Monday, 20 May 2024

HERETAUNGA HASTINGS DISTRICT COUNCIL

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council

Risk and Assurance Committee Meeting

Kaupapataka

Attachments Under Separate Cover

Te Rā Hui: Meeting date:	**Monday, 20 May 2024**
Te Wā: Time:	**10.00am**
Te Wāhi: Venue:	**Council Chamber** **Ground Floor** **Civic Administration Building** **Lyndon Road East** **Hastings**

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HASTINGS DISTRICT COUNCIL
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TE KAUNIHERA Ā-ROHE O HERETAUNGA

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Report on Control Findings for the year ended 30 June 2023

Hastings District Council

Building a better working world

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29 January 2024

Bruce Allan
Deputy Chief Executive
Hastings District Council
Private Bag 9002
Hastings 4156

Dear Bruce

Control Findings for the year ended 30 June 2023

We have completed our audit of the financial statements and performance information of Hastings District Council ("HDC" or the "Council") for the year ended 30 June 2023.

This Report on Control Findings includes all control matters and issues arising from our audit findings that we consider appropriate for review by management. We recommend that it be read in conjunction with our Report to the Risk and Assurance Committee in October 2023.

In accordance with the Office of the Auditor Generals auditing standards which include International Standards on Auditing New Zealand (ISA (NZ)), we have gained an understanding of your internal controls, as relevant to the audit in order to assist in the design of our audit procedures to gather sufficient appropriate evidence to form an opinion on the Council's financial statements and performance information. Our audit procedures do not address all internal control and accounting procedures and are based on selective tests of accounting records and supporting data and have not been designed for the purposes of making detailed recommendations. As a result, our procedures would not necessarily disclose all weaknesses in Council's internal control environment, and you should not assume that there are no additional matters that you should be aware of in meeting your responsibilities. We have provided our comments with ratings as assessed by us during the procedures performed. It is possible that a combination of moderate or low risk issues may in combination create a high risk. We have not considered the impact on our risk assessments of such combinations.

We wish to express our appreciation for the courtesies and co-operation extended to our representatives during the course of their work. If you have any questions or comments, please do not hesitate to call me on 027 489 9378.

Yours faithfully

Stuart Mutch
Partner
Ernst & Young

Table of contents

1. Overview

1.1 Overview of Risk Ranking System

To provide context around the seriousness of the matters we have raised we have ranked issues in this report by applying the following rating scale:

High Needs significant improvement	**Immediate corrective action is required.** These recommendations relate to a serious weakness which exposes the organisation to a material extent in terms of achievement of corporate objectives, financial results or may otherwise impair Hasting District Council's reputation.
Moderate Needs substantial improvement	**Corrective action is required,** generally within 6 months. A control weakness, which can undermine the system of internal control and/or operational efficiency and should therefore be addressed.
Low Needs some improvement	**Corrective action is required, generally within 6 to 12 months.** A weakness which does not seriously detract from the system of internal control and/or operational effectiveness/efficiency, but which should nevertheless be addressed by management.

1.2 Summary of current year audit observations

The following table summarises the observations from our 2023 audit, including those unresolved from 2022, and the associated risk rankings:

	High Needs significant improvement	**Moderate** Needs substantial improvement	**Low** Needs some improvement
2.2.1 Performance Information in relation to Customer Complaints	-	✓	-
2.2.2 Tracking the Cost to Repair Infrastructure	-	✓	-
2.2.3 The Cost of Infrastructure Repairs Compared to Impairments Incurred	-	✓	-
2.2.4 The Valuation of Three Waters assets	-	✓	-
2.3.1 Management of Accounts Receivable Utilising Systems Based Reports	-	-	✓
2.3.2 Monitoring of Capital Work in Progress	-	-	✓
2.3.3 Capitalised on cost percentage	-	-	✓
2.3.4 De-Recognition of Replaced Reticulation Assets	-	-	✓
	0	4	4

1.3 Disclaimer

Issues identified are only those found within the course of the audit for year ended 30 June 2023. Recommendations are intended solely for the use of Hasting District Council's management. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Hastings District Council management team, Council and for any purpose other than that for which it was prepared.

2. Current year observations

2.1 High Risk Matters

No High Risk Matters were identified during the course of our 2023 audit that were not resolved prior to the adoption of the 2023 Annual Report. The matter associated with the valuation of three waters assets noted as High in our 2022 Report to Management has been re-assessed as Moderate Risk due to the steps taken by management in 2023 to support the unit pricing of assets.

2.2 Moderate Risk Matters

2.2.1 Performance Information in relation to Customer Complaints	
Observation	Historically information has been captured and maintained focused on where customer requests for support / intervention by Councils infrastructure maintenance providers are actioned. This could result in, for example, multiple calls in relation to the same water supply failure only being captured as a single matter, being the response by Council's contractor. Whilst this is the practically reasonable way of monitoring contractor performance in terms of response times and event closure times, the performance measures established by the DIA require information to be captured at the individual customer call level, presumably to support an understanding of how many customers are being impacted by infrastructure failure events. Council have taken steps over the last 12 to 24 months to improve their reporting of customer calls based on information / call type received. In 2022 and 2023 we have determined that Councils own Call centre function, during normal work hours, was collecting information correctly. However, the Palmerston North City Council call centre which takes over call management after hours continued to capture information in the old manner. Consequently, Hastings District's information was not able to be collated in a consistent manner.
Recommendation	Council work with Palmerston North City Council to align the manner in which customer calls are collated and reported. Council management review the ability to review call numbers by call centre operator so that there is adequate traceability of calls from collated annual and monthly data through to specific calls, call classification and call timing.
Management response	Council will continue to work with Palmerston North City Council to ensure Customer Complaint information is collected and reported in a manner consistent with Council's internal information capture processes.
Responsibility	Greg Britton

2.2.2 Tracking the Cost to Repair Infrastructure	
Observation	Hastings District Council suffered significant damage to its roading network during the course of Cyclone Gabrielle in February 2023. Extensive work was undertaken during 2023 to determine the extent of the damage incurred and for financial reporting purposes, the level of impairment of assets that required recognition. A key complexity associated with this work was the difficulty in determining: a) The extent of damage to segments of the roading network, and whether this constituted an impairment to the extent that it inhibited the use of tangible sections of road beyond the initial clearance of silt and woody debris; and b) What costs incurred subsequent to the cyclone, represented costs towards the removal of silt, woody debris and general traffic management costs that did not actually represent the restoration of roading tangibly impaired as a part of the Cyclone. Additional work was required by Council and the audit team during October to finalise an adequate understanding of the split in the nature of damage and the nature of rehabilitation work.
Recommendation	Specific rules be defined by Council and the appropriate treatment of damage or costs incurred against those rules be applied by Council at the time in which costs are incurred.
Management response	Council asset managers are expected to correctly identify restoration versus repair costs and code these accordingly in the finance system. Finance work closely with them to ensure this is being done correctly and consistently. We continued to see high levels of restoration work in the first few months of the 2023/24 financial reporting period but expect this to move to significant repair works to bring assets back to their prior levels of service for the remainder of the financial year. Council will also be engaging BECA to value the roading network at 30 June 2024 to assist in determining the level of impairment and the impact this may have for financial reporting purposes.
Responsibility	Jess Noiseux

2.2.3 The Cost of Infrastructure Repairs Compared to Impairments Incurred

Observation	During the course of the 2023/24 financial year we expect Council to make significant progress towards the reconstruction or repair of significant elements of their roading infrastructure damaged during Cyclone Gabrielle. We note that the accounting for repairs can generate a number of complexities for the enduring asset, including: a) The cost of repairs at present day costs will exceed the depreciated replacement cost of assets impaired, giving rise to the need for not just removing impairments but also potentially recognising higher values for assets. b) Assessing the remaining useful life of restored assets. Because new construction will be involved in repairs and restoration work it is likely that the repaired asset will have a remaining useful life that will exceed that of the assets impaired resulting in different levels of depreciation and a need to capture appropriate information for subsequent valuations. c) The restoration of assets may result in roads being re-routed and assets that were not destroyed or significantly damaged in the cyclone actually becoming redundant as they are in the wrong place or uneconomic to repair. Such redundant assets will required further de-recognition. d) Council may need to make the decision to diminish the level of service available to the Community as elements of assets may not be economically viable to restore. Where assets that have been impaired but not fully destroyed are abandoned, or passed into private hands, these adjustments will need to be applied against the remaining carrying value of these assets.
Recommendation	Consideration be given to the risks noted within (a) to (d) above. We recommend that approaches to resolving these matters be documented, understood by management and adhered to.
Management response	The risks identified above are applicable to the detailed information held within the RAMM system. BECA are contracted to maintain this system alongside Council asset managers. We will work with BECA and the asset managers to ensure they are taking the above risks into account when managing the asset detail held within RAMM. Council will also ensure these risks are discussed and taken into consideration during the roading valuation carried out by BECA for 30 June 2024.
Responsibility	Aaron Wilson

2.2.4 The Valuation of Three Waters assets	
Observation	As a part of the preparation of the 30 June 2022 financial statements management utilised an internal methodology utilising information drawn from external specialists in regards to pricing datasets and unit cost trends over recent periods. In addition, Council obtained an external independent review of the valuation. Despite these procedures, the extent of the resulting valuation movements exceeded the expectations of all parties. Whilst the valuation was supportable, due to scale of the valuation movements arising from the unit pricing indices we made a recommendation at the conclusion of our 2022 audit that due to the significance of three waters assets to the Council we considered it prudent in 2023 to undertake a full asset valuation for financial reporting purposes. The impact of the weather events of early 2023 generated significant increased activity within Council. Rather than seek a full valuation in 2023, Council obtained a new set of third party unit pricing data to cross-validate the unit pricing applied in 2022. This unit pricing provided an increased level of confidence in the 2022 valuation and its ongoing use. However, given the amount of ongoing change in the sector, construction cost fluctuations and the scale of 3 waters assets ($1.1 billion), the benefits of a full external valuation to verify the valuation of this asset base remains high.
Recommendation	Given the scale of the valuation of three waters assets, and the different procedures applied in recent years, we recommend that Council consider that the 2024 valuation be undertaken by an external professional party with access to a full asset construction cost database and the asset database maintained by Council.
Management response	Council are currently in the process of engaging with an external professional to complete the Three Waters valuation for 30 June 2024.
Responsibility	Jess Noiseux

