

DRAFT FINANCIAL STRATEGY FOR THE 2025-34 LONG TERM PLAN

About our Financial Strategy

This Financial Strategy clearly outlines the financial vision and priorities for the next nine years.

It aims to ensure we are achieving a balance between the needs of our community, responsible management of our assets, and financial sustainability over the long term.

It provides guidance for Council's financial decisions and a means to monitor our financial performance.

The budget for this Long Term Plan has been developed to give effect to the priorities as agreed by Council. It honours the commitment to ensure we are meeting legislative requirements, maintaining current level of services, looking after our assets, and ensuring alignment with Ahu Ake – Waipā Community Spatial Plan, our blueprint for the district for the next 30+ years.

We also want to continue to give effect to our strategic priorities of:

- Creating vibrant communities
- Nurturing and respecting our unique culture and heritage
- Responding to climate change
- Caring for and valuing our environment now and in the future
- Effectively planning and providing for growing communities.

Operational efficiencies, changes in the timing of our renewal programme, and some project cuts have been required to ensure these priorities will be achieved and to mitigate the un-avoidable budget increases.

Further budgetary cuts would compromise these priorities.

Council is facing additional challenges being driven by central government changes to policy and legislative requirements. The biggest of these is the requirement for us to review the delivery of water services. For the purposes of this plan, the costs to operate, and maintain these critical infrastructure assets, are included for the full nine years until a decision is made on how they will be delivered into the future.

Post the Covid-19 pandemic, the whole of the country also faced significant inflation, interest rate and cost increases, which then led to a significant slowdown in the economy and in growth. Over the nine years covered by this strategy, we expect Waipā to experience high levels of growth particularly in non-residential areas.

This Financial Strategy has been adapted to respond to the challenges outlined, along with financial sustainability considerations, including the impact on rates and debt, to achieve the right balance.

We will continue to act prudently with the aim of striking a balance between limiting rates increases and ensuring Waipā is a great place to live, work, play and invest.

A significant change

This Financial Strategy fixes our balance sheet to address previous funding shortfalls and sets us up for a more financially sustainable future. This will take time, and we will need to ‘stay on track’ to achieve this.

As a tier one growth Council, we have been required by successive governments to plan for growth, and that comes at significant cost. While growth pays for growth over time, we are required to put infrastructure in the ground to cater for development ahead of time. We only recoup the cost when sections go to market.

When you combine growth with a need to comply with legislative and markedly increased regulatory and environmental standards, we have had a history of underfunding water and wastewater activities through successive Long Term Plans.

To keep rates lower in some years, we’ve used debt and ringfenced reserves however, those reserves have been exhausted and debt is near its limit. To fix our balance sheet, we now need to not only rate for the full cost of these activities, but also to get the debt levels in our balance sheet into a sustainable position.

Are we being financially prudent?

We annually monitor progress against six benchmarks, in accordance with the financial prudence regulations requirements.

Debt

Two of the six benchmarks relate to debt – debt servicing which measures the percentage of net interest costs against total revenue, and debt affordability which sets a net debt ceiling.

We can currently borrow 2.8 times the amount of revenue we take. It has been recognised that for growth councils in particular, it is becoming more difficult to meet that benchmark, and a bespoke increased borrowing limit of 3.5 times revenue was approved by our lenders, the Local Government Funding Agency, with effect from 1 March 2025. We applied for this increased debt covenant so we can achieve our capital programme, retain affordable interest rates and have an appropriate level of debt headroom. Without this increased covenant, increase to rates would need to be much higher to ensure we can meet the debt covenant provision given the level of debt that is required.

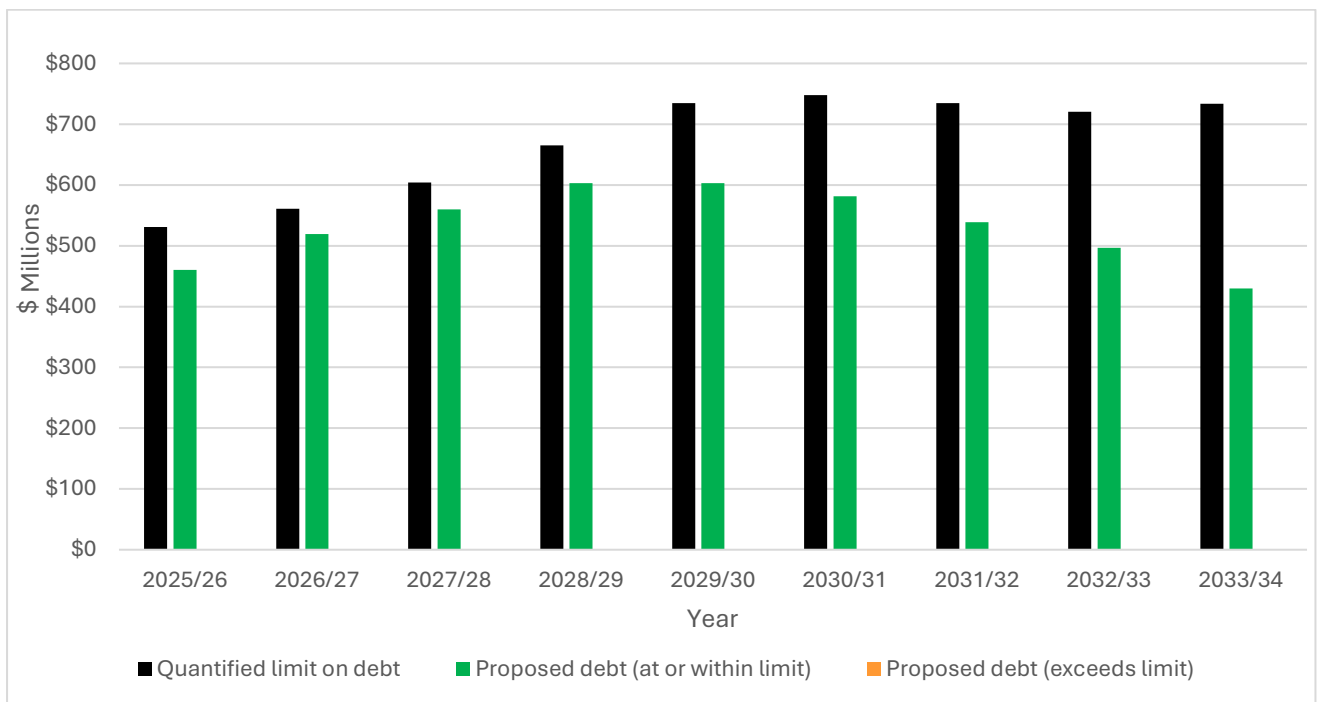
It makes sense for our financial prudence measure to be consistent with the covenant. In addition to this benchmark, Council has prepared this plan ensuring that it remains within a debt limit of 3.5 times revenue. This represents our approved borrowing limit. Additionally, the Local Government Funding Agency monitors our plan against a maximum planning debt limit of 3.3

times revenue. This planning limit is an agreed condition of our bespoke debt covenant. This in effect creates a buffer between what Council can plan for through the LTP (set at 3.3 times revenue) versus Councils actual borrowing capacity of 3.5 times revenue.

