Clutha District Council

FINANCIAL STRATEGY

OUR PLACE CLUTHA DISTRICT LONG TERM PLAN 2024/34

MANAGING OUR FINANCES

This financial strategy outlines the financial mix we're proposing to support the Clutha District as a great place to live, work and play, now and into the future.

Overall our district is facing some challenges, things are really tough and the world has shifted since our last long term plan.

In recent years we've supported initiatives to promote growth in the district and it's great to see progress on this. Our district has begun growing and our overall outlook is positive despite the unprecedented challenges that have come our way.

Moving forward, we are continuing the momentum of recent years, with our focus on continuing towards making Clutha a great place to live, work and play. We're also open for business in terms of visiting and investing here.

We have worked in previous years to keep rates at an affordable level and annual rates increases to a minimum in response to the cost of living; this has created a funding gap that we now need to close.

Funding demands on local government are exceeding what it is capable of achieving and we are not exempt. Council's funding model is complex and not comparable to a household or business. We rely mostly on ratepayers to finance us and this has put Council and its communities under prolonged financial strain.

The need for the continued provision of Three Waters services to our communities following the recent repeal of three waters legislation is having a significant financial impact.

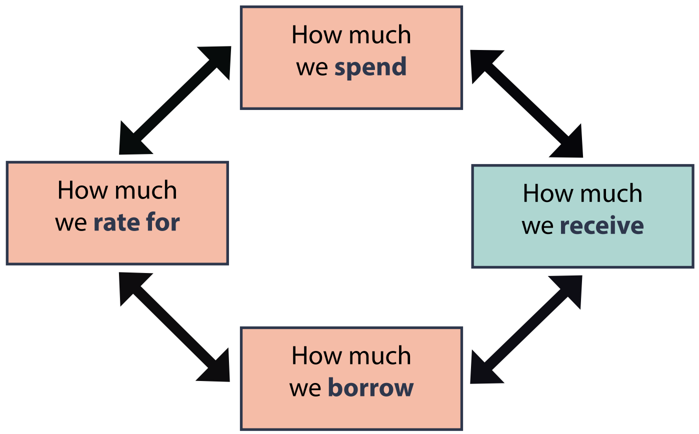
Council is intending to use what it has available to fully support our residents and ratepayers now, and into the future.

OUR FINANCIAL STRATEGY AIMS TO ENSURE:

- We prioritise investment in infrastructure that balances cost, risk, and service levels.
- Everyday costs for services are generally met from everyday revenues.
- We aim for rates to be affordable, fair, and equitable, with increases set to provide certainty to ratepayers.
- Future ratepayers using services created today pay their share, with the appropriate (prudent) use of debt.

WHAT'S IN THE FINANCIAL MIX?

From a financial point of view there are four key parts in the mix, and they are closely linked – what happens with one influences the others. Council can decide how much we spend, how much we rate for and how much we borrow. How much we receive is outside of our direct control, but it is an important part of the mix. Find out more about these key parts, and the mix we're proposing, in this strategy.

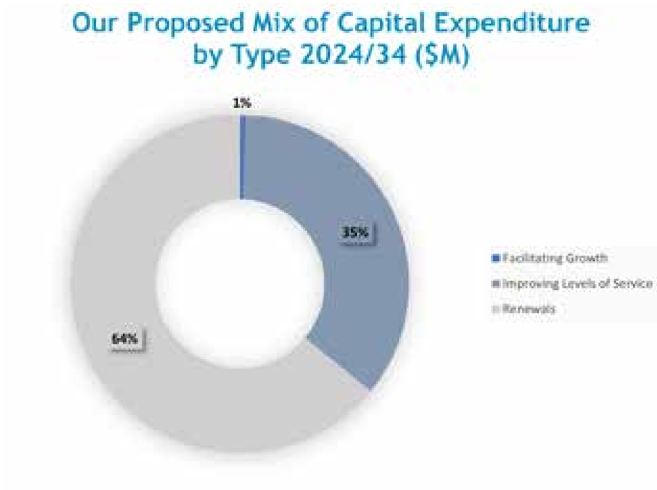


What we're PROPOSING TO SPEND

TABLE: OVERALL ASSET BUILD PROGRAMME 2024/34 ($M)				
ACTIVITY AREA	FACILITATING GROWTH	IMPROVING LEVELS OF SERVICE	RENEWALS	TOTALS
Transportation	0	1	134	135
Water	0	26	35	61
Community Services	2	2	26	30
Wastewater	0	89	18	107
Internal Services	0	2	3	5
Solid Waste	0	6	10	16
Stormwater	0	4	9	13
TOTALS	2	130	235	367

GRAPH: OUR PROPOSED MIX OF CAPITAL EXPENDITURE BY ACTIVITY 2024/34 ($M)

GRAPH: OUR PROPOSED MIX OF CAPITAL EXPENDITURE BY TYPE 2024/34 ($M)



FACILITATE RE-GENERATION & RESPOND TO DEVELOPMENT PRESSURE

OUR APPROACH:

WE PLAN FOR AND ARE ADAPTIVE TO REGENERATION AND ENABLE PRIVATE INVESTMENT WHERE IT WILL BENEFIT OUR COMMUNITY'S WELLBEING.

What we will focus on:

- Setting direction for where and what type of development should occur for infrastructure, suburban development and economic growth.
- 3 Waters (Drinking Water; Waste Water; Stormwater) network extensions into current Transitional Zones.
- Managing demand in our rural and urban water schemes, and where viable, supplying more capacity.
- New Community Housing Builds proposed.
- Use all Council's procurement tools to achieve greater gains for our local economy, tourism, workforce and environment.

IMPROVE LEVELS OF SERVICE

OUR APPROACH:

WE PRIORITISE INVESTMENT IN INFRASTRUCTURE THAT BALANCES COST, RISK, AND SERVICE LEVELS.

What we will focus on:

- Upgrading rural and urban water schemes to comply with NZ Drinking Water Standards.
- Upgrading wastewater infrastructure to improve the quality of discharges to the environment.
- Increasing the capacity of stormwater infrastructure to reduce the risk of localised flooding.
- Investing in the Milton Mainstreet and the Balclutha Streetscape including completion of Te Pou Ō Mata-Au facility carpark.
- Strengthening our bridges to carry High Productivity Motor Vehicles.

TAKE CARE OF WHAT WE'VE GOT (RENEWALS)

OUR APPROACH:

WE'RE AIMING TO HAVE THE FUNDS NEEDED TO REPLACE INFRASTRUCTURE WHEN IT WEARS OUT (RENEW ASSETS AT THE END OF THEIR ECONOMIC LIFE).

What we will focus on:

- Renewals of our rural and urban water schemes to increase capacity and comply with NZ Drinking Water Standards.
- Additional Water Reservoir Tanks to our rural and urban water schemes to increase water capacity
- Efficient road maintenance.
- Continuing with our 'fast-tracked' bridge replacement programme.
- Securing the future for Mt Cooee Landfill.
- Improved Pump Stations across the District for wastewater management.
- Milton Pool/Library Renewal.
- Renewals of Balclutha and Lawrence Library Buildings.
- Upgrades of the Balclutha Swimming Pool Filters.
- Upgrades to public conveniences across the district.