2.3 Low risk matters

2.3.1 Management of Accounts Receivable Utilising Systems Based Reports	
Observation	As a part of our procedures to assess the completeness and the recoverability of accounts receivable we sought a range of reports from management to support the age profile and movements in key accounts receivable across a number of Council activities, such as consent cost recovery and other user pays based activities. Our overall observation of the reporting being utilised by Council, or able to be extracted from core systems was that the reports were cumbersome, required significant management intervention to provide effective insights and we not conducive to timely and effective management. Whilst we were satisfied that management had determined the right decisions in regards to matters such as the recoverability of accounts receivables and the identification of credit balances to recognise as liabilities rather than netting asset positions, the reporting appeared functionally limited and time consuming. We have maintained this matter as it was not resolved in the 2023 financial year.
Recommendation	Council give consideration to the review and improvement of the reporting functionality in place in regards to its core revenue and accounts receivable focused applications with a focus on ensuring the efficient and effective management of Councils Accounts Receivable management across the areas of services provided to users of Councils functions.
Management response	Noted, we aim to resolve this following upgrades to the property and rating system which is scheduled to take place in the 2024/2025 financial year.
Responsibility	Aaron Wilson

2.3.2 Monitoring of Capital Work in Progress	
Observation	During our review of Capital Project work in progress positions we undertook an analysis across reporting periods to assess whether the asset positions recognised were of risk of being stale, in that they either should be capitalised or written off as a consequence of projects not proceeding. This assessment identified a small number of projects that were completed for over 12 months but had not been capitalised. Whilst the impact of this on understated depreciation was immaterial, it is good practice to regularly review capital work in progress positions. This is particularly important at a time when Councils level of capital expenditure is at such high levels.
Recommendation	Council implement procedures to undertake regular reviews of capital work in progress positions to ensure that projects are closed and capitalised in a timely manner.
Management response	Council review infrastructure WIP on an annual basis due to the complexities within the project space for these assets. All other asset classes are regularly reviewed and works capitalised throughout the year. At year end discussions are held with the relevant water asset managers (all roading and parks WIP is fully capitalised at year end) and reliance is place on their expertise as to whether projects are complete and ready for capitalisation or not. Finance will continue to work with the asset managers and emphasis the importance of identifying completed projects for capitalisation.
Responsibility	Jess Noiseux

2.3.3 Capitalised On Cost Percentages	
Observation	There is no formal review in place for the appropriateness of the on-cost percentages used when determining the initial cost of a water asset. During our testing of the cost of water assets we noted that there has been no documented basis for the level of on-costs applied. Where a project is totally outsourced, including matters such as professional engineering services, these costs are attributed directly to projects in line with expectations. However, where internal costs have been incurred we could not identify a standard policy or calculation methodology for applying an allocation of directly attributable costs for internal planning. Given the very high level of capital project work underway within Council such guidance would be beneficial to support the capturing of costs in line with project demands and accounting standards.
Recommendation	Document and apply a standard methodology and guidance for the capitalisation of internal costs associated with planning and managing capital projects.
Management response	Finance will work with the relevant asset managers to document and evidence the appropriateness of the on-cost percentages used.
Responsibility	Cambell Thorsen

2.3.4 De-Recognition of Replaced Reticulation Assets	
Observation	There is currently no policy on the write down of water and waste water assets where aged reticulation assets are replaced as a part of capital renewal projects. During the course of most capital renewal projects, the aged infrastructure assets, particularly reticulation assets that form a part of the water supply and waste water asset classes are often replaced late in their economic useful life prior to their failure causing a loss of service to the community. Because they continue to maintain some asset value through the regular revaluation exercise, the removal of such assets should trigger an asset de-recognition process. During the course of our work we could not identify a process by which assets are identified by the asset management team and their removal communicated to finance. As a consequence asset write-offs will often be left until the next revaluation cycle captures the fact a new asset is in place, as compared to an asset that has used much of its remaining useful economic life.
Recommendation	A threshold should be put in place so that if an infrastructural asset de-recognition / removal and replacement exceeds ta manageable threshold it requires additional approval to be processed to ensure that the write down is appropriate, reasonable and captured appropriately for financial reporting purposes.
Management response	Each year end Finance receive a disposals listing from the water asset management team that details the value and type of asset disposals and write-offs. Finance do not hold individual asset data for water assets and reliance is place on the water asset management team to maintain the water asset data register, including writing off obsolete or fully depreciated assets each year. Finance will discuss with the water team to ensure replaced assets are included in the write offs each year rather than just through the revaluation cycle process.
Responsibility	Jess Noiseux

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Hastings District Council

Audit Plan for the year ending
30 June 2024

WELCOME

Dear Risk and Assurance Committee Members

We are pleased to present our Audit Plan ("Plan") for the audit of the financial statements and service performance information of Hastings District Council ("HDC") and its controlled entities ("the Group") for the year ending 30 June 2024. This Plan outlines the scope of our services, identifies Ernst & Young ("EY") professionals that will serve you and presents our understanding of some key considerations that will affect the 30 June 2024 audit.

We conduct our audit in accordance with the Auditor General's auditing standards which incorporate International Standards on Auditing (New Zealand). Our audit will be conducted to provide reasonable assurance that the financial statements and service performance information for the year ending 30 June 2024 are free of material misstatement.

Our Plan has been prepared based on our understanding of HDC and the local government sector. We have considered, and will continue to consider, HDC's current and emerging operating risks and assess those that could materially affect the financial statements and performance reporting and align our procedures accordingly. The Plan will be responsive to your needs and will maximise audit effectiveness so we can deliver the high quality audit you expect.

Should you have any questions or comments, please do not hesitate to contact Stuart at stuart.mutch@nz.ey.com or on 027 489 9378.

Yours faithfully

Stuart Mutch
Appointed Auditor
10 May 2024

Matthieu Poulain
Manager

CONTENTS

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EXECUTIVE SUMMARY

Hastings District Council
For the year ending 30 June 2024

AREAS OF AUDIT FOCUS

7

key focus areas identified that remain broadly consistent with the prior year but which take into consideration cyclone Gabrielle recovery.

The areas of audit focus and the level of complexity or management judgement to be applied are:

- Cyclone recovery and funding — HIGH
- Infrastructure assets — HIGH
- Integrity of rates strike, rates invoicing and collection — MEDIUM
- Grants and subsidies — MEDIUM
- Non-financial performance information reporting; — MEDIUM
- Controls over expenditure, procurement and tendering; — MEDIUM
- Debt — LOW

ENGAGEMENT AND FEE

Our audit fees were set in 2023 for the period 2023 to 2025. These fees form the basis of our costs over this period. We note though that in 2023 the time incurred working with the Council on matters associated with the impact of Cyclone Gabrielle and Councils work to recover from the Cyclone took longer than we had all forecast. This cost was not recovered from Council.

We will work with management to agree an appropriate response to the additional time required to provide assurance in relation to the impact of the cyclone within your financial and service performance reporting of Council for the 2024 year.

TIMING

We have performed our interim procedures during the week beginning 11 March 2024 with a team on site. Our year end procedures will begin on 9 September 2024, with an objective of meeting with the committee on 14 October 2024 to discuss our findings.

AUDIT APPROACH

Details of our control understanding based approach are outlined on page 10. We seek to develop an understanding of controls and design testing that is appropriate and reflective of those controls. Key areas for detailed testing will include:

- Expenditure and accounts payable;
- Payroll; and
- Rates setting and collection.

PLANNING MATERIALITY

Our audit is planned to obtain reasonable assurance of detecting misstatements that we believe could be, individually or in aggregate, material to the financial statements.

Our materiality threshold has been set at $9.2m, being 2.5% of extrapolated (for 12 months) revenue from February 2024 . We will report to the Audit & Risk Committee errors of more than $450k.

We expect that the final revenue figures for the period could be quite variable due to the scale of Crown and other funding being received by Council.

We will update our materiality assessment prior to year end.

INDEPENDENCE

We remain in compliance with the NZICA Code of Ethics and Professional and Ethical Standard 1: *Code of Ethics for Assurance Practitioners*' as well as the Office of the Auditor General's independence requirements, and in our professional judgment, the engagement team and the Firm are independent. We have the appropriate controls in place to ensure we remain independent throughout the audit.

Emergency works and Funding

Background

- Cyclone Gabrielle in February 2023, following an extended period of wet weather, resulted in significant damage across the District. The event changed the landscape and potential usage of significant parts of the Hastings District. It has also impacted a wide range of District ratepayers homes, farms and basic livelihoods. The scale of the impact of the cyclone and the scale of the repair works required to return key roads, bridges and other Council assets to a fully serviceable state continues to challenge the Council. The cost of the cyclone will be with the Council for many years.
- Council has been playing a critical role in supporting its community through the recovery from the cyclone during the 2023/24 financial year. Whilst the immediate response in 2023 focused on re-opening the roading network and providing for the continuity of core services, particularly roads and bridges, during 2023/24 planning and physical works has turned to restoration and rebuilding.
- As at 30 June 2023 Council, in conjunction with its consulting engineers and valuers made a range of assessments of the level of impairment or asset write-offs that had occurred across its land transport, water supply and other assets as a result of the cyclone. During the 2023 / 2024 financial year infrastructure costs incurred have related to a combination of restoring impairments and the cost of providing for the continued use of the land transport network in its damaged state. Bridges and significant stretches of rural roads continue to be impacted and impairments will still exist at 30 June 2024.
- Council continue to negotiate and discuss with Waka Kotahi the funding levels going forward of the continued restoration of the roading network. We have discussed the funding package provided by Central government on the next page.
- The Crown has agreed to proceed with funding for the next year in order to support Hastings District with renewing its roading assets and completing settlements for category 2 and 3 housing
- Council have a number of considerations to make including:
  - Assessment of the extent of impairment to the infrastructure base at 30 June 2024;
  - Decisions in relation to whether assets will be written off and not repaired which may directly impact service levels provided to the community;
  - Continued cashflow management and its ability to make upfront payments and claim these back from funding providers;
  - Capacity of contractors approved for Council works to complete remediation activities of the most affected areas in a timely manner; and
  - Appropriate coding of expenditure whether it is to be restoring impairments, creating increased service capacity (capex) or repair and maintenance expense.

Planned Audit Approach

We will have ongoing discussions with Management and review key Council planning documents and assessments of the level of un-remediated damage to infrastructure ahead of 30 June 2024. Our audit procedures will include:

- Obtaining any agreements, amendments or correspondence between HDC and central government or other providers in respect of funding approved.
- We will review the impact assessment by Council in regard to the remaining impairment of core infrastructure assets versus what had been repaired by 30 June 2024.
- We will assess whether impairments are an appropriate reflection of the depreciated replacement cost of the assets damaged, even though the replacement cost of such assets may significantly exceed the depreciated replacement cost of what was damaged.
- Reviewing HDC's procedures for revenue recognition and monitoring the conditions of the various grants.
- Review HDC's approach to filing insurance claims for physical damage or losses of earnings at Council and giving consideration to how revenue is recognised during the period.
- Checking, on a sample basis, that revenue is being recognised in line with obligations/undertakings being satisfied.
- Examining cost claims, on a sample basis, to check the expenditure is allowed to be claimed and that the funding assistance rate applied is appropriate.
- For a sample of revenue recognised in the year across all grants, we will vouch receipt of funds to cash received.

