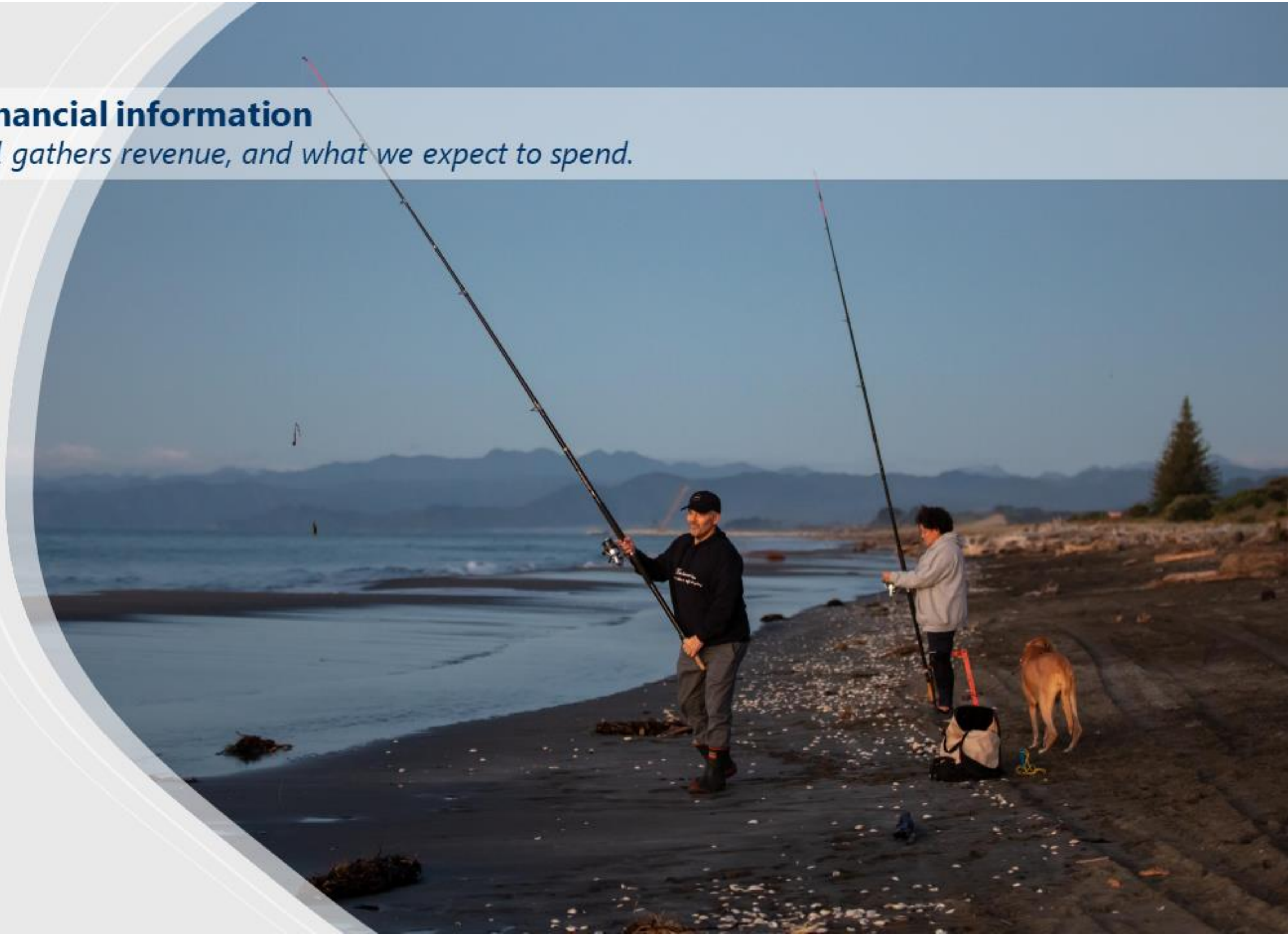
Part Two – Financial information

How the Council gathers revenue, and what we expect to spend.



Forecast Financial Statements

Prospective Statement of Comprehensive Revenue and Expense

Prospective Statement of Comprehensive Revenue and Expense
for the 10 years ended 2035

	AP 2024 $000	LTP 2025 $000	LTP 2026 $000	LTP 2027 $000	LTP 2028 $000	LTP 2029 $000	LTP 2030 $000	LTP 2031 $000	LTP 2032 $000	LTP 2033 $000	LTP 2034 $000
Revenue											
Rates	14,741	16,289	16,780	18,408	19,319	20,243	21,251	22,352	23,238	24,195	25,042
Subsidies and Grants	8,254	7,083	6,881	5,265	5,802	5,968	5,717	4,946	5,267	5,269	5,322
Fees and Charges	2,250	1,969	2,010	2,472	2,525	2,576	2,626	2,677	2,726	2,776	2,827
Finance Revenue	46	-	-	-	-	-	-	-	-	-	-
Other Revenue	379	105	107	109	112	114	116	119	121	123	125
Total Revenue	**25,670**	**25,446**	**25,779**	**26,255**	**27,758**	**28,902**	**29,711**	**30,093**	**31,352**	**32,364**	**33,315**
Expense											
Personnel costs	7,279	7,754	7,978	8,202	8,427	8,651	8,876	9,100	9,324	9,549	9,773
Depreciation and Amortisation	3,974	5,230	5,431	5,538	5,714	5,913	6,150	6,249	6,344	6,477	6,619
Finance Costs	214	964	1,289	1,492	1,845	2,232	2,721	3,075	3,374	3,821	4,076
Other Expenses	10,129	10,365	10,595	10,858	11,091	11,328	11,553	11,752	11,980	12,228	12,425
Total Expense	**21,596**	**24,313**	**25,293**	**26,091**	**27,076**	**28,125**	**29,300**	**30,177**	**31,022**	**32,075**	**32,892**
Net Surplus (deficit) for the period	**4,074**	**1,133**	**486**	**164**	**681**	**777**	**411**	**(83)**	**330**	**289**	**423**
Other comprehensive revenue and expense											
Gain on revaluation of property plant and equipment	-	-	11,734	2,067	-	16,199	2,697	-	20,957	2,952	-
Total Comprehensive revenue and expense for the period	**4,074**	**1,133**	**12,220**	**2,232**	**681**	**16,976**	**3,109**	**(83)**	**21,287**	**3,241**	**423**

Prospective Statement of Changes in Equity

Prospective Statement of Changes in Equity
for the 10 years ended 2035

	AP 2024 $000	LTP 2025 $000	LTP 2026 $000	LTP 2027 $000	LTP 2028 $000	LTP 2029 $000	LTP 2030 $000	LTP 2031 $000	LTP 2032 $000	LTP 2033 $000	LTP 2034 $000
Total equity opening balance	328,648	336,521	337,655	349,874	352,106	352,787	369,763	372,872	372,789	394,076	397,317
Total Comprehensive revenue and expense for the period	4,074	1,133	12,220	2,232	681	16,976	3,109	(83)	21,287	3,241	423
Total equity - closing balance	**332,722**	**337,655**	**349,874**	**352,106**	**352,787**	**369,763**	**372,872**	**372,789**	**394,076**	**397,317**	**397,740**

	AP 2024 $000	LTP 2025 $000	LTP 2026 $000	LTP 2027 $000	LTP 2028 $000	LTP 2029 $000	LTP 2030 $000	LTP 2031 $000	LTP 2032 $000	LTP 2033 $000	LTP 2034 $000
Components of equity											
Ratepayers equity											
Opening balance	146,673	151,580	152,714	153,200	153,364	154,045	154,823	155,234	155,151	155,481	155,769
Net Surplus (deficit) for the period	4,074	1,133	12,220	2,232	681	16,976	3,109	(83)	21,287	3,241	423
Transfers special fund reserves	(652)	-	-	-	-	-	-	-	-	-	-
Transfers revaluation reserves	-	-	(11,734)	(2,067)	-	(16,199)	(2,697)	-	(20,957)	(2,952)	-
Closing Ratepayers equity	**150,095**	**152,714**	**153,200**	**153,364**	**154,045**	**154,823**	**155,234**	**155,151**	**155,481**	**155,769**	**156,192**
Special funds reserves											
Opening balance	1,649	2,562	2,562	2,562	2,562	2,562	2,562	2,562	2,562	2,562	2,562
Transfers ratepayers equity	652	-	-	-	-	-	-	-	-	-	-
Closing Special fund reserves	**2,301**	**2,562**	**2,562**	**2,562**	**2,562**	**2,562**	**2,562**	**2,562**	**2,562**	**2,562**	**2,562**
Revaluation reserves											
Opening balance	180,326	182,379	182,379	194,113	196,180	196,180	212,379	215,076	215,076	236,033	238,985
Transfers ratepayers equity	-	-	11,734	2,067	-	16,199	2,697	-	20,957	2,952	-
Closing Revaluation reserves	**180,326**	**182,379**	**194,113**	**196,180**	**196,180**	**212,379**	**215,076**	**215,076**	**236,033**	**238,985**	**238,985**
Total equity - closing balance	**332,722**	**337,655**	**349,874**	**352,106**	**352,787**	**369,763**	**372,872**	**372,789**	**394,076**	**397,317**	**397,740**

