

# Financial Strategy

## Overview

This financial strategy sets out the overall financial goals of the Council for the 2024–34 Long-term Plan. The Strategy builds on the current financial position by setting out where Council wants to be positioned during, and at the end of, the Long-term plan period. The Financial Strategy also provides guidance on how Council considers and approaches funding of expenditure proposals in the current Long-term Plan and informs the subsequent decisions for the duration of the 2024–34 Long-term Plan.

## Strategic context

According to the Local Government Act 2002, 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; 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.

In presenting this Financial Strategy, Council has incorporated the financial assumptions as set out in the Long-term Plan and draws attention to the following assumptions:

1. There will be no significant growth in the population of the region over the Long-term Plan period;
2. Economic growth of the region will fluctuate, reflecting the volatility of the tourism sector, the current economic uncertainty, and the nature of the extractive industries (e.g. mining and forestry) that the West Coast region relies on; and
3. Growth in the rating base is not likely in the short term with the Department of Conservation, and other central government organisations, administering approximately 86% of the land in the region.

## Financial principles

The key management principles that underpin the financial strategy of the West Coast Regional Council are summarised below:

### Overarching principle

The West Coast Regional Council aims for prudent and sustainable financing of its operations and activities and to maintain a strong and resilient balance sheet.

### Council should aim for an operating surplus in most years

Operating surpluses arise from operating revenue exceeding operating expenses. Operating surpluses mean the Council is not borrowing to fund current expenditure. Council will require operating surpluses to service both existing and the planned rapid draw down of debt in support of forecast capital work particularly in the initial 1-3 years. It is expected that Council will generate this surplus from year 4 of the Plan.

### **The cost of significant capital expenditure should be spread over time so that the beneficiaries of the asset contribute towards the cost**

It is important to acknowledge that current ratepayers should not bear the full burden of capital expenditure by having to pay for these assets in full now as future generations will enjoy the benefits of those assets.

Any new assets will have debt repayments aligned to the life of the asset that may be out 80+ years. This means that the impact on rates will be minimised in the first instance, with the trade-off being that Council will be carrying a growing debt position with little effective payback for many years.

**Council should take only moderate risk with its investment assets and consider its risk exposure in the context of the balance sheet as a whole**

Given the statutory obligations on the Council to act prudently, the Council should hold an investment portfolio of relatively low risk and seek to optimise the risk/return trade off over the long term.

**Council promotes effective and efficient use of resources to achieve value for money**

Ratepayers expect the Council to use its resources efficiently and effectively and in ways that provide the most value. Plans for the efficient and effective delivery of the core functions of the Council should be in place to meet the demands of the region's ratepayers. Effectiveness will require some scaling of the capability of Council in the short term to support delivery of the capital work and planning requirements ahead.

**Council should seek to maximise the recovery of costs for services provided to specific individuals or businesses**

Cost recovery ensures that users value the services they receive from the Council and that Council has sufficient funding to continue providing the services critical to the operation and viability of the Council. Council's approach to cost recovery should be fair and reasonable, uniformly applied, easy to understand, transparent and predictable.

**Rates should be affordable, fair and equitable**

Rates on property are the primary source of income for Council. Rates should provide an adequate, fair and affordable source of funding for the Council to undertake the services and activities required of it. Where choices are made to fund services from a general rates pool rather than user charges, that should be transparent to ratepayers. Targeted rates are key to ensuring those who enjoy specific benefits for an asset or service provided by Council pay for that outcome. Where an activity contributes both a public and private good, an appropriate rating mix of General and Targeted is decided by Council.

**Council should seek external funding, where available**

The West Coast region is large, relative to the number of ratepayers. As such, Council should seek to lessen the burden on the ratepayers and actively seek opportunities to have work funded or co-funded from external sources. The trade-off from this approach is that while Council will save debt on the initial asset delivery, there will be a step change in levels of service for renewals and ongoing maintenance costs that directly impacts rate requirement over and above inflation and other factors, with little the Council can do to mitigate that change.

## Financial strategy – Sustainable change

### Introduction

This Financial Strategy sets out the overall financial goals of the Council for the 2024–34 Long-term Plan. The Strategy builds on the current financial position by setting out where Council wants to be positioned during, and at the end of, the Long-term Plan period.