Relevant accounting standards: PBE IPSAS 17 *Property, Plant & Equipment*, PBE IPSAS 23 *Revenue from Non-Exchange Transactions*

Level of complexity or management judgement: HIGH

Infrastructure assets

Background

- Infrastructure assets represent a significant component of the Council's balance sheet with carrying values of the following amounts at 30 June 2023:

Assets	$million
Roading	1,165
Three waters	1,137
Other infrastructure assets	182
Total	**2,484**

- Roading assets have historically been revalued bi-annually by an independent third party, BECA. However, because of the scale of change and the impact of Gabrielle the roading network is being valued annually at present. We understand management has also requested an independent review for 3 waters assets and land this year,
- Cyclone Gabrielle impairment losses across land, three waters and roading assets amounted to $275m in 2023, with $274m of that pertaining to roading.
- There is a risk that the useful life assumptions used in the valuations are not reflective of up-to-date information maintained in the Council's Asset Management Plans.
- Misclassification of maintenance and/or capital expenditure given nature and useful life of work completed is also a risk.
- Given the amount of damage caused by Cyclone Gabrielle, there are significant impairments to the Council's portfolio of assets that require ongoing assessments.

Planned Audit Approach

- We will assess Councils review of infrastructure asset classes for asset impairment following the work completed in the 2023/24 year, decisions made in regards to the future of assets and any further damage to assets identified during the period.
- We will test, on a sample basis, the accounting for significant additions and disposals / write-offs of assets during the year.
- Where valuations are undertaken we will test on a sample basis the key inputs to the valuations including unit costs and useful lives.
- We will assess whether the asset information used by valuers is reflective of the asset data maintained in the Council's Asset Management Systems for roads and 3 water assets.
- We will obtain assurance that all material assets within the asset classes are included in the valuations and consider the completeness of total assets valued.
- We will assess that the results of the internal and external valuations had been appropriately recorded in the fixed asset register and general ledger.
- We will review the valuation reports against those undertaken by other valuation firms for Councils of a similar nature to Hastings District Council to assess the appropriateness and consistency of assumptions applied.
- For any asset classes that are not being revalued in the current year, we will examine the assumptions underlying the historical valuation against current asset management plans to assess whether the value remains materially correct.
- We will test on a sample basis the classification procedures relating to capital, renewal and maintenance work as well as cut off at year end for capital works to check it is consistent with work completed at that point.
- We will maintain a watching brief on the progress made by central government in relation to reforms and ownership change to three waters. We will work with Council to ensure appropriate disclosures are included in the financial statements.
- We will ensure the land acquired through the category 3 property buy out processes are carried at their residual land value reflecting the land use categorization, and not at cost.

Relevant accounting standards: PBE IPSAS 17 *Properties, Plant and Equipment*

Level of complexity or management judgement: HIGH

Integrity of Rates Strike, Rates invoicing and collection

Background

- Rates income levied represents the Council's primary revenue source. There is specific legislation in place which must be adhered to for the rates set to be lawful. In the local authority context, failure to comply with rating law and the associated consultation requirements can create significant risks to the integrity of rates revenue.
- The requirement for there to be consistency between the rates resolution, Funding impact statement and the Finance Policy in the LTP is fundamental because this is the thread that links community consultation to the rates levied by HDC forming the core of the Council's revenue.
- The accuracy of a rates strike is dependent on the integrity of the rates database. The reliability of the rates billing system should ensure rates are billed appropriately.
- There is a history of legal challenges against certain local authorities that give rise to questions associated with Rates strikes.
- As part of the response to the impact of Cyclone Gabrielle, HDC has reviewed its rate remission and postponement policy. Provisions for rates remissions have been increased to directly address parts of the community who are still facing financial hardship due to severe weather events.

Planned Audit Approach

- We will review HDC's rate resolution for the financial year and its linkage to the Long Term Plan.
- We will review HDC's procedures for ensuring the rates set are compliant with the Local Government Rating Act and test that the rates set are being applied appropriately to the rating database and invoiced accordingly.
- We will test the controls over the rates levying process to assess whether these are operating effectively.
- On a sample basis, we will undertake a review of billing to specific ratepayers and subsequent collection.
- Certain rate paying groups represent a higher collection risk. We will examine any provision for doubtful rates debtors to consider whether it is appropriate in the circumstances.
- We will remain abreast of any considerations for impacts on rates revenue as a result of Cyclone Gabrielle.

Relevant accounting standards: PBE IPSAS 23 *Revenue from Non-Exchange Transactions*

Level of complexity or management judgement: MEDIUM

Grants and Subsidies

Background

- Council receive Waka Kotahi /NZTA funding to subsidise costs associated with local roads. The funding assistance rate is typically 54% with higher amounts being available in certain circumstances such as for emergency works.
- Council also receives significant funding from central government for key initiatives. This includes recent support for major water supply projects and in 2024 is expected to include $18m of funding from the Crowns Infrastructure Acceleration Fund.
- HDC recognise a liability until work is conducted and objectives met ahead of revenue being recognised. Elements of the work is outsourced and HDC will transfer those funds in advance to the third parties and recognised a prepayment until they receive support for the expenses being incurred and then release the revenue accordingly.
- HDC negotiated a funding agreement with Crown Infrastructure Partners during the year, which will lead to a total funding package of up to $288m. This package is mainly to assist with the reconstruction of Councils roading network and to provide 50% funding for Category 3 property buy outs.
- We expect Council will continue to receive significant additional funding to support its work in relation to Cyclone Gabrielle from both public and private sector organisations.

Planned Audit Approach

- Obtain new agreements, amendments or correspondence between HDC and the Crown in respect of funding approved.
- We will review HDC's procedures for revenue recognition and monitoring the conditions of the various grants.
- We will check, on a sample basis, that revenue is being recognised in line with obligations/undertakings being satisfied.
- We will examine cost claims to NZTA, Kainga Ora, DIA, NEMA, CIP, MBIE or other central government agencies, on a sample basis, to check the expenditure is allowed to be claimed and funding assistance rate applied is appropriate.
- For a sample of revenue recognised in the year across all grants, we will vouch receipt of funds to cash received.
- We will develop a full understanding of the Category 3 property buy out and settlement process. This will include an understanding of the steps prior to purchase, the claims process from the Crown and the subsequent valuation and recognition of the land acquired. A key component of this will relate to the accounting for the excess amounts relating to the difference between the settlement purchase price and the enduring land value of acquired properties.

Relevant accounting standards: PBE IPSAS 23 *Revenue from Non-Exchange Transactions*

Level of complexity or management judgement: MEDIUM

Medium Risk Focus Areas

Areas of Audit Focus	Background	Planned Audit Approach
Non-financial performance information reporting MEDIUM	► HDC is required to report its performance against levels of service expectations and performance measures included in the LTP. These measures are key to the Council providing a "performance story" to the community. ► Our audit opinion on the service performance information covers compliance with generally accepted accounting practice, and whether the service performance report fairly reflects the Council's actual service performance for the period. ► In 2022/23 we were again required to qualify our audit report in relation to two 3 Waters specific measures. Council are continuing to respond to the issues initially highlighted in 2021 to improve performance reporting in these areas. ► As a consequence of the impact of Cyclone Gabrielle on infrastructure, service delivery in some areas has continued to be impacted in parts of the District. A key annual reporting question for Council in 2023/24 will be how this is reflected in the service performance information for the year. ► Council is required to report on mandatory measures in relation to drinking water, as governed by DIA. Historically independent drinking water assessors have performed audits of sufficient regularity to support audit procedures for reporting in the annual report. Taumata Arowai became the water services regulator in November 2021 and removed this requirement. In addition, new Drinking water Quality Assurance Rules, Drinking Water Standards and Aesthetic Values came into effect in November 2022. ► Based on discussions with management, Council intends to again engage an independent drinking water assessor in support of their reporting.	► Our audit procedures will focus on assessing completeness and effectiveness of HDC's non-financial performance reporting. ► We will assess which areas of service provision have been significantly impacted by Cyclone Gabrielle and how Council are identifying this and recording amendments to their reported performance. ► We will update our understanding of key performance reporting processes and review methodologies applied by HDC. ► We will check, on a sample basis, the measures have been accurately reported on and outputs have been achieved where stipulated. ► Review mandatory performance measures stipulated by the Non-Financial Performance Measures rules 2013 and ensure all required measures have been appropriately included in HDC's reporting. ► Review independent assessment of Drinking water standards to ensure the scope of the assessment appropriately complies with standards reported against in the mandatory performance measures. We will also ensure the disclosures in relation to these measures are appropriate given the change to standards which have occurred during the year. ► Provide feedback on the overall annual report and the summary annual report.
Core controls over expenditure, procurement and tendering MEDIUM	► Appropriateness of Councillor and management expenditure is an area of interest to ratepayers. ► Council's capital works procurement programme involves significant cash flows and complex long term contract management. ► Areas of expenditure such as travel, accommodation, training and catering can present opportunities for personal benefit (or perceived personal benefit).	► In considering expenditure and procurement, we will review Council's policies to check if there is adequate guidance regarding the procedures for handling sensitive expenditure and conflicts of interest within the organisation and policies are consistent with best practice guidelines issued by the OAG in 2020. This includes the following types of expenses; travel, training, consultant fees, use of credit cards and Councillor expenses. We will also give consideration to Procurement and Contract tendering processes.

