Financial Strategy

Policy status:	Draft
Review due:	By 30 June 2024
Legal reference:	Local Government Act 2002 Section 101A Schedule 10, Part 1, Section 9

Purpose of the Financial Strategy

The Financial Strategy sets out how the Council plans to finance its overall operations for the next ten years, and the impact on rates, debt, and levels of service. The Strategy guides the Council's funding decisions and, along with the Infrastructure Strategy, informs the capital and operational spending for the Long-Term Plan 2024-2034 (the LTP).

Executive Summary

For the first three years of the LTP, the Council will focus on finishing what we started, most notably to improve the overall condition of essential assets, such as roads, footpaths, water supplies, and wastewater systems. We will also ensure that the services we provide are appropriate for a community of our size, fit for purpose, and comply with legislation.

In doing so, affordability is our greatest challenge, and we are committed to ensuring that rates are the last option as a funding source. User pays, external funding, and debt will be sourced wherever these are more appropriate.

This LTP 2024-2034 confirms the direction of the last (the LTP 2021-2031), except that – due to high inflation on costs that particularly impact the local government sector – it now costs around 20% more to provide similar levels of service as before. Significant cost drivers include materials and contract prices for roads, the cost to renew pipes, pumps and water-wastewater infrastructure, insurance premiums, audit fees, and more stringent legislative compliance requirements particularly in relation to drinking water.

Fortunately, our Infrastructure Strategy confirms that our asset renewal profile is relatively flat for a very long period – more than 30 years – during which the required renewals will be less than depreciation for certain assets. This is especially true for water, wastewater, and stormwater assets, largely due to the significant rebuild work following the 2016 earthquake.

As signalled in the last LTP, however, there is a significant backlog of renewal work for local roads, which had a low level of service pre-quake due to a 'do minimum' approach in the interests of rates affordability. This Financial Strategy (subject to public consultation) proposes to continue the catchup of deferred roading renewal work, with an accelerated programme of road rehabilitation, sealing and drainage works.

The overall direction of this Financial Strategy is to face up to the true cost of the Council's activities and services, and to meet those costs prudently and according to factors such as the lifespan of assets, availability of external funds, and appropriateness of user fees & charges.

The Financial Strategy has the following overall financial boundaries:

- External borrowings are capped at $15 million,
- Our annual loan interest expense will be no more than 10% of total revenue (and likely to be less than 5% in reality),

- Rates increases are capped at no more than 15% in year one, 10% in years two to four, and the Local Government Cost Index (LGCI) +3% thereafter (excluding growth)
- Rates income does not exceed $12.5 million per annum in years 1-3, $14.5 million in years 4-6, $15.0 million in years 7-9, and $15.5 million in year 10. The reason for the stepped approach is the LTP is reviewed every three years, and this approach provide for known funding requirements and growth expectations within each of those three-year periods.

Unbalanced budget and non-funding of depreciation

The first three years of this LTP show we expect to generate operating surpluses, but that we are planning for operating deficits for the remainder of the ten years. This is because, once the incoming grants and subsidies for roading, Wakatu Quay, and other capital projects have been applied, the deficits in the remaining years are attributable to depreciation expense. The Council has made the conscious and informed decision not to fully fund depreciation. To do so would mean levying rates from today's ratepayers to pay for capital renewal work that will be done in the future.

With such low levels of capital renewal work required within the next ten years (and no major work until 2050), to require rates to cover depreciation would result in the Council accumulating significant cash reserves from unspent rates. Instead, those future renewals could be funded by loans when they are needed, and rates would then cover the loan and interest costs over time and only once the ratepaying community gets the benefit of the renewed assets. Further, it is conceivable that external grants or subsidies could become available in the future such as occurred with the government stimulus packages and changes in criteria for funding roads and footpaths from NZTA.

The Council considers it is prudent and sustainable, therefore, to provide for these operating deficits in years 2028 to 2034 due to the decision not to fully fund depreciation. This is referred to as an unbalanced budget because revenue does not cover all operating expenses.

Introduction

For the last eight years (since the earthquake of November 2016), the Kaikōura district's economy, our community, and the level of service the Council has provided, has been turned on its head. Our communities and businesses have suffered total isolation from the earthquake damage to road and rail, followed by disruption of rebuild, then the COVID pandemic hit the global economy with an almost total loss of international tourism, and now in 2024, New Zealand suffers from the effects of supply chain disruption, global political tension and war, interest rate increases, inflation pressures, and a cost-of-living crisis.

Notwithstanding this, Kaikōura's summer of 2023/2024 was "absolutely pumping" with the township seen to be the busiest it has been for years. Visitors are back in strong numbers, with more cruise ships stopping than ever before, the new Sudima Hotel now established, and bus services including two-night package stays in Kaikōura. Tourist operators and hospitality outlets are hopefully finally getting the reprieve they have so desperately needed.

Alongside the return of tourism, the Council has been strengthening its level of service to the community, both in terms of building up its internal capability and improving its customer experience. Several projects have been completed or are underway, that will invigorate economic investment and community wellbeing. Those projects include the Link Pathway, the Kaikoura Aquatic Centre, the Wakatu Quay development, the proposed new Hot Pools, the new waste transfer station, road and footpath improvements, and better treatment systems for drinking water and wastewater. Much of this capital work has been completed with grant funding from the likes of NZTA (Waka Kotahi), the Provincial Growth Fund (Kanoa) and the government's three-waters stimulus fund.

Whilst most of those projects are now complete, three projects continue to dominate the Council's focus in the initial years of this LTP and have the potential to significantly impact the Council's financial performance and position.

Not least of these is the $12.4 million rebuild of the Glen Alton bridge over the Clarence (Waiau-Toa) River, destroyed by the 2016 earthquake, the replacement of the bridge is subject to ongoing opposition from the Rūnanga which threatens to undermine the Council's ability to obtain the necessary resource consents and secure its 95% NZTA funding before that subsidy is lost.

Secondly, the withdrawal of a potential co-funder for the Wakatu Quay hospitality, tourism, and retail development has resulted in the Council going alone, and probably reducing the scope from five buildings to just one or two.

Thirdly, the Council proposes (subject to public feedback), to continue its accelerated road renewal and footpath improvement programmes, which collectively represent a more than $2 million increase in annual spend over pre-quake levels. This level of spend is needed to address the backlog in under investment in roads and footpaths in the decade preceding the earthquake.

Purpose of the Financial strategy

Section 101A of the Local Government Act (2002) states:

101A Financial strategy

(1) A local authority must, as part of its long-term plan, prepare and adopt a financial strategy for all of the consecutive financial years covered by the long-term plan.

(2) The purpose of the financial strategy is to—

  (a) facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and

  (b) provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.