For the purposes of this strategy, we have used the actual 3.5 debt covenant limit for year one to year six, in year seven this limit reduces to 3.3, in year eight to 3.1 and in year nine to 3.0.

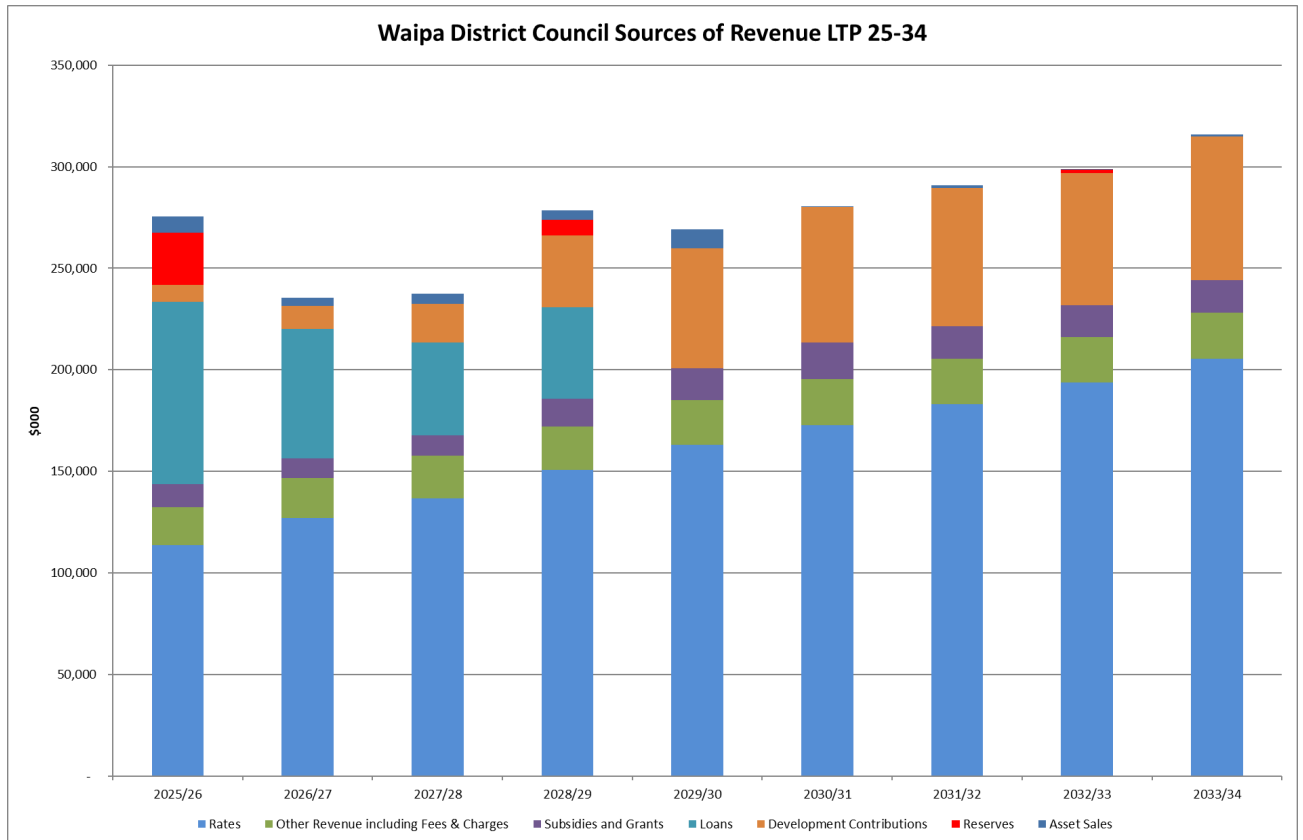
We have more commentary on the debt servicing benchmark in the disclosure statement section of this strategy.

Graph 1: Debt limit benchmark



We need to address our debt levels by increasing revenue

We collect revenue from a number of sources. Our forecast revenue over the nine years is represented below.



A significant element of this Financial Strategy is ensuring we remain well within our debt covenant provisions. Increased revenue is a key factor to achieving this. In the waters activities we are having to increase revenue sharply in the first two years to comply with a net debt to revenue ratio limit of 5.0 times revenue for our water activities. This is what the limit will be if those activities move out to a separate entity.

We also need to ensure that across all our activities in our Long Term Plan are compliant with a net debt to revenue ratio limit of 3.5. This is what we refer to as fixing the balance sheet.

We need to address the compounding effect infrastructure investment decisions have had on the level of our debt and interest costs now. Over time, higher rates will be used to pay debt down faster, reducing interest costs. Our debt management approach will ensure rigorous checks and balances are in place across all investment decisions, particularly when made outside of a Long Term Plan or Annual Plan budget process. Accounting surpluses are largely due to non-cash revaluations and vested asset income. We will use additional revenue or cash surpluses to pay down external debt; while keeping a close eye on other organisational requirements.

Council considers this is the most fair and equitable approach to set a more sustainable financial position in the future. We don't want to continue to 'kick the can' down the road and we can't keep

taking a short term or year by year approach to how we manage our finances. This will only create higher costs down the track. Other key changes from previous financial strategies are:

- Temporarily increasing the limit for the proportion of our income from rates to 75 per cent for the first three years, reducing to 65 per cent for the remaining period consistent with previous strategies.
- Focussing on one nine year plan rather than looking year by year.
- Providing rates predictability in the later years of this plan (consistent rates rise for the latter years (year 6 onwards) rather than fluctuating year on year).

A large portion of our projected revenue will be recovered via development contributions, particularly from year 4 onwards. Council is currently in the process of investing significantly into growth areas to ensure that our existing and new infrastructure can facilitate the current and projected growth. From year 4 onwards, Council will not be undertaking as many growth projects, but we will be in the recovery phase where infrastructure will have sufficient capacity to facilitate projected growth.

Population predictions for Waipā prepared by Te Ngira and Statistics New Zealand have estimated that population will increase significantly over the next 9 years which will in turn drive the demand for residential, industrial and commercial development. This will also result in increased development contribution revenue.

One third of the development contribution revenue will come from non-residential development, i.e. commercial and industrial development. Due to the scarcity of the readily available industrial zoned land in the wider sub-region and with the availability of land within Waipā at strategic transportation nodes, we anticipate there will be strong uptake of industrial and commercial development activity within the district. For more detailed information about development contribution revenue and population projections assumptions, please refer to Long Term Plan significant forecasting assumptions.

