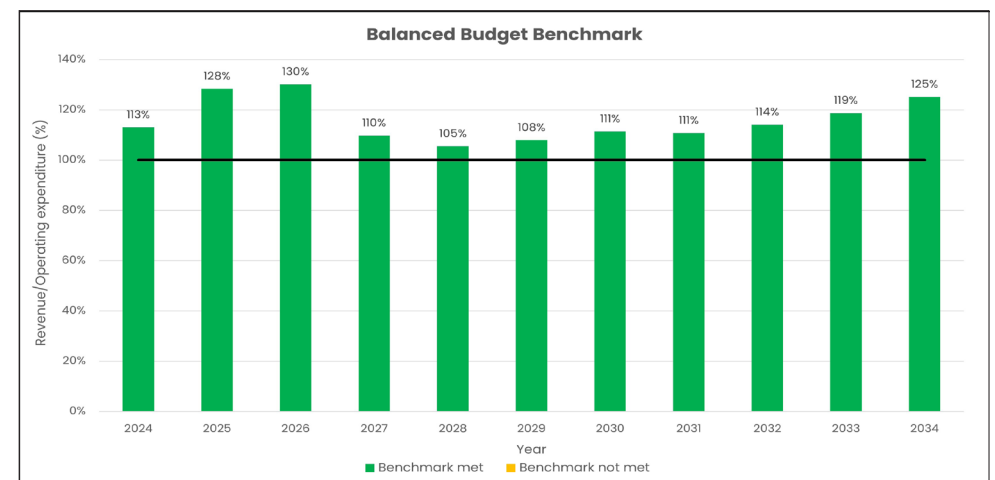


Figure 5: Balanced Budget Benchmark

Planned debt over the next 10 years

Debt spreads the costs of an asset across its lifetime, meaning that all those that benefit from it contribute - today's communities and tomorrow's communities paying their share. This is key to intergenerational wellbeing. Debt affordability benchmarks are set through quantified limits on borrowing.

In this Financial Strategy, Council has increased the debt limit from 180% to 200% (based on net debt to revenue). This is a prudent approach given that our forecast debt profile over the term of this LTP anticipates the significant impact of inflation and interest rate changes, while at the same time allowing some headroom to respond to unplanned events and emergency events, should this be required (Figure 6).

Our loan funding is sourced from the Local Government Funding Agency (LGFA)¹. Loans are sourced based on our Standard and Poors rating as discussed in the interest rate assumption section of this strategy.

Debt levels are projected to peak in 2030 (Figure 7) largely due to key infrastructure projects being delivered, such as the Te Puke Wastewater Treatment Plant and the Katikati outfall upgrade, the reasons for which are reflected in our Infrastructure Strategy and Wastewater Asset Management Plan.

Our debt profiles and length of loans are determined by the anticipated life of an asset. For example, the loan term for most roading projects is 10 years, 50 years for most buildings and 25 years for most other infrastructure categories. As debt is fully repaid, this provides the capacity to take on loans relating to renewals.

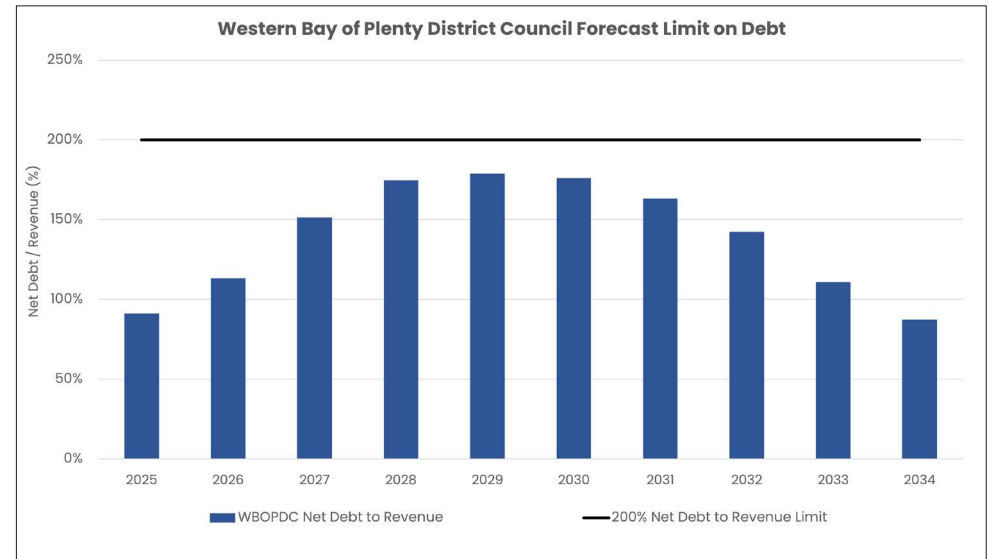


Figure 6: Debt levels and limits 2024 - 2034 (net debt to revenue percentage)