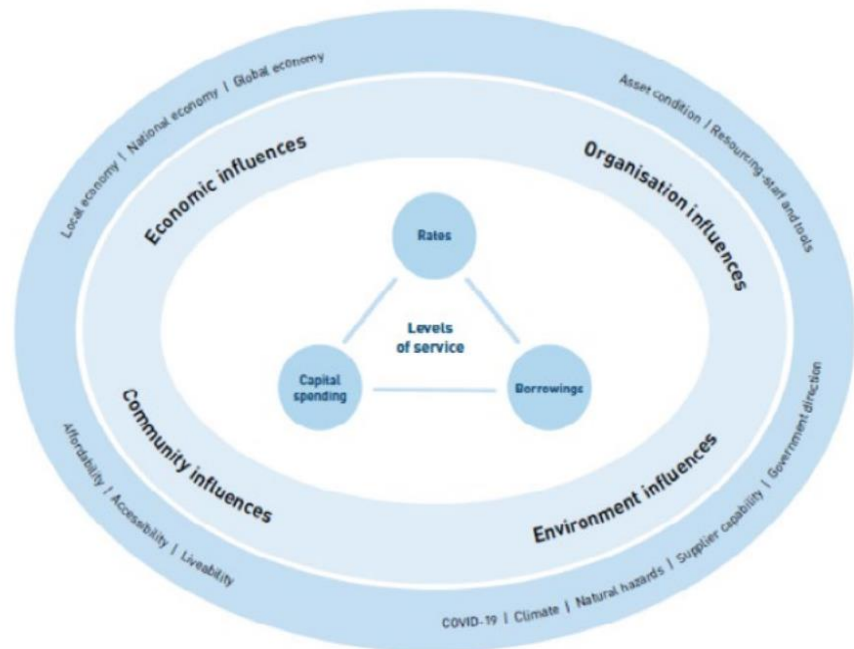
## Strategic context

The schematic reflects the range of internal and external factors in the Council's operating environment that impact its financial decision-making. These factors are pushing and pulling Council in differing directions, and the challenge is finding a balanced response.

Council's Financial Strategy triangle is affected by the three levers: rates, capex and debt.

The size of the triangle represents the level of service provided by the Council. A bigger triangle means an increased level of service (or new services). Changing only

one lever can be achieved without affecting service levels by allowing the other components to adjust. Changing more than one component means the third lever also must change, and thus service levels will change too.



## Our financial context – where Council is now

Against a backdrop of, and with increasing economic challenges world-wide including high inflation and increasing interest rates, Council is investing in several large capital works over the short term, including significant flood protection in the Westport, Greymouth, Hokitika and Franz Josef areas. Council fully funds depreciation for assets deemed to have a finite life (such as flap valves and concrete structures (e.g. culverts and weirs) but does not rate for depreciation of the earthworks and static flood protection assets, choosing instead to rely on a robust maintenance program to sustain the lives of these assets and service levels in the community. Deterioration of assets over time could occur if renewal or maintenance were deferred long-term. This is why Council deems it vital to rate and ensure funding requirements are met to avoid this outcome.

## Cost pressures

Council is exposed to a range of unavoidable cost pressures in its operations, the vast majority of which must be funded by rates. Shifting of costs and responsibilities from central government to local government, including proposed changes through Resource Management Act reform, climate change adaptation, carbon neutral requirements for Council, Biodiversity National Policy Statement etc., creates additional pressures for all councils. In addition, there are specific requirements under the Government's 2020 National Policy Statement on urban development that Council will be implementing and responding to through changes in the regional plans and processes to ensure sufficient development capacity for housing and business needs over the short, medium and long term. While housing is not a direct function of this Council, changing land uses and increased consideration for those District Councils that are building and developing has a flow on effect to Council resourcing and planning requirements. Council will need to increase capability and capacity to meet any new requirements and

the change they bring. The change of Government in October 2023 is likely to lead to some respite in the legislative direction being pushed down. While this Long-term Plan has been developed in the current environment, Council will be watching closely to see what changes are made so that work programmes and budgets can be adapted as appropriate.

In December 2020 the New Zealand Government, alongside its climate emergency declaration, launched The Carbon Neutral Government Programme, a major new initiative that requires the public sector to achieve carbon neutrality by 2025. This, as well as the Climate Change Commission's final report on decarbonising the economy, will require Council to not only map out its own carbon footprint, but to take into consideration an all of supply chain position as it invests in systems, skills, and changes in asset mix and delivery methods to meet this requirement. While Council intends to take a pragmatic approach to this journey there will be investment needed in people, skills, and systems to support this new business approach to Council's service delivery.