Prospective Statement of Financial Position

Prospective Statement of Financial Position
for the 10 years ended 2035

	AP 2024 $000	LTP 2025 $000	LTP 2026 $000	LTP 2027 $000	LTP 2028 $000	LTP 2029 $000	LTP 2030 $000	LTP 2031 $000	LTP 2032 $000	LTP 2033 $000	LTP 2034 $000
Current Assets											
Cash & Cash Equivalents	4,160	4,511	4,511	4,511	4,511	4,511	4,511	4,511	4,511	4,511	4,511
Debtors & Other Receivables	3,385	3,175	3,175	3,175	3,175	3,175	3,175	3,175	3,175	3,175	3,175
Prepayments	218	199	199	199	199	199	199	199	199	199	199
Available for Sale Assets	49	51	51	51	51	51	51	51	51	51	51
Total Current Assets	**7,812**	**7,935**	**7,935**	**7,935**	**7,935**	**7,935**	**7,935**	**7,935**	**7,935**	**7,935**	**7,935**
Non Current Assets											
Investment in CCO's and Other Entities	-	211	211	211	211	211	211	211	211	211	211
Investment in Associate	153	33	33	33	33	33	33	33	33	33	33
Investment Property	3,209	4,769	4,769	4,769	4,769	4,769	4,769	4,769	4,769	4,769	4,769
Property Plant & Equipment	335,608	346,762	361,352	368,934	376,403	402,221	412,550	417,400	446,616	453,851	458,837
Intangible Assets	76	36	36	36	36	36	36	36	36	36	36
Total Non Current Assets	**339,046**	**351,811**	**366,400**	**373,982**	**381,452**	**407,269**	**417,599**	**422,448**	**451,664**	**458,899**	**463,886**
Current Liabilities											
Creditors & Other Payables	7,454	6,820	6,820	6,820	6,820	6,820	6,820	6,820	6,820	6,820	6,820
Employee Benefit Current	508	555	555	555	555	555	555	555	555	555	555
Total Current Liabilities	**7,962**	**7,375**	**7,375**	**7,375**	**7,375**	**7,375**	**7,375**	**7,375**	**7,375**	**7,375**	**7,375**
Non Current Liabilities											
Borrowings	6,106	14,657	17,027	22,377	29,165	38,007	45,227	50,160	58,089	62,083	66,647
Provisions	68	59	59	59	59	59	59	59	59	59	59
Total Non Current Liabilities	**6,174**	**14,716**	**17,086**	**22,436**	**29,224**	**38,066**	**45,287**	**50,220**	**58,148**	**62,143**	**66,706**
Net Assets	**332,722**	**337,655**	**349,874**	**352,106**	**352,787**	**369,763**	**372,872**	**372,789**	**394,076**	**397,317**	**397,740**

Prospective Statement of Cash Flows

Prospective Statement of Cashflows
for the 10 years ended 2035

	AP 2024 $000	LTP 2025 $000	LTP 2026 $000	LTP 2027 $000	LTP 2028 $000	LTP 2029 $000	LTP 2030 $000	LTP 2031 $000	LTP 2032 $000	LTP 2033 $000	LTP 2034 $000
Cash flows from operating activities											
Revenue from Rates	14,536	16,289	16,780	18,408	19,319	20,243	21,251	22,352	23,238	24,195	25,042
Grants & Subsidies	-	4,312	4,667	2,721	2,717	2,739	2,766	2,793	2,820	2,847	2,874
Fees & Charges	-	1,969	2,010	2,472	2,525	2,576	2,626	2,677	2,726	2,776	2,827
Other Operating Funding	10,883	105	107	109	112	114	116	119	121	123	125
Interest and Dividends from investments	46	-	-	-	-	-	-	-	-	-	-
Suppliers, Services and Employees	(17,196)	(18,119)	(18,573)	(19,060)	(19,517)	(19,980)	(20,429)	(20,852)	(21,304)	(21,776)	(22,198)
Finance Costs	(214)	(964)	(1,289)	(1,492)	(1,845)	(2,232)	(2,721)	(3,075)	(3,374)	(3,821)	(4,076)
Net cash flow from operating activities	8,055	3,593	3,703	3,158	3,310	3,461	3,610	4,012	4,227	4,344	4,594
Cash flows from investing activities											
Capital Grants and Contributions	-	2,771	2,214	2,545	3,085	3,229	2,951	2,153	2,447	2,423	2,448
Purchase of Investments	-	-	-	-	-	-	-	-	-	-	-
Purchase of property, plant and equipment	(9,153)	(11,490)	(8,287)	(11,053)	(13,183)	(15,532)	(13,782)	(11,098)	(14,603)	(10,760)	(11,605)
Net cash flow from investing activities	(9,153)	(8,719)	(6,073)	(8,508)	(10,098)	(12,303)	(10,831)	(8,945)	(12,155)	(8,338)	(9,158)
Cash flows from financing activities											
Drawdown / (repayment) of borrowings	(894)	5,126	2,370	5,350	6,788	8,842	7,221	4,933	7,929	3,994	4,564
Net cash flow from financing activities	**(894)**	**5,126**	**2,370**	**5,350**	**6,788**	**8,842**	**7,221**	**4,933**	**7,929**	**3,994**	**4,564**
Net (decrease) / increase in cash equivalents	(1,992)	0	(0)	(0)	0	0	-	(0)	(0)	0	0
Cash and Cash Equivalents and the beginning of the year	6,152	4,511	4,511	4,511	4,511	4,511	4,511	4,511	4,511	4,511	4,511
Cash and Cash Equivalents and the end of the year	**4,160**	**4,511**	**4,511**	**4,511**	**4,511**	**4,511**	**4,511**	**4,511**	**4,511**	**4,511**	**4,511**

Prospective Capital Expenditure Programme

Prospective Capital Expenditure

Programme Primary Type	Project	2024/25 Year1 (2024/25) Inflated Capital	2024/25 Year2 (2025/26) Inflated Capital	2024/25 Year3 (2026/27) Inflated Capital	2024/25 Year4 (2027/28) Inflated Capital	2024/25 Year5 (2028/29) Inflated Capital	2024/25 Year6 (2029/30) Inflated Capital	2024/25 Year7 (2030/31) Inflated Capital	2024/25 Year8 (2031/32) Inflated Capital	2024/25 Year9 (2032/33) Inflated Capital	2024/25 Year10 (2033/34) Inflated Capital
Water Supply		559,000	545,300	1,719,059	1,586,667	1,171,865	631,991	2,409,309	1,624,585	2,822,411	808,532
Wastew ater		1,445,500	2,395,938	2,858,081	4,413,289	6,384,646	6,335,764	1,428,554	4,557,601	278,070	4,240,164
Stormw ater		437,000	476,625	833,738	69,126	1,473,550	701,079	2,205,974	2,157,430	2,194,335	1,842,959
Transport		5,938,320	2,911,793	3,647,133	3,292,120	3,465,819	4,543,814	3,776,598	4,186,723	4,172,200	3,621,427
Solid Waste		325,000	449,195	401,781	1,201,736	779,892	764,653	598,114	666,311	555,582	500,094
Parks and Reserves		722,000	190,740	629,551	1,461,440	1,218,343	146,564	579,007	158,008	190,391	755,541
Organisational Performance & Business Support		2,104,000	661,423	711,563	1,065,395	1,056,422	427,418	572,393	379,038	626,281	424,937
Enforcement		0	0	62,610	0	0	0	0	0	0	0
Economic Development		10,000	10,210	10,435	10,654	10,867	11,073	11,283	11,486	11,693	11,903
Community Facilities		555,000	856,815	317,938	202,409	5,434	266,247	5,642	910,107	5,847	47,732
Grand Total		**12,095,820**	**8,498,039**	**11,191,888**	**13,302,835**	**15,566,839**	**13,828,604**	**11,586,874**	**14,651,288**	**10,856,808**	**12,253,289**
	check	12,095,820	8,498,039	11,191,888	13,302,835	15,566,839	13,828,604	11,586,874	14,651,288	10,856,808	12,253,289

Council Reserve Funds

Council Reserve Funds

	Activities to which the reserve relates	Purpose	Opening Balance 01/07/2024	Transfer to Reserve	Transfer from Reserve	Closing Balance 30/06/2034
Cash in Lieu of Reserves	Economic Development	For general purpose funding	228	726	-	954
Road Upgrading	Land Transport	For upgrading of roading	131	-	5	126
Carpark Contribution	Land Transport	For the upgrade of carparks	5	-	-	5
CBD Development	Property	For the development of town CBD	43	-	28	15
Development Contribution	Parks and Reserves	For development of recreational facilities	473	-	16	457
Elections	Leadership	For funding triennial elections	10	-	-	10
Library Development	Library	For the Library Development Project	-	-	-	-
Coast Community Board	Community Development	For funding CCB projects	110	-	-	110
Whakaari Taonga Management	Planning	For the development of reserves	35	-	-	35
Destination Playground	Playgrounds	For development of playgrounds	3	-	-	3
General Purpose (Electricity Proceeds)	Economic Development	For general purpose funding	44	-	-	44
Waste Minimisation Reserve	Solid Waste Management	For waste minimisation initatives	179	-	179	-
Harbour Dev Maint Reserve	Economic Development	For Harbour maintenance	1,238	-	435	803
			2,499	726	663	2,562

Statement of Accounting Policies

Statement of accounting policies

REPORTING ENTITY

Ōpōtiki District Council (ODC) is a territorial local authority established under the Local Government Act 2002 (LGA) and is domiciled and operates in New Zealand. The relevant legislation governing the Council's operations include the LGA and the Local Government (Rating) Act 2002.