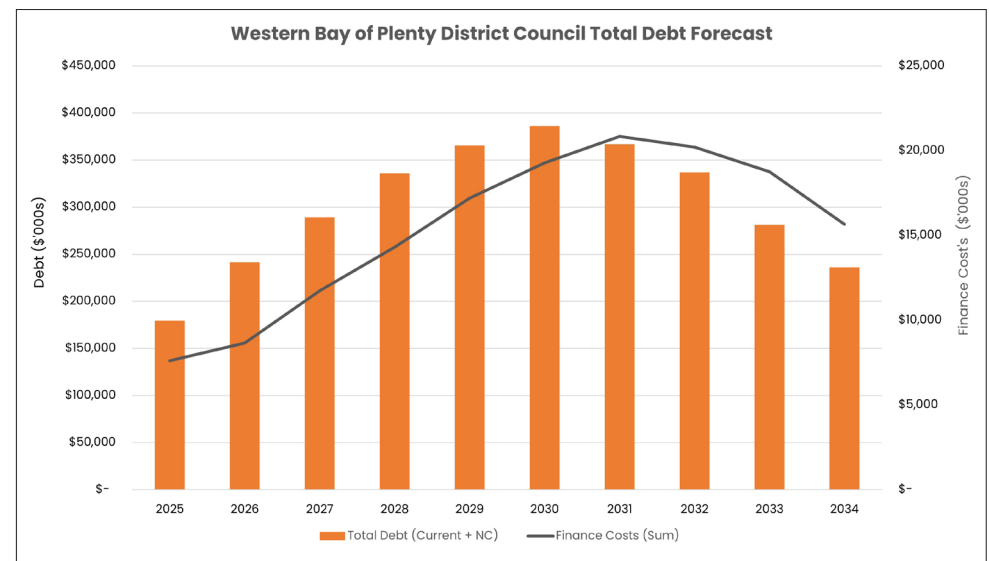


Figure 7: Debt levels and limits 2024 - 2034 (total forecast)

¹ The Local Government Funding Agency currently sets a limit of net debt at 300% for local authority borrowers.

How the money will be spent

Figure 8 shows the Council capital expenditure from 2024-2034 broken into growth, levels of service and renewals. This highlights the importance of having sufficient funding in place for the renewal of assets when required. The capital (and associated operational) expenditure enables Council to continue to maintain and deliver on existing levels of service over time, and to meet additional demands for services within the rates and debt limits. Transportation and wastewater activities have the largest levels of expenditure over the LTP period.

As a Council we are focused on delivering our Capital Programme. There are many constraints relating to the timing of the delivery of our capital projects including the availability of contractors, resourcing, and consent requirements. We are working through how we mitigate some of these challenges, and making improvements to this by working with longer lead times to ensure that our planned financial spend aligns with physical delivery. For this reason, and for cash flow and financial purposes, for this LTP we are assuming 80% delivery in year 1, 90% delivery in year 2 and full delivery by year 3 to demonstrate the effectiveness of the project management changes we will implement. Over the life of the LTP we are expecting \$39.1m will not be delivered, however it will be addressed outside the 10 year period of the Long Term Plan. These are all growth projects that are expected to be delivered over the next 30 years.

Figure 10 shows our operating expenditure covering the day to day costs of delivering services over the LTP (and includes interest, depreciation and overheads).

Figure 11 provides a breakdown of the key sources of revenue received by Council.

For a further breakdown of the infrastructure expenditure components of these graphs, please refer to the Infrastructure Strategy.

Further funding considerations

A 51% Funding Assistance Rate (FAR) assumption remains for the transportation activity and Waka Kotahi subsidy. However the September 2024 confirmation of Waka Kotahi funding has resulted in only 61% of the funding being approved for the capital and operational programme that is eligible for subsidies, and no funding subsidy for the improvement programme. Council will continue to fund our share of these projects and aim to achieve efficiencies to continue to invest in our district network priorities within a reduced funding envelope.

Council has commenced a comprehensive review of the growth related funding for infrastructure. This includes a review of our approach to financial contributions.

Rangiuru Business Park (RBP) - Quayside Ltd provides all the infrastructure within the park itself. Council's role is provision of water and sourcing new bores for additional water supply which will also provide additional capacity for growth in Te Puke. The portion of costs attributable to the RBP development are funded from Quayside Ltd.

We also have self funding activities like elder housing which means we don't need to draw down on rates to operate and maintain elder housing. Instead, we fund it from the rental income from these properties and external funding where possible.

How we are delivering on our strategic priorities

Tracking LTP investment against our strategic priorities highlights the different roles Council has across these priorities (Figure 9). Council is a lead provider of infrastructure in the district, and this comes at a significant cost. For other priorities such as housing and empowering communities Council is an enabler, with funding that helps to support communities to achieve their aspirations. Climate change costs are integrated across these priorities, with direct funding largely relating to projects that increase our understanding of the impacts of climate change on our assets and communities.