Low Risk Focus Areas

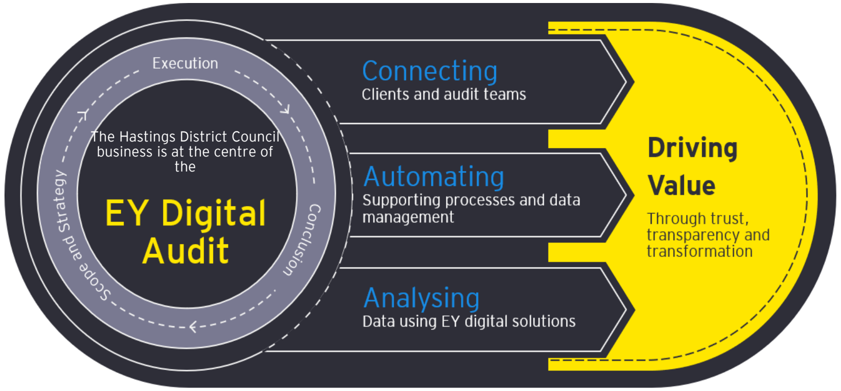
Areas of Audit Focus	Background	Planned Audit Approach
Debt LOW	▸ In 2023 Council held $293m of debt through a number of drawdowns with the Local Government Funding Agency (LGFA). ▸ During 2023, Council obtained new loans amounting to $76m and repaid $21m in the normal course of business and in line with expectations. The overall increase in debt has been principally applied to capital works. ▸ The Council is responsible for preparing Reporting Certificates to the Trustee in accordance with the requirements of the Trust Deed and we are required to report to the Trustee with respect to the reporting certificates. ▸ The council has drawn new lines of derivatives during FY24 to be able to be able to manage the interest rate risk of financing the road projects linked to Cyclone Gabrielle reconstruction. ▸ Council is forecasting significant ongoing increases in the level of debt within its proposed long term plan which is currently out for consultation. This will include additional debt prior to 30 June 2024. New debt is being raised at higher interest rates than historically experienced.	▸ Assess current debt agreements and the processes for managing drawdowns. ▸ We will consider the term and classification of debt for financial reporting purposes. ▸ We will obtain an external confirmation direct from LGFA of the outstanding debt position at year end with Council. ▸ We will review the disclosures in relation to debt in the financial statements for reasonableness and consistency with accounting standards. ▸ We will review the accounting treatment of the new interest rate swap arrangements undertaken during FY24 and obtain assurance in relation to their recognition, measurement and disclosure.

Digital Audit Approach

Your purpose built digital audit for now, next and beyond

Digitalisation continues to be one of the most important drivers of transformation, especially in these changing times. The effects of the COVID-19 pandemic have disrupted the normal accounting and reporting cycle for many companies and accelerated the digitalisation of working environments. It is even more critical now for companies to share trustworthy and readily available financial information for stakeholders.

- Hastings District Council stakeholders rightfully demand audits of the highest quality.
- Hastings District Council want to ensure that audits are leveraging your latest investments in systems, technology and data.
- Hastings District Council want greater transparency of the audit process.
- Hastings District Council expect auditors to ask meaningful and insightful questions about your data throughout the audit.



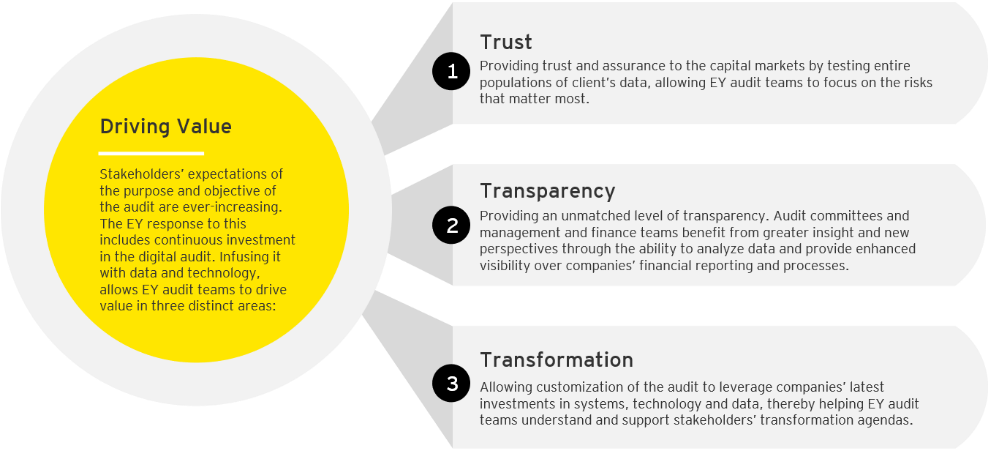
Data-driven Audit

To meet the expectations of stakeholders, regulators and clients of a modern audit, EY has invested over a $1bn in new technology, revolutionising our professional practice. This is the EY Digital Audit, the first data-driven audit.

As a result of EY's transformation journey, it stands today as the only global organization with the data, technology and people to provide a globally consistent, fully scalable and data-driven audit.

With the EY Digital Audit analysing large or full sets of data from our clients' data population, we are responsive to the changing risk profiles of our clients. This helps establish trust, not just in our clients' financial reporting but also in the capital markets as a whole. Data-driven procedures can bring insights to management and audit committees alike, enabling them to be proactive in investigating issues and addressing risks. This new level of transparency changes the client experience significantly and helps to make the audit more valuable.

The EY Digital Audit improves the way our auditors look at risk, reduces management burden in supporting the audit and provides new insights to improve Hastings District Council's finance processes.



Internal Control Environment

The primary responsibility for the design and operating effectiveness of the internal control environment, including the prevention and detection of fraud and error, rests with those charged with governance and management.

We obtain an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control we are required to communicate significant deficiencies in internal control to you.
Our assessment of internal controls covers:

- The control environment including entity level controls
- HDC's risk assessment procedures
- The design and operating effectiveness of internal controls (including IT general controls)
- Monitoring of controls (internal audit and self-assessment)

We provide management with a report on control findings during the audit process, outlining our findings and our recommendations on where improvements in internal controls can be made. Where significant deficiencies come to our attention, we will communicate these to the Committee.

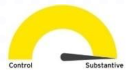
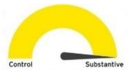
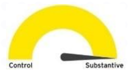
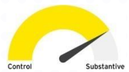
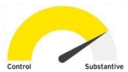
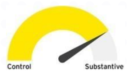
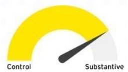
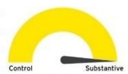
Assessing the Risk of Fraud

Our responsibility as the external auditor is to consider the risk of fraud and the factors that are associated with it so as to provide reasonable assurance that the financial statements are free from material misstatement resulting from fraud. However, it is important to note that while our external audit work is not primarily directed towards the detection of fraud or other irregularities, we will report any matters identified during the course of our work.

When developing our Audit Plan we use professional judgement in determining whether a fraud risk factor is present. We determine fraud risk factors in the context of the three conditions generally present when fraud occurs (i.e., incentive/pressure, opportunity and attitude/rationalisation).

Controls Reliance

Set out below is the level of controls reliance we expect to achieve over the key financial statement process. In the course of any audit, there are areas where a controls reliance approach is not appropriate and where a substantive audit approach is more efficient or effective.

Process	Internal Control
Financial statement close process	
Other revenue (fees and subsidies)	
Non-financial performance reporting	
Infrastructure assets management	
Rates setting and collection	
Expenses and payables	
Treasury	
Property buyout	

APPENDICES

A. Independence

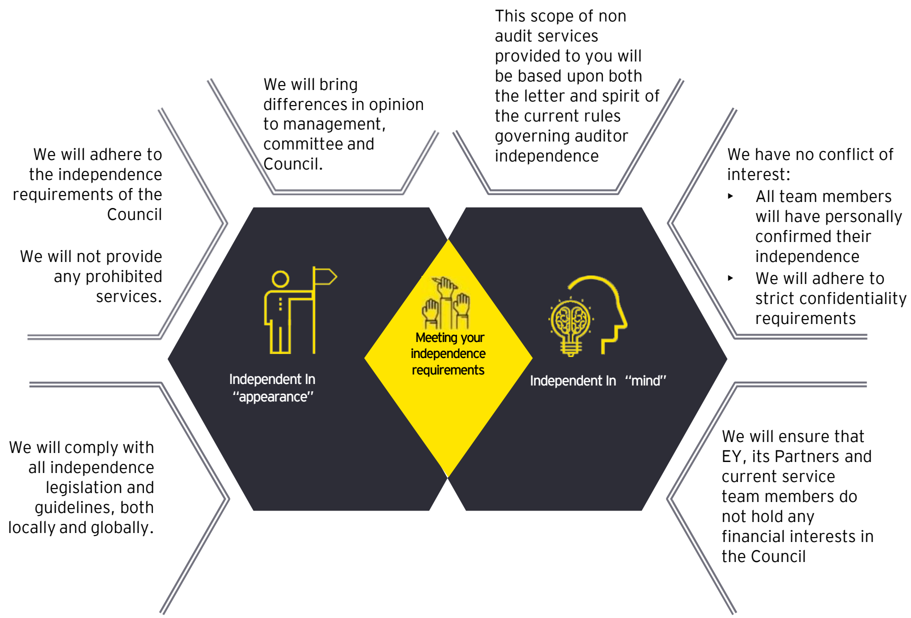
Independence is fundamental to EY as our ongoing reputation and success is connected to our ability to meet both the Council's and broader regulatory independence requirements.

We have consistently complied with all professional regulations relating to auditor independence including those outlined in:

- PES 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)
- Independence requirements of the Office of the Auditor-General

Accordingly, we ensure that there are controls in place and actions taken on a regular basis that mitigate any risks to our independence.

There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit Committee.



B. System of Quality Management

International Standard on Quality Management 1 (ISQM 1) overview

EY's approach to quality management

Professional and Ethical Standard 3 ("PES 3", which is the NZ version of ISQM 1) is applicable to all firms that perform audits and other similar engagements. As a result, we are required to design, implement and operate a system of quality management ("SQM") to provide reasonable assurance that:

- The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances

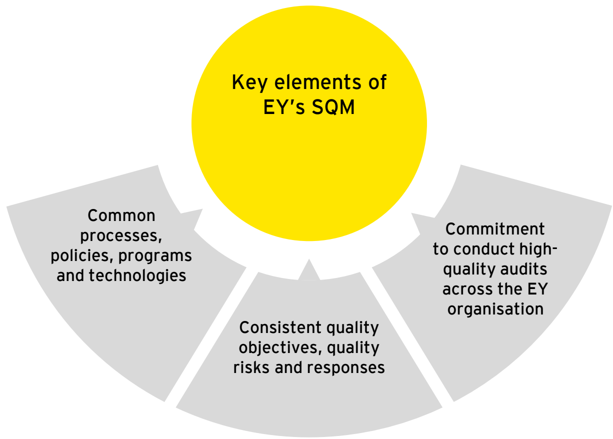
We are also required to monitor, remediate and annually evaluate the SQM as well as communicate to those charged with governance how the SQM supports the consistent performance of quality engagements. The following slides explain our approach and the results of our most recent assessment.

Individuals with SQM roles have the appropriate experience, knowledge, influence and authority, and sufficient time to fulfil their System of Quality Management roles and are accountable for fulfilling their responsibilities.

Key roles within the SQM include:

- The Country Managing Partner: assigned ultimate responsibility and accountability for the SQM by concluding on its effectiveness.
- The Country Assurance Managing Partner: assigned operational responsibility for the System of Quality Management. This includes recommending the System of Quality Management annual evaluation conclusion to the Country Managing Partner.
- The Country Independence leader: assigned operational responsibility for compliance with independence requirements.
- The Country Professional Practice Director: assigned operational responsibility for monitoring the SQM including concurring with or proposing changes to the recommended SQM annual evaluation conclusion.