Another key area of added cost is the requirement for Council to produce Te Tai o Poutini Plan (TTPP), the combined district plan for the West Coast. There is considerable cost expected to take Council through the hearings and Environment Court processes, with ongoing resourcing for the next round of plan changes and rolling reviews also needing consideration. This is all on top of business-as-usual Council regulatory and planning work. This Long-term Plan proposes a mix of both rating and debt funding spread out across a number of years to support this work and create intergenerational equity over the region.

To mitigate against inflation cost pressures, Council uses a combination of industry-specific cost indices, and a composite index called the Local Government Cost Index (LGCI), which is published by BERL in September each year. If Council does not adjust budgets for this index, it erodes the amount that can be done for the same amount of dollars.

This means that Council is likely to have a limited scope soon to do new things and will need to consider carefully saying 'no' and focussing hard on the basics. Effort will need to be put into 'polishing the apple' even harder and doing more with less for Council's business as usual operations.

Council is committed to future proofing the organisation due to the many changes and challenges that are ahead. This will require investment in people, processes, skills, and systems to give the organisation the capability and capacity to do the job required and maintain levels of services for the community.

### How should we respond?

The 2024-34 Financial Strategy will draw upon many of the elements of the 2021-31 Strategy, largely because many of the key challenges such as the prioritised and timely delivery of capital works programmes, climate change and flood resilience, remain. However, whereas in the past Council has been reflecting the current environment, there is now a need to anticipate the future environment. Council will do this by preparing the organisation for the change known to be coming. Advocacy for increased Central Government funding to help deliver against their expectations and support for these work programmes will be needed. The key mechanisms Council will use to respond to the change coming is by:

1. Improving capital work and service delivery capabilities;
2. Providing a suitable future proof planning and regulatory framework that adapts to the changes afoot; and

3. Providing the necessary infrastructure to improve our flood protection and community resilience to climate changes that will accommodate change for Council, regional partners and other stakeholders.

Council should also continue to meet its fiscal prudence, and environmental sustainability obligations, and to understand both the short- and long-term trade-offs or benefits across all the well-being domains (social, environmental, economic and cultural) when making key decisions for the community. With the anticipated spike in capital expenditure and debt drawdown, it is paramount that Council carefully considers these trade-offs – not just in the short term but across the intergenerational spectrum. There is also an expected spike in cost as Council increases staffing levels to deliver this large wave of projects.

Finally, a focus to make the most of the enhanced opportunities from Government funding subsidies and other incentives to advance community outcomes, and to right size Council staffing in preparing for and supporting change, and operational expenditure is required.

### **The birds-eye view for the next 10 years**

Council sees the next 10 years of this Long-term Plan in two distinct phases.

**The first 5 years** are expected to be heavily focused on preparing for and delivery of the considerable capital works program that is dominated by Central Government grant funding. The funding comes with terms and conditions including timeframes for delivery, and Council intends to make the most of this opportunity to improve the region's flood protection assets.

There is also a very clear requirement for Council to adapt and deliver the changes that will come through with legislation and regulatory overhaul (such as the Resource Management Act reform) and those downstream effects to consenting and regulatory functions. Council is also aware that this, along with a number of other unfunded mandates from Central Government, introduces costs to ratepayers that are not only unavoidable but will continually pressure Council's decision making and subsequent setting of rating levels to pay for this change. In both cases, Council will need to increase capacity and capability of staff and systems to ensure it is ready for the future, and to avoid becoming non-compliant under new legislation.

Financially, this will lead to high levels of debt drawdown as projects progress that will take Council close to its self-imposed prudence limits. It is also likely that with all this extra focus and activity - on top of usual Council business - in what is a high inflation environment and with interest rates being elevated from recent historic lows that rating increases can be expected to be higher than in recent times.

**The second 5 years**, from year 5 onwards, Council will be taking a much tighter line on new infrastructure investment as there will be limited debt capacity to do the work, and unless there is clear Government support, will only be prioritising needed renewal and maintenance that will maintain the new level of service generated in the first 5 years investment. In short, capital works are forecast to decrease.

It is also expected that many of the changes in legislation and the regulatory environment will be better understood, and that Council will have been on a successful journey of capacity building to support the change and switching to a bedding in of what is to be the new normal for Council operations and services. The cost impact of these changes will be known, and the focus will switch to ensuring efficient

and effective delivery within the new framework, and a proactive cost recovery strategy will always be in play.

In summary, where the first 5 years is about rapid investment and upscaling in capability and costs to take advantage of grant funding and preparing for change, the second half of the plan calls for prudent management of the new levels of service and operational delivery and budgets of Council.