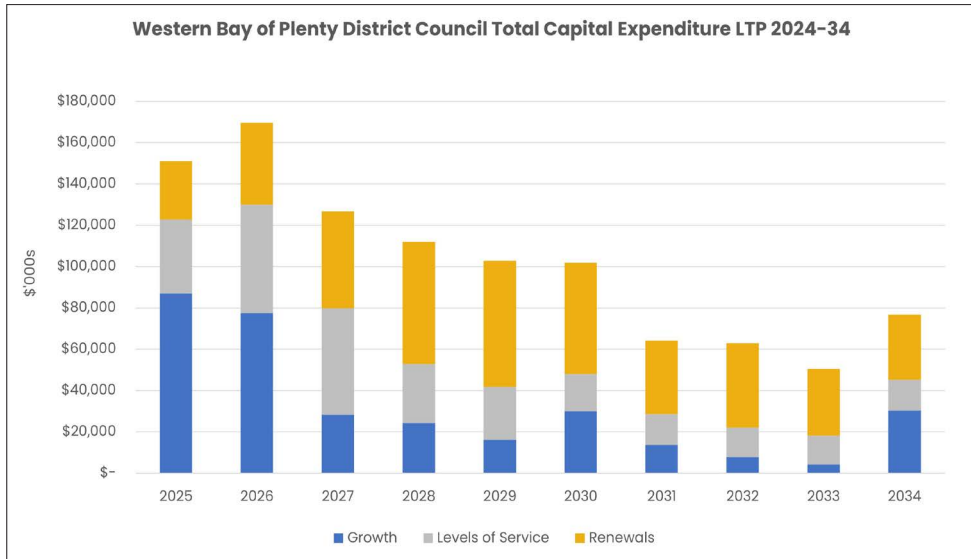


Figure 8: Total Capital Expenditure 2024 - 2034 (growth, levels or service, renewals)

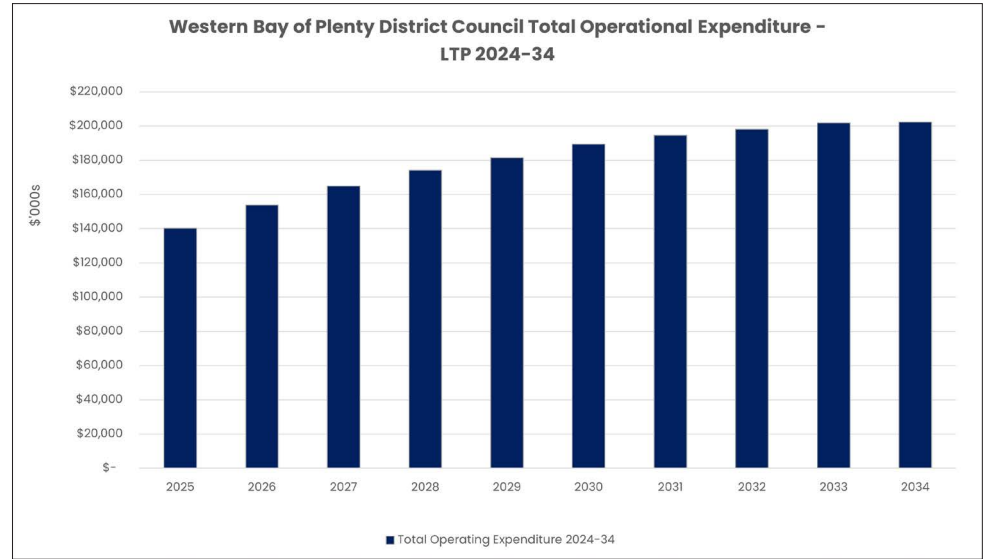


Figure 10: Total Operational Expenditure

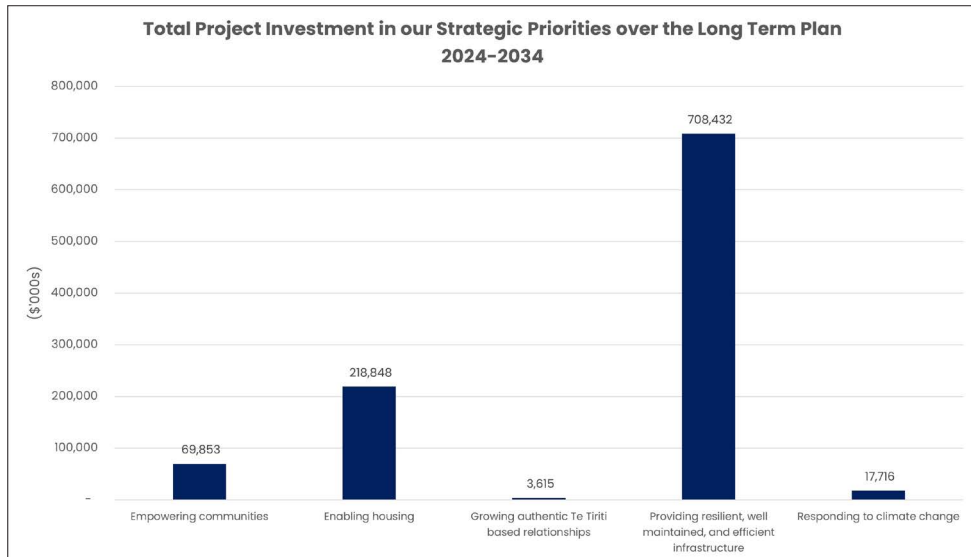


Figure 9: Total Project Investment in Strategic Priorities

Note: Graph aligns with the full project list and does not allow for the capital delivery assumption.