The Council provides local infrastructure, local public services, and performs regulatory functions to the community. The Council does not operate to make a financial return.

The Council has designated itself as a public benefit entity (PBE) for the purpose of complying with generally accepted accounting practice.

The prospective financial statements of ODC are for the years from 1 July 2024 through to 30 June 2034.

BASIS OF PREPARATION

The prospective financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of compliance

The prospective financial statements have been prepared in accordance with the requirements of the LGA and the Local Government (Financial Reporting and Prudence) Regulations 2014 (LG(FRP)R), which include the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

These prospective financial statements have been prepared in accordance with the reduced disclosure of a Tier 2 PBE accounting entity (PBE Standards RDR). ODC qualifies for the Tier 2 exemptions as it does not have debt or equity instruments that are traded in a public market nor hold assets in a fiduciary capacity for a broad group of outsiders; and has total expenses between $2 million and $30 million. These financial statements comply with PBE Standards RDR.

The statements comply with PBE FRS 42 Prospective Financial Statements and other applicable Financial Reporting Standards as appropriate for public benefit entities. The prospective financial statements use opening balances from period ending 30 June 2023; estimates have been restated accordingly if required. The prospective financial statements are prepared using the historical cost basis, except for asset and liabilities, which are recorded at fair value. These are detailed in the specific policies below.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000). The functional currency of Council is New Zealand dollars.

Standards issued and not yet effective, and not early adopted

There are no standards and amendments, issued but not yet effective that have not been early adopted, and which are relevant to Council.

Other changes in accounting policies

There have been no other changes in accounting policies.

SIGNIFICANT ACCOUNTING POLICIES

Revenue

Revenue is measured at the fair value.

The specific accounting policies for significant revenue items are explained below:

Exchange Transactions

Exchange transactions are transactions where Council receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange.

Specific accounting policies for major categories of exchange revenue transactions are listed below.

Interest and dividends

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment has been established. When dividends are declared from pre-acquisition surpluses, the dividend is deducted from the cost of the investment.

Sale of goods

Revenue from the Sales of goods is recognised when a product is sold to the customer.

Provision of Commercially based Services

Revenue derived through the provision of services to third parties in a commercial manner is recognised in proportion to the stage of completion at balance date.

Other gains and losses

Other gains and losses includes fair value gains and losses on financial instruments at fair value through surplus or deficit, unrealised fair value gains and losses on the revaluation of investment properties and realised gains and losses on the sale of PPE held at cost.

Non-Exchange Transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, Council either receives value from or gives value to another entity without directly giving or receiving approximately equal value in exchange, or where the value given or received is not able to be accurately measured.

An inflow of resources from a non-exchange transaction, whether this be an asset or revenue, is only recognised if a liability is not also recognised for that particular asset or revenue.

A liability is only recognised to the extent that the present obligations have not been satisfied. A liability in respect of a transferred asset is recognised only when the transferred asset is subject to a condition, such as a condition for the asset to be consumed as specified and/or that future economic benefits or service potential must be returned to the owner.

Specific accounting policies for major categories of non-exchange revenue transactions are listed below.

Rates revenue

The following policies for rates have been applied:-

- General rates, targeted rates (excluding water-by-meter) and uniform annual general charges are recognised at the start of the financial year to which the rates resolution relates. They are recognised at the amounts due. The Council considers the effect of payment by instalments is not sufficient to require discounting of rates receivables and subsequent recognition of interest revenue
- Rates arising from late payment penalties are recognised as revenue when rates become overdue
- Revenue from water-by-meter rates is recognised on an accrual basis based on usage. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis
- Rates remissions are recognised as a reduction of rates revenue when ODC has received an application that satisfies its rates remission policy
- Rates collected on behalf of Bay of Plenty Regional Council (BOPRC) are not recognised in the prospective financial statements as ODC is acting as agent for BOPRC.

New Zealand Transport Agency Roading Subsidies

The Council receives funding assistance from Waka Kotahi New Zealand Transport Agency which subsidises part of the costs of maintenance and capital expenditure on the local roading infrastructure. The subsidies are recognised as revenue upon entitlement, as conditions pertaining to eligible expenditure have been fulfilled.

Other Grants Received

Other grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. It there is an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

Building and Resource Consent Revenue

Fees and charges for building and resource consent services are recognised on a percentage completion basis with reference to the recoverable costs incurred at balance date.

Infringement Fees and Fines

Infringement Fees and Fines mostly relate to fees and fines for use of library books. The fair value is determined based on the probability of collecting fines, which is estimated by considering the collection history of fines over the preceding 2-year period.

Donated and Bequeathed Financial Assets

Donated and Bequeathed Financial Assets are recognised as revenue unless there are substantive use or return conditions. A liability is recorded if there are substantive use or return conditions and the liability released to revenue as the conditions are met (e.g. as the funds are spent for the nominated purpose.

Direct charges

Rendering of services at a price that is not approximately equal to the value of the service provided by the Council or Group is considered a non-exchange transaction. This includes rendering of services where the price does not allow the Council to fully recover the cost of providing the service (such as resource consents, building consents, water connections, dog licensing, etc.), and where the shortfall is subsidised by income from other activities, such as rates. Generally, there are no conditions attached to such revenue.

Revenue from such services is recognised when the Council or Group issues the invoice or bill for the service. Revenue is recognised at the amount of the invoice or bill, which is the fair value of the cash received or receivable for the service. Revenue is recognised by reference to the stage of completion of the service to the extent that the Council or Group has an obligation to refund the cash received from the service (or to the extent that the customer has the right to withhold payment from the Council or Group for the service) if the service is not completed.

Borrowing Costs

Borrowing Costs are recognised as an expense in the period in which they are incurred.

Grant Expenditure

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where the Council has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of the Council's decision.

Leases

Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, irrespective if title is eventually transferred.

At the commencement of the lease term, the Council recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the Council will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term of its useful life.

Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Lease incentives received are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Receivables

Short term receivables are recorded at their face value, less an allowance for expected credit losses (ECL).

The Council applies the simplified ECL loss model of recognising lifetime expected credit loss for short-term receivables. The expected credit loss is calculated based on historical credit losses experience on both rates debtors and sundry debtors, adjusted for forward looking factors specific to the debtors and economic environment.

Rates Receivable

Council does not provide for ECLs on rates receivable. Council has various powers under the Local Government (Rating) Act 2002 to recover any outstanding debts. These powers allow Council to commence legal proceedings to recover any rates that remain unpaid four months after the due date for payment. If payment has not been made within three months of the Court's judgement, then Council can apply to the Registrar of the High Court to have the judgement enforced by sale or lease of the rating unit.

Rates are “written-off”:

- When remitted in accordance with Council’s rates remission policy; and
- In accordance with the write-off criteria of sections 90A (where rates cannot be reasonably recovered) and 90B (in relation to Maori freehold land) of the Local Government (Rating) Act 2002.

Other receivables are written-off when there is no reasonable expectation of recovery, indicators that there is no reasonable expectation of recovery include the debtor being in liquidation or the receivable being more than one year overdue.

Other Financial Assets

Financial assets are initially recognised at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

Purchases and sales of financial assets are recognised on trade-date, the date on which the Council commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Council has transferred substantially all the risks and rewards of ownership.

Financial assets are classified into the following categories for the purpose of measurement:

- fair value through surplus or deficit;
- amortised cost;
- fair value through other comprehensive revenue and expense

The classification of a financial asset depends on its cash flow characteristics and the Council management model for managing them.

Financial assets at fair value through surplus or deficit.

Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is classified in this category if they do not meet the criteria to be measured at amortised cost or fair value through other comprehensive revenue and expense.

After initial recognition, financial assets in this category are measured at their fair values with gains or losses on recognised in the surplus or deficit.

Currently, the Council does not hold any financial assets in this category.

Amortised Cost

Financial Assets are classified and subsequently measured at amortised cost if it gives rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal outstanding and is held within a management model whose objective is to collect the contractual cash flows of the asset.

Financial assets classified at amortised cost are subsequently measured at amortised cost using the effective interest method, less any expected credit losses.

Loans to community organisations made by the Council at nil, or below-market interest rate are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar financial instrument. The loans are subsequently measured at amortised cost using the effective interest method. The difference between the face value and the present value of expected cash flows of the loan is recognised in the surplus or deficit as a grant expense.

The loans are subsequently measured at amortised cost using the effective interest method, less any expected credit losses.

Fair value through other comprehensive revenue and expense

Financial assets at fair value through other comprehensive revenue and expense are those that give rise to cash flows that are SPPI and are held within a management model whose objective is achieved by both collecting contractual cashflows and selling financial assets, or are equity investments not held for trading and are designated into the category at initial recognition.

The Council includes in this category:

- Investments that the Council intends to hold long-term but which may be realised before maturity; and
- Shareholdings that the Council holds for strategic purposes.

These investments are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense, there is no assessment for impairment when fair value falls below the cost of the investment.

On de-recognition the cumulative gain or loss previously recognised in other comprehensive revenue and expense is transferred to accumulated funds within equity.