This Financial Strategy is a cornerstone to the Council achieving its goal of providing quality services and improving the condition of assets without placing unnecessary burden on ratepayers. It outlines the key financial parameters and limits that the Council will operate within. This strategy focuses on meeting the true cost of services, applying user fees as appropriate, and making best use of debt as a funding tool where this is fiscally responsible.

It is the Council's view that this financial strategy is prudent and sustainable. In putting this strategy together, the Council grappled with significant increases in costs faced by the local government sector. The outcome is that there is a new baseline of costs that must be met by increased rates, user fees, and borrowing. The Financial Strategy is strongly influenced by its associated Infrastructure Strategy and is best described as "enhanced business as usual".

Infrastructure Strategy

The Infrastructure Strategy 2024-2034 highlights two significant influences on this Financial Strategy.

Firstly, since the 2016 earthquake close to $1 billion has been spent to repair or renew sections of State Highway roads, bridges, and rail networks in the district. Over $40 million has been spent on similar remedial works to roads, three-waters assets, and other facilities owned by the Council. These rebuild projects have been very helpful in that the assets that suffered the most damage were those that were most fragile in terms of their age or other deficiency. Almost all the asset renewals that would have been required within the next 20-30 years have, effectively, already been replaced.

Secondly, prior to the earthquake the Council had the foresight to increase the capacity of its critical assets, such as water reservoirs, wastewater pump stations and treatment ponds, to accommodate a peak population of up to 7,500 people. As a result, there are few growth-related capital projects for at least the next ten years.

The major costs identified in the Infrastructure Strategy are the backlog in road renewals, drainage improvements to mitigate the impacts of climate change, and the improvements to drinking water and wastewater treatment systems to meet legal requirements and national standards.

This Financial Strategy serves to enable all the projects identified in the Infrastructure Strategy, but where some of the projects have peaks and troughs in their renewal profile, this financial strategy smooths the cost of those projects, especially in the years beyond year 3 (2028).

Financial & Corporate Sustainability Review

In 2018 the Department of Internal Affairs, initiated a review into the long term financial and corporate sustainability of the Kaikōura District Council, largely seeking assurance of the capacity and capabilities of the Council given the substantial government funding assistance that was needed following the Kaikōura earthquake.

Since the review concluded in 2020, the long-term infrastructure requirements and financial projections of Council have become clearer. Other than the identified backlog of roading expenditure, the infrastructure renewal profiles for the future are such that it may be over 30 years before any significant renewal projects are required. The resulting rates and debt projections are far better, and far more affordable, than those envisaged from the FCS project.

The Council considers that the Kaikōura District Council is financially sustainable for the foreseeable future, and that our debt levels, the condition of our core assets, and our knowledge about those assets puts the district in the best position it has ever been in. Corporate sustainability is challenging to maintain, however, with staff recruitment and retention, and inflationary cost pressures such that Council services and compliance will continue to be delivered on a no-frills basis.

Principles

The Financial Strategy has been based on the following foundation principles:

1. Council activities are affordable for the community, and fit for purpose,
2. Debt (both external and internal) is used as a funding tool where this is appropriate, and surplus cash is either used to repay debt, to invest in activities that generate a return, or to lessen overall costs to ratepayers,
3. Users meet the cost of services when the benefits of those services are available to be enjoyed by an identifiable group of users (the user pays principle),
4. Rates are the last option as a revenue stream.

Strategic goals

This Financial Strategy aims to plan for our community to be in the position by 2034, where:

- Our levels of service meet the expectations of our communities,
- Our assets are upgraded, renewed, and maintained as appropriate,
- There is capacity for growth, and investment is enabled in the district,
- Our services and activities meet legislative standards as a minimum,
- Our internal processes are efficient and effective,
- Our Infrastructure Strategy projects have been completed,
- Our consented activities comply with their conditions.

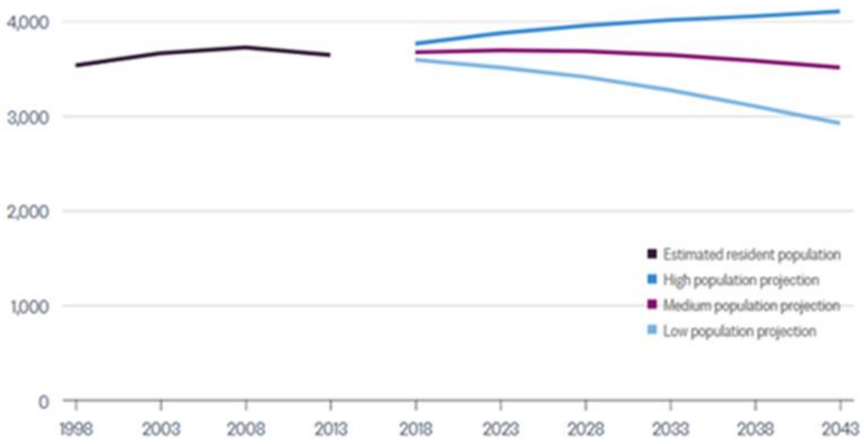
Context and strategic issues

The purpose of the Financial Strategy is to enable the Council to plan for anticipated future changes to our district's population and land uses, noting our context in terms of climate change and natural hazards, and other contextual issues. This Strategy will guide the Council's future funding decisions, and along with the Infrastructure Strategy, informs the capital and operational spending for the Long-Term Plan 2024-2034.

We have planned for ongoing renewal of our assets and to respond to anticipated demographic trends in our Infrastructure Strategy, whilst at the same time remaining within the rates and debt limits set out in this Financial Strategy.

Changes in population

Statistics NZ released its population growth projections in 2018, per the graph below, which shows the medium projection for resident population is a decrease at an average rate of around 0.4% per annum. This trend is however so weak that even relatively modest changes in a broad range of factors influencing growth could cause significant deviation from it.



Source: Statistics New Zealand population growth projections (Kaikōura)

Much has changed since these population growth projections were prepared in 2018. Since then, the earthquake rebuild has been completed, there are new developments in and around the township, including the 120-room Sudima Hotel, the new business park will attract light industry, and areas for residential expansion have been (or will be) enabled at the business park as well as at the Vicarage Views, Ocean Ridge, and Seaview subdivisions.

We anticipate that population will grow at 1.5% annually as a result of the above developments, and that there will be close to 300 new lots created within the next 10 years, the majority of which will be in Vicarage Views and Ocean Ridge. We expect, however, that 1/3rd of residential properties will not be permanently occupied, as the trend continues for houses to be owned by ratepayers living outside the district (holiday homes).