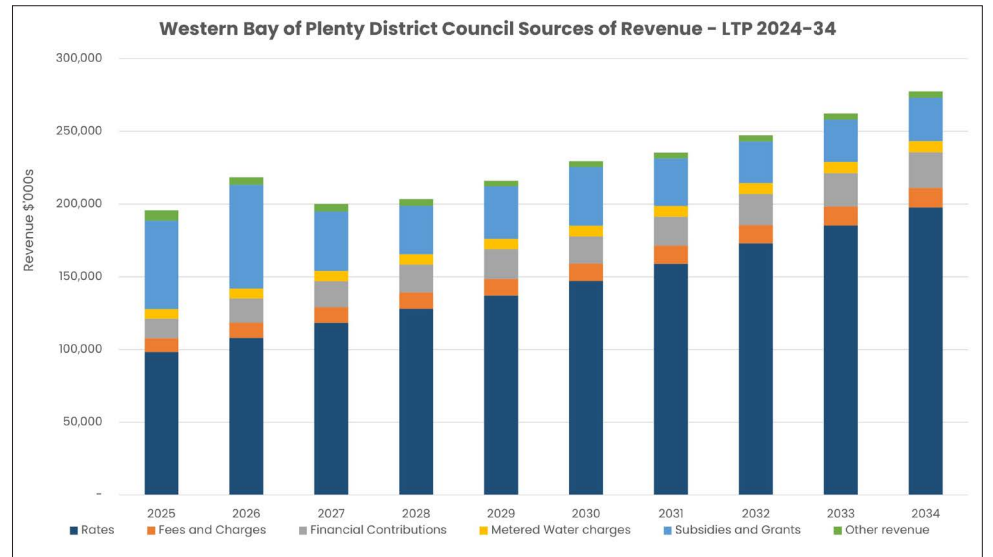


Figure 11: Sources of Revenue

Prudent management of our finances

This section outlines what we are doing to manage costs in a sustainable, fair, equitable and prudent way to ensure compliance with legislation, to be transparent and to provide the community understanding and confidence in our financial approach.

Funding growth

We fund growth-related infrastructure in a number of ways. Developers are charged financial contributions under the Resource Management Act 1991 (a 'growth pays for growth' principle where possible) and we use rates, targeted rates and user charges.

We plan to manage our spending so that the timing of infrastructure projects is matched to income from financial contributions. In some cases, such as park and reserve development, the projects can be undertaken in stages, timed to match revenue from growth as it occurs (i.e. the 'just in time' principle).

Difficulties arise with projects like wastewater schemes, which are typically designed for a large capacity, so they are financially viable. In such cases it is more difficult to match expenditure to income because it is not practical to construct the project in stages, so decisions are based on assumptions of growth for many years ahead. For example, our Ōmokoroa wastewater scheme was built to cater for an eventual projected population of over 12,000 residents in 2054 (3,504 people in 2018). If growth expectations are subsequently reduced, we have to find other funding sources to meet the interest and capital repayments on loans raised to pay for the development.

Use of debt

As we have no significant reserves, we rely on loans to finance infrastructure development, for example for wastewater schemes. By using loans (debt) to pay for assets with a long life, we can recover the cost from ratepayers over the life of the asset. In this way the cost is allocated fairly between current and future ratepayers, and better provides for intergenerational equity. The portion of interest and loan repayments relating to growth is generally funded through financial contributions, however in periods of low growth they may be funded from rates. The remaining interest and loan repayments are funded by annual rates or charges.

We acknowledge that the interest on loans increases the overall cost of services, but we believe that this disadvantage is offset by the advantages of a more equitable allocation. We need to ensure that future ratepayers pay their fair share of the cost of infrastructure developed for their eventual use, rather than costs being met only by current ratepayers.

The roading, sewerage, stormwater and potable water extensions and upgrades that we have invested in through loan funding have long lives and will continue to be used over the next 20-50 years.

For transportation infrastructure, we have traditionally used less debt to finance capital expenditure. Where the capital development programme is more evenly spread over time and the users of the service are less easy to identify individually, we have primarily used rates to finance capital expenditure with loans used to a lesser degree. In the 2024-2034 LTP Council consulted on and agreed to increase the differential from 2 to 4 for the roading rate for industrial/commercial/post-harvest activities to recognise the increased wear and tear from heavy vehicle use. A differential rate is used to ensure that every ratepayer makes a reasonable contribution to the rate burden.

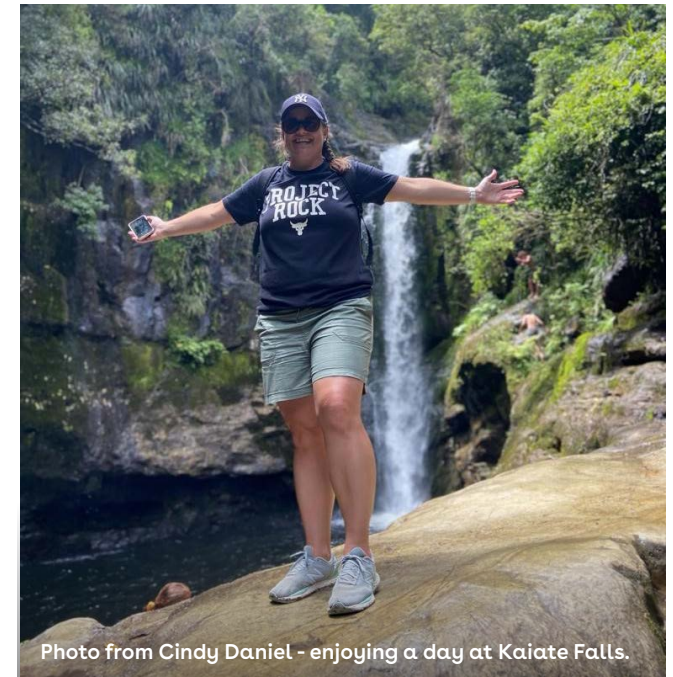


Photo from Cindy Daniel - enjoying a day at Kaiate Falls.