Expected credit loss allowance (ECL)

The Council and group recognise an allowance for ECLs for all debt instruments not classified as fair value through surplus or deficit. ECLs are the probability-weighted estimate of credit losses, measured at the present value of cash shortfalls, which is the difference between the cash flows due to Council in accordance with the contract and the cash flows it expects to receive. ECLs are discounted at the effective interest rate of the financial asset. ECLs are recognised in two stages. ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL).

However, if there has been a significant increase in credit risk since initial recognition, the loss allowance is based on losses possible for the remaining life of the financial asset (Lifetime ECL). When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Council's historical experience and informed credit assessment and including forward-looking information. The Council consider a financial asset to be in default when the financial asset is more than 90 days past due. The Council may determine a default occurs prior to this if internal or external information indicates the entity is unlikely to pay its credit obligations in full. If the ECL measured exceeds the gross carrying amount of the financial asset, the ECL is recognised as a provision.

Inventory

Inventories are held for distribution or for use in the provision of goods and services. The measurement of inventories depends on whether the inventories are held for commercial or non-commercial (distribution at no charge or for a nominal charge) distribution or use. Inventories are measured as follows:

- Commercial: measured at the lower of cost and net realisable value
- Non-commercial: measured at cost, adjusted for any loss of service potential.

Cost is allocated using the first-in-first-out (FIFO) method, which assumes the inventories that were purchased first are distributed or used first.

Inventories acquired through non-exchange transactions are measured at fair value at the date of acquisition. Any write-down from the cost to net realisable value or for the loss of service potential is recognised in the surplus or deficit in the year of the write-down.

When land held for development and future resale is transferred from investment property/property, plant, and equipment to inventory, the fair value of the land at the date of the transfer is its deemed cost.

Costs directly attributable to the developed land are capitalised to inventory, with the exception of infrastructural asset costs which are capitalised to property, plant, and equipment.

Property, Plant and Equipment

Property, plant and equipment consists of:

Operational assets — These include land, buildings, plant, machinery and vehicles, fixtures, fittings and equipment and library collections.

Restricted assets — Restricted assets land and buildings owned by ODC which provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.

Infrastructure assets — Infrastructure assets are the fixed utility systems owned by the Council. Each asset class includes all items that are required for the network to function, for example, sewer reticulation includes reticulation piping and sewer pump stations.

Land (operational and restricted) is measured at fair value, and buildings and infrastructural assets are measured at fair value less accumulated depreciation. All other asset classes are measured at cost less accumulated depreciation and impairment losses.

Revaluation

Land, buildings (operational and restricted) and infrastructural assets (except land under roads) are revalued with sufficient regularity to ensure their carry amount does not differ materially from fair value.

Revaluation movements are accounted for on a class of asset basis.

The net revaluation results are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the value of the amount previously expensed, and then recognised in other comprehensive revenue and expense.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to ODC and the cost of the item can be measured reliably.

Work in progress is recognised at cost less impairment and is not depreciated.

In most instances, an item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at fair value as at the date of acquisition.

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that the future economic benefits or service potential associated with this item will flow to ODC and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant, and equipment are recognised in the surplus or deficit as they are incurred.

Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Buildings

- Structure 15 to 75 years (1.33% - 6.67%)

- Roof 2 to 40 years (2.5% - 50%)

- Services 5 to 45 years (2.22% - 20.00%)

- Internal fit out 5 to 30 years (3.33% - 20.00%)

Site Improvements 3 to 80 years (1.25% - 33%) Plant and machinery 5 to 10 years (10% - 20%)

Fixed plant @refuse recovery centre 30 years (3.33%) Motor vehicles 5 years (20%)

Fixtures, fittings and equipment 3 to 10 years (10% - 33%) Library collections – not depreciated

Roading network

- Formation – not depreciated

- Sub base – not depreciated

- Basecourse (unsealed) 8 years (12.5%)

- Basecourse (sealed) 120 years (0.83%)

- Top surface 10 to 63 years (1.59% - 10.0%)

- Bridges 100 years (1.0%)

- Cycleways 50 to 80 years (1.25% - 2%)

Kerb and footpaths 20 to 80 years (1.25% - 5.0%)

Reticulation 5 to 100 years (1% - 20.0%)

Traffic facilities (roading components) 10 to 30 years (3.33% - 11.32%)

Culverts (roading components) 60 years (1.66%)

Pumps 10 to 20 years (5.0% - 10.0%)

Meters, valves and connections 15 to 50 years (2% - 6.66%)

River protection works 100 years (1.0%)

Open drains associated with the roading infrastructure are not depreciated. The annual maintenance programme set out in the asset management plan will ensure the specific level of service is maintained.

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software for internal use by ODC, are recognised as an intangible asset. Direct cost will include the software development, employee costs and appropriate portion of relevant overheads.

Staff training costs are recognised in the surplus or deficit when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Costs associated with development and maintenance of the Council’s website is recognised as an expense when incurred.

Easements

Easements are recognised at cost, being the costs directly attributable to bringing the asset to its intended use.

Easements have an indefinite useful life and are not amortised but are instead tested for impairment annually.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight- line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software 3 to 7 years (14% - 33%).

Impairment of property, plant and equipment and intangible assets

Intangible assets that have an indefinite useful life, or not yet available for use, and goodwill are not subject to amortisation and are tested annually for impairment.

Property, plant and equipment and intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For revalued assets, the impairment loss is recognised in the surplus or deficit.

Value in Use for Non-cash-Generating Assets

Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return.

For non-cash-generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

Value in Use for Cash-Generating Assets

Cash-Generating Assets are those assets that are held with the primary objective of generating a commercial return.

The value in use for cash-generating units is the present value of expected future cash flows.

Investment property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs.

After initial recognition, ODC measures all investment property at fair value at each reporting date.

Gains or losses arising from a change in the fair value of investment property are recognised in surplus or deficit.

Payables and deferred revenue

Short-term creditors, other payables and deferred revenue are recorded at their face value.

Borrowings

Borrowings are initially recognised at the amount borrowed plus transaction costs. Interest due on borrowings is subsequently accrued.

Borrowings are classified as current liabilities unless ODC has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Employee entitlements

Short-term employee entitlements

Employee benefits expected to be settled within 12 months after the end of the period in which the employee provides the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that ODC anticipates it will be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where the Council has a contractual obligation or where there is a past practice that has created a constructive obligation.

Presentation of Employee Entitlements

Sick leave and annual leave are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the surplus or deficit as incurred.

Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of future economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense and is included in “finance costs”.

Equity

Equity is the community's interest in ODC and is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components.

- Accumulated funds
- Council created reserves
- Asset revaluation reserves
- Fair value through other comprehensive revenue and expense reserve

Council Created reserves

Council created reserves are a component of equity generally representing a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by the Council.

Council created reserves are those subject to specific conditions accepted as binding by the Council and which may not be revised by the Council without reference to the Courts or a third party. Transfers from these reserves may be made only for certain specified purposes or when certain specified conditions are met.

Also included in council created reserves are reserves restricted by Council decision. The Council may alter them without references to any third party or the Courts. Transfers to and from these reserves are at the discretion of the Council.

Asset revaluation reserves

This reserve relates to the revaluation of property, plant and equipment to fair value.

Fair value through other comprehensive revenue and expense reserves

This reserve comprises the cumulative net change in the fair value of assets classified as fair value through other comprehensive revenue and expense.

Good and Service Tax (GST)

All items in the prospective financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Cost allocation

ODC has derived the cost of service for each significant activity of ODC using the cost allocation system outlined below.

Direct costs are those costs directly attributable to a significant activity. Indirect costs are those costs, which cannot be identified in an economically feasible manner, with a specific significant activity.

Direct costs are charged directly to significant activities. Indirect costs are charged to significant activities using appropriate cost drivers such as actual usage, staff numbers and floor area.

Indirect costs relate to the overall costs of running the organisation and include staff time, office space and information technology costs. Indirect costs are allocated as overheads across all activities utilising an appropriate driver.

Critical accounting estimates and assumptions

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

Critical judgments in applying accounting policies

Management has exercised the following critical judgments in applying accounting policies.

Classification of property

The Council owns land and buildings previously occupied by the Council Depot. A portion of the property was leased and this portion was classified as investment property. The property has been redeveloped and the entire property is now classified as investment property.

Rounding

Some rounding variances may occur in the financial statements due to the use of decimal places in the underlying financial data.