We will continue to work with the wider local government sector to investigate and consider other revenue streams.

Balanced budget

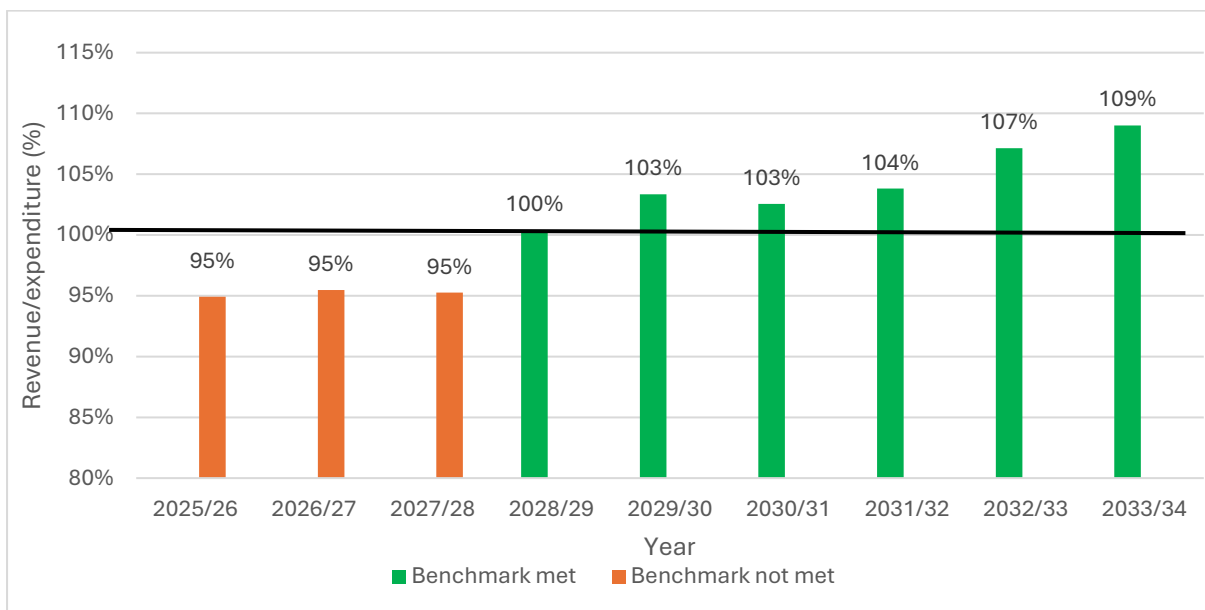
Under the Local Government Act 2002, local authorities are required to set balanced budgets, where operating revenue is equal to expenditure. Council can set an unbalanced budget only where this can be shown to be financially prudent. This benchmark aims to ensure that the operating expenditure needs of the organisation are met by the level of revenue, ensuring that current ratepayers are contributing an appropriate amount towards the cost of the services they receive or can access.

In other words, 'every day costs' are paid for from every day income, e.g. from fees and charges, grants and subsidies, investment income and rates revenue, therefore achieving a balanced budget.

The balanced budget benchmark is not met in years one to three due to the fact that operating reserves are applied to reduce the overall rates requirement, some depreciation costs are not funded (in some cases just on a temporary short-term basis), and the fact that specific operating costs associated with projects such as the district plan and Ahu Ake, Waipā Community Spatial Plan, are loan funded and not funded through rates.

In making sure these decisions are financially prudent over those three years, Council has considered the risks and what effect they may have on the level of service we can provide and how both current and future ratepayers might be impacted. These considerations are outlined in the financial information section of the Long Term Plan.

Graph 2: Balanced budget benchmark



Rates affordability

We want to ensure the affordability of rates over time, for both current and future ratepayers. Decisions made today will affect rates affordability in the years ahead, as there is potential to pass rates burden on to future generations if we don't invest in infrastructure and services now, or ensure we have a sustainable financial model in place.

We use an intergenerational equity approach to split asset costs across multiple generations, over the useful life of an asset. This means that all those that benefit from it contribute - today's communities and tomorrow's communities paying their share. We achieve this by raising 30-year loans on long life assets, and funding the majority of depreciation costs, to replace or renew assets at the end of their useful life.

We have used a threshold of no more than five per cent of median household income to measure rates affordability for all Council activities. Within that, there is a two per cent threshold for the cost of water and wastewater. Our proposed rate increases achieve compliance with the all-of-Council thresholds over the nine years, but the water and wastewater threshold is exceeded from

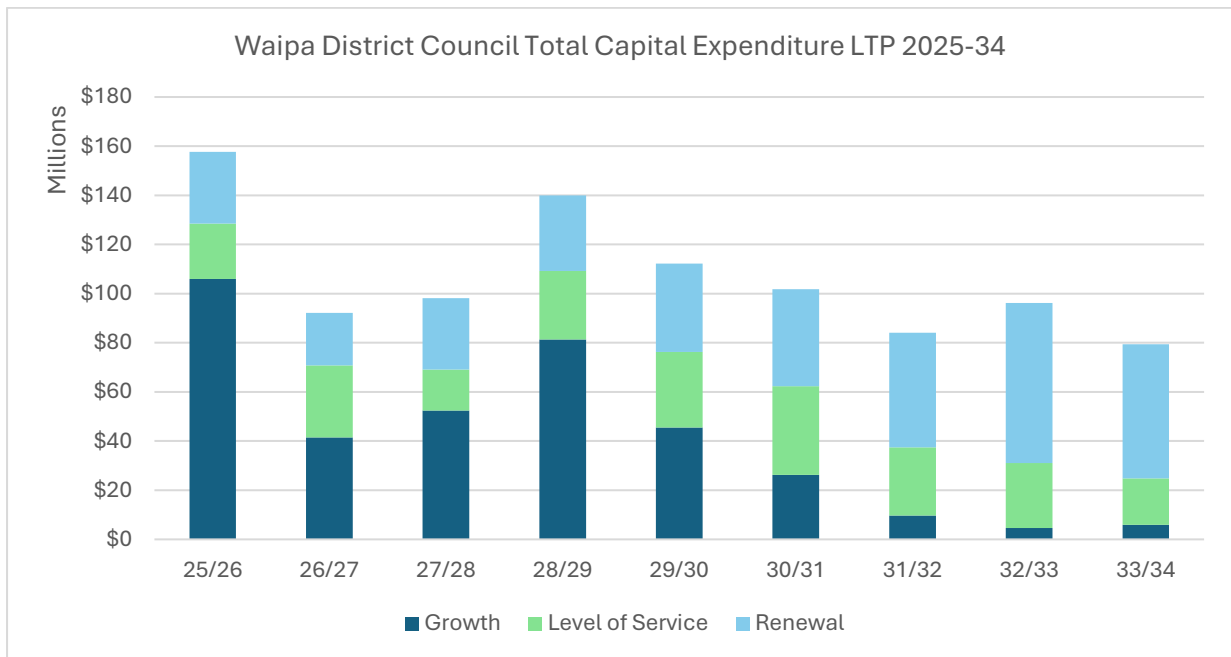
year five onwards. We have also set quantified limits on the amount of rates we can collect (see the disclosure statement below).