We anticipate the demographics within our resident population to change over time. Our demographic statistics show we have an aging population, and we are likely to see people living longer, living relatively active lives for much longer than before, and holiday homeowners relocating to Kaikōura to enjoy our relaxed lifestyle in retirement. For as long as there is no specialist aged care facility, however, we expect that those with higher needs will by necessity have to move to another district.

Notwithstanding this, we also acknowledge that new residential development, and being a community that bases much of our economy on tourism which brings with it vibrancy and energy, Kaikoura can attract younger families as well as vibrant entrepreneurs to establish new business offerings.

In summary, we do expect an increase in our usually resident population in the 2024-2034 period of this LTP, as urban expansion frees up areas for more housing, and there are likely to be subtle changes to our demographic profiles.

The cost of providing for changes in population

The expected small increase in population should not, by itself, create any additional demand on Council services that we do not already have capacity for. Instead, our ageing population raises concerns about rates affordability, particularly amongst those with lower, fixed incomes such as pensions. Similarly, a reliance on tourism means we have many hospitality businesses with seasonal peaks and troughs, and lower than average incomes for staff.

Overall, any people-related costs would be nominal, and offset by there being more individual incomes circulating in the local economy, more users of Council services, and more people using state-funded services such as schools and the hospital, thereby presumably attracting more government funding to the district.

Any real increase in growth-related costs would be associated with the urban expansion occurring at Vicarage Views and Ocean Ridge. These subdivisions collectively represent an additional 400 new residential sections, each of which will require connection to Council-owned water and wastewater services. While the cost of installing these services is being met by the developer and the government's Infrastructure Acceleration Fund (the IAF), our Infrastructure Strategy has identified that the current urban water source is likely to require extending to the Ludstone Road, Green Lane area and as far as Ocean Ridge to ensure these suburbs continue to enjoy a secure water supply with capacity to serve an enlarged urban area. Similarly, wastewater pump stations are likely to need upgrading to pump more sewage from those areas to Mill Road and to the wastewater treatment plant. An application has been made to the IAF for additional support, yet to be confirmed.

Natural hazards & emergency events

The Kaikōura district, like much of New Zealand, is subject to natural hazards. The November 2016 earthquake reminded us that we live in a tectonically active zone. The quake itself exposed 105km of fault rupture within the district and resulted in new faults being identified. There were several positive effects which resulted from the earthquake. For example, the Kaikōura Peninsula rose over one metre in uplift, with greater uplift elsewhere in the district, alleviating concerns about sea-level rise, eliminating the need for beach renourishment and coastal protection work in the medium term.

Other positives include the science and research which followed, which enabled the Council to obtain up to date information about our natural hazards. We now have more detailed information about the active faults within our district, and this has allowed for the identification of fault avoidance and awareness overlays. Our understanding of liquefication has improved and we can now meet the Ministry of Business Employment and Innovation (MBIE) guidance, 'Planning and engineering guidance for potentially liquefaction prone land'. New LiDAR information has allowed for more accurate modelling of potential flooding. Research undertaken by GNS science supported by the Endeavour Fund has allowed areas subject to potential debris inundations (landsides and debris flows) to be identified.

To ensure the future development of our community is more resilient, Council planning staff successfully used this new natural hazards information to complete a natural hazards plan change for the Kaikōura District Plan.

The cost of providing for natural hazards & emergency events

Much of the costs involved with gathering information on our natural hazards has already been done, in so far as fault lines, liquefaction, debris flows and flood modelling. As discussed above, the cost of beach renourishment and coastal protection has been eliminated from Council budgets for the foreseeable future.

The Council has established a Roading Emergency Work fund that may be called on immediately following a flood or similar event that damages local roads and bridges. The fund is relatively small (approximately $200k) however the Council has committed to adding $70k per annum from 2026 onwards to keep the fund topped up to meet the immediate cost of a minor event. It is assumed that emergency subsidies would be available from Waka Kotahi (NZTA) to offset some of the costs of a larger event, as well as other Council sources of funding.

The Council has already introduced the Earthquake Levy, a targeted rate at a set dollar amount per rateable property, which is used to repay earthquake-related loans in the first instance, and then once those loans are repaid, the Levy will start to build an Emergency Events reserve fund.

The opportunity cost of creating fiscal buffers (or emergency reserves) can be significant, because accumulating buffers implies forgoing other rates funded expenditure geared toward better levels of service and spend on asset resilience. Therefore, rather than relying solely on emergency cash reserves, Waka Kotahi (NZTA), and the earthquake levy, the Council keeps at least $2 million in borrowing headroom, by keeping well within our self-imposed borrowing limits as well as the Local Government Funding Agency (LGFA) covenants so that we have access to at least $2 million at short notice for any kind of emergency or unforeseen event.

Climate change

The Council has a moral and a legal responsibility to incorporate Climate Change response into its day-to-day business and decision making. It is important that the Council aligns its activities to reduce carbon emissions across all its areas of influence and creates the conditions for a low-carbon economy that is smart and innovative, and can meet or exceed the targets set within the Climate Change Response (Zero Carbon) Amendment Act 2019.

The Council has long been a supporter of greenhouse gas reduction, through various initiatives such as solar-powered streetlights in low density areas, our past benchmarking achievements in the Earthcheck programme, and more recently our installation of an electric vehicle fast-charger in the West End.

We are fortunate that the Council does not have any activities or services that are linked to high carbon emission, such as use of coal or fossil fuels for heating. In August 2022, we closed our landfill and commenced transporting solid waste to Kate Valley. Solid waste is no longer stored in open landfill cells where it produces greenhouse gasses, and the cost of carbon emissions is paid to the Kate Valley operation on a per tonne basis. The Council has therefore applied to the Environmental Protection Agency (the EPA) for a ruling that it is no longer obliged to purchase carbon credit and surrender them to the Government through the Emissions Trading Scheme (the ETS). That ruling is still pending.

As disastrously demonstrated by Cyclone Gabrielle in the North Island in 2023, and the multiple rain events in the Buller region on the West Coast, Ashburton area, Queenstown Lakes and the Dunedin coast, severe weather events are becoming more prevalent – and these events may include flooding, severe winds, damaging hail, storm surges, as well as high temperatures causing fires and droughts.

The cost of providing for climate change

While most of the damage from these events is to privately owned assets, where the responsibility falls to landowners and their insurers, the Council has a responsibility to mitigate the damage caused by these events. One of the most effective ways to do this is to increase the capacity of roadside drainage and stormwater systems, and to undertake regular clearing of these systems to ensure high rainfall events do not result in overflows or damage to roads and properties.

The Council has committed to spending up to $155k in upgrading drainage works and increasing its road drainage and environmental maintenance budget by more than $200k to address this issue, and this is one of the main reasons for the large rates increase in year one of this LTP.