HOW MUCH WE'RE PROPOSING TO BORROW

OUR APPROACH: FUTURE RATEPAYERS USING SERVICES CREATED TODAY PAY THEIR SHARE, WITH THE APPROPRIATE (PRUDENT) USE OF DEBT.

Limit on Debt

We have set ourselves a limit that net debt will not exceed more than 280% of annual revenue.

Until recently we have not had significant debt[1], and have used our various reserve funds built up over time when we have needed funding for infrastructure projects, we refer to this as internal borrowing. In recent times we have moved towards using external debt.

We feel this is the best use of our investments and the approach is fairer, as it means that future ratepayers also pay their share for long life assets and services created today (known as intergenerational equity).

Going forward we're proposing to continue to keep our investment portfolio intact and borrow more.

We need to borrow more because:

- The cost of providing Three Waters services and building Three Waters infrastructure has significantly increased,
- The Three Waters activity also had to fund deficits for the unbudgeted higher costs of operations and the cost of transitioning to providing the services in-house for 2023 and 2024.
- Our capital works program has significantly increased, and we have achieved much higher percentages of project completion with consequential higher demands on cash flow,
- Significant escalations in cost of investing in our infrastructure and providing our services,
- The consequences of decisions taken to keep rates within Council's historical 4% rates cap (reducing depreciation, paying interest only on loans, using Council's reserves, and of all of the above reasons, meant Year 1 of the Long Term Plan had an unsustainable rates increase, so much so Council has decided to borrow more to spread the impact of the rates rises over a number of years.

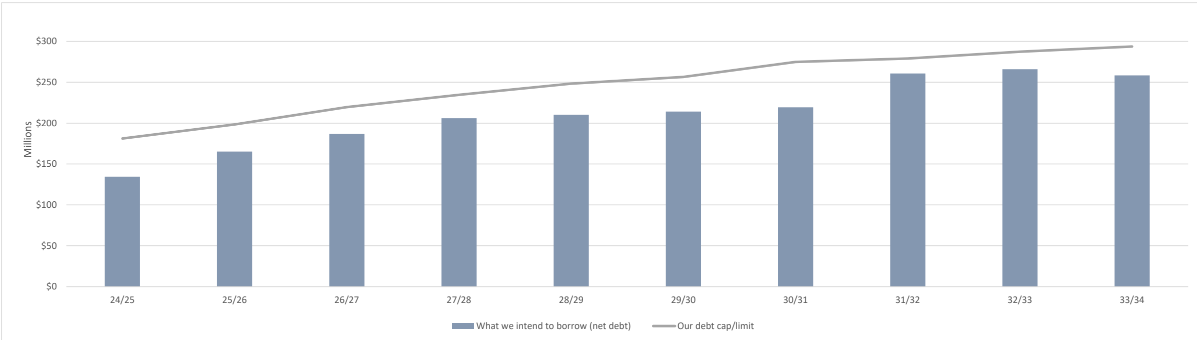
But it is important to get the balance right and we need to have clear limits. We received a credit rating that will allow us to borrow up to 280% of how much we're expecting to receive.

The repayment period for borrowing on infrastructure is 25 years.

[1]Debt refers to net debt which equals borrowings less investment and cash in the bank.

The gross debt of Council is shown in the prospective statement of financial position.

GRAPH: OUR STRATEGY FOR BORROWING 2024/34 ($M)



HOW MUCH WE ARE EXPECTING TO RECEIVE

OUR APPROACH: TO MANAGE OUR INVESTMENT FUNDS AND OTHER INVESTMENTS BY TAKING A PRUDENT APPROACH TO RISK AND RETURN.

Council maintains investments to:

- Use some of the income to help reduce rates.
- Help fund the development and growth outcomes of the district i.e. support our community's well-being through the priorities in our Living & Working in Clutha Strategy and Our Place community plans.
- Make sure we have money set aside to cover our share of replacing assets destroyed or damaged in a natural disaster. This includes what we call our emergency fund, and also our self-insurance fund (refer to the Financial Resilience section for more information).
- Invest amounts held in restricted and Council created reserve funds, including amounts held for future expenditure (depreciation reserves).

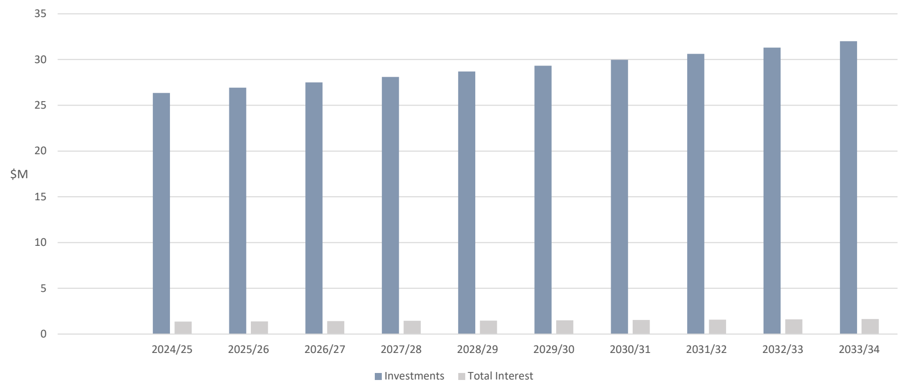
Targets on Investments

Overall, we want to maximise investment returns while preserving ratepayer funds. We're targeting to earn an average of 5.25% for returns on our investment portfolio during the next ten years through to 2034. We're proposing to use some of it ($9.5M) to reduce rates. We're forecasting the value of the fund will grow by from $25.8 M to $32.0M. But what we receive is dictated by many factors outside our control. If we receive better returns, we will decide the best way to use them, in keeping with the reasons Council maintains investments. These main reasons are outlined (left).

Types of Investments

For our size, we have a large investment portfolio. To ensure we get the best return we can, Council has outsourced the management of its investment portfolio, with an instruction to split the portfolio 50% in growth assets and 50% in income assets. Within these broader categories certain investment allocation ranges have been agreed to manage risk and returns. Council has a minor shareholding in Civic Assurance equity shares and borrower notes in the Local Government Funding Agency which increase as debt increases.

GRAPH: OUR STRATEGY FOR INVESTMENTS 2024/34 ($M)



HOW MUCH WE'RE PROPOSING TO RATE

OUR APPROACH: WE'RE AIMING FOR RATES TO BE AFFORDABLE, FAIR AND EQUITABLE, WITH INCREASES SET TO PROVIDE CERTAINTY TO RATEPAYERS.

Rates are one of the most important sources Council uses to fund the cost of its services. We have unavoidable cost drivers particularly for water, wastewater, and stormwater, that will affect ratepayers who receive these services. Our historic approach is no longer sustainable with the recent changes in three waters reform and our assumption for the purposes of this Long-Term Plan is that this Council is now going it alone. The proposed significant increases reflect this, but we're proposing to keep our overall rates down in a number of different ways.

Our proposed mix for keeping rates down

This strategy is planning to:

- Use debt and borrowing to spread the costs across generations for our asset build programme.
- Use debt and borrowing to spread the impact of the unsustainable rates increase in the first three years.
- Subsidise rates using income from investment returns.

Note:
This would mean higher overall rates in years one to three than we have historically had, dropping in years four to ten. This primarily affects three waters and the ratepayers who receive these services.