Funding renewals and replacement of assets

Prudent financial management requires organisations to plan for the replacement or renewal of their assets when they reach the end of their useful lives to maintain the service they provide. The intergenerational equity principle suggests that, ideally, today's ratepayers should pay for the 'asset-life' they are consuming, and likewise future generations should pay for their share of the asset's life. This provides for the intergenerational wellbeing of our communities.

There are three ways this can be achieved:

Approach	Details
<p>1. Pay as you go</p>	<p>Capital funded annually by rating existing ratepayers to cover the expenses incurred in that year.</p> <p>Suitable when capital expenditure is evenly spread over the years, so there is less risk that today's ratepayers are not paying their fair share when compared to future ratepayers.</p>
<p>2. Saving for asset replacement (charge rates over the life of the asset - spend later)</p>	<p>Ratepayers are rated annually to fund depreciation, which builds up in a reserve account to fund future replacements of assets.</p> <p>Unsuitable if ratepayers are already servicing debt incurred to acquire the existing asset. If debt was incurred, today's ratepayers would be paying twice for the asset, once through debt repayments and interest, and again through financing the depreciation.</p>
<p>3. Borrowing to fund asset replacement (spend now - charge rates over the life of the asset)</p>	<p>Ratepayers are rated annually to fund interest and capital repayments on loans matched to the life of the asset. The future replacement of the asset would be financed in the same way.</p> <p>Suitable if our overall level of debt can accommodate the required borrowing.</p>



We use a mix of these approaches to fund the replacement and renewal of our assets, choosing an approach that best suits each type of asset. We do not keep individual reserves to repay loans. We either fund loan repayments from rates, financial contributions and other income in the year repayments are due, or we refinance the loan.

Below is the approach we usually take for different asset types.

	Approach
Water, wastewater and stormwater reticulation, treatment plants and buildings, waste minimisation.	<ul style="list-style-type: none"> • Borrowing to fund asset replacement. • Pay as you go. • Central Government waste subsidies.
Computer systems, office furniture and equipment, motor vehicles, library books, cemetery, coastal marine, telemetry, District reserves (including Huharua Sub Regional Park and TECT Park), swimming pools.	<ul style="list-style-type: none"> • Saving for asset replacement.
Roads and bridges.	<ul style="list-style-type: none"> • Pay as you go. • Borrowing to fund asset replacement. • Central Government Waka Kotahi funding where possible.
Other buildings.	<ul style="list-style-type: none"> • Borrowing to fund asset replacement • Sale of council property - All sale of Council property to go through to property reserve account for future property purchases (or other purchases/spend at the discretion of Council). This means we don't need to put annual money away for this purpose. • We will continue to focus on sourcing funding from external sources for projects (e.g. Elder Housing) when these funds are available.

There is no legal requirement for councils to accumulate dedicated depreciation reserves, however the Local Government Act 2002 (LGA) requires councils to have a balanced budget, which means that revenue must be greater than operating expenditure (which includes depreciation). Council does not have a policy for funding depreciation and how that relates to capital expenditure, in particular capital expenditure to renew existing assets. However, in order for Council to focus on the long-term sustainability of the asset base and how it is maintained and renewed, the funding of depreciation is an integral part of creating intergenerational equity and ensuring that depreciation expenditure is put to good use. Where we are not fully funding our depreciation, we will look at debt to fund replacement assets.

As the balanced budget test is conducted at the local authority level it is considered acceptable and within the bounds of prudence to run an operating deficit on one activity and a surplus on another. This means that we are not required to retain revenue on an annual basis in dedicated depreciation reserves, if we can show through our Financial Strategy that future rates revenue is adequate to fund infrastructure renewals when they are needed.

Reliability of asset data that renewal forecasts are based on

Asset renewals are a big cost to Council but are necessary to look after our assets and get the most out of them. It's like taking your car for a regular service and WOF so that it keeps performing in a safe, reliable and efficient manner. Renewals are informed by the expected life of an asset and a regular assessment of the condition of an asset over time to see how well it's performing.

Assessment of overall asset condition data is reasonably complete and accurate, particularly in the transportation activity, due to the nature of the previous performance-based contract. Wastewater and stormwater assets are relatively young however recent issues with the Katikati outfall where sections of the pipe are failing much earlier than the design life indicate the need ensure we continue to monitor asset condition data. In some cases, such as reserves and community facilities, there is still data to be obtained and this is a focus moving forward to ensure asset condition data is captured as required. This information will improve future investment decisions.

Council has a good degree of confidence in the reliability of asset information, however regular analysis is undertaken to identify opportunities for improvement. One of the key tools is implementation of our asset management systems and resourcing to improve asset data and modelling, and to provide technical advice and support to managers. Recent work on exposure and risk assessments for the most at risk assets has increased our understanding on the resilience of our assets to climate change however further work is required as to how we respond to the outcomes of these assessments.

Long term financial information for some activities

From a long term planning perspective, there is good information in place for Three Waters and transport to determine a financial capital and operational programme of expenditure and highlight any forecast issues over a 30-year period as required by the Infrastructure Strategy. There are some unknowns around the delivery of our Three Water services in the future with the introduction of the new governments "Local Water Done Well" initiative. We will continue to reflect any changes as they become known.

