Te Kaunihera o Te Tairāwhiti
GISBORNE
DISTRICT COUNCIL

HEALING
OUR REGION
FOR OUR FUTURE

Rautaki Ahumoni
Financial Strategy

Balancing the need to:

- Meet the costs of recovery following Cyclone Gabrielle
- Maintaining core services
- Protect our environment and assets while planning for our future, in a financially sustainable way

2024-2027
THREE
YEAR PLAN

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Ki te tirohanga

At a glance

Over the next three years of our 2024-2027 Three Year Plan (3YP) our focus will be on repairing the damage after Cyclone Gabrielle, maintaining core services, the maintenance of our assets, and incrementally improving our resilience.

Cyclone Gabrielle hit when our critical infrastructure was already in a fragile state, following on from seven severe weather events since 2021. We are now facing nearly $1.1 billion worth of recovery costs, mostly relating to our roading network.

Our focus for the next three years is to deliver:

- Resilient and healthy waters
- Safe and healthy people
- Building back our damaged roading network in a staged approach
- Effective regulatory functions

By 2027, progress will have been made toward rebuilding our roading network; however, we won't have completed all the work we need to do. The unrepaired cyclone damage will leave us vulnerable to worsening conditions with every future adverse weather event. Our budgets do not allow for addressing all the potholes on our roads; to do so, rates would need to increase by another 16%, and we know that is unaffordable.

We will have completed a strategic review of our extensive 1800km roading network to determine where we need to build resilience, where we will need to retreat and where levels of service will need adjustment. This may mean we will need to revert from sealed to unsealed roads in some areas.

Rising business costs, including interest costs, depreciation and inflation have made it impossible to avoid rates increases. The loss of a dividend from our Council Controlled Trading Organisation has also significantly reduced our ability to hold rates. In addition to this, significant recovery costs are putting further strain on our financial resources. Our rates-setting approach prioritises the most appropriate options to address the present and future needs of Tairawhiti. Rates increases over the 3 years are set to a maximum threshold of 11.4%.

The Strategy recognises that these rates increases will disproportionately affect ratepayers facing hardship, as our district has the highest level of deprivation compared to any other district in New Zealand. Rather than implementing a blanket reduction in rates, we have increased provisions for rates remissions and will work directly with those in our community who are facing hardship.

In doing this, we hope to balance supporting the needs of those in our current community who are facing hardship without significantly burdening future generations.

To fund the planned $430 million capital programme, where over 90% relates to infrastructure and recovery reinstatement, our debt is forecast to increase to $232 million (2021 Long Term Plan $150 million). This represents 157% of our revenue, and under our new debt cap of 175% (debt to revenue).

Purpose

Our Financial Strategy outlines our overall approach to managing our finances and provides guidance when we make spending decisions.

Our Financial Strategy (the Strategy) sets our overall financial goal posts for the 2024-2027 Three Year Plan (3YP), including sources of revenue to fund capital and operational costs, and the impacts of our decisions on rates, debt, levels of service and investments.

This Strategy also guides Council's future funding decisions and, along with the Infrastructure Strategy, informs the capital and operational spending for the 3YP.

The 2024-2027 Three Year Plan has been developed with a "Recovery" no frills budget, aimed at maintaining core services while being future focused and giving effect to our strategic priorities.

How to use this Strategy

The Financial Strategy is organised into the following parts:

- **A.** Introduction | Our context
- **B.** Key Issues
- **C.** Our Plan and Focus
- **D.** Our Strategy
- **E.** Other significant financial matters and the financial Levers
- **F.** Strategic Links

A. Introduction | Our context

Our Tairāwhiti

The Tairāwhiti region covers a land area of 8,265 square kilometres, making up 3% of New Zealand's total land area, and around 270 kilometres of coastline.

We have a residential population of 52.100[1] or 1% of New Zealand's population. Gisborne has a low ratio of population to land area and 75% live in Gisborne city. Other smaller settlements include Tolaga Bay (1.7%), Ruatoria (1.6%), Te Karaka (1.1%) and Tokomaru Bay (1%).

The district has the highest level of deprivation when compared to any other district in New Zealand. There is a disparity between low income and high income distribution when compared to the national average.[2]

Gisborne District Council serves a widely dispersed population in a large district. We have around 22,300 properties in our rating base, which is relatively small to fund the significant amount of infrastructure we have. This includes our large roading network which is made up of 1,800 kilometres of roads.