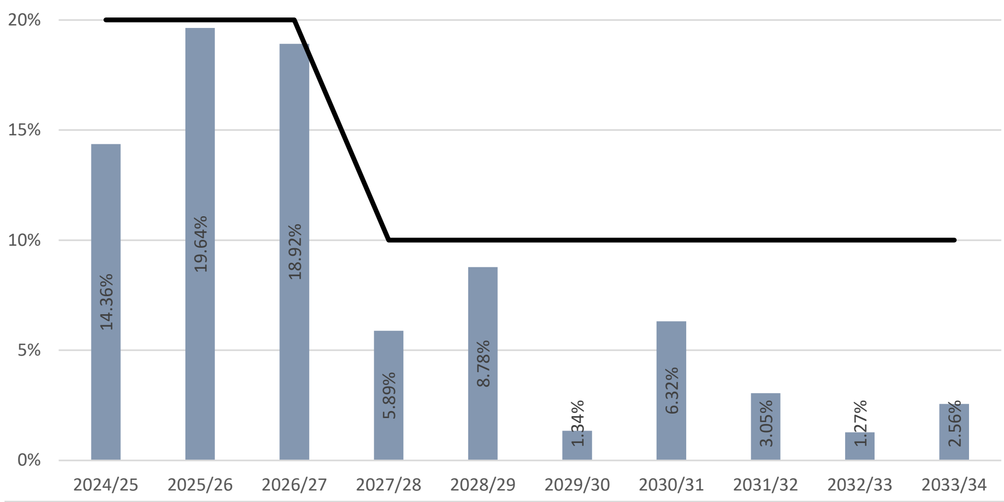
Smoothing rates

Council applies 'smoothing' of its funding profile and year on year rates changes. This has been achieved by borrowing for additional water operational costs in years one and two and repaying this in later years, resulting in an unbalanced budget.

Limits on rates increases

We expect our overall rates to increase substantially in the first three years of the Long Term Plan as we include costs associated with the ongoing provision of the three waters services, then to reduce for the remaining years. We have a self-imposed limit not to increase overall rates by more than 20% per annum for the first three years of the Long Term Plan, dropping to no more than 10% for the remainder of the ten years. There is a lot of uncertainty and factors outside our control. We're proposing to be flexible and adaptive where part of this approach will involve reviewing overall rates when we update our financials on an annual basis and look at our mix.

GRAPH: OVERALL RATES 2024/34 (ANNUAL % CHANGE)



The year on year rate increases are a result of the smoothing of rates (refer left) and the timing of the capital work programe.

FINANCIAL RESILIENCE

OUR APPROACH: TO MAINTAIN FINANCIAL RESILIENCE BY HAVING FUNDS, DEBT CAPACITY AND INSURANCE SUFFICIENT TO FUND OUR ASSESSED MAXIMUM PROBABILITY LOSSES.

Our Resilience for Unplanned Events and the Unknown

This strategy provides for the everyday maintenance of assets and the renewal of assets at the end of their economic life. Unplanned events would require earlier than planned investment. These events, if they occur, could result in significant unplanned operating and capital costs.

The risk is reduced in the Clutha District because of its size and the number of widespread communities, reducing the likelihood of extensive damage throughout all critical infrastructure at the same time.

But any major event would impact on Council through the need for immediate funding, and depending on the scale, duration and location of the event, there could be unforeseen costs in terms of damage to Council assets.

To make sure we are prepared for unplanned or unexpected events, we have the following mix we can call on:

- Insurance cover for above ground assets and a self-insurance fund for underground assets.
- An emergency fund to draw against should it be needed.

Three Waters Reforms

Under the previous government, work was underway to remove the Three Waters from Council's core business and place it in a new entity with its own funding structure. The government's recent decision to scrap the Three Waters Reform Program has put responsibility back on councils. The return of Three Waters has meant we are:

- Considering the impacts of additional debt and the requirements of maintaining a credit rating into the future.
- Smoothing unsustainable rates increase to make it less onerous in the first three years of the Long Term Plan using borrowing and repaying over the remaining years.

Mitigating and Adapting to the Impacts of Climate Change

Council is committed to better understanding and preparing for changes to our local climate.

Investigative research we commissioned during 2020 revealed that overall the district is expected to get warmer and wetter, with more water likely flowing through the Clutha River.

These changes may bring opportunities, such as overall warmer weather conditions and improved winter pasture growth. But they are also expected to bring challenges, such as heavier and more frequent flooding. Sea level rises are also expected to affect some of our coastal settlements in the longer (80- 100 year) term. The modelling done specifically for our region gives us the opportunity to plan changes to our infrastructure over time.

Several adaptation efforts include the Milton Sewer Treatment Plant that has already been raised to accommodate flood events. The Greenfield combined rural water scheme takes into account flood and water quality issues on the Waitahuna and Tuapeka rivers with the view to source water and place water treatment plant infrastructure on the Clutha River.

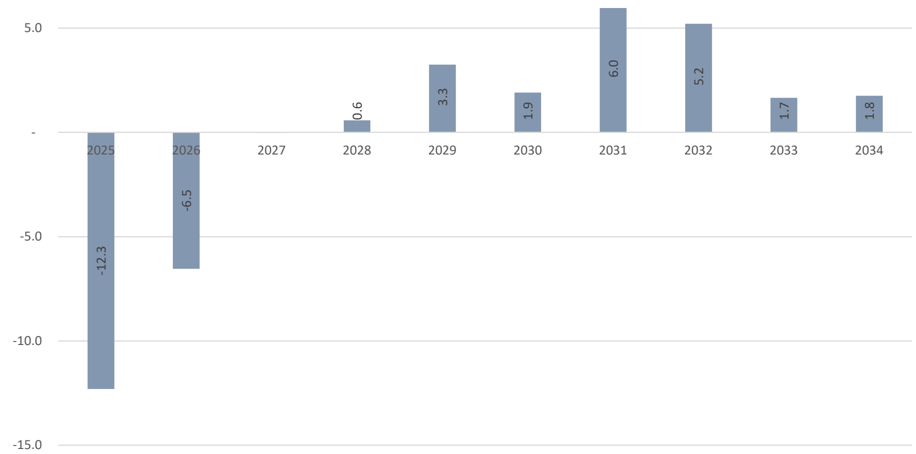
Council's draft Climate Change Strategy provides a common framework through which climate change work can be coordinated within Council and between other agencies. It will apply to all of Council's activities and operations and will be considered at all levels of decision making. The Strategy prioritises five key areas covering: emissions, coastal and flood defenses, leadership, governance and education, land use and built environment and infrastructure.

BALANCING THE BOOKS

OUR APPROACH: EVERYDAY COSTS FOR SERVICES ARE MET BY EVERYDAY REVENUES

Council aims to have a balanced budget, where we ensure our everyday costs (operating expenditure) are covered by our everyday revenues (operating revenue). This is not the case in the first two years of the Long Term Plan as we smooth the rates increases arising from the costs associated with the continued provision of three waters.

GRAPH: EVERYDAY COSTS & REVENUE 2024/34**($M)**



Council has an exception to a balanced budget in the first two years of the strategy. This relates to Councils' decision to loan fund increased costs relating to continued provision of three waters to our communities in the first two years of the Long Term Plan and repaying these over the next four years. It is considered to be the only sustainable and affordable way of achieving the required revenue increases over time.