EY is dedicated to delivering high-quality audits and assurance engagements and serving the public interest.



EY New Zealand is ultimately responsible for the design, implementation, and operation of their SQM, and have the responsibility to:

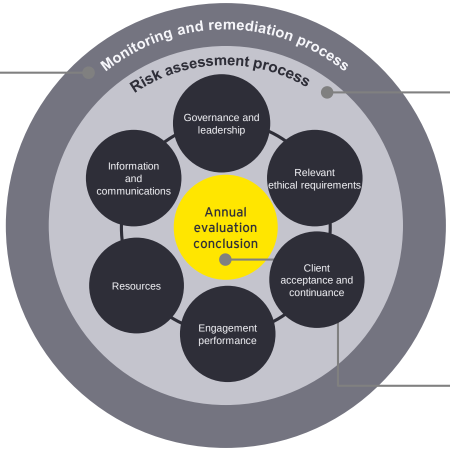
- Evaluate policies, technologies, strategies, programs and baseline elements provided to them, and
- Determine if they need to be supplemented by the firm to be appropriate for use

B. System of Quality Management (cont.)

SQM processes to support quality audits

Monitoring and remediation process

- Provide relevant, reliable and timely information about the design, implementation and operation of the SQM and a basis for the identification of deficiencies in the SQM.
- Monitoring activities include monitoring the entire SQM (e.g., testing SQM controls, internal inspections of completed engagements, assessing firm and personnel's compliance with ethical requirements related to independence).
- If deficiencies are identified, they are corrected on a timely basis and an action plan is designed, implemented and evaluated for effectiveness.



Risk assessment process

- Establishing quality objectives (based on PES 3 requirements).
- Identifying and assessing quality risks.
- Designing and implementing responses (including policies, technologies and key controls).

Annual evaluation conclusion

- The annual evaluation conclusion:
  - Is as of 30 June for all EY Member Firms performing engagements in the scope of PES 3
  - Considers the results of monitoring activities

B. System of Quality Management (cont.)

SQM annual evaluation conclusion **Effective**

The annual evaluation conclusion for EY New Zealand is that that the objectives of the System of Quality Management are being achieved as of 30 June 2023 and that they support the consistent performance of quality audits and related engagements.

Note: In the context of the annual evaluation of the SQM, EY New Zealand refers to the following member firms performing audits or reviews of financial statements or other assurance or related services engagements: Ernst & Young (partnership), Ernst & Young Limited and Ernst & Young Strategy and Transactions Limited.

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Finance

This part of the plan outlines the statutory financial information required to support the Long Term Plan.

In this section you will find the following:

- Significant Forecasting Assumptions
- Financial Strategy
- Financial Statements

Forecasting assumption and effect of uncertainty	Risk / Level of Uncertainty	Risk Mitigation
POPULATION GROWTH Over the next ten years (2024/25 – 2033/34) it is projected that the District's population will grow from approximately 93,400 to 102,900 (9,500 more residents) using a medium to high scenario. Māori and Pacific Island populations are expected to make up larger proportions of the population, due to their higher than average birth rates, and the district will become home to larger migrant communities. **Risk -** Population growth (either up or down over forecast) can impact on infrastructure servicing forecasts and forward demand for various Council services. Council considers that this assumption carries with it a low to medium risk to the integrity of the LTP as forecasts are regularly monitored and don't change drastically over small-time horizons, giving the Council ability to respond.	Low/Medium	The risk of either (higher or lower populations) can be effectively managed through Council monitoring and growth planning.
POPULATION AGEING The future changes to the demographic profile of the Hastings district generally reflect what is happening at a national level in terms of growth of the older population proportions. Hastings district will however have a greater share of older people than the national share. This may be due to older people choosing to live in the district for lifestyle reasons and opting for a warmer climate in the provinces rather than remaining in the big cities. Projections indicate that the Hastings district's older population (65 years and older) will grow from 18.3% of the population to 21.7% of the total district population by 2034. The aging population trend is well understood and integrated within standard Council planning processes. Activity areas where specific responses may be considered (i.e. aged housing responses) will be researched in more detail and any response the subject of a fully researched business case. A potential impact will be greater numbers of residents on fixed incomes and less community funding capacity.	Low/Medium	The Council's business attraction, skill development and job growth strategies are targeted at sustaining the rating base. The Council does have a number of investment pressures particularly in respect of Cyclone Gabrielle recovery costs and renewal funding but the Financial Strategy shows how this is proposed to be managed.
HOUSEHOLD NUMBERS It is projected that the District's household numbers will grow from approximately 34,650 to 38,400 (3750 new homes) by 2034. These projections take into account planned new housing developments within the district and uptake rates. **Risk** - The risk is that demand for housing is either less or more than that projected which could place Council at some risk of having provided additional infrastructure and services, with a slowdown in development contributions to pay for it, or alternatively growth could be stifled due to the lack of availability of housing in the marketplace forcing up house prices, rents, overcrowding and demand for emergency and transitional housing. Council does not control the market so is subject to external influences. Risk control is paramount for this activity of Council. Decisions to progress with infrastructure, however need to be made 1-2 years ahead of need which exposes Council to some residual risk of unforeseen changes in market conditions and slower uptake	Low/Medium	This risk can be effectively managed through Council monitoring and growth planning. Development areas are also managed by staging future planned developments, and via a threshold of uptake being reached before committing to infrastructure provision.

Forecasting assumption and effect of uncertainty	Risk / Level of Uncertainty	Risk Mitigation
DIRECTION OF GROWTH This section looks at the likely location for growth of industrial and residential development as identified in Council's strategy documents. a) Industrial Industrial growth is planned to occur along Omahu Road, in the Irongate area, and in the Whakatu-Tomoana nodes. b) Residential The programme sees the opening of the Howard Street development in Hastings in Year 1 with the Irongate/York development starting in year 2 and the Lyndhurst Extension in Yr 5 followed by Kaiapo/Murdoch in Yr 8 and Copeland Road being triggered around Year 11. In Havelock North the Iona/Middle Road area is the first priority in Yr 1 with further development in the Havelock North Hills and further stages of Brookvale in Years 4 and 6. Some initial developer driven development in Brookvale/Arataki is also anticipated along with new housing continuing in Te Awanga. Partnerships with other housing entities will also see new public housing development in Mahora, Raureka, and Flaxmere. Uptake of inner city living options in the Hastings central commercial area is also forecast. c) Commercial The Heretaunga Plains Urban Development Strategy does not forecast the need for any further commercial land over the life of the strategy.	Low	The direction of growth is managed by Council through a range of planning mechanisms, strategies and regulated via the Council's District Plan. A Growth Project Board also regularly monitors the external influences on the growth programme and adapts the programme if necessary. Staging developments and requiring uptake triggers to be reached before committing to infrastructure investment are other risk mitigation tools implemented by Council. The programme is indicative, and the Council continues to review programme timing and delivery.
RATING BASE Growth in the rating base is forecast to be relatively stable at approximately 0.95% per annum based on historical data and land available for subdivision and development. Council have used this figure in calculating the Summary of Rating Requirements in the financial statements for the 10 years of the plan.	Low	Rating base growth is a conservative and non-significant number in the context of the financial statements. It is reviewed every three years.
INFLATION The Local Government sector has commissioned BERL to undertake industry research to formulate a generic set of indices which can be used in the LTP production. This information has been analysed and reviewed in light of the economic climate. The inflation rates applied to Council budgets over the nine year period starting 2025/26 are as outlined below. These are considered prudent and in line with best practice. The risk or uncertainty which is considered low is that inflation levels will differ from those anticipated below.	Low/Medium	Forecasting financial assumptions are reviewed annually through the Annual Plan process

Year	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Road	2.0	2.3	2.3	2.2	2.1	2.0	2.0	2.0	1.9
Water	2.8	3.0	2.9	2.7	2.5	2.4	2.4	2.3	2.3
General Adjustor	2.1	2.1	2.0	1.9	1.9	1.8	1.8	1.8	1.7
Staff adjustor	2.2	2.1	2.1	2.0	1.9	1.9	1.9	1.8	1.8

Forecasting assumption and effect of uncertainty	Risk / Level of Uncertainty	Risk Mitigation
LIQUIDITY RATIO It is assumed that the current liquidity ratio which is within the Treasury Policy limits will be maintained through the life of this plan and that Council expects to be able to maintain the appropriate level of debt facilities required to achieve a liquidity ratio within the policy range of 110% – 170%.	Low	The appropriate level of liquidity cover will be reviewed on an annual basis.
INTEREST RATES The interest rate applicable on the Council's external borrowings is forecast to average between 5.0% to 5.5% over the first 3 years of the plan, gradually dropping down to 4% in the later years. (Note: this is an average and there will be variation within individual years). Risk – The risk is that the overall financial market conditions worsen, and future interest rates are higher than the current forecasts impacting on Council's overall financial forecast.	Low/Medium	Forecasting financial assumptions are reviewed annually through the Annual Plan process.
TREASURY POLICY DEBT ASSUMPTION (Current and non-current debt) The LTP assumes that debt will be managed in accordance with Council's Treasury Policy (maturing debt 1-3 years be in the range of 10% – 50%).	Low	Assumption in accordance with policy limits and part of annual review.
REVENUE STREAMS – NZTA The Council has made assumptions in respect to NZTA funding support for its investment programme. **Risk** - Continued under funding is a risk to the long-run needs of the network leading to the deterioration of roads, with potential road safety implications and escalating maintenance costs. These issues will need to be managed through programme changes and level of service discussions with our community. **TRANSPORT REVENUE STREAMS – CYCLONE GABRIELLE** The Council received a government commitment of $227m towards the transport recovery programme. Risk - The risks would be full or partial loss of that funding or changes in timing which would impact on Councils forward fiscal forecasts and the completion of critical works on our transport network.	Medium/High	Any changes in NZTA subsidy will require the Council to adjust its roading programme accordingly to fit within the funding envelope.
REVENUE STREAMS – SPLASH PLANET AND OPERA HOUSE	Low/Medium	A transition strategy has been in place to take the Opera House back to full operating capacity and accumulated reserve funds have being used to