### Financial Strategy and Infrastructure strategy

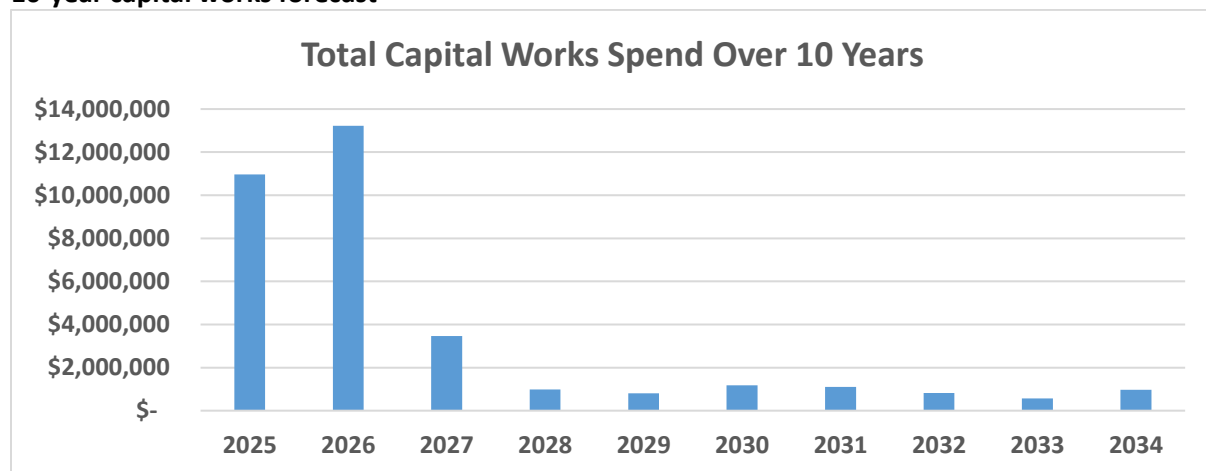
The Financial Strategy is the enabler for the Infrastructure Strategy which identifies flood protection, community resilience, and climate change response as the key areas of focus for the capital expenditure programme.

This in turn drives the Financial Strategy, which balances these infrastructure needs with the management of borrowings and rating impacts on the community. All major projects have been, and will continue to be, assessed and prioritised according to their critical need and government stimulus funding and benefit to the regional economy. The scale of capital works in the short term is such that Council will need to be very purposeful in finalising project delivery methods and ensure strong resourcing levels to avoid costly delivery delays.

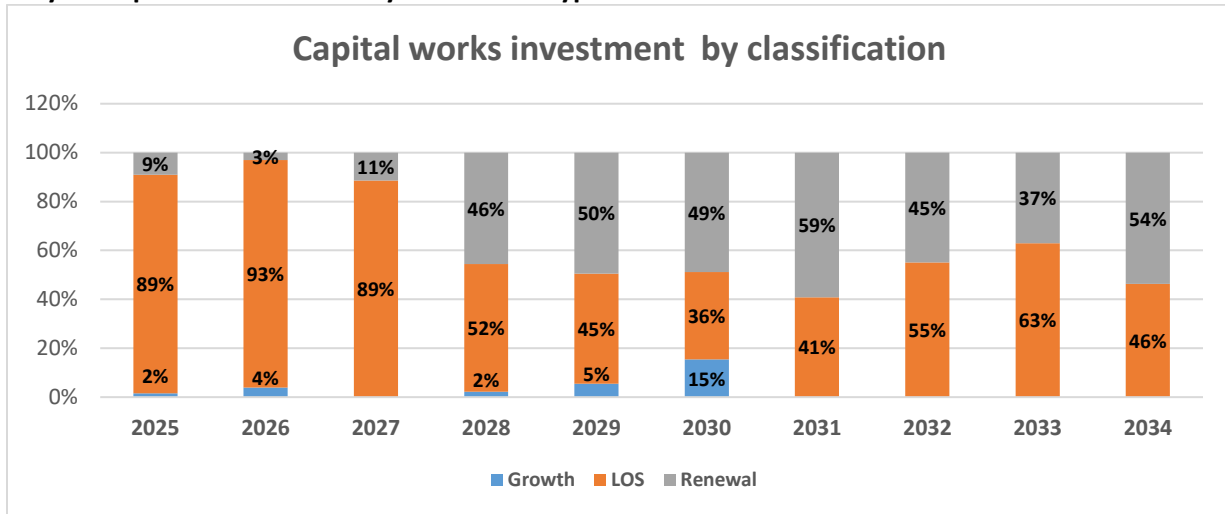
To ensure the delivery of the significantly increased programme of works, Council will use alternative delivery and procurement models, such as partnering and collaboration with key suppliers in the region that have the capability and capacity to scale up faster than Council. This could include longer term procurement models as well as bundling multiple projects into consolidated packages of work. In addition, the capacity and capability of project management and asset management staff must expand to manage certain key projects and to maintain an overview of the entire capital works programme.