The Council does not consider that events such as drought, fire, windstorms, or hail, can be mitigated through infrastructure work, but that instead the Council may be called upon for financial assistance through mechanisms such as rates relief or the Mayoral Fund. The Council plays a key role in community recovery in large events.

Changes in land use

Commercial activity

The 4.5-star Kaikōura Sudima Hotel opened in October 2022. This 120-room waterfront hotel includes conference facilities, a bar and restaurant, and is a welcome addition to the accommodations on offer for visitors. The Sudima has already secured bus tour packages providing two-night stays, which means more visitors are staying for longer in the township, and spending on activities, local hospitality, and retail. In the future the hotel may broaden its offering, to attract a new conferences and events market for Kaikōura.

In 2021 the Council was granted $10.88 million from the Provincial Growth Fund (now Kanoa) – up to $9.88M to develop Wakatu Quay, and up to $1M for a feasibility study on how South Bay Harbour could be developed. The South Bay study is now complete, however the development vision suggested not less than $30 million would be required to provide for all expectations, which will require significant external funding support. The vision for Wakatu Quay is to create a vibrant mixed-use space with cultural, tourism and community aspects incorporated in its design. A separate consultation process took place with the community, with road access proving to be one of the key issues for property owners in the area. A potential funding partner had been found for the project; they withdrew their interest in 2022 however, due to increased costs of construction and their need to focus on projects they already had in progress.

The project itself had been managed to date (early 2024) by the Kaikōura Marine Development Governance Group, which functioned independently from the Council. That Group has now been disestablished and the project brought inhouse. With the Council now likely to go alone, the initial phase is likely to be limited to one – or maybe two – buildings, with the Council committing $800k in loans to complete. Whatever the final design, the intention is that this will become an iconic facility that enhances economic development, creates sustainable jobs, and boosts social inclusion.

A private developer has lodged a plan change with the Council to enable a business park near the corner of State Highway One and the Kaikōura Inland Rd, surrounded by a 21-lot subdivision (19 of which are residential). This idea has been discussed with the Council before, but this time the developer is making significant progress, with all of the residential lots already sold and with interest from businesses considering relocating to the development.

Rural land use

Changes in activities in rural areas, such as dairying and subdivisions, can have a large impact on resources (especially water) and impact the size and volume of traffic on our local roads. The Vicarage Views and Ocean Ridge expansion is a significant increase in residential sections and will enable residents of Ocean Ridge and Green Lane to stay off the state highway to access the township, especially to go to the High School. The urbanisation of these areas, such as connecting to Council water and/or wastewater services, will trigger a change to the boundary of the urban area for rating purposes.

Other than these subdivisions in progress, contact made from other private developers suggest there could be more residential expansion to follow. Almost all of it is likely to be within 2kms of the urban area and may or may not occur within the next ten years.

The cost of providing for changes in land use

The cost of changes in land use will be met by the developer/landowner, particularly for any future commercial and residential developments. The Council’s Development Contributions Policy requires a contribution from every additional housing equivalent unit (HEU) to contribute to the cost of growth-related infrastructure projects. However, because there are few growth projects required in the next ten years, the dollar value of the contributions themselves are quite small.

The Kaikōura District Plan is the document that deals with land use zones and the restrictions or other control measures that apply to those zones. A Spatial Plan is currently underway, and the District Plan is subject to an ongoing review of its chapters, progressing over the next ten years. This rolling review will be funded by loans to help ease the burden on ratepayers.

Primary purpose for capital projects

The Council is required under the LGA to identify whether a capital project is intended to provide for growth or increased demand, to improve a level of service, or to renew existing assets. Only one (primary) purpose is to be selected regardless of whether the project could fit more than one of these definitions.

These definitions might be difficult to apply in practical terms, and so to clarify, an example of a capital project to meet the demands of growth might be construction of a new water reservoir, where more storage of water is required due to an increase in population. A project that is an increase to a level of service might be a new water treatment system to improve the quality of drinking water. Renewal of assets is easier to define, as it is the replacement of existing assets up to their as-new condition. The following two pages classify the Council's capital projects into these categories as required by the LGA.

NZTA subsidies for roads and footpaths

Due to the timing of when NZTA provide their Funding Assistance Rates (FAR) for roading works vs when we needed to develop our budgets for the LTP legislative requirements, we have had to make an assumption on the level of funding we will receive from NZTA. Based on previous experience we have assumed that approximately 80% of the proposed relevant works will be funded at 51%. Should the actual funding be less than this then we would need to either reduce the proposed scope of works or look to self-fund the difference subject to council approval. Any proposed approach will depend on the level of funding gap magnitude.

Providing for growth and increased demand

As discussed in this Financial Strategy, there is limited impact of increased demand placed on our essential services attributable to growth that is not already provided for within the design capacity of these essential assets.

The only growth-related projects we have identified in the budget forecasts are for:

- increased capacity for Kincaid and Fernleigh water pipelines
- wastewater pump station overflow prevention
- prevention of stormwater infiltration to wastewater (South Bay)
- Wakatu Quay commercial, retail & hospitality development

The cost of providing for growth and increased demand

Group of activities	2024/2025 (,000s)	2025/2026 (,000s)	2026/2027 (,000s)	2027 - 2034 (,000s)
Capital projects to develop new or increase capacity of existing assets				
Roading	-	-	-	-
Water supplies	-	-	105	337
Wastewater	-	-	-	505
Stormwater	-	-	-	-
Refuse & Recycling	-	-	-	-
Facilities	3,200	3,091	-	-
Other	-	-	-	-
	3,200	3,091	105	842

Improving levels of service

The Council's Infrastructure Strategy highlights projects that will improve on current levels of service, and these are listed in more detail in that Strategy.

The main projects are:

- the shared pathway, widened road and road extension to Ocean Ridge from Ludstone Road (the IAF project),
- roading safety improvements
- footpath upgrades and new footpaths
- Kincaid water treatment upgrades
- Closure of the landfill and further work on the waste transfer station
- Completion of the Link Pathway
- Establishment of a new water supply and wastewater treatment system for the airport

The cost of providing for improvements to levels of service

Group of activities	2024/2025 (,000s)	2025/2026 (,000s)	2026/2027 (,000s)	2027 - 2034 (,000s)
Capital projects to develop new or improve existing assets				
Roading	2,313	6,943	7,023	2,676
Water supplies	126	-	21	116
Wastewater	100	5	-	3
Stormwater	5	5	26	96
Refuse & recycling	400	197	-	-
Facilities	455	69	286	167
Other assets	196	223	235	1,600
	3,595	7,442	7,591	4,658

Maintaining existing levels of service

The Council proposes to spend over $12 million renewing the roading network over the next 10 years (excluding the bridge and emergency resilience projects). This level of spend looks likely to be sustained in order to keep local roads to an appropriate standard. The Infrastructure Strategy notes that inadequate road renewals between 2010 and 2019 have created backlog, including a risk that adverse weather conditions could cause road surface failures. It is the Council's preference that the accumulated backlog be addressed within this LTP, which carries with it a moderate risk of road surface failure, but that this is able to be mitigated by the prioritisation of renewed sections of road. These projects will be funded by NZTA subsidies in the first instance, with the balance of the reseals backlog funded by loans, and the remainder funded by rates. The result is a significant increase in roading rates, and in loans, particularly in the first three years of this LTP.