Forecasting assumption and effect of uncertainty	Risk / Level of Uncertainty	Risk Mitigation
Assumptions have been made on forecast revenue streams for various tourism facilities such as Splash Planet and the HB Opera House (Toitoi). There is some risk with these assumptions as they are dependent on a reasonably favourable summer at Splash Planet and anticipated attendance numbers in general. The Opera House (Toitoi) is back to full operation after a period of closure with strong forward bookings.		achieve this. Splash Planet revenues have been set in line with actual results in recent years. This is considered a prudent approach. Splash Planet has met its targets for a number of years.
REVENUE STREAMS – INFRASTRUCTURE ACCELERATION FUND AND CROWN CONTRIBUTION TO CYCLONE GABRIELLE PROPERTY PURCHASE An LTP Amendment in 2023 assumed $18.5m of government funding toward new growth infrastructure in 2023/24. Much of this will now occur in 2024/25 An LTP Amendment for Cyclone Gabrielle Voluntary Residential Property Purchase assumes $50m of government funding. The risks would be full or partial loss of that funding or changes in timing.	Low	Binding contracts and agreements are in place and in progress. The Council will monitor the timing of cashflow and adjust as necessary.
REVENUE STREAMS – ECONOMIC ACTIVITY This plan assumes a relatively constant period of activity based on activity levels being experienced and forecast within our consenting area and the forward growth programme in the early years of the plan. Revenue projections in the Regulatory area have been based on actual levels of activity in recent years. The risk is that either activity levels drop of or that they exceed the Council's capacity to respond.	Low/Medium	Short term deficits in actual revenue are being managed by regular reporting and control of expenditure. Using outsourcing of consents to manage peaks in workload is another mitigation measure being implemented. It is considered unlikely that further resourcing will be required, but this would be addressed on a need basis through active monitoring of consenting levels.
LEVELS OF SERVICE Council is assuming that the general levels of service to which its activities are provided will not change. Whilst community expectations are unlikely to remain constant over time they are limited by funding constraints and ability to pay considerations. The magnitude of the Council's water investment programme, earthquake strengthening projects and now recovery from Cyclone Gabrielle has constrained level of service choices.	Low/Medium	This LTP is premised on taking a breather from any level of service improvement unless necessary. Any emerging issues would be tested via the Annual Planning process.
ENVIRONMENTAL It has been assumed that no abnormal events occur during the term of the plan over and above the standard tolerances such as weather no greater than a 1 in 5 year event and no damage causing earthquake.	Unquantified	A significant abnormal environmental event would prompt Council to reassess its budget priorities. Financial headroom exists within the Financial

Forecasting assumption and effect of uncertainty	Risk / Level of Uncertainty	Risk Mitigation
The stormwater network has been modelled to cater for a 1 in 5 year event. This in effect, allows for capture of a rainfall event within the piped stormwater network of approximately 100mm in a 24 hour period. Any events greater than this level have not been planned for and are not budgeted for within the 10 year forecast. Ponding and surface flooding will occur during abnormal events. It has also been assumed that Council controlled flood protection schemes remain intact and operate as planned as do Hawke's Bay Regional flood plain protection schemes. These assumptions are considered reasonable; however the degree of uncertainty is unable to be quantified. Should another abnormal weather or earthquake event occur, the forecasted costs will be insufficient to cover predicted damage. No provision has been made to respond to any international threat which is likely to have serious consequences for the integrity of the Ten Year Plan. Risk management practices have been developed to ensure the continuity of basic services for the community. Recent environmental disasters (i.e. Christchurch earthquake) have put pressure on insurance cover for Council assets.		Strategy to respond if required but not until outer years of the plan. . The Council Business Continuity Plan ensures the continued delivery of basic services in the advent of a wide range of potential threats to Council business. The Council budgets contain revised provisions for insurance cover to match insurance market levels.
RESOURCE CONSENTS This section assumes that the conditions of resource consents held by Council will not be altered significantly. Significant long term consents have recently been secured in the water services area considerably reducing the risk in this area.	Low	Whilst there are increasing community expectations regarding the environmental performance of Council infrastructure, significant changes would be signalled and planned for well in advance.
EARTHQUAKE PRONE BUILDINGS The Council have undertaken a number of assessments on Council facilities, with a number of others in progress. The most significant of these is the HB Opera House Complex (Toitoi), which has now been strengthened and completed and Heretaunga House which has recently been demolished. The balance of the programme is scheduled in this LTP.	Low/Medium	Any cost variations or programming timing changes will be addressed in respective Annual Plans or LTP's.
FUNDING OF GROWTH The Council's approach to funding growth is outlined in the Development Contributions Policy. An update to the Policy is proposed in 2024. FUNDING OF RENEWAL AND NEW ASSETS *Please refer to the Revenue and Financing policy for the funding approach taken.*	Low/Medium	Council takes a precautionary approach and stages growth projects in accordance with levels of uptake and the forward economic activity outlook. A major projects committee oversees the monitoring of economic activity and its impact on growth infrastructure & investment.
LANDFILL EXPANSION	Low/Medium	Obtaining consents in advance and undertaking the detailed planning in advance means that landfill expansion will be able to be implemented in a timely

Forecasting assumption and effect of uncertainty	Risk / Level of Uncertainty	Risk Mitigation
Continuing to landfill waste has been assumed within the LTP. The costs of development are incorporated within the LTP and are factored into the cost accounting recovery model for the Landfill. The uncertainty relates to the ultimate life of the current landfill given new waste minimisation measures to extend its life and further taxation measures which may be imposed on the landfill by central government.		manner in advance of the need for the additional capacity.
LOCAL GOVERNMENT FUNDING AGENCY (LGFA) Each of the shareholders of the LGFA is a party to a Deed of Guarantee, whereby the parties to the Deed of guarantee have obligations to the LGFA in the event of default. The risk would be in the event of default by a local authority borrower. Council has insufficient information to reliably forecast any potential impact of its shareholding.	Low	The Council believes the risk of the guarantee being called on and any financial loss arising from the guarantee is low. The likelihood of a local authority borrower defaulting is extremely low and all of the borrowings by a local authority from the LGFA are secured by a rates charge.
INSURANCE Insurance for 2024/25 was calculated using insurance forecast information provided by qualified insurance brokers. A general inflation adjustor has been applied to insurance from Years 2 – 10. The risk is that insurance costs could exceed the assumed cost.	Medium	Uncertainties in the insurance market are regularly monitored and able to be responded to through annual budget processes.
CLIMATE CHANGE Based on current information (Niwa report on climate change projections and impacts for Tairawhiti and Hawkes Bay, dated November 2020), the following climate change conditions are expected for the Hastings District: ▪ Annual average temperatures warm 0.5C – 1.0C by 2040 and 1.5C – 3.0C by 2090. The strongest warming is expected in autumn and the least is in winter; ▪ A decrease in the days of frost by up to 5 days (by the coast) and 20 days (inland) by 2040, and up to 30 to 50 days for inland areas by 2090; ▪ Heatwaves become more common with increases of between 10 and 20 days by 2040 and 20 to 60 days by 2090; ▪ A decrease in annual rainfall by 0-5% by 2040 and then by up to 10% and 15% in parts of Hawkes Bay by 2090; ▪ Short duration extreme rainfall totals increase between 5% and 14% per degree of warming. ▪ Drought potential increases; ▪ Changes in rainfall are expected to impact river flows with annual average discharge decreases by approximately 20% by 2090; ▪ A rise in sea-level of 0.4m by 2060 (under the high emissions pathway) and by 2090 (by the mid-range emissions pathway); In summary the security of water supply, impacts on the agriculture and horticulture sectors and impacts on our coastal communities, along with resilience issues for Council infrastructure are likely to be the biggest issues in the Hastings District.	Medium	Climate Change Adaptation The Infrastructure Strategy outlines a number of mitigation responses including specific coastal works in high risk areas, infrastructure allowances for rainfall intensification and the TANK process and its focus on water security. The Council's Financial strategy creates funding capacity in outer years to address emerging climate change action plans. Coastal Communities This Plan makes continued provision for the required planning resources to advance the Coastal Strategy. The Council's Financial Strategy contains some headroom to enable the assessed public benefits from the option(s) chosen to be implemented. However, a regional discussion as to the most appropriate funding solution is still to be agreed.

Forecasting assumption and effect of uncertainty	Risk / Level of Uncertainty	Risk Mitigation
The risk or uncertainty is that either the scale or timing of impact is different to that which is understood at this time. The Clifton to Tangoio Coastal Hazards Strategy 2120 is being developed to understand coastal hazards risks and the management options for this key part of the Hawke's Bay coastline. There are likely to be far reaching funding impacts for our community, however these have not been fully quantified or a funding strategy agreed at this time. Note: More information can be found within the Infrastructure Strategy.		
Regional Coastal Strategy The Clifton to Tangoio Coastal Hazards Strategy 2120 is being developed to understand coastal hazards risks and the management options for this key part of the Hawke's Bay coastline. There are likely to be far reaching funding impacts for our community over time. The Infrastructure Strategy sets out the process undertaken to date and future proposed steps. The full impacts have not been fully quantified or a funding strategy agreed at this time. This work is in progress with the partner Councils and is likely to form a separate consultation process after the 2024-2034 Long Term Plan.	Medium	This plan makes provision for the required planning resources to take the project forward but the more far reaching funding decisions are still subject to statutory planning processes and community engagement. A change to the Council's Treasury Policy provides the financial headroom to enable any assessed public benefits from the option(s) chosen to be advanced.
Capital Expenditure Do-Ability This assumption looks at the likelihood of the Council delivering its forecast capital expenditiure programme and the consequence of either under or over delivering on that forecast. An historical analysis of delivery of the Council's capital expenditure plan shows that from an overall value perspective that generally falls in the $65 million to $80 million band. The forecasts contained within the Long Term Plan fall outside this band but are influenced by Cyclone Gabrielle Recovery work which has bespoke delivery processes in place. The risk is that this elevated programme is not delivered and that either infrastructure is not delivered on time and that the borrowing to fund the programme is obtained from ratepayers earlier than necessary. The Council has assessed the risk as medium in terms of delivering the more optimistic capital programme in years 1-2 for the following reasons: ▪ The creation of the Major Capital Projects Delivery Group with two new personnel who can move focus from the rollout of the drinking water project to other projects; ▪ The historical delivery record of transportation team and the advanced status of the planning and design elements of that capital programme; ▪ The established working relationship with a key external contractor on delivery of the ongoing wastewater trunk main renewal programme; ▪ The work undertaken in rationalising the programme down from earlier forecasts, particularly where projects could not meet the test of being suitably advanced through the pre-planning and design phases.	Medium	Despite best forecasts, externalities not always under Council control can impact on the overall delivery of the capital plan. To recognise this, Council has reduced the budgeted capital expenditure over the first year by $20.0m. This brings the capital programme into line with what Council anticipates can be delivered when those externalities are considered. The exact projects or programmes of work that could be affected by this deliverability assumption cannot be identified at this stage, however this adjustment over the first year of the plan is not expected to affect infrastructure levels of service and is a reflection of what is achievable over this time. It is not targeted at the planned renewal of critical assets which has a developed work programme to support it.