Council believes under investment in critical infrastructure maintenance and renewals is not sustainable, and that it needs to make the most of the funding and time available now to upgrade the flood resiliency of the region as a top priority. The below graphs show the scale and type of investment Council is making over the 10 years of this Long-term Plan, while the table captures key projects within that investment. All should be read in conjunction with the rest of this document.

### 10-year capital works forecast



## 10-year capital work forecast by investment type



## Key capital projects and methods of funding

Project	Debt/Rates	Grant funding	Total Estimated Cost
Westport Flood Protection Project	\$8.37M	\$15.6M	\$23.97M

## Local Government (Reporting and Prudence) Regulations 2014 requirements

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

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

## Rates affordability benchmark

The Council meets the rates affordability benchmark if:

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

It is of note that Council sets the quantified limit in each of these benchmarks as opposed to any outside influence.

### Rates (income) affordability

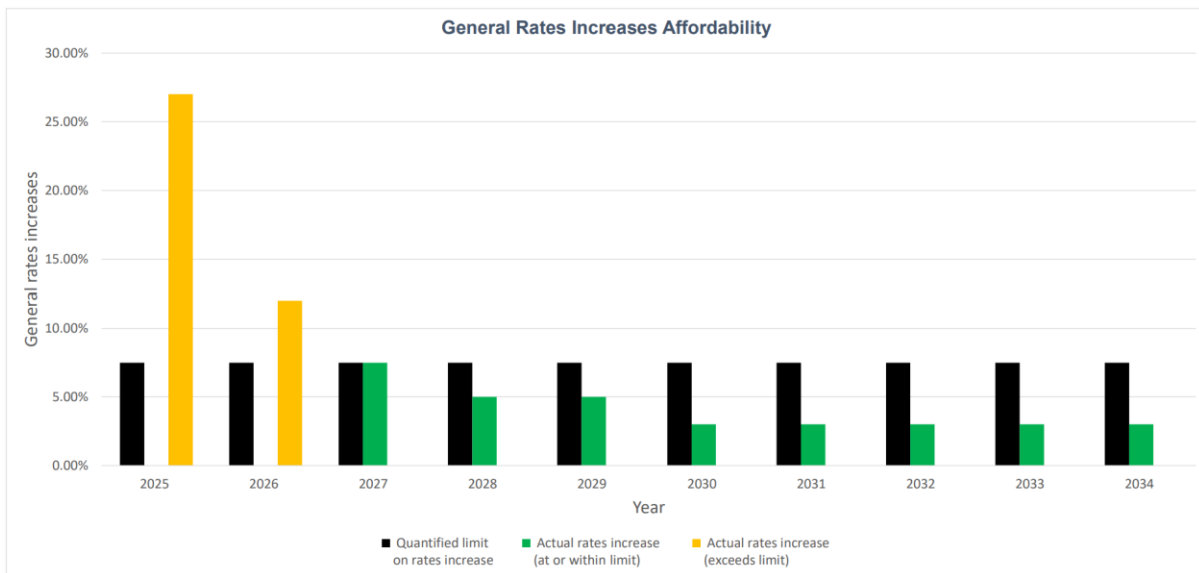
The following graph compares the Council’s planned general rates income (including Uniform Annual General Charge (UAGC)) with a quantified limit on general rates (including UAGC) contained in the financial strategy included in Council’s Long-term Plan. The quantified limit is that general rates (including UAGC) will not exceed 50% of total income (the quantified limit in the 2021-31 LTP was 50%).



From a dollar’s perspective, Council meets this benchmark in all years of the Long-term Plan.

### Rates (increase) affordability

The following graph compares the Council’s planned general rates (including UAGC) increases with a quantified limit on general rates (including UAGC) contained in the financial strategy included in Council’s long-term plan. The quantified limit is that general rates (including UAGC) increase will not exceed 7.50% per annum.