This Financial Strategy aims to give our ratepayers predictability in rates increases to help them plan for their budgets and finances.

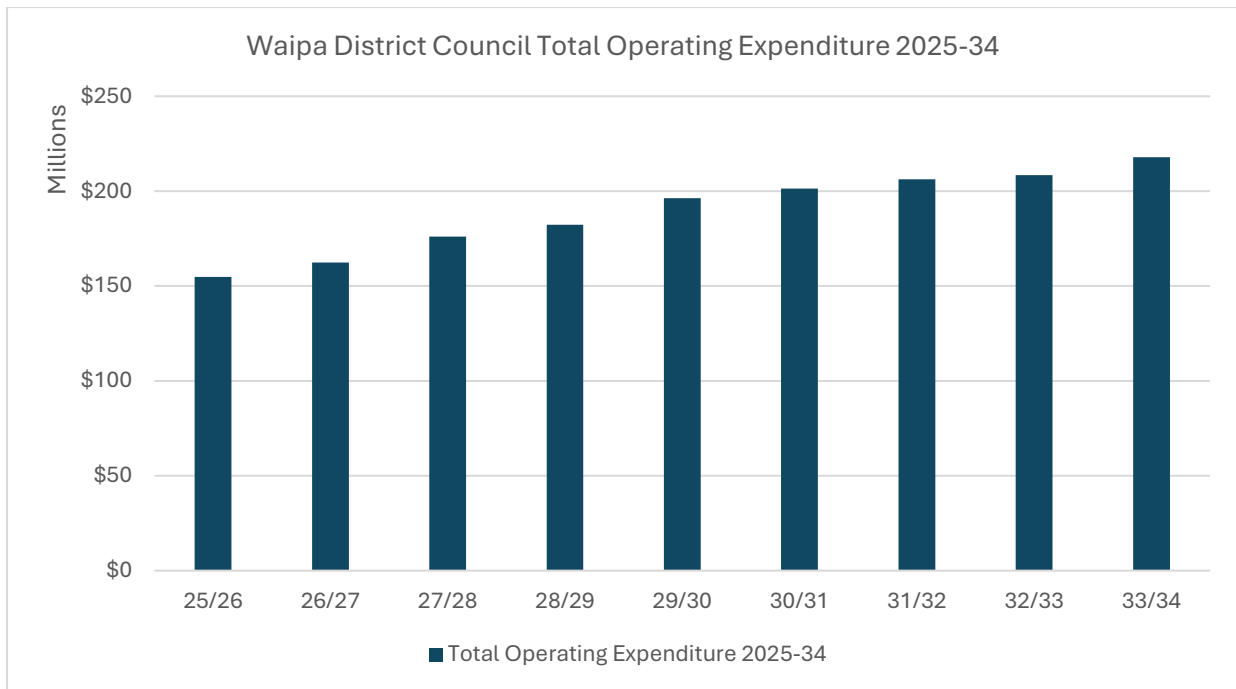
We recognise rates increases can put pressure on household budgets, especially for those on fixed incomes. In addition to our existing automatic payment options, we can offer some support through our rates postponement policies and rates rebate schemes.

Our financial forecasts

Based upon our assumptions and ensuring we stay within the limits set we have developed detailed financial forecasts. Our high-level financial forecasts over the next nine years are outlined below.



We have planned to spend a total of \$961.5 million capex and \$1.8 billion opex across all of our projects over the nine years. Further detail over the nine years are outlined below.



Our other key objectives

1. Continuing to deliver value to our communities

Good stewardship of community assets and resources

We will maintain our existing assets in an appropriate condition for current and future generations.

We are ensuring investment in the renewal of assets is a budget priority. This means making the most of what we have and correcting funding gaps from previous Long Term Plans over time. This will help to reduce the potential for negative perceptions of core services over the short term (some of which are being experienced now), and the risk of asset failure over the longer term. Any reduction in funding received from Government departments to help fund renewal work, such as the New Zealand Transport Agency, could compromise our ability to maintain the desired levels of renewal.

We are using the full nine-year period to move towards fully funding the cost of renewing our assets. The Infrastructure Strategy provides more detail on our renewal approach.

2. Achieving more together

We recognise the value of partnerships and collaboration. We can achieve more when we work together with others to unlock positive outcomes for our community.

Council partners with mana whenua and iwi to recognise the importance of Te Tiriti o Waitangi, and specific responsibilities that derive from our Joint Management Agreements with Waikato Tainui, Ngāti Maniapoto and Ngāti Raukawa.

We will make the most of enhanced opportunities of Central Government funding when they arise, regional deals, subsidies, partnerships, and other incentives to advance our strategic

priorities. We will continue to work with Government and other current and potential future partners with a view to establishing more enduring ways of funding services we provide to the community.

3. Staying focused on the longer term and the bigger picture

We are committed to delivering projects such as Te Ara Wai and a fit for purpose Cambridge Library. It will just take longer to deliver than what was originally envisaged, and we want to explore all possible options for funding and delivery.

We are proposing we have a comprehensive community conversation on these projects leading up to our 2027-37 Long Term Plan. This will ensure we connect levels of service with our strategic priorities and the Ahu Ake - Waipā Community Spatial Plan to understand expectations, associated costs and potential trade-offs.

We will also use the 2027-37 Long Term Plan to better understand the community's views on potential new levels of service such as a kerbside refuse service. In the meantime, this has been deferred to later years where the year-on-year rates increases are forecasted to be lower, deferring the impact on the overall rates requirement to later years.

4. Considering alternative funding and financing options

We have looked at the viability of alternative funding and financing options and will continue to explore those that help reduce the impact on our ratepayers. The option of utilising the Infrastructure Funding and Financing mechanism through central government was explored to remove a portion of infrastructure debt from our balance sheet. However, this would be more expensive for our community due to higher interest costs compared to other options so has not been pursued at this stage.

5. Providing for growth

By 2034, we're expecting an additional 10,259 people to be living in our district, bringing our population to around 74,165.¹

Population growth brings benefits to the district including increased prosperity, the attraction of investment and community vibrancy and diversity. It also creates challenges for the delivery of services and funding of infrastructure, creating demand for additional services and facilities. Many growth projects will provide capacity for growth over a period of up to 30 years.

We will borrow to fund this work and repay the loans through charging developers over several years using our 'growth pays for growth' approach. We recognise that there will be a time-lag between when Council builds the necessary infrastructure and when developers pay their development contributions (when sections go to market).