Revaluation of Plant, Property and Equipment (PPE)

PPE assets will be revalued using the following cycles:

- Land and Buildings (3 yearly – 2026/27, 2029/30, 2032/33)
- Infrastructure – roading two yearly (Years 2,4,6,8,10), wastewater, stormwater, water – two yearly (Years 1,3,5,7 and 9), Parks (3 yearly – 2024/25, 2027/28, 2030/31)
- Library books (yearly)
- Heritage assets (5 yearly – 2027/28 and 2032/33)

The revaluation of infrastructure assets has been based on the Business & Economic Research LTD (BERL) forecast of price level change adjustors and revaluation movements will be shown in the statement of comprehensive income. The revaluation of land and buildings has been based on a 12.49% increase in every third year.

Useful lives of assets

All other assets with the exception of Plant, Machinery and Vehicles are depreciated on a straight-line basis at rates estimated to write off their cost over the expected useful economic life. Plant, Machinery and Vehicles are depreciated using a combination of straight line and diminishing value. The expected lives of major classes of assets are as follows:

	Expected Life (Years)		Expected Life (Years)
Buildings		Furniture and Fittings	4 – 14
Structure/Envelope	20 – 65	Computer and Office Equipment	2 – 5
Building Services	15 – 35	Library Collections	5 – 10
Building Fit Out	30 – 50	Landfill	
Heavy Plant and Machinery	7 – 10	Permanent Facilities	42
Other Plant and Machinery	2 – 15	Valley A & D Development	12 – 15
Motor Vehicles	4 – 15	Other	5
Water Supply		**Wastewater**	
Pipes	27 – 120	Pipes	25 – 100
Valves, hydrants	50 – 80	Manholes	80

	Expected Life (Years)		Expected Life (Years)
Pump Stations	15 – 80	Pump Stations	15 – 80
Bores	50	Treatment Plant	20
Reservoirs	100	Submarine Outfall	50
Treatment Plant	5 – 20		
Stormwater Disposal		**Roading Network**	
Pipes	100	Top Surface (seal)	13
Manholes	100	Pavement (including kerbs)	30 – 85
Detention Dams	100	Formation	Not depreciated
Open Channels	50	Footpaths	20 – 75
Service Laterals	80	Street Lights (poles)	50
Parks		Traffic Signals	15
Soft Landscaping	38 – 75	Signs	10 – 15
Hard Landscaping	6 – 100	Unsealed Roads	Not depreciated
Playgrounds	7 – 50	Roading Land	Not Depreciated
Services	30 – 80	Bridges & Culverts	85
Structures	6 – 100		
Buildings	6 – 100		

Financial Strategy

What is a Financial Strategy

The financial strategy explains how the Hastings District Council proposes to manage its finances. It sets out how Council will manage competing priorities for funding and explains the effects of its proposed expenditure programmes on Council's services rates and debt.

The Detail

Context and Challenges

Much has changed since Council last prepared a 10-year plan in 2021.

Compared to the 2021-31 plan the broader economic landscape in New Zealand has changed with higher inflation and higher interest rates significantly impacting on Council's finances. Several new projects were also funded or committed to, leveraging off significant external funding.

Compounding our challenges going forward the financial impact of cyclone Gabrielle will be felt for some time as Council rebuilds damaged roads and bridges, funds its cyclone response and its share of property buy outs. In addition, the proposed Three Waters reforms have been halted meaning Council must continue to fund the significant forward investments needed for water, wastewater and stormwater networks. All of this is now placing pressure on our finances.

Our starting point for this plan sees Council with projected external debt of $396 million as at June 2024 compared to a peak debt projection of $291 million in the 2021-31 LTP. Current interest rates of 5.5% are significantly higher than the average assumption of 3.5% in the last LTP which means finance costs, and the current and future debt levels will constrain what Council is able to aspire to and achieve over the next 10 years.

Managing debt levels and competing priorities

Following cyclone Gabrielle Council needs to fund circa $950m of transport response and recovery costs in addition to its capped $50m share of property buy out costs and other recovery costs for other assets and community support. The Government has agreed to fund 100% of $227m worth of transport projects leaving Council to fund its local share of the remaining cost. NZTA Waka Kotahi has already provided funding support for the immediate response with a 93% subsidy covering a $108m of expenditure. Assuming NZTA Waka Kotahi provides 73% funding on the balance the net amount Council needs to fund to recover from Cyclone Gabrielle, including property costs, is $230m.

In addition, significant new expenditure is required for our water, wastewater and, to a lesser extent, stormwater networks. This is needed to replace assets close to the end of their service life and to also provide for growth.

Unfortunately, much of the required expenditure is needed in the first few years of this plan and this will stretch Council's financial capacity.

A delicate juggling act is needed to balance the large infrastructure needs with community affordability without breaching debt limits.

Large rate increases are needed at a time when many in the community are facing a cost of living crisis. This is a common theme across local government in New Zealand. The challenge for Hastings is exacerbated by the need to fund cyclone recovery costs.

This draft 10 year plan includes a proposed total capital spend of over $2 billion over 10 years. $800m of this relates to cyclone recovery with the other $1.2 billion relating to asset renewals and improvements, including providing $201m of new infrastructure for growth. Total Council debt is projected to peak at $701m in year 6 (2029-30). The strategy on managing and funding debt of this magnitude is a key feature of this financial strategy.

Key changes to our approach to funding

Managing finances in a constrained environment requires a clear focus on priorities and the timing of key expenditures. All expenditure impacts on Council's debt levels unless we have a revenue source to fund it.

Part of our strategy to manage debt more effectively is to simplify the approach to funding expenditures.

The age-old practice of setting aside funds in reserves and using these "reserves" to fund projects is no longer fit for purpose. Council does not have any separate investments to support its reserves, so any use of reserves results in an increase in external borrowings.

In the past Council has used a mixture of debt and reserves to fund Council projects. Tis approach allowed some of these reserves to go into deficit on the basis that, over time, the reserve balances would slowly recover. Unfortunately, the previous approach did not allow for any finance costs on negative reserve balances. In addition, despite Council's best intentions, increased costs to deliver services and replace assets have resulted in reserve balances being depleted. The impact of the depletion in reserves has been an increase in Council debt and an increase in finance costs (interest).

Going forward it is proposed that Council will only create and hold reserve funds where:

1. There is a legal requirement to do so (restricted reserves such as trusts and bequests).
2. There is a need to manage separate funds such as selected targeted rates and reserves for the Joint Landfill committee.

And no reserve balance shall be allowed to go into deficit. If a reserve fund does not have sufficient funds to cover proposed expenditure the expenditure will be funded from borrowings- not reserves.

As part of the introduction of this revised approach most existing reserve accounts will be closed and any deficit balances with be converted to debt with interest costs incorporated in budgets.

Key changes to financial limits and how they are calculated

Going forward the Council cannot manage within the previous debt to revenue limit of 175%. The maximum limit accepted by our funder (LGFA) over the medium term is a debt to income of 280% however Council must retain some capacity for any future event or financial shock.

Proposed debt to revenue Limit[4] 250%

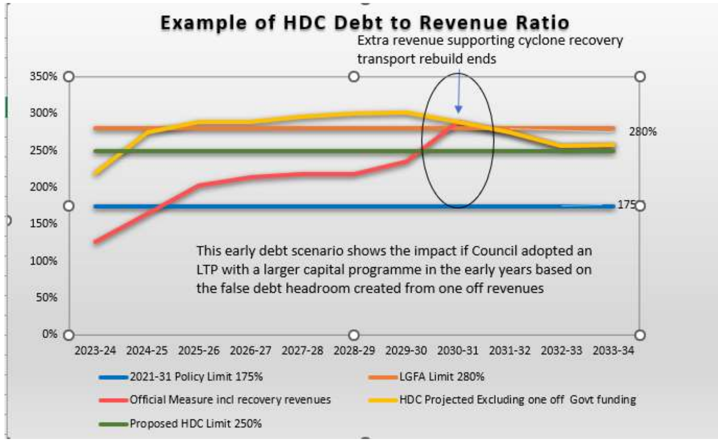
This proposed new debt limit will measure debt against revenue from continuing operations (see footnote).

The official measure takes all revenues, except for Development contributions. This measure includes all of the additional subsidies Council will receive to support the transport cyclone recovery programme. The extra subsidies and grants for one-off projects is not an ongoing revenue source.

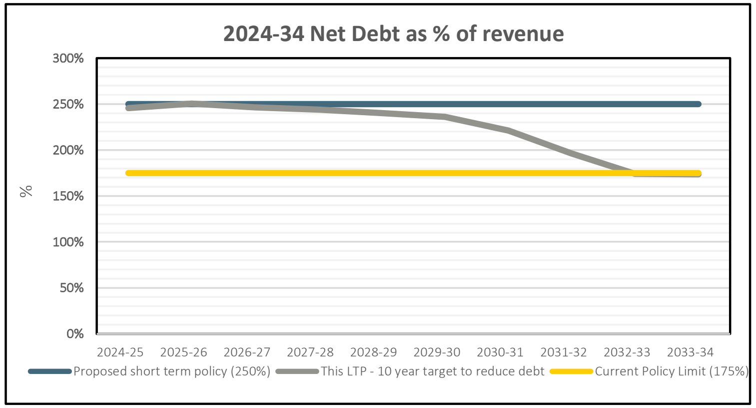
Council has decided it is more prudent to exclude these one-off or non-recurring revenues from the debt to revenue calculation. This will ensure that the additional, false, debt headroom this creates is not consumed as this would result in potential breaches of the limits once these one-off revenues are removed.

[4] Measured as net external debt divided by revenue (excluding revenues received to fund the purchase of new assets). Referred to as revenue from continuing operations.

The following graph shows the dramatic impact on the official measure when the extra subsidies supporting the cyclone recovery transport programme end in a situation where the proposed capital programme was not adjusted in the early years of this LTP. By using the modified ratio Council has reduced the proposed capital spend to more manageable levels



The following graph shows the projected debt to revenue ratio based on the draft LTP budgets. This shows the Council has no spare capacity over the first 3 years if it wants to stay within its 250% limit. This is based on the proposed rate increases of 25%, 15% and 10% and the proposed capital programme.



Balanced budget and funding depreciation

Council is required to collect sufficient revenues to fund its operating expenditure each year. This is referred to balancing the budget.

Balancing the budget is about ensuring todays ratepayers pay the correct amount for the services they receive each year, ensuring that future ratepayers are not required to pay to much (to make up for any shortfalls in funding due to the failure of previous ratepayers to pay their fair share).