Funding Impact Statement – Whole of Council

Consolidated Funding Impact Statement for the 10 Years ended 30 June 2034

2024		2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
14,641											
	Sources of operating funding										
11,407	General rates, uniform annual general charges, rates penalties	11,948	12,252	13,401	13,994	14,583	15,220	15,805	16,384	17,012	17,582
3,234	Targeted Rates	4,341	4,529	5,007	5,325	5,660	6,031	6,547	6,854	7,183	7,460
2,125	Subsidies and grants for operating purposes	4,312	4,667	2,721	2,717	2,739	2,766	2,793	2,820	2,847	2,874
2,275	Fees and charges	1,969	2,010	2,472	2,525	2,576	2,626	2,677	2,726	2,776	2,827
46	Interest and dividends from investments	-	-	-	-	-	-	-	-	-	-
354	Local authorities fuel tax, fines, infringement fees, and other receipts	105	107	109	112	114	116	119	121	123	125
19,441	**Total - Sources of operating funding (A)**	**22,675**	**23,565**	**23,710**	**24,672**	**25,673**	**26,760**	**27,940**	**28,905**	**29,941**	**30,867**
	Applications of operating funding										
17,309	Payments to staff and suppliers	18,119	18,573	19,060	19,517	19,980	20,429	20,852	21,304	21,776	22,198
214	Finance costs	964	1,289	1,492	1,845	2,232	2,721	3,075	3,374	3,821	4,076
-	Other operating funding applications	-	-	-	-	-	-	-	-	-	-
17,523	**Total - Applications of operating funding (B)**	**19,082**	**19,862**	**20,552**	**21,362**	**22,212**	**23,150**	**23,928**	**24,678**	**25,598**	**26,273**
1,918	**Surplus / (deficit) of operating funding (A-B)**	**3,593**	**3,703**	**3,158**	**3,310**	**3,461**	**3,610**	**4,012**	**4,227**	**4,344**	**4,594**
	Sources of capital funding										
6,129	Subsidies and grants for capital expenditure	2,771	2,214	2,545	3,085	3,229	2,951	2,153	2,447	2,423	2,448
-	Development and financial contributions	-	-	-	-	-	-	-	-	-	-
(894)	Increase (decrease) in debt	5,126	2,370	5,350	6,788	8,842	7,221	4,933	7,929	3,994	4,564
-	Gross proceeds from sale of assets	-	-	-	-	-	-	-	-	-	-
-	Lump sum contributions	-	-	-	-	-	-	-	-	-	-
-	Other dedicated capital funding	-	-	-	-	-	-	-	-	-	-
5,235	**Total - Sources of capital funding (C)**	**7,897**	**4,584**	**7,895**	**9,874**	**12,071**	**10,172**	**7,086**	**10,376**	**6,417**	**7,011**
	Applications of capital funding										
	#REF!										
4,759	• to meet additional demand	1,050	515	617	819	2,373	2,428	1,318	1,590	1,020	1,724
1,584	• to improve the level of service	6,276	4,052	4,998	5,315	7,069	4,653	3,666	7,822	3,597	5,463
2,810	• to replace existing assets	4,164	3,720	5,438	7,049	6,090	6,701	6,115	5,191	6,144	4,419
-	Increase (decrease) in reserves	-	-	-	-	-	-	-	-	-	-
(2,000)	Increase (decrease) of investments	-	-	-	-	-	-	-	-	-	-
7,153	**Total - Applications of capital funding (D)**	**11,490**	**8,287**	**11,053**	**13,183**	**15,532**	**13,782**	**11,098**	**14,603**	**10,760**	**11,605**
(1,918)	**Surplus / (deficit) of capital funding (C-D)**	**(3,593)**	**(3,703)**	**(3,158)**	**(3,310)**	**(3,461)**	**(3,610)**	**(4,012)**	**(4,227)**	**(4,344)**	**(4,594)**
-	**Funding balance ((A-B) + (C-D))**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

What is a financial strategy?

This financial strategy sets out the key financial principles and considerations of Council's overall direction for the next ten years. This includes how Council plans to manage its financial performance in order to adhere to identified priorities, and the document functions as a guide for how we will consider and approach funding and expenditure proposals. It is an essential element of the 2024-2034 Long Term Plan.

All Council's must adopt a financial strategy under section 101A of the Local Government Act (2002) (LGA). The purpose of the financial strategy is to:

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

(b) provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments.[1]

Setting the scene

Council is a large and complex business. Each of the Council activities is made up of several services that our communities receive. The cost of doing business is driven by several factors, including the level of service, the growth in population, and the assets required to deliver the services to the community.

To ensure financial sustainability and affordability, it is important Council continues to have a very good understanding of its expenditure. It needs to be clear as to what it is spending money on and why.

There are two types of expenditure: operational expenditure and capital expenditure. Operational expenditure is spent in enacting the 'business as usual', every-day mahi, and includes the costs incurred in delivering levels of services for the community. Capital expenditure is money spent buying, renewing, or upgrading assets, such as equipment, buildings, and pipes.

Council's spending is generally for one or more of the following purposes:

- Maintaining existing service levels – the 'business as usual' cost to deliver services including maintenance and operations.
- Increasing service levels – additional cost to improve services.
- Adding capacity for growth – extending a service for new households or other growth.

There are key priorities and key challenges facing the Ōpōtiki District in the lifespan of the 2024 – 2034 Long Term Plan. Council's top priority is to keep costs low for the community while also ensuring the district is adequately and appropriately positioned for the future.

Some of the main kaupapa affecting the next three years are below. We'll discuss these more throughout this document, and each of these kaupapa have been kept in mind when considering the financial approaches throughout this strategy.

Growth.

[1] Local Government Act 2002 No 84 (as at 01 October 2023), Public Act 101A Financial strategy – New Zealand Legislation

We know from residential, population, and housing statistics that more people are moving to Ōpōtiki and staying here. This is exciting and highlights how great the district is to work, play, and live.

Projections indicate that Ōpōtiki will continue to see an increase in population over the next decade, and that means more homes are needed for people to live in. More homes means that the district needs the infrastructure to support those homes – things like the roading, pipes and water treatment plants that make sure homes have functioning accessibility and healthy services, such as wastewater and drinking water.

Additionally, as our district continues to expand, we also need to reflect on the resilience of our environment (natural and built), and our communities' ability to adapt, to ensure that we are growing responsibly.

Inflation.

It's clear that, alongside the rest of New Zealand, Ōpōtiki is facing ongoing living costs that are making the day-to-day hard. Like any other business, Council buys goods and services so it can deliver services to the community. The 'business as usual' mahi is costing more for the same thing, as the cost of those goods and services increase over time like any other due to inflation.

Inflation for Council costs is different from household inflation because the spending is on different goods and services, such as asphalt for roads. Council is constantly striving to strike a balance between the ongoing delivery of these fundamental services (such as rubbish collection, road maintenance, etc.,), and awareness of the community's willingness and ability to afford rate increases. Affordability has always been and will continue to be a significant driving factor of Council's Financial Strategy.

Three waters.

Central Government's Local Water Done Well Bill will see three waters infrastructure remain with Ōpōtiki District Council. This is reflected in Council's Financial and Infrastructure Strategies, as well as supporting policies. In this document (and the Infrastructure Strategy) we discuss the long-term implications of maintaining these assets, and ensuring there is adequate growth to sustain the growing population, while also balancing the affordability of these assets..

Harbour.

It's no small feat for Ōpōtiki to have built the first harbour in New Zealand for the last 100 years, and while the Ōpōtiki Harbour Development Project has already delivered on numerous wellbeing benefits for the district, there is still plenty of work to be done. The main thing to consider is that the Harbour has ongoing maintenance and operational costs. While the long-term intention is for a commercial marina to generate revenue which subsidises these maintenance costs, that infrastructure isn't likely to be 'online' until a few years into this Long Term Plan. In this document, Council will consider the options available to manage the maintenance and operational costs of the Harbour in the meantime.

Depreciation and asset renewals funding.

Council has previously taken an approach to funding of renewals which relied on depreciation funding with a minimum threshold set by the internal debt associated with an activities assets. This approach has prioritised affordability but may not have been understandable to the community in relation to how much of these renewals were being proactively funded. While affordability remains a significant driving factor of Council's Financial Strategy, significant asset renewals are coming due in the lifespan of this Long Term Plan and the approach of previous years to managing these asset renewals is will not provide the certainty and understandability required.

Council does not have significant reserves to fund asset renewals. Council's approach to asset renewals therefore needs to adapt, which will be discussed in this document.

Key Financial Principles

Our key principles guiding Council's financial approach to the above kaupapa are:

1. Council's Financial Strategy will align with and enable Council to deliver the Community Priorities. In particular:

Community Priority One: Strong Relationships and Partners. Council will develop and engage in meaningful and strategic partnerships. We understand that intentional and strong relationships improve everyone's ability in working towards goals, and that through these relationships, Council will be enabled to better serve the community.

Community Priority Two: We advocate for and attract high-quality investment across our district. Council recognises that increased commercial and business activity drives jobs and wellbeing for our people. We will ensure mechanisms, such as those set out in this document, support investment capacity and Council's ability to act on opportunities that will enhance wellbeing, without creating overwhelming affordability concerns for our communities.

Community Priority Three: We support the well-being, toi ora and engagement of all our communities, now and into the future. The overarching role of Council is to ensure the services, facilities, and projects we deliver support and enhance the well-being of our community. Prudent and strategic financial considerations and decision-making is fundamental to this.

Community Priority Four: We enable our communities to make informed decisions about resilience and adaptation. Council will take a proactive approach to understand the implications and financial responsibilities of climate adaptation and resilience, and a proactive approach to ensuring our communities are not burdened with the impact.

Community Priority Five: We plan for a district which is future focused and ready for growth. Council aims to enable development within the district as we understand such growth supports businesses, jobs, and opportunities for our rohe. This includes careful financial planning and development of supporting infrastructure.

2. Affordability for our community is the key pillar of consideration. Council is committed to enacting purposeful alternative funding mechanisms wherever possible and prudent in order to maintain affordability, within realistic means.

3. Council is 'facing the facts' – Council will be proactive and no nonsense about the realities required to keep costs affordable for our communities while also delivering desired levels of service as much as possible.

4. Council's approach to funding is communicated transparently with the community, through documents such as the Financial Strategy, the Revenue and Financing Policy, and other supporting documents.

Key assumptions of significant factors impacting Ōpōtiki in the next ten years

In this section we discuss the key assumptions Council is making about things that will have a significant impact on the next ten years.