This significantly impacts Council debt levels, especially when there is a slowdown on sales in the current economic climate.

¹ Revised Te Ngira (NIDEA) revised population projections. March 2025

To manage growth risk and our financial challenges, we have taken the following approach:

- reforecasting development contributions revenue and growth projects to respond to changing market conditions which has seen a slowdown in uptake and revenue, growth predictions and what is occurring on the ground.
- fully realising our existing infrastructure investments in the growth cells under development before taking on new growth areas where there is a significant cost to Council.
- reducing investment and, in some cases, stopping investment where there is little or no uptake of growth. All growth cell related infrastructure projects that do not already have existing Council commitments have either been removed or shifted out to year four and beyond.
- the debt associated with growth is managed separately from other Council debt. The costs associated with growth is added to the growth debt and revenue generated through development contributions is used to reduce the growth debt balances

We will continue to review growth uptake and demand and review our capital work programme annually, amending the scale and timing of projects in response to actual or anticipated growth.

6. Maintaining existing levels of service

Levels of service are what we have agreed to deliver to – and on behalf of – our community. Levels of service are sometimes set in response to community desire, and sometimes in response to legislative requirements.

For this Long Term Plan, we are proposing to continue to maintain our levels of service, noting that in some cases higher environmental standards have been built into levels of service. For example, stormwater discharge consents require a higher standard of treatment of stormwater prior to discharge.

7. Renewing and upgrading ageing infrastructure

We are responsible for \$2.7 billion worth of assets, the majority of this is large and critical waters and roading infrastructure networks. Once an asset is worn out or becomes obsolete, it usually requires renewal or replacement. Depreciation is the method used to account for the cost of these assets over the assets' lives and to ensure they are appropriately funded. Activity Management Plans outline the funding necessary to deliver the activity's services to the required levels.

Most renewals are considered a capital expense as they relate to the renewal of a capital asset. Council has limited depreciation funding reserves, and they are typically spent year to year. As with most services, renewal costs have significantly increased with some of this due to increasing government standards and compliance with consent requirements.

In the 2021-31 Long Term Plan, we constrained investment in renewals to keep rates increases low. Nearly all activity areas have renewal funding at levels lower than required in the first three years with the intent to catch-up in later years.

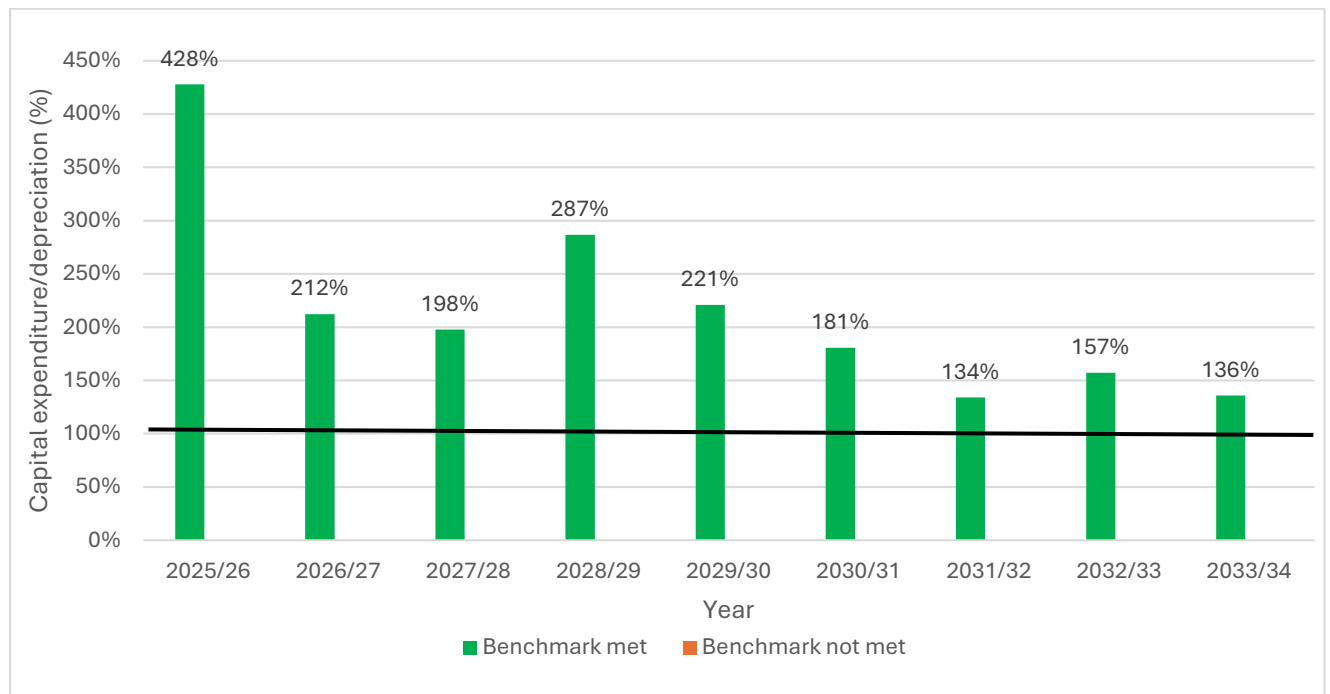
Timely renewal of assets is crucial to the continued effective delivery of services. Renewal funding shortfalls over the short term can be managed to minimise negative impacts of delivering services to desired levels. Continually delaying renewals can lead to extra maintenance costs, reduced quality of service and an increase in risk of unplanned service failures.

In the 2025-34 Long Term Plan, we have prioritised renewals expenditure to reduce the risk of asset failure over the longer term and negative perceptions of core services over the short term.

The majority of our investment is allocated for renewal of our existing assets, which ensures we are able to continue to provide our existing levels of service. Levels of service investment is driven predominantly by legislative and regulatory compliance, and community expectations.

More information on the capital projects we are planning over the nine year period by activity is outlined below.

Graph 3: Essential services benchmark



8. Responding to climate change

Our assumptions recognise that Waipā can expect to see a changing climate including more extreme weather and greater risks from natural hazard events such as floods, slips and drought.

Responding to climate change is one of Council’s five external strategic priorities making it a focus area for the organisation. The ‘failure to effectively mitigate and adapt to climate change impacts’ is a top risk that is regularly monitored and reported against to the Executive Team and Audit and Risk Committee.

Carbon emission baselining and monitoring is in place. Carbon impacts are included in business cases and through the project lifecycle. A climate change governance improvement programme

has been agreed to and is being implemented over the next three years. We have included funding in the 2025-34 Long Term Plan for climate change projects and initiatives including the development of a Climate Change Strategy and work that will improve our understanding of district-specific risks and opportunities. In most cases, funding is embedded in activity management plans for the activity concerned and is largely focused on improving the resilience of our assets.