Recreation and open space, solid waste and community facility activities currently only have robust financial information for the next 10 years to 2034. A review of the asset management plan framework and approach is underway in 2024 and will seek to align these activities with the 30-year approach taken for other activities.

Effect of changes in land use on service demand

Demand for infrastructure services (roads, water supply, wastewater, stormwater, reserves, facilities) increases where development occurs. Development may be subdivisions for housing, new commercial or industrial areas or intensification of existing development. For our District, growth is mainly driven by housing development.

Within the rural sector, land use changes could affect service demand, especially for water supply and roading. For example, if an area serviced by the water supply network changed from a dry land crop to a crop requiring irrigation there could be an increase in demand for water. Likewise, for roading, if the land use changed from forestry to lifestyle blocks, the pattern of road use would change.

The monitoring frameworks we have in place are important to understand actual growth and future growth projections for residential and other land use activities. The annual Development Trends report and our reporting requirements against the National Policy Statement on Urban Development are key ways that we can inform our infrastructure planning processes.

Current accounts

Council operates an internal borrowing system for funding infrastructure improvements as well as funding current accounts. Use of our current accounts is a way of smoothing out the peaks and managing our internal debt to provide an overall better outcome. The use of current accounts to smooth rates applies to the total rates collected by Council.

The Council has smoothed the planned growth in total rates required from the district over the 10 years of this LTP through our current accounts. This is a deliberate strategy to manage our expenditure within this plan.



Photo by Monica Marie capturing a butterfly in nature.

How we will manage the unexpected

There may be unexpected situations that could affect our financial strategy. We need to consider what the implications might be of a change to our assumptions and how we might need to respond.

Lower than expected growth

Growth forecasts can be affected by external factors outside of our control, such as what happens in overseas financial markets, or how the world responds to a global pandemic. We have been conservative in our approach to ensure that, should growth not meet expectations, we will still be in a good position to cover the interest costs on our debt (although we may not be able to make repayments on the principal).

If growth is substantially less than forecast, the shortfall can be managed.

Our general approach would be to:

- Promote development in areas where there is existing capacity in infrastructure.
- Consider reductions in levels of service.
- Sell assets that are not essential to operations and are easiest to sell.
- Sell and lease back operational land.
- Seek Central Government assistance where practical.
- Avoid adding to our debt until levels of growth improve.

Council is reluctant to defer maintenance of assets or reduce maintenance standards, as this may end up being more costly in the long run. Borrowing to cover an income shortfall would be our last resort because this would make the problem worse in later years.

Our strategy to use rates to service our growth-related debt where appropriate, will be reviewed each year. We will look at growth rates and interest rates, to determine if a rates contribution is necessary. Any significant or material changes to the level of rates used to repay debt will be publicly consulted on through the Annual Plan process for that year.

Cost of debt and access to refinancing

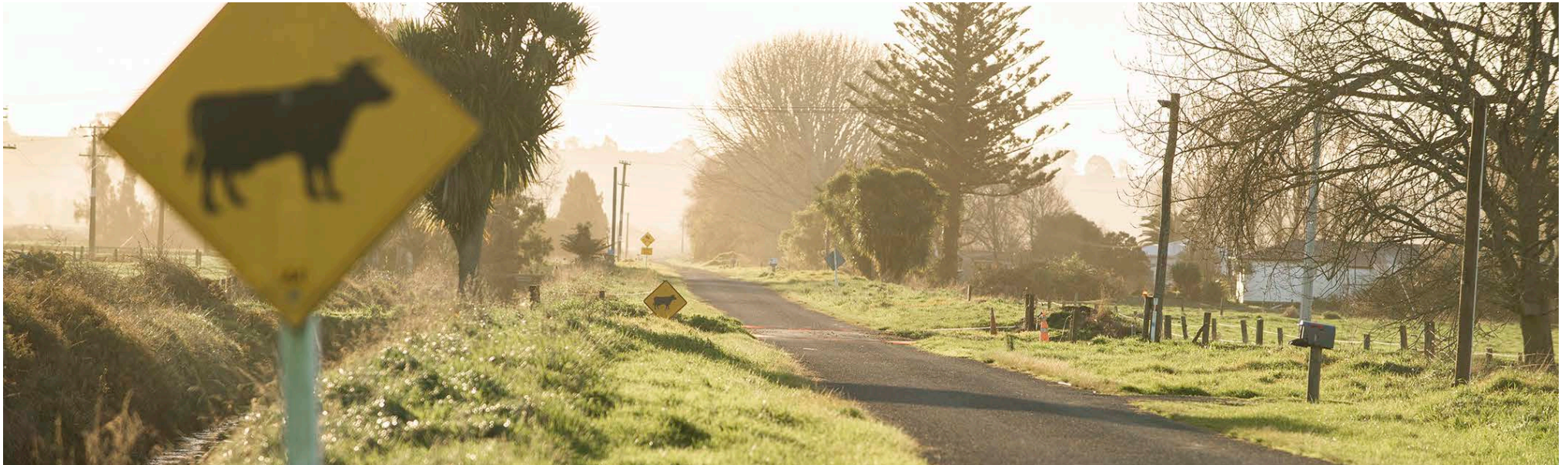
There is a risk that access to borrowing may become more difficult. When existing debt matures, refinancing may be harder to obtain, particularly if financial markets deteriorate due to ongoing global impacts. We considered what might happen if markets deteriorated and borrowing becomes difficult in New Zealand. While we believe this is unlikely, we have considered how we would respond. The situation would arise without notice and the severity of the immediate situation would depend on the maturity profile of our debt at the time. At the time of writing this strategy, the Local Government Funding Agency is well placed in its ability to access funds from the market, so access to finance is not considered a risk.

