Financial Strategy

The Financial Strategy outlines our overall approach to managing the Council's finances and provides guidance when we make spending decisions.

The budget for the 2024-34 Long-Term Plan has been developed as a 'Community Wellbeing Budget' to give effect to the five priorities as agreed by Council. Council has also indicated a commitment to 'looking after what we have'. As such, the budget provides for an increase in the Renewals and Compliance budget as well as increased investment in renewing assets that will directly improve the amenity of the city.

The Financial Strategy in the previous Long-Term Plan highlighted the unprecedented growth experienced by Hamilton, which has put increased pressure and demand on existing infrastructure and services. This demand for services is forecast to continue for the next 10 years.

Along with the increasing demand for services, Council is facing a number of challenges being driven by increasing policy and legislation requirements. This includes new direction on growth, water, wastewater and stormwater standards, transport and climate change.

Council's asset base continues to increase with investment in infrastructure assets being the key driver. This in turn results in increased costs to maintain these assets throughout the 10-year period.

The Financial Strategy has been adapted to respond to the challenges outlined above. Council's debt to revenue limits, over the 10 years, match that set by the Local Government Funding Agency (LGFA).

Average rates increase to existing ratepayers will be:

- 19.9% for 2024-25,
- 15.5% for 2025-26 to 2028-29,
- 9% for 2029-30,
- 5% from 2030-31 onward.

The General rate, the Uniform Annual General Charge (UAGC), and the Government Compliance rate increase by this percentage each year.

Average rates increases for existing ratepayers in the previous Financial Strategy were 4.9% per year.

Debt

Debt-to-Revenue Limit

The Debt-to-Revenue Ratio will be set at 285% for the year ending June 2025 and decrease to 280% for the year ending June 2026 and beyond.

Council is investing $5.1 billion across the 10 years in its largest capital programme to date. This includes increasing spending on community infrastructure, on renewing existing assets and on delivering projects that meet the objectives of our five priorities.

The initial Debt-to-Revenue Ratio limit of 285% in the first year, and subsequent reductions, is in line with the limits set by the LGFA.

Remaining under these limits over the 10 years supports Council's strong credit rating (AA-). Our ability to fund potential unforeseen events is discussed in the section below.

Table 1: Debt-to-Revenue Ratio

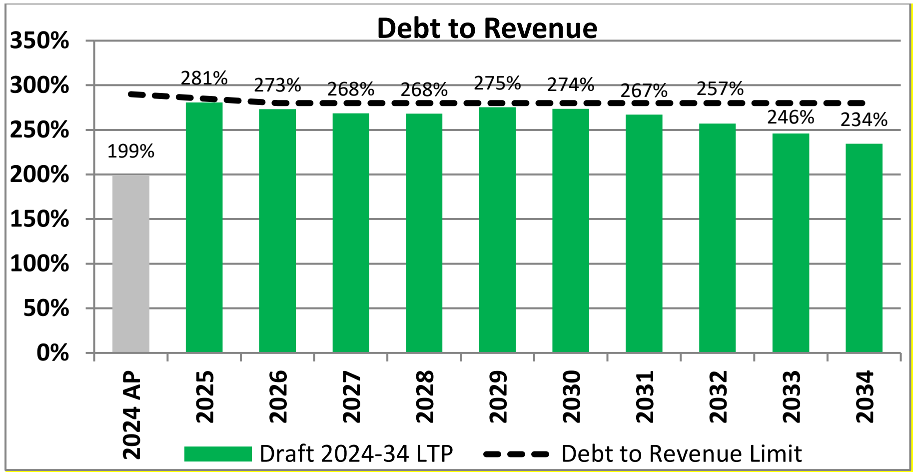
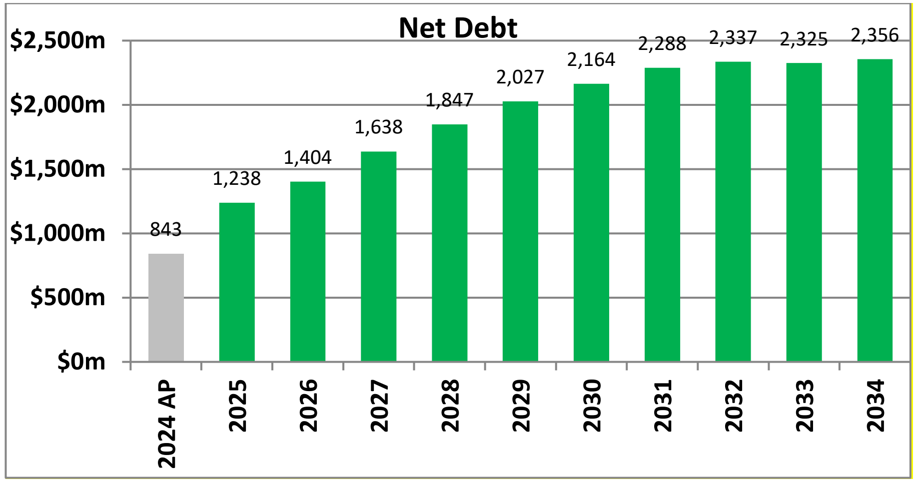