TABLE: OVERALL FORECAST SPENDING & FUNDING 2024/34**($M)**

	Operating Spend 2024-34	Capital Spend 2024-34	Funding of capital and operating spend
Transport	$147m	$135m	Rates 33% Other 67%
Water	$197m	$61m	Rates 71% Other 29%
Community Services	$101m	$30m	Rates 74% Other 26%
Wastewater	$64m	$108m	Rates 44% Other 56%
Economic & Community Development	$17m	$0m	Rates 100% Other 0%
Community Leadership	$20m	$0m	Rates 100% Other 0%
Regulatory & Community Services	$40m	$0m	Rates 50% Other 50%
Waste Management & Minimisation	$50m	$16m	Rates 46% Other 54%
Stormwater	$25m	$13m	Rates 78% Other 22%

LOOKING FORWARD TEN YEARS TO 2034

WE BELIEVE THIS FINANCIAL STRATEGY WILL ENSURE THE FOLLOWING ON BEHALF OF THE DISTRICT:

- **Provide funding to meet the costs of taking care of what we have, improve what we've got, and encourage growth where there are opportunities to do so.**
- **Mostly everyday costs for services are met from everyday revenues.**
- **Provide certainty to ratepayers about rates increases.**
- **Inform the community of the challenges we are facing, especially around the provision of three waters.**
- **Address the increased costs of providing three waters including previous deficits**
- **Enable the use of borrowing where required.**
- **Make sure we have the financial resilience and means available to manage the unexpected.**

Security on borrowings

Council from time to time borrows externally to meet short to medium term funding shortfalls. This includes a committed bank facility (Multi Option Credit Line or bank overdraft facility) and borrowing from the LGFA by way of a Debenture Trust Deed. Council has entered into a "negative pledge" including future general rates as security for these lending facilities. A negative pledge essentially is borrowing without security that involves a promise by Council that it will not grant security over any assets to any other lender or creditor. A negative pledge is granted on the basis that Council's unsecured promise to pay should of itself be adequate comfort to the lender and that none of Council's other lenders/creditors would be put in a preferred position in the event of a default.

Council Funding Decisions

REDUCTION IN FUNDING FOR URBAN THREE WATERS WORK

Historically, Council have not completed all of the budgeted three waters work for a variety of reasons such as project team and consultant capacity, resource consent requirements and increasing costs requiring project reviews. This has been improving in recent years and Council is on-track to complete nearly 80% of projects in the current year.

In order to reflect this in reality, Council has decided to fund urban three waters projects as an overall capital project fund rather than funding individual projects – this is for urban water, wastewater and stormwater. These overall capital budgets will be funded at 85% for the entire 10-year period in the LTP to reflect that not all projects get completed. These activity areas are almost completely funded through urban targeted rates and loans are raised after work is completed so the actual cost of work will be funded as it is now. This will also provide some additional flexibility to adjust funding as required and this will be reported to Council on at least a quarterly basis.

This decision results in an average reduction in 3 waters capital funding over the first three years of the LTP of $1.8 million per annum or about 4% of the total capital programme per annum. Over the full 10-year period of the LTP this decision reduces three waters capital funding by an average of $2.6 million per annum or about 6% of the total capital budget.

TIMING ADJUSTMENT FOR TRANSPORTATION SPENDING

The bulk of Council's transportation funding is approved by the New Zealand Transport Agency (NZTA) in 3 yearly blocks. This is a partnership between NZTA (on behalf of the Government) and Council and the NZTA support the programme with 67% of the funding and Council rates customers for the other 33%. Unfortunately, we will not have final confirmation of the approved level of funding for the next three-year period until September 2024. In the past, not all of the requested funds had been approved and for the last two funding cycles Council spending has been less than planned in year one with this balanced out in years two and three.

To avoid over-rating in year one (if we don't get the funding we have requested), Council has decided to defer 15% of the rates funded transportation programme to year 3 of the Long-Term Plan. This will enable us to confirm the level of funding in year one and then adjust the second- and third-year programmes to match the approved funding. If we do need to do more work in year 1 and this is approved by NZTA, then we have a deferred maintenance fund that will allow us to fund our share even though we haven't rated for it in year 1.

LOCAL GOVERNMENT (FINANCIAL REPORTING AND PRUDENCE) REGULATIONS 2014

Long Term Plan disclosure statement for the period commencing 1 July 2024

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 terms used in this statement.

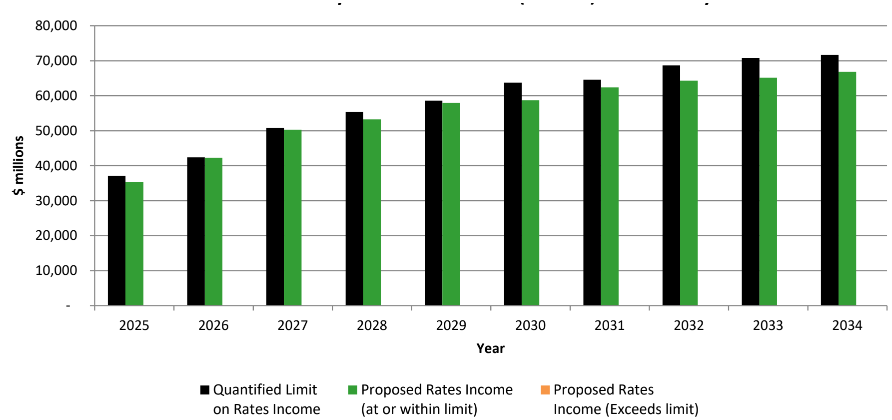
Rates affordability benchmark

Rates (income) affordability

The Council meets the rates affordability benchmark if:

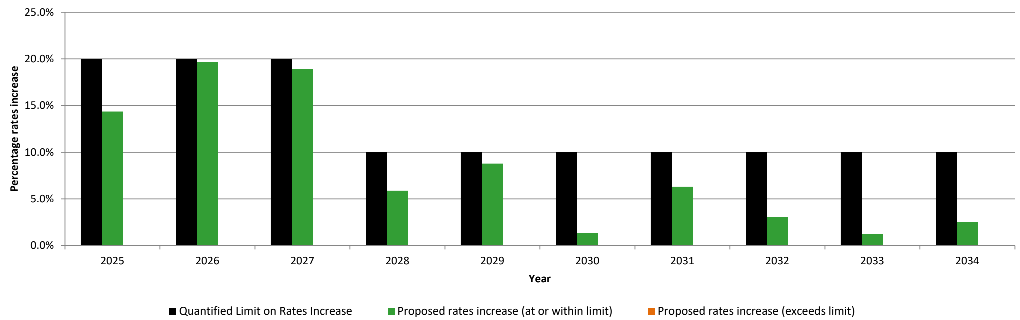
- Its planned rates is equal to or is less than each quantified limit on rates.
- Its planned rates increases equal or are less than each quantified limit on rates increase.

The following graph compares Council's planned rates with a quantified limit on rates contained in the financial strategy included in this Long Term Plan. The quantified limit is 20% of budgeted rates for the previous year for the first three years of the plan and 10% for the remainder.