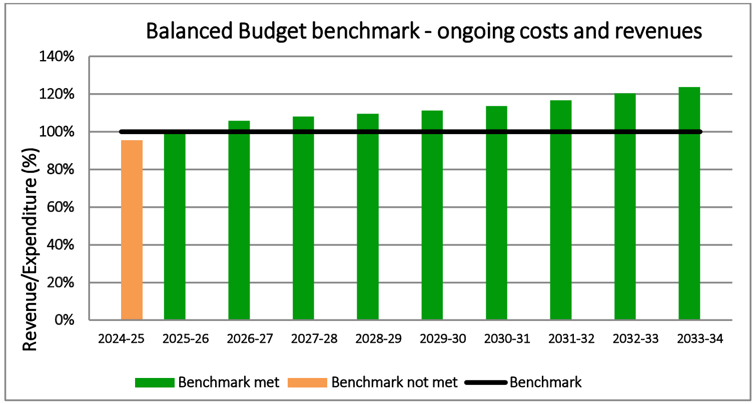
Council can set its revenue levels differently (not balance the budget) provided Council determines that it is financially prudent to do so.

The calculation of the Balanced Budget Ratio is set out in the Local Government Financial Reporting and Prudence) Regulations 2014. The calculation divides revenue (excluding development contributions and non-cash adjustments) by operating expenditure. As with the debt to revenue ratio this has the unintended consequence of distorting the ratio when a Council has an abnormal level of one-off revenues (such as the extra subsidies HDC will receive to support the cyclone recovery). This distortion also occurs when a Council receives donations, subsidies and grants for a major new project such as the new Museum Archives Storage facility.

The inclusion of these one-off revenues can give the impression that a Council is collecting sufficient annual revenues when, in reality, it is not.

As part of this Financial Strategy Council proposes to introduce a new balanced budget measure that excluded the effect of one-off variations in revenues. This will enable Council to monitor its annual revenues, from continuing operations, against its budgeted expenditure.

The following graph shows the balanced budget calculation for Council. This is Council's modified measure of a balanced budget on continuing operations.



Each year Council's budgeted operating expenditure includes the estimated depreciation expense for the year. This is the portion of the value of assets consumed each year (the assessed value todays ratepayers should fund). As the balanced budget ratio includes depreciation balancing the budget means that Council is collecting sufficient revenues to "fund" depreciation.

Level of depreciation funded in particular activities

Council's previous financial strategy discussed our approach to funding depreciation on separate asset categories. A modified approach has been applied in the past on the basis that the annual depreciation expense does not always match the actual level of asset renewal expenditure needed.

While there is debate as to which number is correct (depreciation vs renewals spend) Council's approach going forward will be to aim to fully fund depreciation by having a balanced budget each year. Variations can occur at an asset class or network level as a pricing mechanism however Council should still strive to balance the budget at an organisation-wide level.

Where the level of asset renewals is lower than the annual depreciation expense the cash generated from funding depreciation is to be used to retire debt, thus increasing Council's future financial capacity.

The following table shows Council's past (2021-31 LTP) approach and the proposed approach for this LTP to funding depreciation for key Council activities.

Activity	2021-31 LTP policy	2024-34 LTP policy	Explanation
Roading	Fully fund depreciation	Fully fund depreciation	No change to approach
Wastewater	Move to fully fund depreciation with escalations from year 4	Move to fully fund depreciation with escalations from year 1 onwards	Due to large asset value increase the proportion of depreciation funded has declined so significant increases in wastewater targeted rates are required
Stormwater	Fund $655,000 p.a.	Progressively increase the %age of depreciation funded	Stormwater assets are aging so funding levels need to increase
Water Supply	Fully fund depreciation from year 3	Fully fund depreciation	No change to approach
Parks	Fully fund depreciation	Fully fund depreciation	No change to approach

Statement of Significant Factors

The factors that are expected to have a significant impact on the Council during the consecutive financial years covered by this strategy are:

Expected changes in population and land use

WHAT WE NEED TO RESPOND TO	OUR RESPONSE
Changes in population and land use	Key responses to changes in population and land use
• A medium to high rate of population growth is expected (approx. 9,500 more residents by 2034), with 3,750 new homes. • Increase in the age of the population over time. • Housing changes – The Council's Growth Strategy current demand and Council sequencing priorities forecasts the need for a number of new development areas and mixed housing types.	Capital Expenditure • Core infrastructure investment to make serviced land available predominantly in Iona/Middle, Havelock Hills and Brookvale. • Upgrading and extension of parks & reserves facilities. • Staging of infrastructure, monitoring of uptake rates and upfront payments in some cases to limit Council risk exposure. Operating Expenditure Changes • Some increases in service level funding provision in community facilities, particularly parks and reserves.

Expected capital expenditure on network infrastructure

WHAT WE NEED TO RESPOND TO	OUR RESPONSE
Capital expenditure on network infrastructure	Key responses to network infrastructure needs
• Ageing roads (built 1960's) means a higher road renewal need. • Strengthening of bridges is required as assets age and are increasingly used by heavier trucks. • Escalated wastewater renewal need identified after a period of investigation – particularly trunk mains and Wastewater Treatment Plant. • Renewal cycle for stormwater starts in about 10 years • The need for new growth infrastructure investment (particularly wastewater) • Cyclone Gabrielle	• A significant period of road renewal escalations is provided for in stages over 9 years. • The remaining years of an investment package in bridge strengthening (now overlaps with Cyclone Recovery) • A gradual escalation in depreciation funding in the wastewater activity. • Critical renewals at the wastewater Treatment Plant. • Financial provision for stormwater sump renewals in years 1-10 with escalated period of renewals in the 11-30 year period • An LTP Amendment in 2023 outlines the growth wastewater response in detail which involves a multi year investment of $230m.- adjustments have been made in the 2024 LTP to the pace of this programme. • A circa $800m transport recovery programme from Cyclone Gabrielle

Other significant factors

WHAT WE NEED TO RESPOND TO	OUR RESPONSE
Other significant factors	Key responses to other significant factors
Buildings • Earthquake strengthening of Council buildings **Parks** • Growth of tree planting, hard landscaping and play facilities creating large asset base for renewal **Environmental** • Rollout of changes to waste collection services and Landfill expansion • Outcomes of the HB Regional Coastal Strategy • Climate Change	• Ongoing programme of earthquake strengthening on remaining Council buildings in the strengthening programme. • Continuing renewal escalations in the Parks area to bring renewal base to appropriate level, and to look after new assets built during a significant period of new asset creation. • The key features of the Waste Management and Minimisation Plan have now been rolled out across the community. Future Landfill expansion at Omarunui Landfill has been included in this Long-Term Plan. • Funding provision for ongoing strategy completion commitments, and for Council network infrastructure at potential risk on the coast. Note: The Hawkes Bay Regional Council is leading and consulting on the Regional Coastal Strategy and the infrastructure responses and the funding model options. • In addition to the direct coastal impacts other climate change responses can be found within the Infrastructure Strategy.

Funding Growth

This plan responds to the ongoing growth in the local economy and demand for land via infrastructure investment to service new residential development areas.

In addition the Council has significant forward industrial capacity established via its investment completed in both the Omahu and Irongate areas, with good uptake and upfront development contribution payments to minimise the Council's risk exposure.

The Council's continued policy is to allocate the cost of growth to those generating the need for that expenditure via the charging of development contributions. The 30 Year Infrastructure Strategy outlines the methodical staging plan for proposed development areas based on forecast uptake rates.

The Councils strategy to minimise any financial risk exposure is to constantly monitor the housing market, liaise actively with the development community and to adjust its programme and stage developments where feasible in accordance with economic activity.

In this 10 year plan Council proposes to spend $201m on new infrastructure to support growth. This is supported by budgeted revenues from Development Contributions of $161m. The timing of when Council invests in the new infrastructure is crucial to ensuring it is the growth community, not existing ratepayers, who pay for this additional growth infrastructure. If the budgeted revenues to support growth do not materialise, Council will need to reduce its planned spend otherwise council debt and compounding finance costs could significantly increase the level of required development contributions.

Ultimately it is ratepayers who could be asked to fund some of these finance costs if too much is invested in growth infrastructure and Council is unable to recover it all from growth.

Links to infrastructure Strategy

The Financial Strategy should be read in conjunction with the Infrastructure Strategy which contains further detail on overall capital expenditure and renewal funding requirements, along with information on the reliability of asset data.

Links to other policies

The Councils Treasury Policy outlines a range of other relevant matters that underpin the Financial Strategy, including Council policy on giving securities for its borrowing, along with Council objectives for holding and managing financial investments and equity securities and quantified targets for returns on those investments and securities.

Financial Targets

This strategy sets out how Council will fund its activities and the impact this will have on services, debt and rates levels over time. The strategy provides a guide for Council to consider proposals for funding and expenditure against.

WHAT WE NEED TO RESPOND TO	OUR RESPONSE

Major Infrastructure

An ageing asset profile and consequential impact on maintenance and renewal spend

Cyclone Recovery

A circa $800m transport recovery programme from Cyclone Gabrielle

Higher Service Level Expectations

Higher service expectations on our parks and public spaces and the forward renewal of those new assets

Our Community

Ratepayer affordability challenges
Variation in the makeup of the district – rural and urban

A Sustainable Funding Model

Maximum total rates increases will be limited to the forecast movement in the Local Government Cost Index (LGCI) General Adjustor for each respective year, plus 4% from year 4 onwards. Due to the significant financial pressure in the first 3 years rate increases, and the rates limit, need to be much higher. The proposed rate increases for the first 3 years are 25% for year 1, 15% for year 2 and 10% for year 3. The rates limit for each of these years is the forecast increase plus LGCI.

These higher rates and limits are needed to cover costs related to cyclone recovery, the delivery of core services including new initiatives or service level increases approved by Council, together with costs associated with growth not covered by development contributions. These figures are upper limits and Council will work to improve efficiencies and provide rate increases within these. (Note: individual property increases could vary from Council limits due to property revaluations and changes in the rating system). Limits would be reassessed in the event of a major disaster. Council will consider overall economic conditions when setting rates.

Forecasted rates revenue and rate increases in this plan (inclusive of inflation allowances):

	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	32/33	33/34
Total Rates Forecast	139.6m	$163.2m	$180.8m	$190.1m	$200.2m	$210.3m	$220.6m	$231.4m	$242.7m	$254.7m
Rate Increase %	25%	15%	10%	4.3%	4.4%	4.1%	4.1%	4.0%	4.0%	4.0%

Note: The rate increase % reflects the average increase in rates charged to ratepayers. It excludes location specific targeted rates and includes growth in the rating base of 0.95% per annum. The rates revenue differs from the rates requirement used for the rates increase and the rate increase needs to allow for forecast remissions that are netted off from rates revenues and excludes water by meter rates. Note: Includes projects dependant on external funding support.

These may be adjusted through the annual plan process within the limits outlined.

Debt limits will be managed within a range of limits as follows:	Limits
Net debt as a percentage of income	<250%
Net Interest as a percentage of income	<15%
Net Interest as a percentage of annual rates income	<20%
Liquidity (external term debt plus committed bank facilities plus liquid investments divided by current external debt)	110-170%