Changes in population.

We know from tracking previous years that Ōpōtiki's population growth has been steady and on the high end of predicted projections. We also have statistical forecasting that suggests this trend will continue.

As such, Council's assumption is that the population of Ōpōtiki district will continue to grow and expand. This means that houses, and infrastructure that supports houses (such as roads, pipes, wastewater treatments plants, and other infrastructure) will need to grow. This requires investment from Council and the district.

Capital expenditure on network infrastructure

For this Long Term Plan, Council conducted an audit of our previous years of planned capital expenditure, and compared it against what we actually completed. We have often batted above our league as a small rural council, and continue to be optimistic for external funding sources to assist capital works, such as happened with the Provincial Growth Fund.

In acknowledgement of the period of rapid capital works the district has gone through since 2019, and the escalation of costs, Council has elected to scale back the capital works programme.

Land use change

Council is expecting significant capital expenditure associated with delivering new network infrastructure as well as the associated renewal and upgrades to existing infrastructure in order to provide for expected changes in land use required to cater for projected population growth.

Council acknowledges that:

1. Many ratepayers cannot afford the ongoing escalation of costs.
2. The cost of providing services and activities will not reduce without significant intervention.
3. Council will need to make complex trade-off decisions to work toward decreasing ratepayer burden.
4. Council will need to balance affordability concerns with prudent consideration of debt levels, as increased debt may compromise future development.

Affordability and Rates Income

Council has always considered affordability as a key issue for our community, and there are many layers to this consideration.

Local government costs are currently increasing at a higher rate than household inflation and are predicted to continue to do so. In addition, more responsibilities and obligations are being asked of local government from central government. The cost of looking after existing infrastructure is increasingly expensive. These factors mean that costs are continuing to increase, and Council is very aware of the burden that will place on ratepayers.

Council is concerned about the level of rate increases required to fund the services that it delivers and that income levels within the Ōpōtiki District are lower than the New Zealand average. It is clear that some ratepayers are likely to reach their limit in ability to pay. Balancing these concerns with customer expectations for improved services, and the need to invest in growth opportunities for the District, continues to be a challenge.

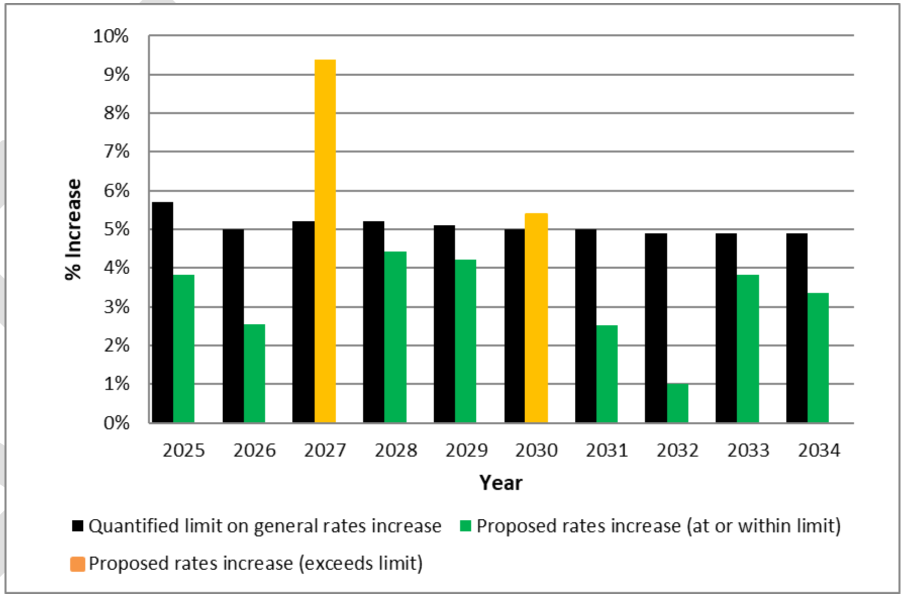
In response to the challenges faced, Council is looking to balance the investment required to achieve a prosperous, vibrant and green district, while keeping funding affordable over time and maintaining a sound financial position. Alongside the careful consideration of rates, Council is newly focusing energy on strategic investment opportunities to intentionally provide revenue that may be used to offset Council expenses.

Rate Income

Currently over 60% of Council's income is derived from rates as it does not have significant reliable alternative revenue streams.

General Rates Cap

Council proposes to limit annual general rate increases to the Local Government Cost Index – Local Government Aggregate Cost Adjuster + 3%. Individual rate increases for ratepayers may be higher or lower than that average, but the overall increase in general rates revenue will be kept within a total annual increase of this limit. This limit excludes increases as a result of growth in rating units, and may be exceeded when Council introduces new activities or significantly changes the level of service being delivered by one or more activities. This self imposed cap provides certainty to the community around future rates increases. This also enables Council to have the flexibility that should a particular group of ratepayers want additional services, Council can cater for this need through a targeted rate to that group. Council thinks that this flexibility is important given the growth prospects currently in the community. The following graph shows forecast rates revenue over the life of the LTP against the self-imposed cap on general rate increases.

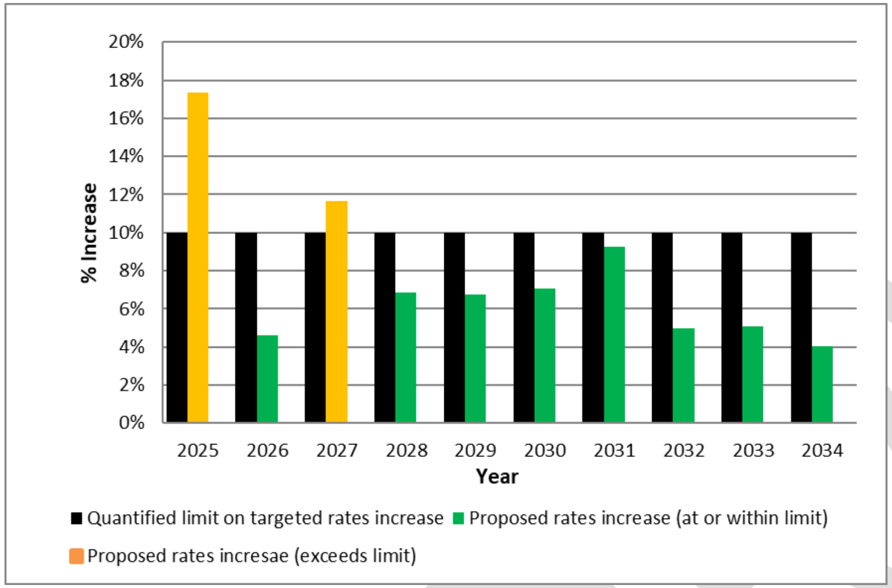


The self-imposed rates limit is proposed to be breached in the third year of the long-term plan. This is due to the funding of the harbour activity coming on line and is considered by Council to be a new activity. With this exception Council is meeting its only breaching the self-imposed limits in year 6 of the long-term plan.

Targeted Rates Cap

Targeted rates currently make up about 15-20% of Councils total income. Council sees utilising targeted rates as the most effective way to fund additional services or increases in service levels to those that are willing and able to pay for them as mentioned earlier.

Council has set a cap limiting increases in targeted rates to 10%. This limit is set higher than the general rate limit to accommodate some level of change in level of service. The significant increase above the capin proposed targeted rate income in year one is the result of a direction to redistribute target rate funded activities away from the general rate funding allocation.



The increase above the cap is the new harbour activity being funded in part by new targeted rates.

UAGC

The uniform annual general charge (UAGC) in included in general rates and is a fixed general rate amount per property no matter what the value of the property is. The rest of the general rate is set based upon the capital value of the property. Historically Council has set this rate at a level that is close to 30% of total rates, this is the maximum level that a UAGC can be.

One of the fundamental objectives of this strategy is affordability. Taking this into consideration Council does not think that continually setting the UAGC at the maximum level permitted is affordable for parts of our community, and especially those in low value properties. Over the last few Long Term Plans Council has gradually reduced the UAGC as a percentage of total rate revenue to around 20%-21%. Council proposes to maintain that with the UAGC around 21% this year.

Fixed rates such as UAGC can be seen as regressive rates that take a larger portion of lower income earners incomes than higher income earners. We have also taken into account the considerable targeted rate that is applied to Ōpōtiki residents in town by the Bay of Plenty Regional Council. It is one of the highest targeted rates for a river scheme in the country and falls on one of the most deprived communities in the country.