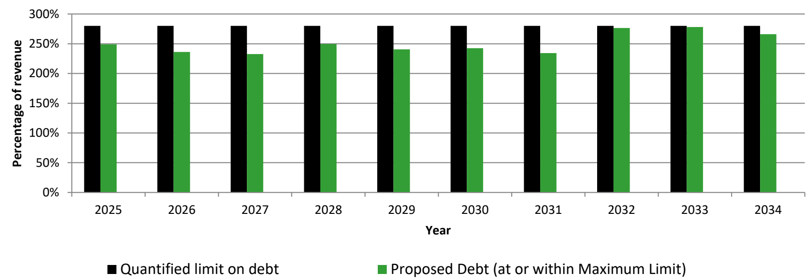
Rates (increases) affordability

The following graph compares Council's planned rates increases with a quantified limit on rates increases contained in the financial strategy included in this Long Term Plan. The quantified limit is 20% of budgeted rates for the previous year for the first three years of the plan and 10% for the remainder.



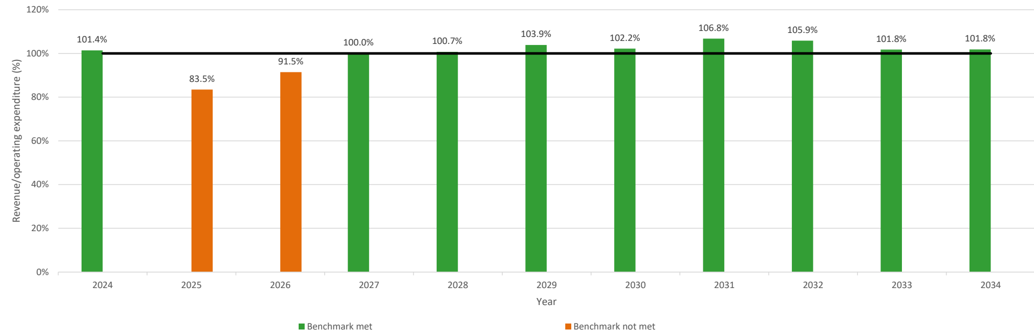
Debt affordability benchmark

The Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing. The following graph compares the councils' planned debt with a quantified limit on borrowing contained in the financial strategy included in this Long Term Plan. The quantified limit is 280% of Council's planned revenue.



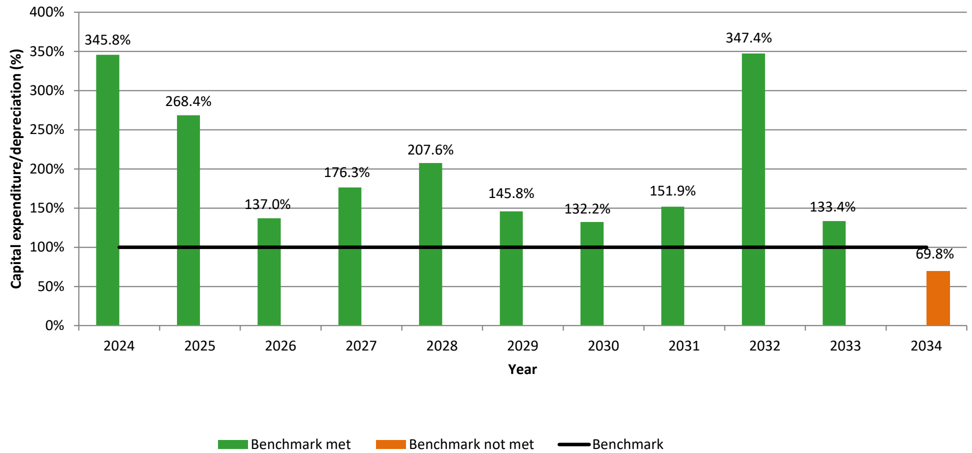
Balanced budget benchmark

This graph displays the Councils' planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant or equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment). The Council meets the balanced budget benchmark if its planned revenue equals or is greater than its planned operating expenses. Council plans not to meet the balanced budget benchmark in year 1 and 2 of the Long Term Plan as its revenue is budgeted to be less that its expenditure. This relates to Councils decision to use debt to fund increased operating costs in the first two years of the Long Term Plan and repay these over the next four years. Council considers this the only sustainable and affordable way to achieve required revenue increases over time.



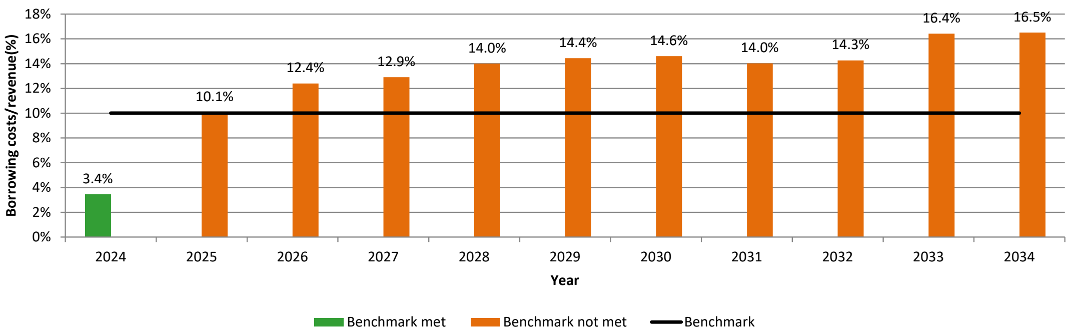
Essential services benchmark

This graph displays the Council's planned capital expenditure on network services as a proportion of expected depreciation on network services. The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services. Council does not plan to meet this benchmark in year 10 of the Long Term Plan due to budgeted capital expenditure being less that the budgeted depreciation expense.



Debt servicing benchmark

This graph displays the Council's planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations or property, plant or equipment). Because Statistics New Zealand projects th Council's population will grow more slowly than the national population is projected to grow, it meets the debt servicing benchmark if its planned borrowing costs equal or are less than 10% of its planned revenue. Council does not plan to meet this benchmark in any year of the Long Term Plan as our budgeted borrowing costs are greater that 10% of our revenue in all 10 years.



Key assumptions

These assumptions provide underlying information for the Draft Financial Strategy 2024/34 and Draft Infrastructure Strategy 2024/54. They include the significant assumptions and the risks associated with those assumptions which have been made by the Council in its forecasting for the 10 and 30 year period. The assumptions are based on the information available to Council.

While every effort has been made to ensure the forecasts are the Council's best estimate for the future, the actual results for the reporting period are likely to vary from the information presented, and the variations may be material.
Our approach will be to be flexible and adaptive to changes that will impact on the Clutha District and the Council.

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY (RISK)	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Residents **Usually resident population** **2024 2034 2054** **19,019 20,331 22,089** Clutha's population is expected to have a stronger resident population growth, increasing to nearly 22,100 people by 2054. This is substantially higher than the 2020 projections, with a 0.5% annual change over 30 years.	● LOW ○ MEDIUM ○ HIGH ○ CRITICAL	Significant increases in population are not anticipated. However should that occur it might place greater demands on services such as water, wastewater, solid waste and regulatory functions. If demand changes unexpectedly due to societal or demographic changes then capital and operating expenditure forecasts could be insufficient and Council would need to reassess budgets subject to urgency. Council's strategic approach to promote growth in the rating base and promote living and working in Clutha has been incorporated into this plan and is expected to facilitate growth in key areas e.g. in the Milton-Waihola area. Forestry growth has the potential to impact on population growth however planning framework amendments to allow Councils to have more control of forestry development mean this risk can be expected to be managed for should Council decide to do so.
Age demographics The age structure is projected to change quite significantly, with a higher proportion of residents aged 65 years and over. The proportion of children (14 years and under) and younger adults (15 to 39 years) is projected to decline A major increase in older people is likely to change the type of services and ability to pay for those services. This is unlikely to result in new activities, rather types of services and how they are delivered. The specifications of services such as footpaths and library services may need to be adapted but overall it is unlikely to result in significantly higher costs.	○ LOW ● MEDIUM ○ HIGH ○ CRITICAL	The range of services utilised by older people is different from younger people. While the need for active team sports may decline there will still be demand for parks, reserves, pools, halls etc. There is expected to be increased demand for community facilities and activities such as walking and cycling. Meeting the needs of our residents is being updated through the Living & Working Strategy implementation through the Our Place Community Plans. Future demand and services are being explored and planned for as part of these updates. These include updates to services and facilities. Focus on rates and affordability is an ongoing focus for Council and this is included in the Financial Strategy.