9. Effect of changes in land use on service demand

Demand for infrastructure services (roads, water supply, wastewater, stormwater, reserves, community facilities) increases where development occurs and can strain existing networks. Development may be subdivisions for housing, new commercial or industrial areas or intensification of existing development. Any new development has been planned for through our growth strategy (Waipā 2050 Growth Strategy). Budget to enable new development to occur and the timing of which has been provided for within this Long Term Plan.

What we aren't prepared to do in this Long Term Plan

We have included this section so we can be as transparent as possible with our community on the approach we have taken to this Long Term Plan. This is what we are proposing, and community consultation may indicate differing points of views on what we have deemed to be our 'bottom lines'.

The things we aren't prepared to do are:

- Compromise on projects that achieve our strategic priorities.
- Compromise our approach to managing critical and lifeline infrastructure and services.
- Significantly lower levels of service purely from a cost saving perspective.
- Put too much pressure on the business. It is important that we look after staff welfare. We have achieved operational savings through multiple budget reviews; however, we still have business-as-usual activities and services to deliver.
- Change our funding model by funding operational costs through loans instead of rates (to reduce the rates impact). This approach is not prudent or sustainable in the longer term. It does not achieve intergenerational equity as we will get into a position where we have future generations repaying the loans incurred now to achieve this.

Financial risk and uncertainty

Council has an assumption regarding global crisis and emergency events; that Council will maintain its level of service during a global crisis such as a pandemic or local emergency event, with sufficient systems and procedures in place to ensure business continuity.

We've considered how we would respond if unexpected circumstances or unplanned events had a significant impact on our financial situation. This is particularly relevant in uncertain economic and political times, and given we have fewer financial contingencies in place than previous plans. Affordability for ratepayers, Council's financial sustainability, and delivery of service levels and

key projects may be significantly impacted. Council has accepted a high level of risk in this regard.

It is important that we manage, to the best of our knowledge, the potential financial risk and uncertainty that comes from these types of events. Unplanned events may require earlier than planned investment (e.g. Civil Defence emergencies, natural events, fire, theft, and safety concerns). These events, if they occur, could result in significant unplanned operating and capital costs.

Council's financial mitigations include:

- Debt is a key tool for financing infrastructure while retaining borrowing headroom for unexpected events.
- A committed cash advance facility of \$5 million is available in the event of a natural disaster, and short-term lending opportunities exist with the Local Government Funding Agency.
- Urgently reprioritise and reduce capital spending and community levels of service spending, to mitigate the risk of breaching debt-to-revenue limits.
- Ensure there is adequate insurance to cover the district's assets (where possible) against such events.
- An insurance programme through Co-Lab will fund some operational costs (e.g. business interruption) and capital costs where a claimable event occurs. All councils in the Co-Lab group have material damage insurance and infrastructure insurance using a maximum probable loss approach rather than reinstatement value for all properties. This policy has the benefit of spreading risk across a wider geographical area. Maximum probable loss is the anticipated value of the biggest monetary loss that might result from an event, whether natural or otherwise.

Securities and investment

Borrowing is secured by a charge over rates by way of debenture trust deed. Generally, assets are not offered as security for any loan or performance of any obligation under an incidental arrangement.

Our investment policy sets out the detail of the type of investments Council currently holds, and objectives and risk management strategies related to holding these investments. The approach to managing our investments is set out in the Treasury Management Policy.

Council is a shareholder in Waikato Regional Airport Limited, the New Zealand Local Government Funding Agency Limited and Local Authority Shared Services Limited. We also hold a small interest in Civic Financial Services Limited.

Other than to achieve strategic objectives, it is not our intention to undertake new equity investments. We will periodically review investments with a view to exiting at a time when market conditions are favourable and overall strategic objectives are not compromised.

Any dividend income from investments is generally included as part of other revenue. Any purchase or disposal of equity investments not identified in the Long Term Plan is by Council resolution. At the time of disposal, we will determine the most appropriate use of sale proceeds.

Disclosure statement

The Disclosure Statement is provided in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014.

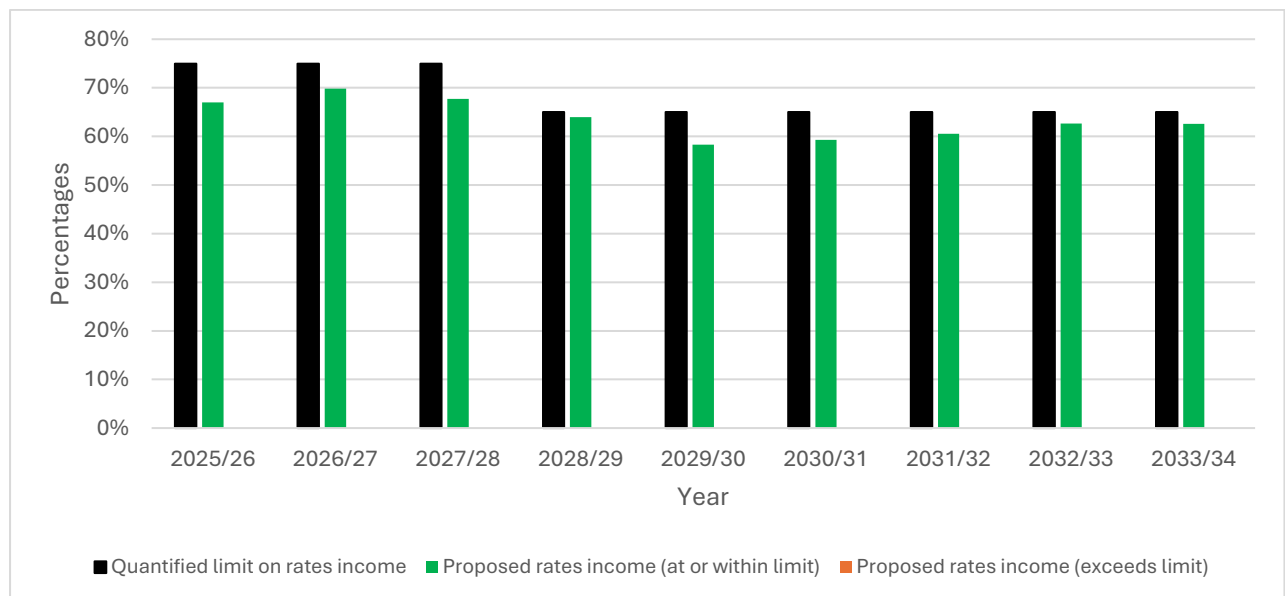
This statement discloses our planned financial performance in relation to various nationally consistent benchmarks. These benchmarks enable the assessment of whether we are prudently managing our revenues, expenses, assets, liabilities, and general financial dealings.