Council Expenditure

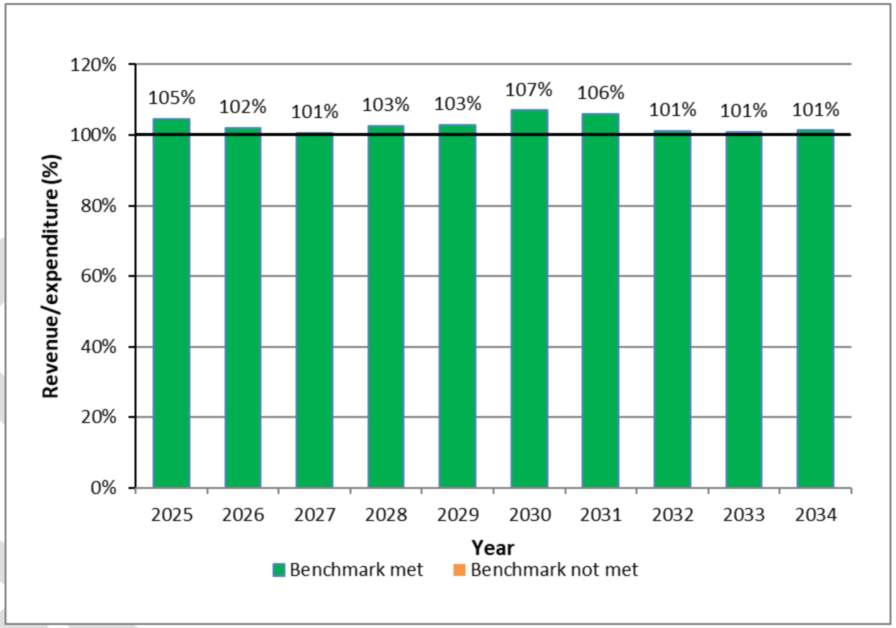
Council is forecasting that operating expenditure will increase from $20.5 Million in 2025 to $32.9 Million by 2034. There is a mixture of funding for expenditure, but operating costs, which includes overheads is mainly funded from rates. The next tow graphs indicate the two main streams of expenditure and how they are funded over the 10-year period.

[GRAPH – Funding of OPEX]

Operating expenditure pays for the day-to-day cost associated with delivering Council services. Just as the costs of running a household increase from year to year with inflation, so too do the costs of delivering Council services. This is because input costs such as the cost of labour, fuel, electricity and other construction costs increase and therefore the cost of delivering Council services increases.

Inflation incurred on Council costs is different from household inflation because the spending is on a different basket of goods and services, such as professional services and asphalt for roads. This is reflected in the Local Government Cost Index (LGCI) that has been used as the inflator for the budgets used in the 10 year forecasts.

Council is proposing to maintain a balanced budget over the Long Term Plan period



Borrowing

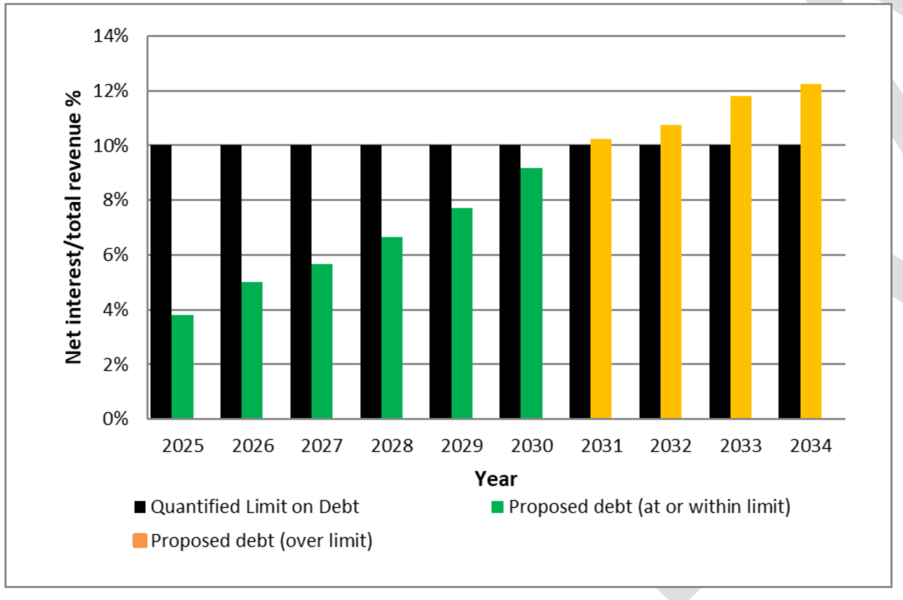
Council uses borrowings to spread the cost of expenditure, both capital and operating, over a period of time longer than a single rating year, where that expenditure is expected to produce benefits over more than one year. For Capital expenditure, borrowing is a useful mechanism to finance the construction of ling-term assets. By financing long-term assets through debt Council seeks to provide a balance between funding from current and future ratepayers, matching the cost to those who receive the benefits, thereby establishing inter-generational equity. For operational expenditure borrowing needs to be managed carefully to ensure that Council does not end up borrowing for its business as usual annual expenditure.

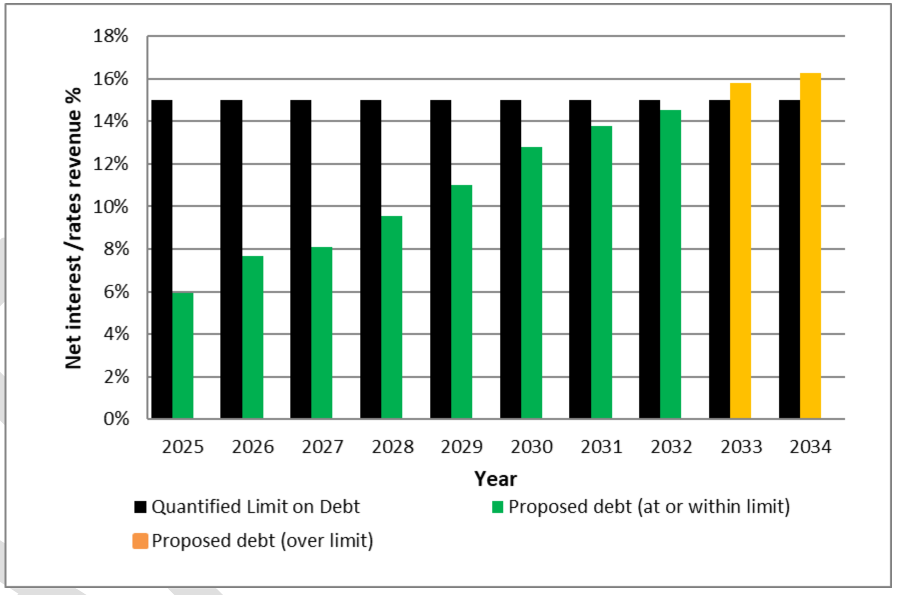
Council will need to consider funding of debt retirement in the outer years of the Long-Term Plan period to maintain compliance with these limits

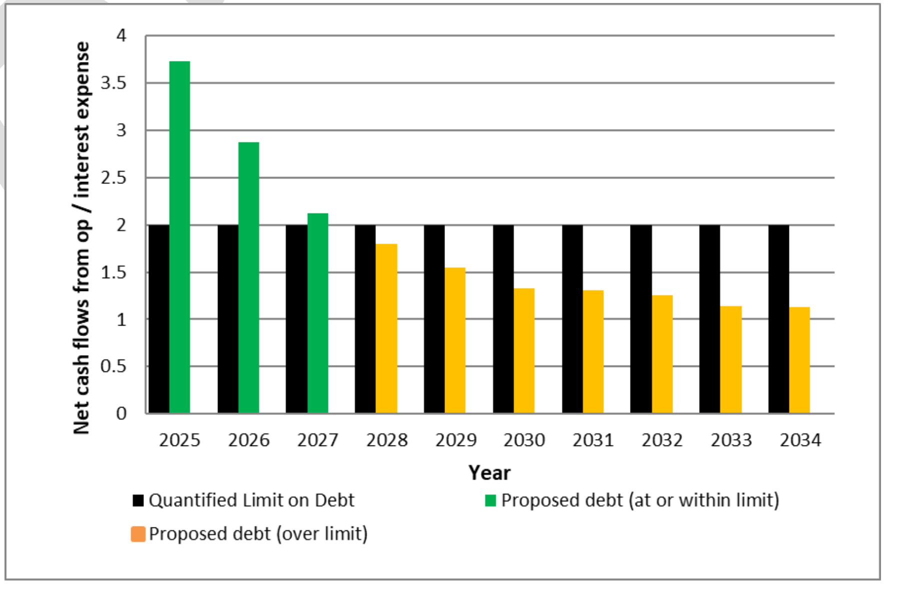
Council recognises the need to manage its finances in a sustainable and affordable manner and therefore has established some borrowing parameters to ensure that investment priorities are carefully considered and are within the financial reach of the Ōpōtiki District Community. These limits are derived from Councils existing Treasury and Liability Management Policy:

Borrowing Limits:

- Net interest expense/total revenue < 10%
- Net interest expense/rates revenue < 15%
- Net cashflows from operating/interest expense>2





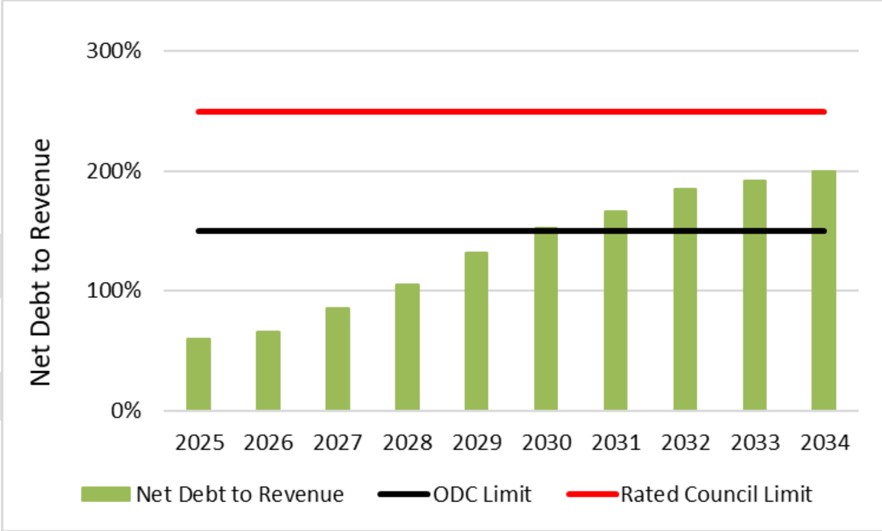


The Graphs above outline how Council expects to perform against all of the borrowing limits specified. Within the outer years of the Long Term Plan period Council is expected to breach all of these limits.