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY (RISK)	REASON FOR UNCERTAINTY, IMPACT OF RISK:

Visitor growth

District visitor numbers

2024	2034	2054
Total visitors (average day)		
9,573	10,683	13,019
Total visitors (peak day)		
3,633	4,243	5,459

Visitor population on both the average and peak day is projected to increase annually by 1.0% during the term of this strategy.

LOW MEDIUM HIGH CRITICAL

Visitor numbers may increase demand on infrastructure and services such as water supply, wastewater, solid waste, parking, public toilets and roading. The Clutha Destination Strategy is focusing on growth in visitor revenue rather than specifically on visitor numbers. The majority of Clutha's visitor market has been domestic and growth is anticipated to continue.

Housing growth

Total houses

2024	2034	2054
8,984	9,576	10,404

This plan assumes that the number of dwellings will increase at an annual average growth rate of 0.6%. Benhar, Bruce, Waihola and Taieri Mouth are expected to experience the higher growth subject to the availability of residential development and services such as proposed water service improvements.

LOW MEDIUM HIGH CRITICAL

Economic conditions and the changing nature of the housing market could cause variations from year to year. Projections for townships are more sensitive to variation where individual developments can influence overall forecasts, as has been shown in recent times with Council-facilitated developments e.g. in Balclutha, and Kaitangata, as part of Council's Living and Working Strategy.

Rating base

Total Rating Units

2024	2034	2054
12,902	13,613	14,600

Council's rating units are expected to increase incrementally on an average of 0.5% in the ten years to 2034, and 0.4% in the 30 years to 2054.

Note: Historic rating base numbers actually reduced as a result of rural amalgamations but not in a physical sense.

LOW MEDIUM HIGH CRITICAL

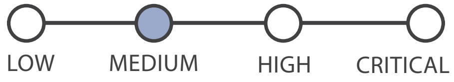
Increases or decreases to the rating base may affect the distribution and amount of rates to be paid. Council's strategic approach to promote growth in the rating base and promote living and working in Clutha aims to facilitate growth in the rating base over and above the 0.4% in the medium to longer term. The impacts are too difficult to forecast in detail at this point. Note that changes to the rating base are re-forecast on an annual basis through annual plan updates.

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Council resource consents It is assumed that Council will meet consent conditions and that conditions of resource consents currently held will not be significantly altered. It is assumed that updates to attain consent renewals will progress as programmed and that they can be achieved within allocated budgets.	LOW MEDIUM HIGH CRITICAL	When there is information about what will be required, Council has indicated it will then be in a position to assess the financial impact. If requirements increase and additional work is required for consent conditions Council will need to provide rate funding to meet the requirements or request a change of consent conditions. As external agencies' plans are developed, we expect to be in a position to provide further information. Council aims to work with other agencies to understand and stay up to date with changing standards. Resource consent renewals may be subject to the proposed Otago Regional Council Land and Water Plan currently under development, and also subject to Government policy and legislative changes. Assessment of the implication of these matters will be undertaken once known. Changes to the Resource Management Act and water delivery arrangements may reduce the cost of consent compliance and reduce debt and rates.
Land use change District Plan changes over the last 5 years for Balclutha, Stirling, and Milton means areas of land in and around these towns are rezoned to Urban, Transitional or Industrial Resource Areas. Most of this can be serviced by extending the existing infrastructure network, which is normally done at the developer's cost. This opens more residential choices whilst sustainably managing the rural environment. In industrial areas, Council wants to understand what opportunities there are to provide more industrial land so that we can continue to attract businesses to our community (Our Economy) without compromising the amenity values of our urban areas (Our People, Our Environment).	LOW MEDIUM HIGH CRITICAL	Whilst there is a low risk due to the planning and lead in time managed via the District Plan process, forestry growth has the potential to impact on land use however planning framework amendments to allow Councils to have more control of forestry development mean this risk can be expected to be managed for should Council decided to do so. The National Policy Statement on Highly Productive Land has the potential to restrict development outside of current town boundaries, but this is not expected to have significant impacts during the LTP period.

General assumptions

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Climate change Our changing climate is an area of focus for both our communities and the Council. Council has an important role to play, particularly as the provider of critical infrastructure that underpins the daily lives of our communities. Council's draft Clutha District Climate Change Strategy provides an understanding of the likely impacts for our district, which indicates our district will become warmer and wetter with more water flowing in the Clutha River. This brings opportunities for improved winter pasture growth and possible challenges with the potential for increased flood frequency and severity. Modelling done specifically for our region gives us the opportunity to make changes to our infrastructure over time. Council has begun working on its response to climate change. Our infrastructure strategy assumes the effects of climate change will be felt gradually, allowing Council time to plan and prepare its response and options around services and infrastructure.	LOW MEDIUM HIGH CRITICAL	If the impacts of climate change are felt sooner than expected there may be demands on Council's budgets. Council's ability to deliver the same level of service to the community may be impacted if climate change occurs faster than expected or to a greater extent. If this occurs it may require unbudgeted emergency work to be carried out and/ or create additional costs to mitigate impacts, such as improving protection of critical infrastructure or increasing maintenance. Council self-insures for underground assets to help provide for emergency work if required. In the short term, Council will ensure that future assets are of sufficient standard to cater for predicted climate change, including rainfall and sea level rise. Council's draft Climate Change Strategy provides a common framework through which climate change can be coordinated within Council and between other agencies.

general assumptions

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Natural disasters The plan assumes that Council and the community will be prepared to respond to any natural hazards including floods, storms and earthquakes that might occur during the life of this plan. It is assumed that there will be no natural disasters requiring emergency work that cannot be funded from existing budgets, reserves, Council's insurance policies or via central government assistance.		The timing and scope of natural disasters are unpredictable. There have been an increasing number of disasters including earthquakes and floods in New Zealand during the past decade. A major event would impact on Council through the need for immediate funding, and depending on the scale, duration and location of the event, there could be unforeseen costs in terms of damage to Council assets. Depending upon the severity or timing of disasters, Council may not have enough staff to rapidly manage recovery and response. The lives of residents and continuity for businesses could also be affected as key services such as water, wastewater and roads could be disrupted for considerable periods. The risk is reduced in Clutha because of its size and the number of widespread rural townships, reducing the likelihood of extensive damage throughout all critical infrastructure at the same time. Any major disaster that results in significant repair costs is likely to be funded largely by insurance and/or central government assistance. Council also has set aside an emergency fund to provide its share towards costs. It is assumed that this would be sufficient to cover Council's share of one major event. A big event will trigger the need for additional insurance cover for the next big event.

general assumptions

WHAT WE HAVE ASSUMED

Legislative Changes and regulatory reforms including Three Waters reform

The Clutha District has experienced a transformative period in managing its Three Waters services since 2021, with further changes anticipated.