This Financial Strategy outlines the benchmarks Council has set for rates and debt affordability, balanced budget, essential services and debt servicing, and our compliance with these benchmarks.

Rates (income) affordability

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 limiting rates levels to a maximum of 75 per cent of our total revenue in 2025/26 to 2027/28; after this the limit reduces to 65 per cent of our total revenue.

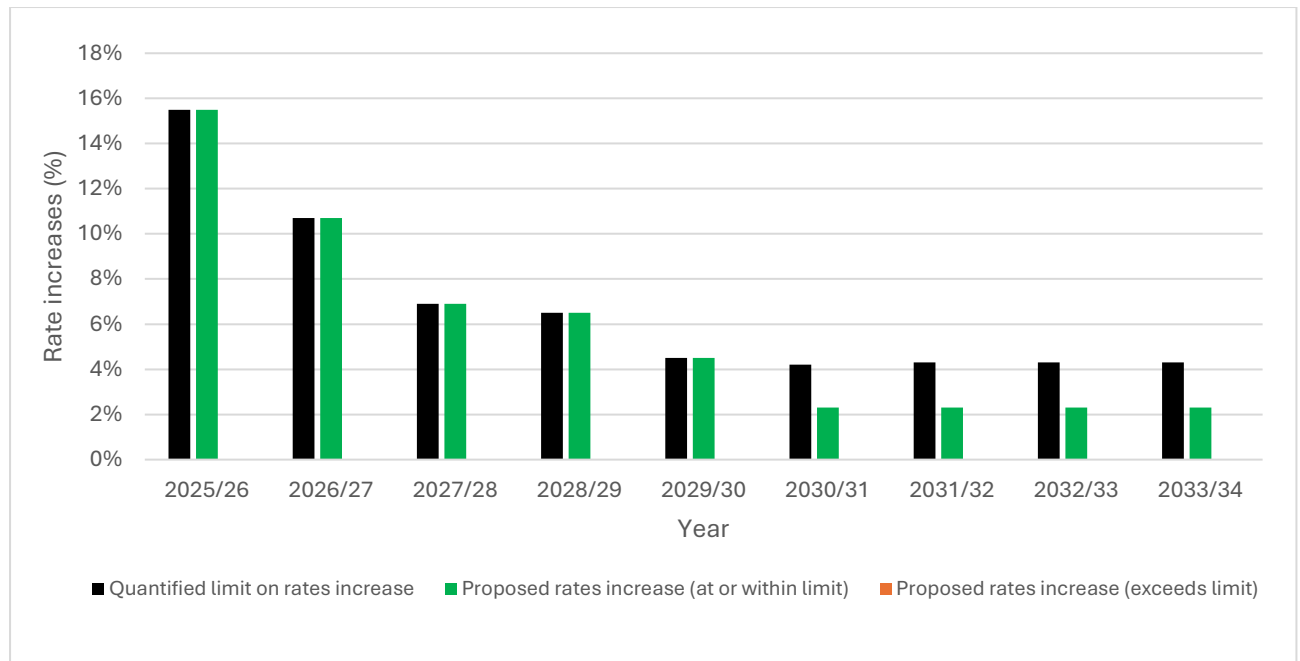
Graph 4: Rates (income) affordability



Rates (increase) affordability

The following graph compares Council’s planned rates increases to a quantified limit on rates increases contained in the Financial Strategy included in this Long Term Plan. Council will limit the increase in rates requirements (after growth) for 2025/26 to 15.50 per cent, for 2026/27 to 10.70 per cent, for 2027/28 to 6.90 per cent, for 2028/29 to 6.50 per cent and for 2029/30 to 4.50 per cent. For the remainder of the Long Term Plan, Council will limit the annual rates increases to the projected² Local Government Index cost for the year plus 2 per cent.

Graph 5: Rates (increases) affordability



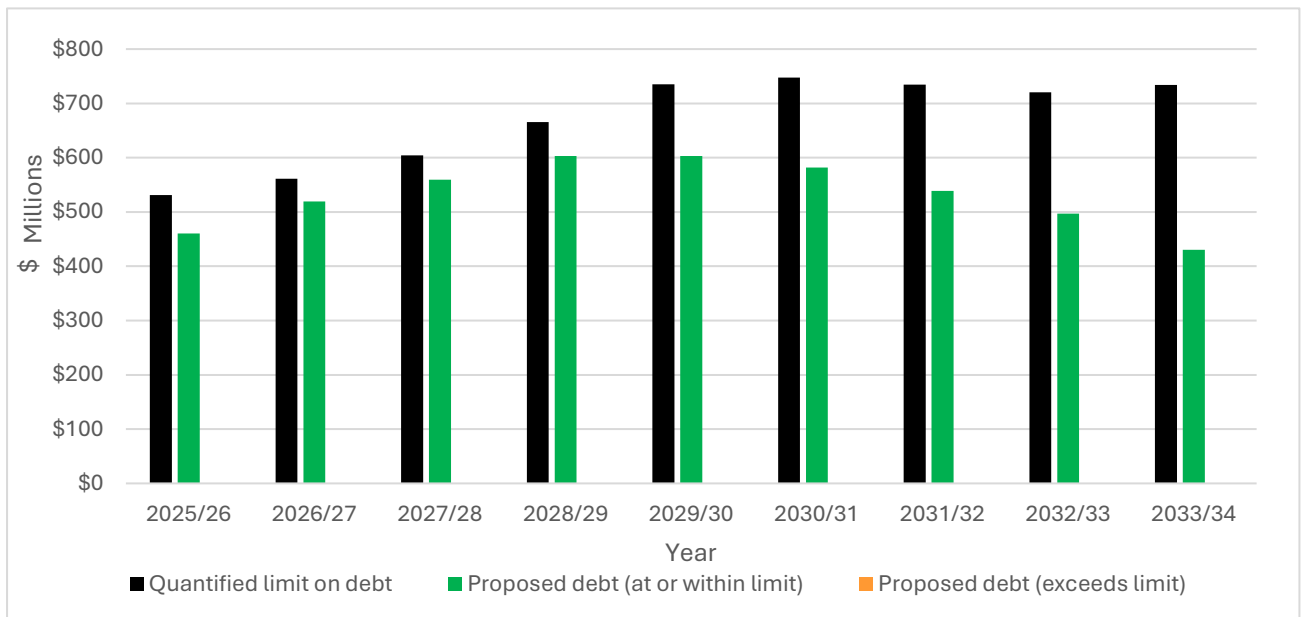
Debt affordability benchmark

Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing. The following graph compares Council’s planned debt with a quantified limit on borrowing contained in this Financial Strategy. The quantified limit is set at 3.5 times revenue³ for years one to six, 3.3 times revenue for year seven, 3.1 times revenue for year eight and 3 times revenue for year nine.