Courses of action could include:

- Seek Central Government assistance to meet immediate commitments.
- Raise income through an emergency rate increase.
- Aggressively sell land and other liquid assets.
- Postpone the start of all projects not already committed.



Photo by Samantha Lewis of family enjoying a local beach.



We considered how we might respond if there was a failure in major infrastructure that demanded significant unplanned expenditure. This might occur because of a natural disaster, accident or other event.

Contingency and disaster management

Council is part of the Bay of Plenty Lifelines Group which contributes to joint initiatives to reduce the vulnerability of utilities to hazards.

We have built up a Disaster Contingency Fund which currently sits at \$9.3m (30 June 2023) and have insurance that covers some of our assets. However, in the event of major infrastructure failure this amount would not cover the total cost of replacement or repair.

Our initial approach is to:

- Use financial investments to provide ready cash flow
- Use debt capacity to access borrowing
- Use insurance payouts where available
- Utilise the self-funding disaster contingency fund
- Seek Central Government assistance
- Sell assets not essential to operations that are easiest to sell.

In the longer term, our recovery strategy would be to increase rates to top-up reserves or to provide increased insurance cover on underground assets

Financial policies and investment holdings

Financial instruments

We hold financial investments such as term deposits, as part of managing our cash flow to finance expenditure on operations, for example to:

- Provide ready cash in the event of a natural disaster. This cash is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Invest amounts allocated to accumulated surplus, Council-created and restricted reserves, sinking funds and general reserves.
- Invest funds allocated for approved future expenditure, to implement strategic initiatives or to support inter-generational allocations.
- Invest proceeds from the sale of assets.
- Invest surplus cash and working capital funds.

Our main aim when investing is the protection of our investment so only creditworthy counterparties are acceptable. We also seek to:

- Maximise return on our investment.
- Ensure investments are liquid.
- Manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity.

We also invest in interest rate swaps and forward foreign exchange contracts, for the purpose of managing the risks of movements in exchange rates and interest rates. These financial instruments are used as hedging tools rather than to earn a return on the investment.

Te Tumu investment

In 2007 Tauranga City Council and Western Bay of Plenty District Council jointly acquired a block of land in Pāpāmoa, referred to as Te Tumu. This land was purchased with the condition of providing the vendor the option to acquire it sometime between December 2016 and December 2026 by repaying the loan and interest to Tauranga City Council and Western Bay of Plenty District Council.

Our objective in purchasing the land was to ensure development of the land was consistent with SmartGrowth objectives. Neither council intended to be the developer of this land or retain ownership in the long-term.

In November 2020 Western Bay of Plenty District Council disposed of its interest in Te Tumu to Tauranga City Council, to allow Tauranga City Council to negotiate directly with the developer rather than through a tripartite agreement involving both councils. This disposal involved a loan agreement between Western Bay of Plenty District Council and Tauranga City Council. The \$13m loan will be paid to Western Bay of Plenty District Council in 2027 (Year 4 of the LTP) and be used to offset debt.

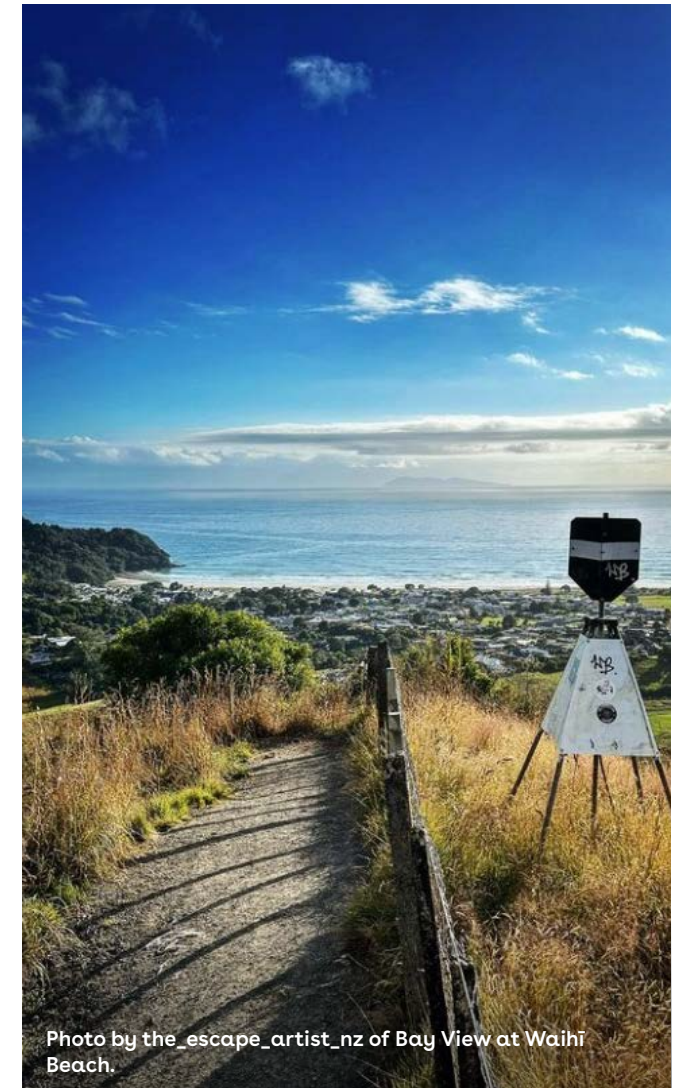


Photo by the_escape_artist_nz of Bay View at Waihi Beach.