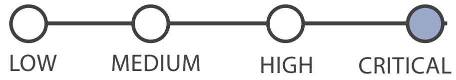
In addressing past operational challenges, including legal action related to wastewater treatment non-compliance, the Council has undertaken a commitment to meet stricter Resource Consent assessments and adhere to the elevated standards set by Taumata Arowai under the new Water Services (Drinking Water Standards for New Zealand) Regulations 2022. This includes engagement with Iwi and increased compliance costs to achieve expected consent conditions.

To align with these enhanced requirements, the Council has bolstered its resources and engaged in new maintenance contracts for service delivery. The transition to a new asset ownership and management model under 3 Waters reform has been repealed. Consequently, this document presents an alternative path, albeit with less preparatory input typically afforded for an Activity Management Plan (AMP). Thus, not all data reflected herein is current due to historical gaps in information accuracy over the last three years, which affects some foundational data reliability.

Recent developments and the high bar set by drinking water and freshwater standards have led to vastly increased capital and ongoing maintenance costs for 3 Waters. Furthermore, resource limitations and the scarcity of specialised three waters personnel have compounded these financial pressures.

While changes to the scope of asset upgrade and maintenance work are likely to remain consistent with this AMP, consultation for the 2024–2027 Long Term Plan regarding three waters will be constrained due to these potential shifts. Significant matters will be brought to community discussion as more definitive information emerges.

LEVEL OF UNCERTAINTY (RISK)



REASON FOR UNCERTAINTY, IMPACT OF RISK:

Our community needs three waters services regardless of whether Council delivers or not. On this basis we have included Three Waters in our financial and infrastructure strategies, including the Greenfield proposal, to present the community with a complete and accurate set of financial information for the medium-term and long-term financial impact.

Legislative change that is underway and proposed by the current Government may reduce costs to ratepayers. This would be through the new Local Water Done Well arrangements or changes to the Resource Management Act. There is considerable uncertainty about the impacts of these changes and arrangements at this time.

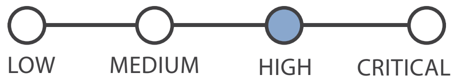
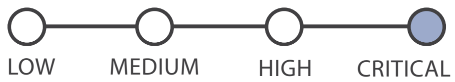
general assumptions

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Levels of service - Three Waters This plan assumes that aside from where level of service changes have been specifically outlined and included for consultation to inform the final plan, demand for council services and customer expectations will not significantly change. It is assumed beyond those service levels raised, there will be no significant effect on asset requirements or operating expenditure. We prioritise investment in infrastructure that balances cost, risk, and service levels.	LOW **MEDIUM** HIGH CRITICAL	Council has defined levels of service for its planned activities that have been reviewed as part of the LTP process. Council is aiming for increased compliance with drinking water standards and resource consents. Resident satisfaction surveys generally support this key assumption and there are currently no areas of the Council's service that require significant modification. If higher levels of service are to be considered during the life of this plan, levels of expenditure and capital works would need to be reassessed, and would impact on rates.
Useful lives of significant assets The useful lives of all assets will be in accordance with the depreciation rates set out in the accounting policies of Council. It is assumed remaining life forecasts for significant assets are correct and renewal forecasts are accurate. Our Approach: We're aiming to have the funds needed, or capacity to borrow, to replace assets when they wear out (renew assets at the end of their economic life).	LOW **MEDIUM** HIGH CRITICAL	Useful lives are used to calculate annual depreciation. Where useful lives are incorrect the depreciation funded may be funded at the wrong level or depreciation may not have been funded for the entire life of the asset. If remaining lives vary from those predicted, renewals and replacement may have to be undertaken more or less frequently, impacting on capital budgets. There is no certainty that asset components will last exactly for their design lives. Capital projects could be brought forward in the event of early deterioration of assets. This may be partially offset by other assets lasting longer than estimated.
Revaluation of non-current assets The roading network and utility assets (water, wastewater, stormwater) are to be revalued in 2025/26, 2028/29 and 2031/32. Revaluations may occur more frequently if there is significant cost escalation. Infrastructure revaluations impact on the depreciation calculation. Where price levels change the depreciation funded may be at the wrong level. Revaluations are expected to be positive and not to have a material impact if the assumption is incorrect.	LOW MEDIUM **HIGH** CRITICAL	If price level changes are significantly higher or lower, depreciation and the funding of depreciation could be over or under stated. Increases in the valuation lead to increased rates value and depreciation is cash funded. Depending on circumstances the revaluation period maybe shorter or longer. It is noted that the budgeted amounts include the effects of inflation. The plans and forecasts for the first three years have the most detail and confidence as the greatest amount of planning has taken place. The investments identified between four and ten years are an outline and have a reasonable degree of confidence. The forecasts beyond year 10 should be viewed as indicative estimates and will be developed further as time passes and more information is obtained.

Financial assumptions

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY (RISK)	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Contracts This plan assumes there will be no significant variations in the price of re-tendering operating and maintenance contracts during this plan other than forecast escalation.	LOW MEDIUM **HIGH** CRITICAL	If contract prices were to increase significantly, Council would review the work programme and levels of service. Council is in negotiation for an extension of the waste management contract to coincide with possible changes related to resource consent renewal for Mt Cooee and these are expected to result in increased costs. Overall exposure is slightly lower as the roading maintenance contract does not come up for renewal during the term of this plan. Increased costs will be evaluated at the time of tendering but may result in increased rateds requirements or reduced costs.
Capital project costs On average, capital project costs will not vary significantly from estimates included in this plan.	LOW MEDIUM **HIGH** CRITICAL	Council has a higher level of confidence regarding capital project costs in the short term (1-2 years) of this plan but less certainty in the longer term due to possible fluctuations in the economy, consent conditions etc. Any increase in costs may result in higher loan funding requirements and rates. To mitigate this, Council has processes in place that if projects are outside a financial parameter they are reassessed.
Capital project completion That Council will complete capital projects as budgeted.	LOW MEDIUM HIGH **CRITICAL**	Based on historical completion rates there is a risk that the capital works programme will not be completed fully in any given year of this plan. Council is expecting to increase completion rates due to a number of improvements including increased resourcing for project management and procurement improvements. Several significant contracts have also been confirmed to enable delivery. Council acknowledges this is a critical risk , that it would negatively impact on timing for delivery of levels of service, and positively impact on levels of borrowing and debt and rates.

Financial assumptions

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY (RISK)	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Price level changes Price level changes have been calculated using projections prepared by Business & Economic Research Ltd (BERL). The appended Price Level Changes table depicts the annual price level changes as indicated by BERL which are based upon 2023 values.		Inflation is affected by external economic factors. The result of any variations up or down will result in higher or lower rates requirements, which may also impact on the levels of service, in particular for roading, water, wastewater and stormwater.
Service levels - Three Waters Council is proposing several service level changes including: • Upgrading urban and rural water schemes to meet national standards • Upgrading wastewater infrastructure to improve the quality of discharges • Increasing stormwater capacity to reduce risks of localised flooding Outside of these it is assumed service levels are expected to remain unchanged.		If Council has not adequately engaged with the community on statutory requirements on changes to service levels or service levels are perceived to be unaffordable and not accepted by the community.