Following the 2016 earthquake, much of our essential water and wastewater infrastructure has been rebuilt, leaving the Council in the enviable position of having a very low renewal profile for the next ten years. The only major renewal project that has been identified is the replacement of approximately 9km of asbestos cement (AC) main in the Kaikōura township that is currently theoretically near the end of its useful life. Fortunately, there is little evidence of any increased maintenance due to breaks or leaks, nor is there evidence of any other short-term risk. It is the Council's preference to progressively renew these AC mains over a 15-year period, basing priority on condition assessments and recent repair history.

Another significant renewal project is the replacement of the Waiau-Toa/Clarence River bridge, formerly known as the Glen Alton bridge, which failed during the 2016 earthquake, resulting in a loss of all-weather access for around 15 people in the Clarence Valley. The only solution that Waka Kotahi (NZTA) has agreed to fund is construction of a new bridge downstream with an engineered ford over the old river channel and associated work to protect connecting roads. This more than $12 million project is to be 95% funded by NZTA, but while this is the only solution that NZTA have confirmed they will fund, it remains uncertain due to strong opposition from the Runanga. The project is reflected in the LTP budgets but at the time of writing, these issues remain unresolved.

The Puhi Puhi and Blue Duck Valley Roads require significant emergency resilience works to prevent further damage from flooding and rainfall events. Our Infrastructure Strategy and this Financial Strategy assume that this work has been completed prior to the start of this LTP period.

The cost of renewal and replacement of existing assets

Group of activities	2024/2025 (,000s)	2025/2026 (,000s)	2026/2027 (,000s)	2027 - 2034 (,000s)
Capital projects to renew or replace existing assets				
Roading	3,303	9,500	2,479	8,085
Water supplies	213	379	600	5,070
Wastewater	379	283	328	2,928
Stormwater	5	5	5	41
Refuse & recycling	0	0	59	11
Facilities	512	101	150	945
Other assets	93	126	97	952
	4,505	10,394	3,718	18,032

Limits on rates and debt

The Local Government Act requires the Council to set quantified limits on rates, rate increases, and borrowing. These caps are useful for agreeing with the community the boundaries to the Council's financial envelope and provides some certainty on rates and debt levels.

The district faced large rates increases in the years immediately following the earthquake to enable the rebuild to be completed and to step up into our new normal. When the COVID-19 pandemic hit in early 2020, the Council heavily moderated the rates increase down to 4.0% for 2021 (instead of the planned 10%). Further moderations have occurred in the last few years to smooth the impact of cost increases, using reserves and debt, as the local economy continued to suffer from border restrictions for visitors.

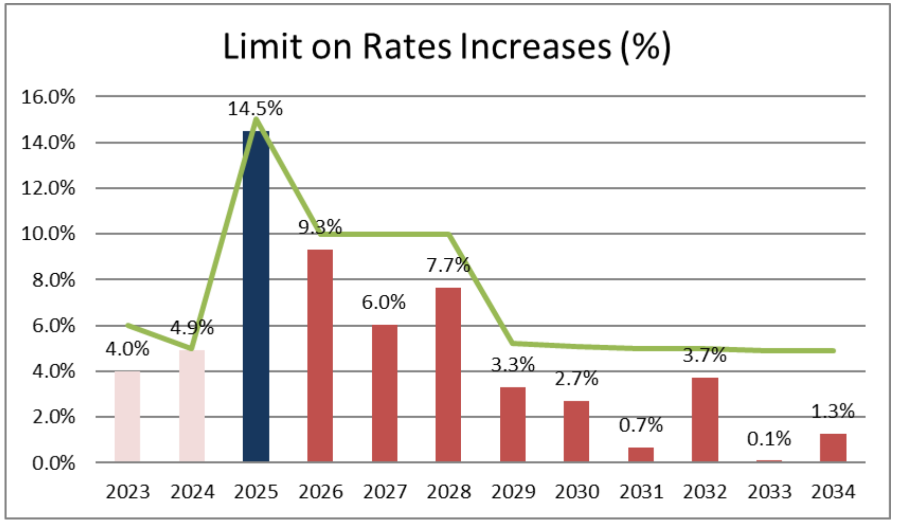
Now in 2024, the Council needs to face up to the true cost of services, which have continued to escalate, and with global tensions and supply disruptions, cost pressures have intensified. We estimate that the base cost of operations has increased more than 20% within the last two years, without making any improvements to the level of service we provide.

Roading is a significant driver for these increases and comes at a time that the Council has committed to dealing with an accumulated backlog of road repairs and renewals. Alongside this, the Council has committed to increasing spend on drainage renewals and maintenance, because heavy rainfall events have the potential to scour out roads, damage bridges, and cause flooding to properties.

Another significant driver for cost increases is the difficulty the Council faces in attracting suitably qualified personnel to the district, like building inspectors, asset managers, accountants, and planners. This forces the Council to rely on external resources – consultants and contractors – which come at greater cost.

Limit on rates increases

The Council has capped its total annual rates requirement increases to 15% for the 2025 financial year (including targeted rates by water meter). This is the largest rates increase the district has ever faced. Following the rates review conducted during the 2024 financial year, the incidence of rates across the district has also changed somewhat, such as a new fixed rate and new differentials for roading, and so the increase in rates for individual properties could be either above or below the 15% (the 15% is the increase in total rates revenue that the Council needs to operate).