Equity securities

We do not currently hold equity securities (shares) for the primary purpose of earning a return on our investment. There are no plans to invest in equity securities during the term of this plan. Below is a list of the companies in which we currently hold shares and details of the objective for holding the equity securities and a target rate of return.

Another option if times get tough is to sell shares in case of emergency.

Company	Objective of holding equity	Target rate of return
New Zealand Local Government Funding Authority (LGFA) – 8% shareholding.	To obtain a return on investment. To ensure that the LGFA has sufficient capital to become and remain viable so that it continues as a source of debt funding for us.	>0%
Bay of Plenty Local Authority Shared Services – 1/9th holding.	To provide the Bay of Plenty region councils with an umbrella vehicle to investigate, procure, develop and deliver shared services.	>0%
Co-Lab – Waikato Local Authority Shared Services holding – 1 share	To provide Council with shared services opportunities and efficiencies, and procurement panels	>0%
Western Bay of Plenty Tourism and Visitors' Trust – 50% holding.	To facilitate the establishment and governance of a regional tourism organisation, Tourism Bay of Plenty, which is a not-for-profit entity established to promote the economic welfare and development of the western Bay of Plenty region and its citizens through marketing, management and other activities that impact the region as a visitor and tourism destination.	>0%
NZ Local Government Insurance Company Limited (Civic Assurance) – 16,142 shares or 0.3% holding.	Civic Assurance is a mutual fund, so a prescribed number of shares is held proportionate to our interest in the fund.	>0%
Zespri Group Limited – 17,660 shares.	Shares were acquired as a result of purchasing of land under kiwifruit orchards. They are incidental to the main reason for buying the land, which is for future infrastructure development.	>0%
Seeka shares – 11,247 shares	Shares were acquired as a result of purchasing of land under kiwifruit orchards. They are incidental to the main reason for buying the land, which is for future infrastructure development.	>0%

Security for Council borrowing

Council's Treasury Policy guides its approach for borrowing and investments. Proposed changes to the policy have been minor for this LTP and have arisen as a result of increased levels of spend and alignment to appropriate delegations.

Our Treasury Policy includes the following statement regarding offering security for Council borrowing:

Council's borrowings and interest-rate risk management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. The utilisation of special funds and reserve funds and internal borrowing of special funds/reserve funds and other funds will be on an unsecured basis.

Under the Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Rating Act, excluding any rates collected by Council on behalf of any other local authority. The security offered by Council ranks equally or 'Pari Passu' with other lenders.

Council offers deemed rates as security for general borrowing programs. From time to time, with prior Council approval, security may be offered by providing a charge over one or more of Council's assets. Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. an operating lease, or project finance).
- Council considers a charge over physical assets to be appropriate.
- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Trust Deed.

Council very rarely makes purchases in foreign exchange except for the occasional purchase of equipment or services. Our Treasury Policy precludes the use of foreign exchange risk management products, except to hedge significant commitments (i.e. those over \$100,000). As a result of its limited use of foreign exchange, Council has little direct risk of changes in currency exchange rates.

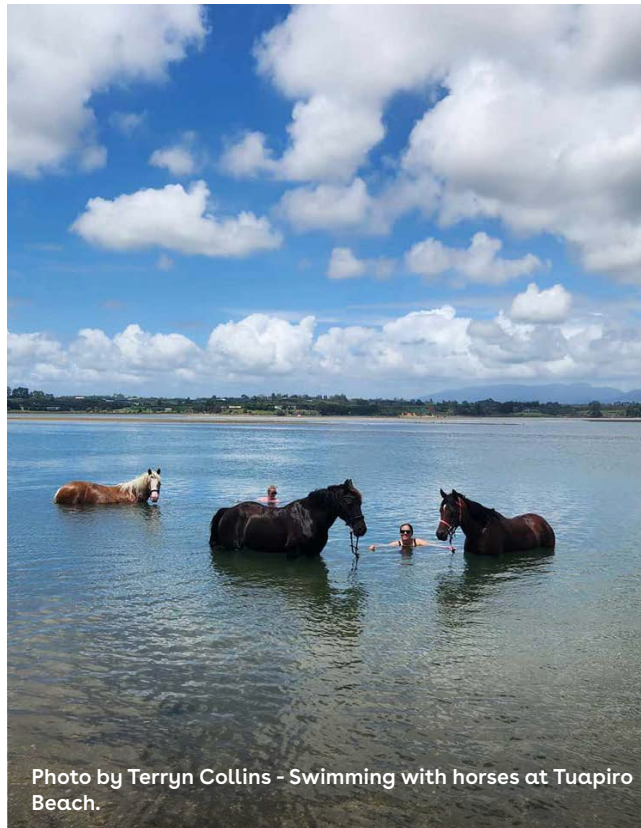


Photo by Terryn Collins - Swimming with horses at Tuapiro Beach.