FINANCIAL assumptions

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Forecasted return on investments A return of 5.25% is budgeted for returns on investments.	LOW / **MEDIUM** / HIGH / CRITICAL	Investments are an important part of our financial mix, so any changes in returns could have a major impact. Any significant drop of interest rate will mean lower returns than anticipated and impact on the amount we can use to off-set rates or put into projects that promote living and working in Clutha. There is a level of certainty in years 1-2 with increasing uncertainty after that. The risk is partly mitigated by re-forecasting on an annual basis through annual plan updates.

Sensitivity Analysis on Forecasted Return on Investments

	LTP (1.0)% $M	LTP $M	LTP 1.0% $M
Rate of Return	4.25%	5.25%	6.25%
Closing Value in 2034	29.1	32.0	34.8
Total Interest Earned Over 10 years	12.1	14.9	17.8

FINANCIAL assumptions

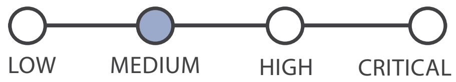
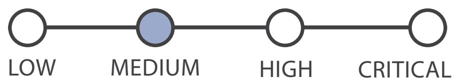
WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Expected interest rates on borrowing Interest on existing and new internal borrowing is allowed for at 5.25% over the term of the borrowing.	○ LOW ● MEDIUM ○ HIGH ○ CRITICAL	Minimal impact. There is a level of certainty in years 1-2 with increasing uncertainty after that. The risk is partly mitigated by re-forecasting on an annual basis through annual plan updates.
Expected level of external borrowing As a result of an updated focus on maximising investment returns, Council's level of liquidity is expected to change, and external borrowing is forecast during this LTP. Council is part of the Local Government Funding Agency (LGFA) as a guaranteeing borrower. A forecast rate of 5.25% has been used as the average cost of borrowing.	○ LOW ● MEDIUM ○ HIGH ○ CRITICAL	The risk is partly mitigated by re-forecasting on an annual basis through annual plan updates. A change in interest means the rating requirement for the cost of financing as well as the loan repayment would change as illustrated in the sensitivity analysis below.

Sensitivity Analysis on Forecasted Rate on External Borrowings

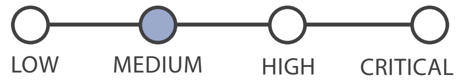
	LTP (1.0)% $M	LTP $M	LTP 1.0% $M
Rate of Borrowing	4.25%	5.25%	6.25%
Total Interest Paid Over 10 years	106.1	131.1	156.1

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Renewability or otherwise of external funding Cash flow deficits managed through Westpac multi-option credit facility can also be used if needed to meet medium-term lending requirements.	○ LOW ● MEDIUM ○ HIGH ○ CRITICAL	Higher cost of short term borrowing and inability to meet liquidity shortfalls.

FINANCIAL assumptions

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY (RISK)	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Credit rating Council will maintain a credit rating from Fitch Ratings of AA- for the ten years of the plan. There will be a significant amount of work required to maintain the credit rating, but it will provide an additional level of comfort.		An AA- Fitch credit rating was issued in June 2024.
NZ Transport Agency Waka Kotahi Financial Assistance Rate A major source of funding for our transportation network comes from NZ Transport Agency (NZTA) Waka Kotahi. A baseline level of funding (67%) has been confirmed by NZTA for Years 1 to 3 for the operation, maintenance, and renewal of the existing roading network, as well as for improvements that meet the national outcome priorities. This co-investment now makes up a significant proportion of Council's overall roading programme. Co-investment is conditional on the planned transportation activities delivering national priorities and criteria. It is very important we work collaboratively with NZTA Waka Kotahi to deliver these national priorities. These are set every 3 years through the Government Policy Statement on Land Transport.		If there are changes or reductions, Council will have to reconsider the level of delivery for the financially-assisted programme. This is considered high risk in view of the Government's potential reviews of transport funding but at this stage no change in Financial Assistance Rate (FAR) has been signaled for the first three years of the Long Term Plan. Any reduction in the FAR will result in an increase in rates of and a reduction in levels of service.
Depreciation rates on planned asset acquisitions If depreciation costs are significantly higher than budgeted, rates would increase to balance the budget.		Depreciation funding is intended to reflect the 'decline in service potential' of an asset and to ensure that the current customers are paying their fair share. It is also used to fund renewal or other capital works. The risk associated with phasing in depreciation funding is considered low as Council is intending to fully loan fund the proposed capital works programme and also pay interest and principal payments during this period.

FINANCIAL assumptions

WHAT WE HAVE ASSUMED	LEVEL OF UNCERTAINTY (RISK)	REASON FOR UNCERTAINTY, IMPACT OF RISK:
Depreciation Funding The current LTP includes funding 25% of the calculated depreciation cost in years 1 to 5 and 50% of the depreciation costs in years 6 to 10. The plan also includes funding depreciation of any growth or level of service capital works so in dollar terms this sees a significant increase in depreciation funding over the 10 year period of the plan.		Depreciation funding is intended to reflect the 'decline in service potential' of an asset and to ensure that the current customers are paying their fair share. It is also used to fund renewal or other capital works. The risk associated with phasing in depreciation funding is considered low as Council is intending to fully loan fund the proposed capital works programme and also pay interest and principal payments during this period.

Price level changes

Accounting RULES REQUIRE COUNCIL TO ADJUST ITS FORECAST FINANCIAL INFORMATION TO TAKE INTO ACCOUNT THE IMPACT OF INFLATION. THESE PRICE LEVEL ADJUSTMENTS HAVE BEEN APPLIED TO ALL BUDGETS AND PROJECTS AT THE RATES OUTLINED BELOW. THEY ARE BASED ON BERL.

PRICE LEVEL ADJUSTERS APPLIED TO 2024/34 LONG TERM PLAN FORECASTS

		2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Administration	Base year	2.7%	2.0%	2.2%	2.2%	2.1%	2.0%	1.9%	1.9%	1.9%	1.9%
Salaries	Base year	4.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Three Waters	Base year	2.2%	2.2%	2.2%	2.1%	2.1%	2.0%	2.0%	2.0%	1.9%	1.9%
Transportation	Base year	2.6%	2.1%	2.2%	2.2%	2.1%	2.0%	2.0%	1.9%	1.9%	1.9%
Information Technology	Base year	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
All Other Assets	Base year	2.7%	2.0%	2.2%	2.2%	2.1%	2.0%	1.9%	1.9%	1.9%	1.9%

RATING UNIT changes

Based on historical data and changes to the district's rating base, Council is projecting that the number of rating units in the district will continue to grow at a rate of an average of 0.5% per annum during 2024 to 2034.

FORECAST CHANGES IN RATING UNITS

YEAR BEGINNING	RATING UNITS	ANNUAL CHANGE IN RATING UNITS
1/07/2024	12,902	Base year
1/07/2025	12,973	71
1/07/2026	13,044	71
1/07/2027	13,115	71
1/07/2028	13,186	71
1/07/2029	13,258	71
1/07/2030	13,329	71
1/07/2031	13,400	71
1/07/2032	13,471	71
1/07/2033	13,542	71
1/07/2034	13,613	71