Table 2 shows budgeted net debt for the financial years ending 30 June 2024 to 30 June 2034.

Projections show Net Debt increasing to a peak of $2.4 billion in 2034. Rates increases from 2027 onwards at 15.5% will create surpluses to contribute to repaying debt.

By 2034 Council will have $459 million in debt capacity within the 280% Debt-to-Revenue Ratio limit. Council's 2021-2051 Infrastructure Strategy shows that debt capacity is needed beyond 2034 for future infrastructure investment.

Table 2: Net Debt



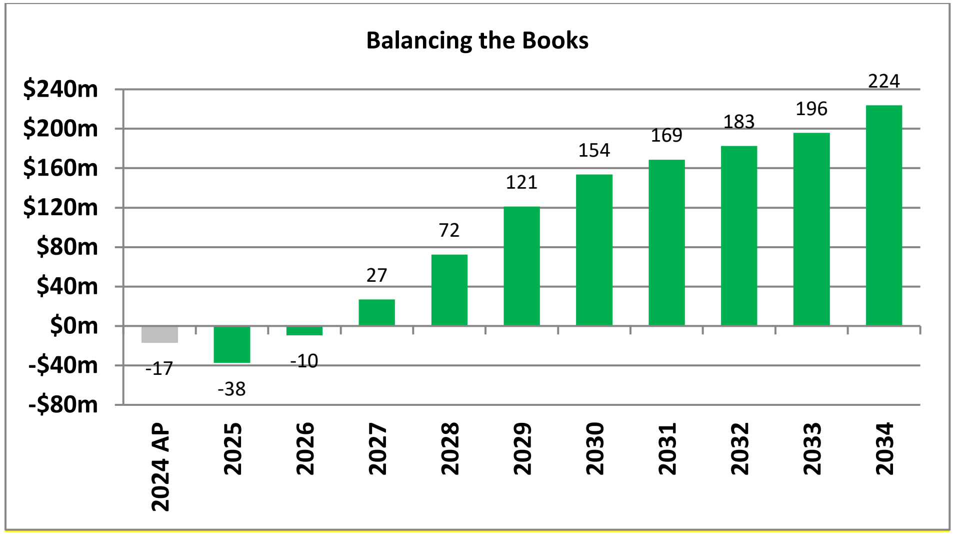
Paying for the city's everyday costs

Everyday costs should be paid for from everyday revenues.

If we fail to achieve this, these costs are funded by increasing debt. This means existing ratepayers are not paying for some of the services and amenities being provided to them. Using debt to fund everyday costs also means future ratepayers will pay for this cost and the extra interest. This is neither prudent nor sustainable.

We must operate with surpluses if we are to repay debt and continue to invest in the city's future by maintaining existing assets and building new infrastructure. This Financial Strategy enables a balanced or surplus budget from year three onwards.

Table 3: Everyday costs and revenues



Rates

Rating Limits

Rate Increases

Average rate increases to existing ratepayers will not exceed 19.9% in 2025. From 2026 to 2029 rate increases will not exceed 15.5%. In 2030 rate increases will not exceed 9% and from 2031 onwards, rate increases will not exceed 5%.

After making budget decisions, capping debt and agreeing that paying for everyday costs with everyday revenues was a priority, we have determined our rates limits.