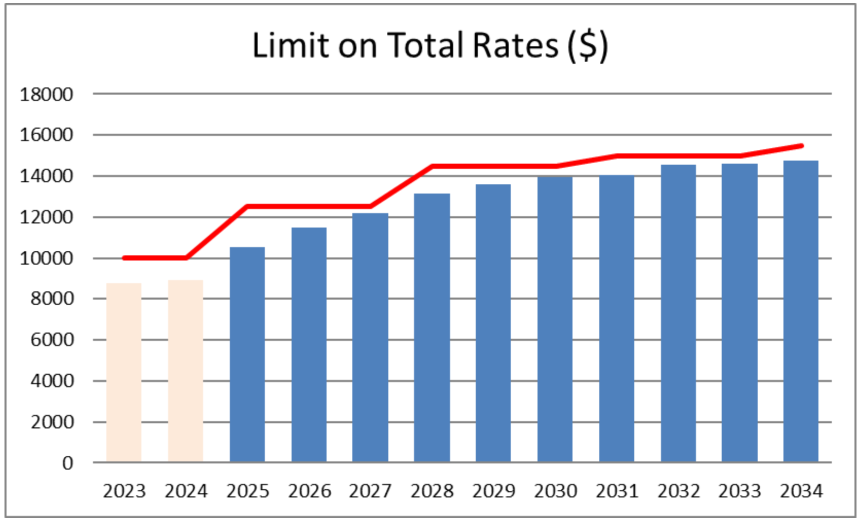
The main factors contributing to the rates increase are;

- Roading renewals and maintenance,
- Challenges recruiting qualified staff forcing use of external resources,
- Increased insurance premiums, professional services, and audit fees,
- Special reserves that offset rates requirements in the past are now depleted.

The Council is also signalling that rates increases in the years 2026 through to 2028 continue to trend at high levels because of ramping up of the District Plan review work, plus the timing of several capital projects, and has capped increases at no more than 10% for those years accordingly. The Local Government Cost Index (LGCI) +3% applies to the remaining years 2029 to 2034.

Limit on total rates

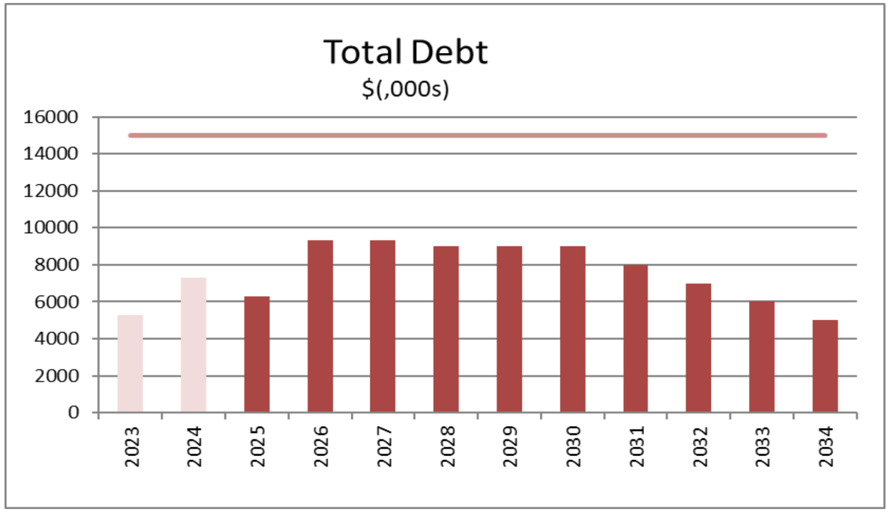
Whereas the above graph depicts our limit on rates increases (as an annual percentage) the following graph shows that rates will be no more than $12.5 million in the first three years of the Long-Term Plan (years 2025 to 2027).



The three years 2028-2030 are then limited to no more than $14.5 million, to $15.0 million for 2031-2033, and to $15.5 million for 2034.

Limit on total debt

The Council has set a self-imposed limit on our total borrowings of $15 million in today's dollars. At this level, forecast interest expenses would remain less than 10% of total revenue even if interest rates rose to 8% (which at this stage seems extremely unlikely).



Total borrowings (or debt) increase by $3 million from 2025 to 2026, where the Council is borrowing to deal with the backlog of roading reseals, pavement rehabilitation and footpath upgrades, as well as Wakatu Quay, completing the waste transfer station, the District Plan reviews, and implementing a new core software system. Borrowing reaches a peak in 2027 of $9.3 million and then starts to gradually fall as past loans are repaid.

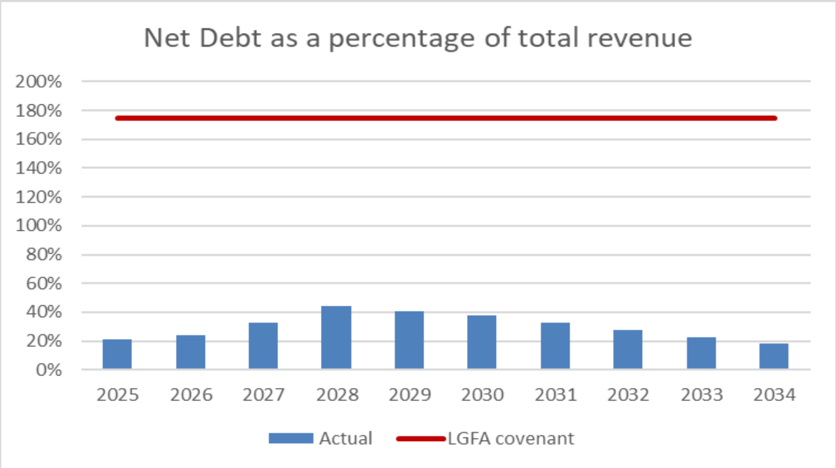
The above assumes that the Council will use available cash rather than borrow, to reduce the cost of loan servicing.

The Local Government Funding Agency (LGFA) stipulates its financial covenants. If the Council were to exceed the covenant limits, the cost of borrowing could increase significantly, and the LGFA may even refuse to lend funds.

LGFA's covenants are that:

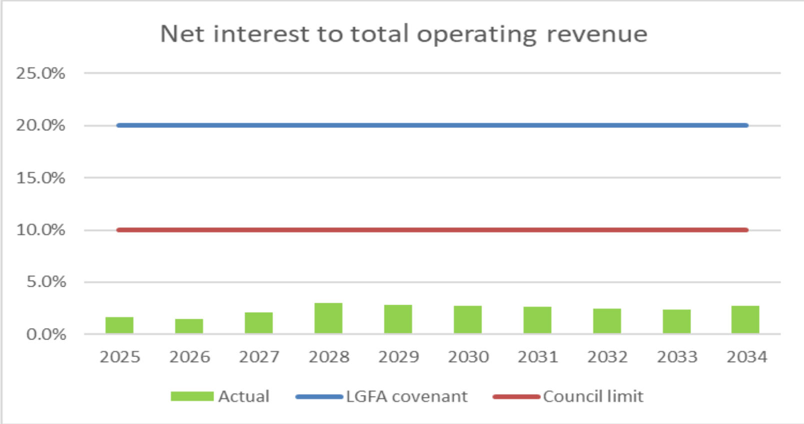
- Net debt does not exceed 175% of total revenue, and
- Net interest does not exceed 20% of total revenue, and
- Net interest does not exceed 25% of total rates income, and
- Liquidity is not less than 110%

The Council has self-imposed caps that are more stringent than those of LGFA. The following graphs highlight the extent to which we are within LGFA limits.