To address these challenges Council is expecting to fund debt retirement through additional rating for that purpose. This debt retirement will increase the rate requirements beyond what is currently proposed but is subject to Council delivering on the capital programme as is set out in this Long Term Plan.

Consistent with the previous (2021-2031) Long Term Plan Council is proposing to use the high-growth model. This contributes to Council's expected significant increase in debt from the current $10.5 Million to $66 Million by year 10.

The next graph outlines the expected borrowings over the term of the LTP. The big driver for the increase in debt is the need for significant expenditure in the three waters activities of Stormwater, Wastewater, and Water Supply. Along with the long run average renewal funding approach which sees a significantly higher than average level of renewal over the 10 year period of the long term plan when compared to the 30 year period of the infrastructure strategy.



Challenges

Throughout this document we have touched on multiple elements which are likely to pose challenges for the Council and the District within the lifespan of this Long Term Plan. Here we will dig into these in more detail.

1. **Levels of Service**

Services include most of the activities Council does and provides, from rubbish collection to the facility and services of Te Tāhuhu o Te Rangi. The level of service is how frequently that service is available or completed.

Like any other organisation, there are costs associated with ongoing levels of service, which make up the majority of 'business as usual' Council activities. Like most other costs in recent years, for individuals, whānau, and businesses alike, the operational costs of services are increasing even though levels of service have remained the same. This is the crux of the challenge around levels of service.

Council is aware of needing to balance affordability for the community, and feels that a select reduction in services will provide a level of financial relief to the district when it is needed.

It is never ideal to reduce services. However, Council also understands that financials are tight for everyone, across the district and Aotearoa New Zealand. Council believes this reduction to services creates one avenue of rating relief for our district.

2. Operational and maintenance costs of the Ōpōtiki Harbour

We've discussed previously that the Ōpōtiki Harbour will require operational and maintenance costs once the construction is complete. We've also discussed that a key piece of supporting infrastructure – the commercial marina/wharf – has been delayed, where the intention was for this to contribute toward to maintenance costs of the Harbour.

As a result, Council is faced with deciding how to fund these costs in the short to medium term, to ensure that the burden does not unduly fall to ratepayers.

To address this challenge, Council will be utilising reserve funds. These will cover the first two years of the 2024 -34 Long Term Plan, during which time Council will pursue other opportunities to source funding for the Harbour maintenance.

3. Funding of depreciation/renewals

Council is faced with the difficulty of having multiple renewals of assets (such as buildings) coming due within the 2024 – 2034 LTP. The methods of previous years have not provided the transparency in relation to these challenges as these renewals come up and Council is faced with managing the funding of these renewals. A breakdown in the assets would be detrimental to the services and activities the community use/engage in – and waiting to the point of breakdown would increase the associated costs exponentially.

In the 2018-2028 Long Term Plan Council first considered the implementation of a long run average funding approach. Council does not have a policy as such around funding of depreciation and how that relates to capital expenditure, in particular capital expenditure to renew existing assets. However, in order for Council to focus on the long term sustainability of the asset base and how it is maintained and renewed, the funding of depreciation is an integral part of creating intergenerational equity and ensuring that depreciation expenditure is put to good use. Theoretically depreciation is a non-cash estimate of the value of an asset that has been used up or utilised that financial year. In practice these estimates can vary significantly with wider changes in market dynamics as has been seen over the previous 3-5 years.

Previously Council has funded a level of depreciation with a minimum level of funding based on the internal debt associated with an activities capital assets. This approach has produced a high level of volatility in recent years as revaluations of assets during the LTP period cause a significant increase in funding required.

Council will approach this challenge with a method known as long run average renewal. This is discussed in more detail in the *Relationship with our Infrastructure Strategy* section below.

4. Development Contributions

Council does not currently have a Development Contributions policy. It is Council's intention to develop a policy over the 2024-2034 Long Term Plan period. This policy will identify growth related expenditure and ensure that those growth areas directly contribute to the capital costs Council is required to incur to allow for the delivery or intensification of those areas.

5. Debt retirement

Council has identified the need to consider rating for the retirement of debt in the outer years of the long-term plan. This is one of the options available to Council to prudently manage it finances. This funding of debt retirement would sit at the Whole of Council level to allow the funding of individual activities to still match the expected life or period of benefit of the expenditure.

Investments

Council does not currently hold any investments for the sole purpose of generating a financial return. Where Council does acquire investments, including financial investments and equity securities the required returns will be balanced against the other objectives, including community outcomes, of holding the investment..

Relationship with our Infrastructure Strategy

Amendments were introduced to the Local Government Act (2002) in 2014 to require an Infrastructure Strategy to be prepared for inclusion in Long Term Plans.

The purpose of the infrastructure strategy is to

(a) identify significant infrastructure issues for the local authority over the period covered by the strategy; and

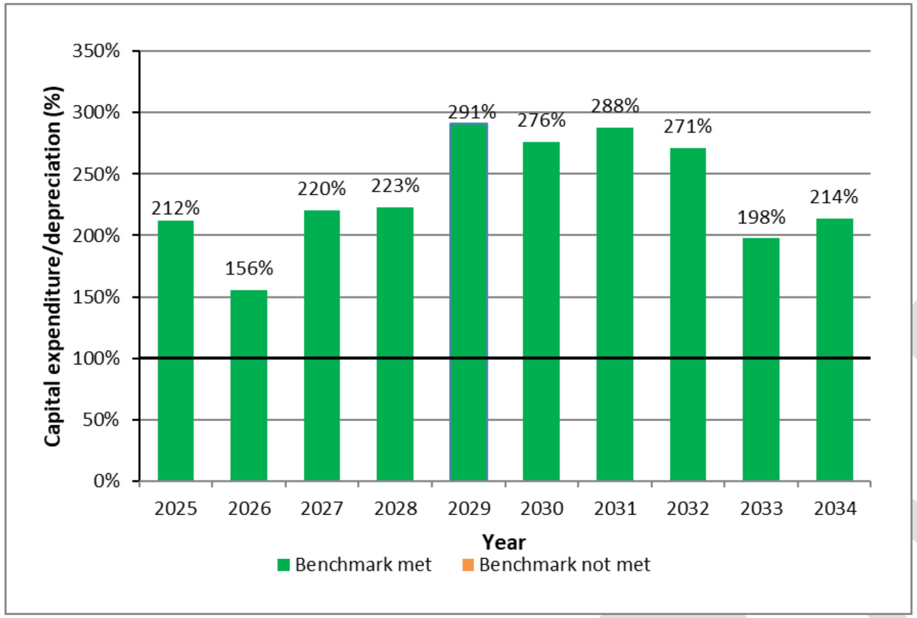
(b) identify the principal options for managing those issues and the implications of those options.[2]

Local authorities hold significant infrastructure assets. Infrastructure operations and works make up most of local authorities' spending. An infrastructure strategy provides, at a minimum, a 30-year view of Council's approach to managing our infrastructure/assets, and offers the opportunity for local authorities to present a strategic picture of their infrastructure portfolio.

As we have discussed in this document already, the funding of depreciation and renewing our assets is the significant relationship between the financial and infrastructure strategies.

Councils renewal funding approach is that of a rolling renewal annuity. That is, Council will fund each year the average of the renewal expenditure planned over the life of the infrastructure strategy, with the annuity being no less than the principal and interest costs of Councils internal debt. Actual renewal expenditure may be higher or lower than this in any given year.

[2] Local Government Act 2002 No 84 (as at 01 October 2023), Public Act 101B Infrastructure strategy – New Zealand Legislation



Essential services benchmark shows how Council's planned capital expenditure maintains the value of assets over time. This is significantly above the level of depreciation charge associated with Council's assets and further above the average renewal planned over the life of the infrastructure strategy. Due to this misalignment between planned expenditure and the funding of this expenditure, including through the rolling average renewal. Council will carry significant debt through the life of the 2024-2034 Long Term Plan.

This will mean that if the renewal or other capital expenditure requirements are higher than projected within the Infrastructure Strategy Council may have difficulty financing additional expenditure through the current approach.

Conclusion

Ōpōtiki District Council is looking to balance the provision of services to achieve a prosperous, vibrant and green district, while keeping funding affordable over time and maintaining a sound financial position. This LTP continues with the strategic theme of prudent financial management, affordability and enabling growth opportunities. This is to be achieved by focusing investment on essential services and infrastructure required to support social and economic growth opportunities.

Overall, Council considers that its financial strategy is generally prudent and sustainable and importantly responds to the community's expectations and vision for the future of the Ōpōtiki District. The strategy will require Council to consider rating for the repayment of debt in the later years of the long term plan, or consider increasing those limits that provide a constraint on Council's debt capacity. This may be through the mechanisms that increase debt to revenue, however consideration needs to be given to interest costs associated with debt.