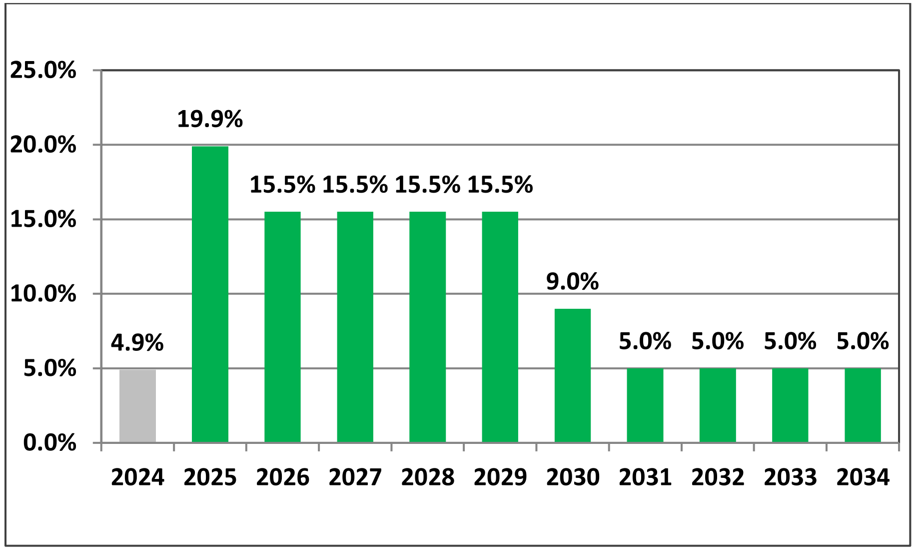
The Council's rating system has been considered with the intention that it represents the most appropriate rates options to address the present and future needs of the city.

Average rates increases to existing ratepayers are proposed to be 19.9% in 2024/34. The General rate, the Uniform Annual General Charge (UAGC), and the Government Compliance rate increase by this percentage each year.Average rates increases for existing ratepayers in the previous Financial Strategy were 4.9% per year.

The average rates increases are set at the lowest level possible to still achieve our capital investment programme. Much of this programme is funded from debt and the amount we can borrow is constrained by our Debt-to-Revenue Ratio limits. The budget shows that at this level we can complete our capital investment programme, maintain services and create surpluses necessary to repay debt.

Rates from new growth (new investment in houses and businesses) is essential to Council's financial strategy. When including new rates from growth, our total rates revenue increases by an average of 12.7% each year of the 10 years. A reduction in growth would mean that rates from existing ratepayers would not be sufficient to cover our investment programme.

Table 4: Average rates increases (to existing ratepayers)



Growth

Hamilton continues to experience a period of high growth. This presents a financial challenge for Council. A key guiding principle in the development of this Long-Term Plan is to ensure that those who benefit from growth pay a fair share of the costs incurred supporting that growth.

The National Policy Statement on Urban Development requires councils to provide development capacity for housing and business land to meet demand over the next 30 years. Council has a requirement to provide enabling infrastructure to meet growth demand, with current Government policy settings requiring supply of serviceable land 20% greater than forecast demand.

In this Long-Term Plan, we have adopted the high series of population projections provided by the Waikato University National Institute of Demographic and Economic Analysis (NIDEA). This means we need to supply 12,500 new dwellings over the next 10 years and 38,000 over the next 30 years. Currently there are 63,000 dwellings in Hamilton. The population is projected to grow from 185,300 in 2023 to more than 218,000 in 2034.

Dwelling projections have been used to prepare a 30-year demand forecast for the 2021-2051 Infrastructure Strategy and the related capital expenditure programme for the Long-Term Plan has been prioritised from this forecast.

Table 5: Capital expenditure

Activity Group	2024-34 Long-Term Plan			
	Growth ($000)	LOS ($000)	Renewals ($000)	Total ($000)
Wastewater	1,060,358	87,959	313,299	1,461,616
Stormwater	288,883	52,678	90,210	431,771
Transport	950,090	113,053	521,184	1,584,327
Water Supply	461,028	136,245	147,699	744,972
Other	136,397	157,969	571,626	865,991
All Activity Groups	2,896,757	547,903	1,644,018	5,088,678
External Funding (excl DC's)	577,474			

Table 5 shows the total cost of projects over 10 years categorised by type of expenditure. Growth capital expenditure provides new or improved assets which supports more residents to live in our city. Capital expenditure to improve service levels is where we are investing in new assets to service the existing population; and renewals restore our current assets to their original function or capacity.

There are additional operating costs, such as depreciation, associated with adding new assets. These costs are included in the rates increase limit.

Risk of growth being higher or lower

Should growth be lower than forecast, revenue budgets for rates, building consents, resource consents and development contributions may not be met. This will constrain borrowing as the debt limit of 285% in year 1 is calculated at 2.85 times revenue. We would need to reconsider the appropriateness of the capital programme.