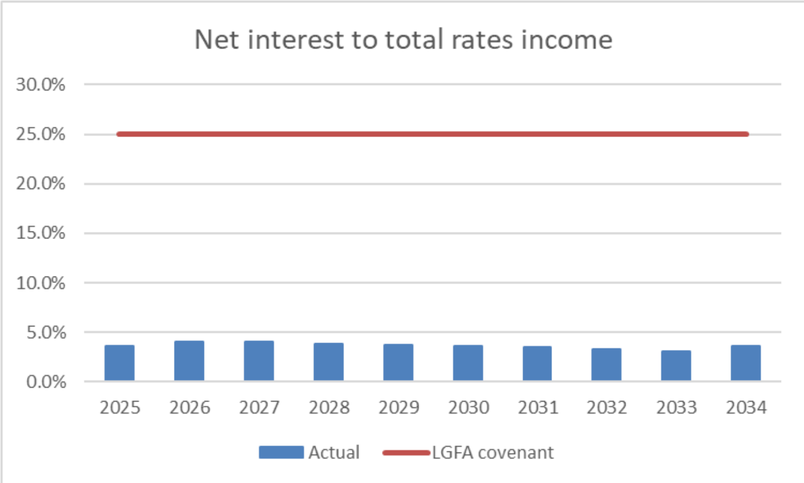
LGFA covenant: net debt does not exceed 175% of total revenue

Net debt is the total borrowings less cash & cash equivalents and other financial assets/cash investments. The Council reaches a peak of 44% in 2028.



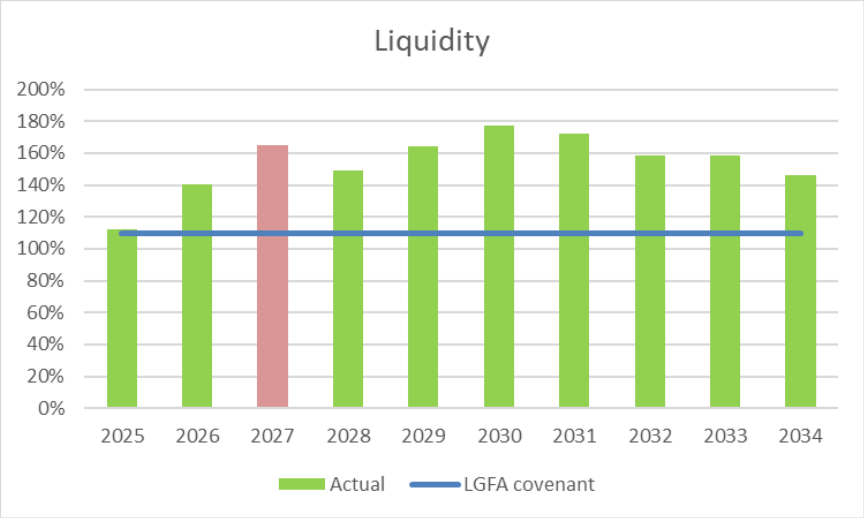
LGFA covenant: net interest does not exceed 20% of total revenue

The Council is currently forecasting that net interest will not exceed 3% of total revenue in the ten years of this LTP.



LGFA covenant: net interest does not exceed 25% of total rates income

The Council is currently forecasting that net interest will not exceed 5% of total rates income in the ten years of this LTP.



LGFA covenant: liquidity is not less than 110%.

Liquidity is calculated as cash, cash equivalents, financial assets, and unused loan facilities (assets that can easily be converted into cash), divided by payables due within the 12-month period (including loan principal).

In the 2027 financial year, the Council may need to arrange a loan facility of $2.0 million to ensure it meets the liquidity requirements, however it is very unlikely that the facility will ever need to be accessed – it is required purely to meet this liquidity covenant.

The above graphs show that borrowing will be well within the Council's self-imposed limit as well as the LGFA covenants and highlights the extent of borrowing headroom that is available for emergency events.

Asset sales

The Council aims to sell properties that are not part of the Council's normal business operations and that do not generate a return to the community. Properties that might be considered for sale include closed roads, esplanade reserves and unused/unoccupied land. Once sold, the proceeds from sale will be used at the Council's full discretion, which might be to repay debt, or be set aside for future asset purchases. The Council could use these proceeds to offset the rates requirement, but this is artificial smoothing of rates and tends to cause higher rates increases in subsequent years, and so this action is not recommended.

The Council has demolished the former Council offices at 34 Esplanade and has offered the land to Te Rūnanga O Ngai Tahu to purchase, however a price is yet to be agreed.

Securities for borrowing

Like any other borrower, the Council has to offer lenders some security, and like other Councils, we secure our debt against our rates income. The Council has a debenture trust deed that provides the mechanism for lenders to have security over our rates income. The Council raises its loans with the LGFA and could also arrange separate lending facilities with the BNZ or other banks for short-term requirements and/or swaps. It also has two suspensory loans with Housing Corporation NZ, which are secured by the property at 95 Torquay Street (the pensioner flats). Those loans will only need to be repaid if the Council ever sells the flats.

Managing our investments

Equity securities and trusts

In 2024, the Council disestablished the Kaikōura Enhancement Trust (KET) and transferred KETs shares of Innovative Waste Kaikōura Ltd (IWK) to the Council. This means the Council is now the owner of IWK. IWK is a Council-Controlled Organisation (CCO).

IWK has entered into contracts with the Council to manage the landfill and resource recovery operations, deliver recycling services, provide public toilet cleaning services, and deliver water and wastewater services within the district.

The Council has a minor shareholding in Civic Financial Services Ltd (trading as Civic Assurance), these shares are not tradeable, and Civic has withdrawn from the insurance market which had been a significant source of trading revenue, and now focuses on Super Easy and Super Easy Kiwi Saver superannuation schemes.

From time to time as opportunities arise, the Council may consider future equity investments if they fulfil strategic, economic, and financial objectives. Any purchase or disposal of equity investments requires Council approval by resolution.

Financial investments

The Council manages its cash, borrowings, financial investments, and financial instruments as part of an integrated treasury function, and as part of our day to day working capital management. We will monitor the progress of our capital projects and other approved projects, and only borrow what is required to fund them if we need to.

So as to minimise external borrowing, we will often offset funds in hand and borrowing requirements internally between different funds or special reserves where those funds are not currently required. This reduces overall borrowing, and in turn minimises the level of financial investments, particularly as reserve funds are no longer held in cash. This means the Council will only borrow as cashflows require, reducing loan servicing costs and thereby benefitting ratepayers.