Council has made the decision to not meet this benchmark in the first 2 years of the Long-term Plan. The reason for this is to fast track the resources needed to take advantage of the Central Government funding as it relates to the Westport Flood Protection Project, and to tackle the issues of fast rising costs due to inflation and organisational rebuilding head on. It is not deemed prudent to under resource Council business during this critical period of activity as it could lead to missed investment opportunities and a lowering of services levels to the community.

### Debt affordability benchmark

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

The following graph compares the Council’s planned borrowing with a quantified limit on borrowing stated in the financial strategy included in Council’s Long-Term Plan. The quantified limit is "proposed debt divided by total revenue" will not exceed 175%.



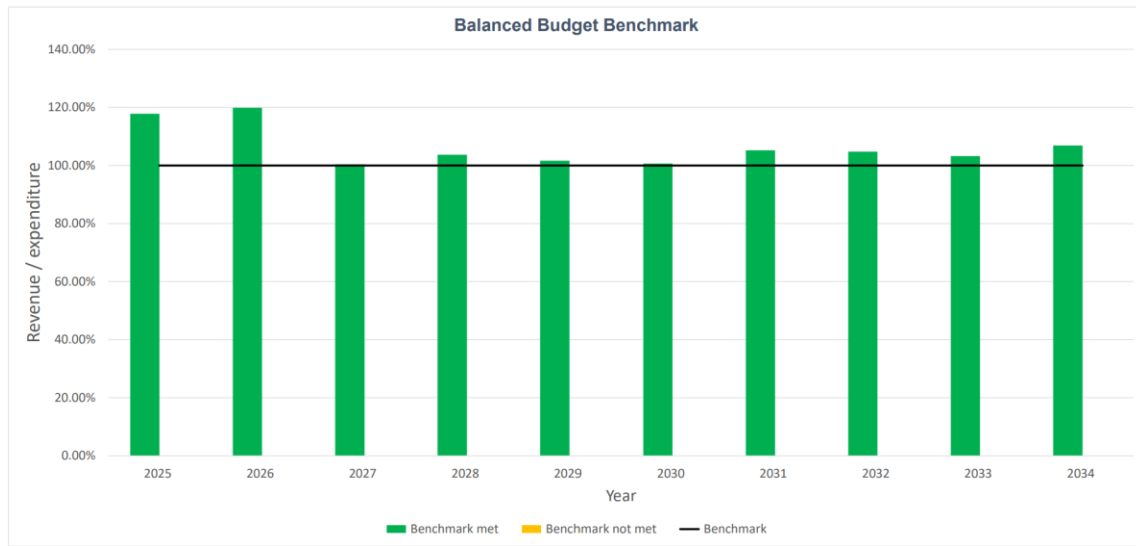
Council meets this important benchmark and its LGFA borrowing covenants in all years of the Long-term Plan. There is a steep rise in debt during the first three years due to the high level of planned capital works, ongoing Te Tai o Poutini Plan cost, and the use of debt to smooth rate increases that would otherwise be unaffordable. The reduction in debt in the second half of the Long-term Plan is related to the Council’s return to cash surplus from year four which will be used to start the debt repayment in line with the overall strategy of this document.

### Balanced budget benchmark

The Council meets this benchmark if its revenue equals or is greater than its operating expenses.

Council considers that achieving a balanced budget is desirable most years unless there are significant changes required for consideration to maintain service levels and / or implement new regulations. Any years that are not balanced will need to be balanced in years preceding or immediately after to keep Council books sustainable.

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



Council meets this benchmark and balances its budgets in all years of the Long-term Plan through a mix of funding methods noted elsewhere in this document.

### Essential services benchmark

Council meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services. Network services means infrastructure related to:

- Water supply;
- Sewerage, and the treatment and disposal of sewerage;
- Stormwater drainage;
- Flood protection and control works; and
- Provision of roads and footpaths.

Council’s only network services relate to flood protection and control works. Council does not provide any other network services. These network services are in the form of assets such as rock protection, stop banks, seawalls etc. These assets are not subject to depreciation. Council’s capital expenditure on flood protection and control network assets will always be equal to or greater than the depreciation expense.

As there is no depreciation, the graph required by Schedule 5 of the Local Government (Financial Reporting and Prudence) Regulations 2014 cannot be produced.



### Debt servicing benchmark

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

Because Statistics New Zealand projects the region’s population will grow more slowly than the national population growth rate or even negative growth, it meets the debt servicing benchmark if its borrowing costs equal or are less than 10% of its revenue.