Should growth be higher than forecast, then revenue would be higher. We would then need to consider the speed and timing of the capital programme to maintain housing supply.

These impacts are further considered in the Significant Forecasting Assumptions section of this Long-Term Plan.

Unplanned Events

This Long-Term Plan provides for the everyday maintenance of assets and the renewal of assets at the end of their economic life. Unplanned events require earlier than planned investment (e.g. Civil Defence emergencies, natural events, river slips, fire, theft, and safety concerns). These events, if they occur, could result in significant unplanned operating and capital costs.

The Council has mitigations that can be executed in the case of such an event. The Council can call on an additional $100 million in standby facilities, and has the ability to urgently reprioritise and reduce capital spending and community levels of service spending.

Collectively with other councils in the Waikato region, we have an insurance programme through Co-Lab. This programme will fund some operational costs (e.g. business interruption) and capital costs where a claimable event occurs.

All councils in the Co-Lab group have material damage insurance and infrastructure insurance using a maximum probable loss approach rather than reinstatement value for all properties. This policy has the benefit of spreading risk across a wider geographical area. Maximum probable loss is the anticipated value of the biggest monetary loss that might result from an event, whether natural or otherwise.

Additionally, we have a layer of insurance to ensure appropriate cover for key assets including the five Waikato River bridges, other key transportation bridges and underground infrastructure. The water and wastewater treatment plants, reservoirs and pump stations are fully insured including increased costs of operation through business interruption during a disaster event.

Investments

We hold investments in companies, property and cash.

Investments in companies

We are an equity holder in four companies. The principal reason for holding an equity interest in these investments is to achieve efficiency and community outcomes rather than for a financial return on investment. We hold shares in the following companies:

Table 6: Council's Investments

Company	Shareholding /Control %	Principal reason for Investment	Budgeted return
Waikato Regional Airport Ltd	50.00	Economic development	Nil
Co-Lab	16.02	Efficient government	Nil
New Zealand Local Government Funding Agency Ltd	8.30	Borrowing	$104,000 per annum
Civic Financial Services Ltd	1.8	Superannuation	Nil

There are no plans to change our shareholdings. In accordance with good practice, however, this is reviewed regularly.

Property Investments

Property investments are divided into three categories:

Municipal Endowment Property

Budgeted rate of return on property value for Municipal Endowment Property is 5%.

From time to time, we will buy and sell endowment properties in the portfolio to improve financial returns. Surplus cash is held in the Municipal Endowment Fund and is available for reinvestment in property. All endowment transactions are governed by our investment and endowment policies.

Domain Endowment Property

Budgeted rate of return on property value for Domain Endowment Property is 1%.

From time to time we will buy and sell endowment properties in the portfolio to improve financial returns. Surplus cash is held in the Domain Endowment Fund and is available for reinvestment in property. All endowment transactions are governed by our investment and endowment policies.

Corporate Investment Property

Budgeted rate of return on property value for Investment Property is 3%.

Cash Investments

We hold cash for three main reasons:

- To support the balance of reserves.
- To ensure strong lines of liquidity and access to cash. Cash is supplemented by committed banking facilities
- To provide the funds for maturing debt.

Cash is invested on short-term deposit to manage cash flows and maximise returns. Our target is to exceed the average 90-day bank bill rate.

Other Investments

As part of borrowing from the Local Government Funding Agency, we are required to invest in financial bonds with the agency. We will receive interest on these bonds.

Policy on Securities

To borrow cash, we must offer our lenders security, just like residents do with their mortgage. Like most councils, debt is secured against rates income.

Lenders like this as security and it helps keep our interest rates low. Giving rates as security means that our lenders can make us charge ratepayers more to repay debt. That is why it is important to keep our debt at a sustainable level.

We may also offer other security, including physical assets, in certain circumstances.

The full policy on giving securities can be found in the Investment and Liability Management Policy on our website.

Disclosure Statement

We have included the Disclosure Statement in this Long-Term Plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014.

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

Our Long-Term Plan budget meets or exceeds the measures of financial management as determined by the government.

Our target of everyday revenues paying for everyday costs is more appropriate than the regulation measure for balancing the books. This is because it excludes capital revenue. Capital revenue is used for building assets and not to pay for everyday costs. The result is a more transparent view of what it would normally cost to run the city.