Commercial properties

The Council owns land at Wakatu Quay, with the buildings that were formerly leased to commercial fishery operators now demolished. Funds from the Provincial Growth Fund of up to $9.88 million will be used to develop a new commercial hospitality and public space, with plans currently underway as to what this might look like. The Council expects that, as a minimum, the new development will function in such a way that it supports its own operations and capital programme, and provide a return to the Council and lessen the dependency on rates.

Forestry

The Council owns 11.5% of the Marlborough Regional Forestry joint venture (MRF), with the Marlborough District Council owning the balance 88.5%.

Historically the Council's forestry assets provided reasonably substantial cash inflows in those years where logging was undertaken. Due to the nature of forestry (trees must be mature, and ideally, timber prices should be good), there may be several years of cash outflows between the years of logging. MRF is in the middle of a seven-year period where trees are not mature enough for viable logging, and the Council is contributing to the cost of forestry operations until logging recommences (forecast in 2029).

Further, the Council plans to harvest the South Bay pine forest during 2025, but any net yield from logging will be lost in the cost of surrendering carbon credits. The Council has applied to the Environmental Protection Agency for a ruling that it would not be liable for carbon credit surrender, as the cost of that would be prohibitive. The harvest is being done to free up the area for alternate recreational uses and provide ocean views for the Ocean Ridge subdivision, rather than to generate revenue. The Council has also provided for replanting some of the plantation in 2027/2028.

For the above reasons, other than a planned sale of carbon credits in 2025 as suggested by the MRF joint venture, the target return on investment for forestry is zero until 2029. It is intended that surpluses from forestry be used to cover forest operations in the first instance and may then be held in special funds for future strategic purposes (which may include purchasing other investments, reducing total debt, or used to offset general rate requirements).

Targeted return on investments and trusts

Our investments	Objectives	Annual targeted net return
Innovative Waste Kaikōura Ltd (IWK)	Efficiently manage landfill and recycling facilities and deliver three-waters and other services under contract.	IWK will be operated on a break-even basis, no dividend will be paid. Costs will be minimised in the Council contracts.
Civic Assurance	Financial services including superannuation schemes	Civic has withdrawn from the insurance market, dividends are unlikely to be paid
Financial investments	Treasury management	Borrowing costs are minimised
Commercial properties	Optimise value and return, while providing social, cultural, economic and environmental benefits to the community	Commercial property will provide a financial return to Council, as well as providing benefits to the community and/or local economy.
Forestry	Generate cash surpluses after having covered all costs associated with the activity, to be used to reduce the Council's rates requirement or any other purpose at the discretion of the Council	Capital distributions are paid to KDC once logging commences (anticipated from 2029 onward)

Balanced budget

All Councils must ensure each year's projected revenues are sufficient to cover all operating costs unless that Council resolves that it is financially prudent to do otherwise. Historically, the Council has never fully funded depreciation in collecting rates, and other Councils have varying policies. Funding depreciation involves accumulating cash reserves from today's ratepayer to pay for asset renewals in the future. Where reserves are accumulated, the effect is that current asset users fund future asset use (in full or part). Where reserves are not accumulated, future users may be required to fund the asset renewal.

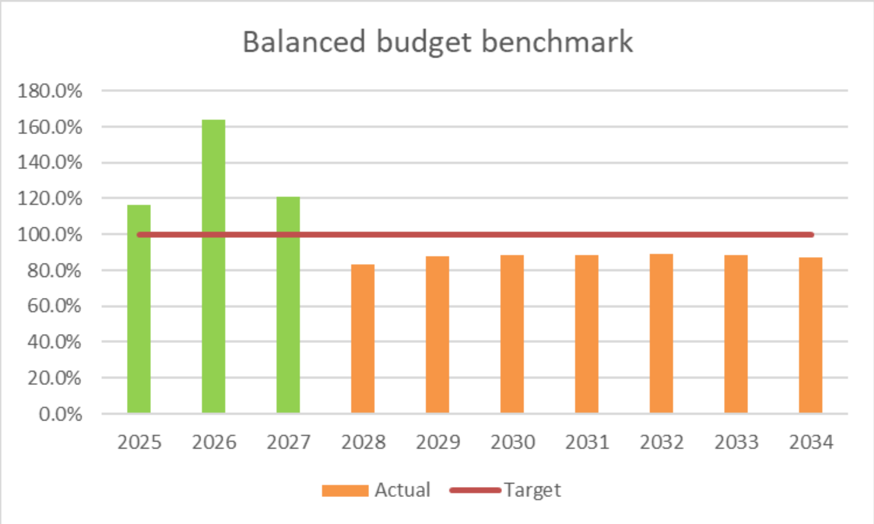
A key component of the Council's Financial Strategy – based on the reliable information we now have about our assets and their condition – is that there are extremely low levels of asset renewal work required over the next ten (if not thirty) years. With that information, the Council's asset renewal profile has now been confirmed as extremely low for at least the next 30 years.

The Council will continue its deliberate policy not to fund depreciation. This LTP, therefore, projects an annual deficit from the 2028 financial year, attributable to depreciation. The annual amount of depreciation is in the range of $6.0 to $6.8 million per annum, and the deficits range from $2.2 million in 2030 to almost $3.3 million in 2028. The average surplus/(deficit) over the ten years is a surplus of $2.96 million, mainly because the first three years, 2025 to 2027, show significant revenue from grants and subsidies the Council will receive for several capital projects, such as from Waka Kotahi (NZTA) to construct the Waiau-Toa (Clarence) River bridge, from the PGF for the Wakatu Quay development, and from the Infrastructure Acceleration Fund (the IAF) for road extensions and shared pathways from Vicarage Views to Ocean Ridge. The subsidies are categorised as revenue to the Council, but the cost of these projects are capital costs, not operating costs.

The Council's policy not to fund depreciation considers that when assets do need to be replaced, we will seek alternative sources of funding such as grants or subsidies. The following fiscal levers will be also used to move progressively towards achieving a balanced budget (beyond the 10 years of this LTP):

- fees and charges; and
- lifting rates revenue, and
- efficiencies.

These options will be deployed in the first instance or raise loans if no other funds are available. Rates may be used to fund the net cost of renewals on an ongoing basis provided the annual renewal cost is equal to or less than the annual depreciation for that asset category. The Council continues to believe the gradual changes proposed will result in the best fiscal and most sustainable outcome. As we move towards maximising our revenue potential, particularly from fees and charges but also from rates revenue, this will enable us to support the capital investment projected while maintaining the levels of service that residents expect.



The balanced budget benchmark is met if revenues are at least 100% of expenses. The Council meets the benchmark in the first three years of the LTP.

Assumptions

The main assumptions underlying the forecast information, based on predictions from both internal and external sources, are described in full in Part Four: Financial Information & Rates chapter of this Long-Term Plan