² The projected Local Government Index cost percentage will be reaffirmed at each Annual Plan stage.

³ Total revenue excludes development contributions, financial contributions, vested assets, gains on derivative financial information and gains on revaluations of property, plant and equipment).

Graph 6: Debt Affordability



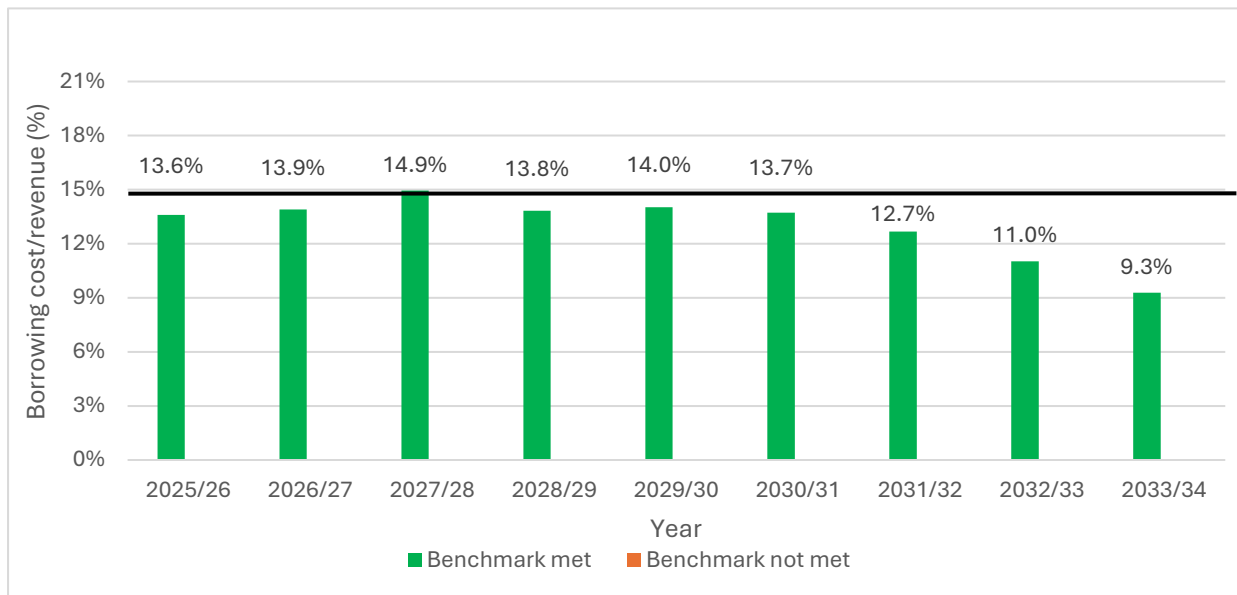
Debt servicing benchmark

The following graph displays Council’s planned borrowing costs as a proportion of planned total revenue.⁴ Because we are a growth Council, we meet the debt servicing benchmark if our planned borrowing costs equal or are less than 15 per cent of our planned total revenue⁵. For our debt covenant purposes with the Local Government Funding Agency, this threshold is 20 per cent and our planned ratio is also measured against this.

⁴ Total revenue excludes development contributions, financial contributions, vested assets, gains on derivative financial information and gains on revaluations of property, plant and equipment).

⁵ Total revenue excludes development contributions, financial contributions, vested assets, gains on derivative financial information and gains on revaluations of property, plant and equipment).

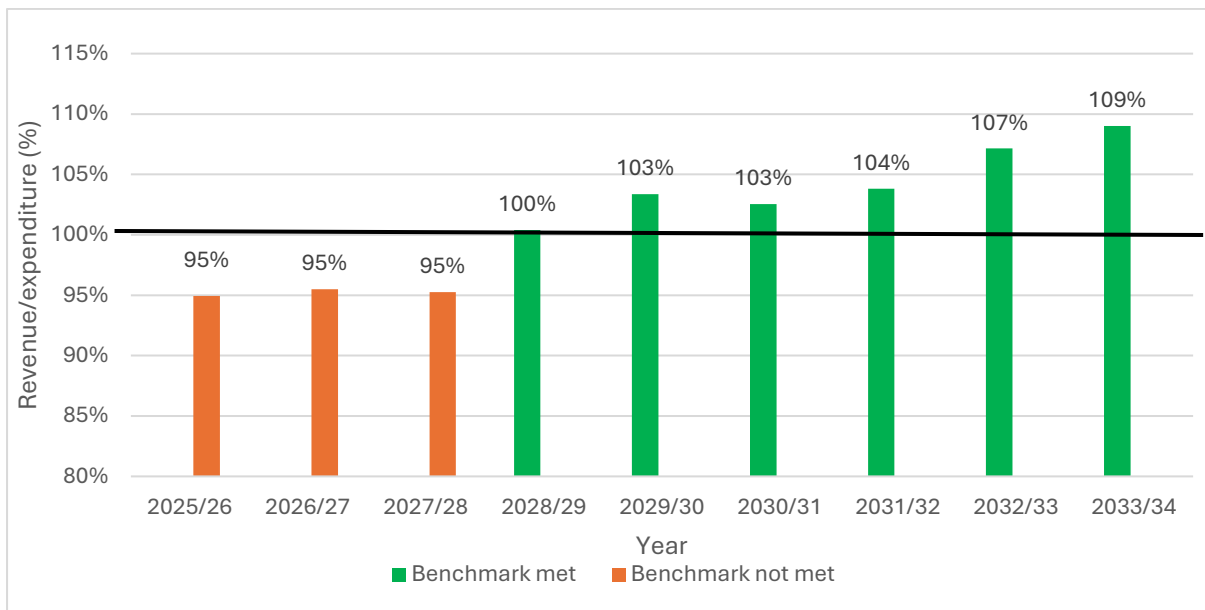
Graph 7: Debt servicing benchmark



Balanced budget benchmark

The following graph displays Council’s planned revenue as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant and equipment). Council meets the balanced budget benchmark if its planned revenue equals or is greater than its planned operating expenses. The balanced budget benchmark is not met in years one and two due to the fact that operating reserves are applied to reduce the overall rates requirement, some depreciation costs are not funded (in some cases just on a temporary short-term basis), and the fact that specific operating costs associated with projects such as the district plan and Ahu Ake, Waipā Community Spatial Plan are loan funded and not funded through rates. It should be noted that in year 4 – 9 of the Long Term Plan, there is forecast a significant increase in the collection of development contributions, due to significant investment in infrastructure spend. The risk is that macro and micro economic conditions could shift the development revenue timing and mismatch the capital investment from the revenue collection. This could necessitate in the future a change in the timing off capital investment and an increase in development contribution fees.

Graph 8: Balanced budget benchmark



Essential services benchmark

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

Graph 9: Essential services benchmark