The fragility of our roads due to the region's topography and geology means sustaining and maintaining our roading network without significant investment is challenging.

[1] Stats NZ 25 October 2022. Subnational population estimates https://www.stats.govt.nz/information-releases/subnational-population- estimates-at-30-June-2022-provisional/

[2] Matawai Taiao Environmental Scan for Gisborne District Council (June 2023). https://www.gdc.govt.nz/data/assets/pdf_file/0030/67179/2023-Evironmental-Scan.pdf

The relatively young geology of our region, along with overlapping sandstone, mudstone, conglomerate and basalt, means that we can expect continual movement for many, many generations to come.

Our topography and geology also means that large portions of our region are highly susceptible to erosion. Soft rock soil erosion is on a scale and severity that is greater in Tairāwhiti than any other region of New Zealand. It is a significant resource management issue. Landslide mapping in March 2022 identified around 2,700 landslides in Anaura Bay and Tokomaru Bay catchments.

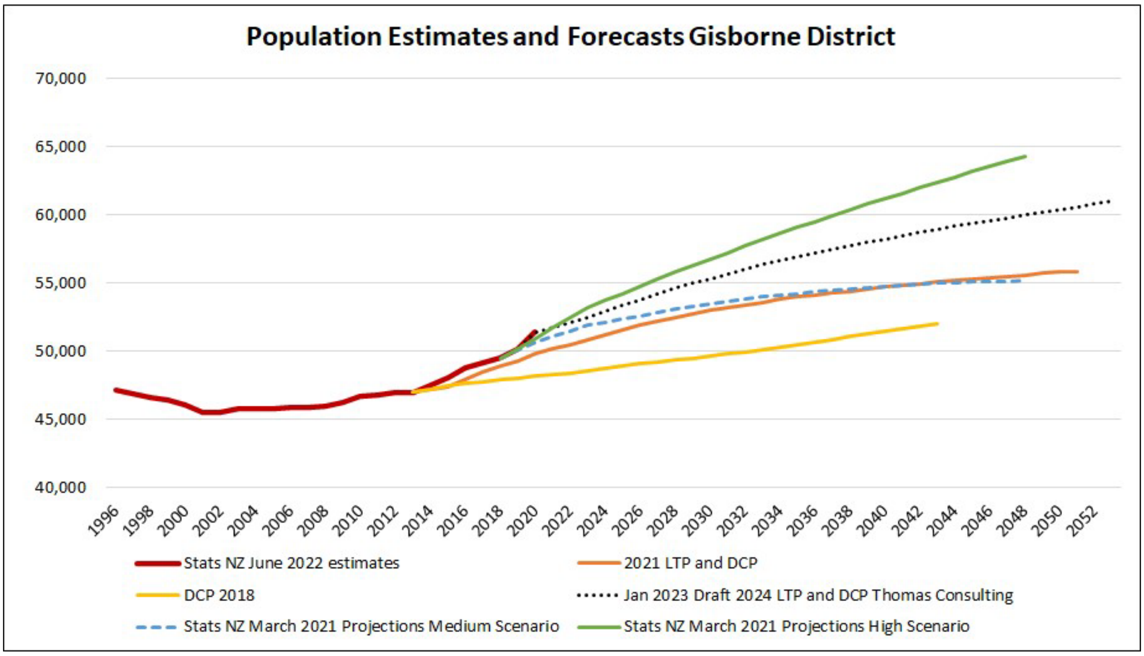
The underlying makeup of our region makes it extremely challenging to build and maintain our infrastructure.

Growth

Tairāwhiti's residential population is forecast to grow over the next 10 years to 56,350.

Over the next three-years, growth is assumed to be slower, concentrated within the Gisborne Urban area. Growth is expected in a more compact urban form, through a mix of infill development and a "building up rather than out"[3] approach.

We plan to invest in our reticulated network services and future design will be focused on reducing strain on the current network. Where we need to invest in growth infrastructure, we will use development contributions to fund the work.



[3] Matawai Taiao Environmental Scan for Gisborne District Council (June 2023). Page 17. https://www.gdc.govt.nz/data/assets/pdf_file/0030/67179/2023-Evironmental-Scan.pdf

Three Year view

Due to some changes in legislation enacted following the severe weather events, the content in this Strategy is different from our strategies in previous years. The Severe Weather Emergency Recovery Legislation Act, passed in 2023, aims to aid affected Councils and communities in their recovery efforts. Specifically, it allows for changes to laws governing long-term planning processes, including financial and infrastructure strategies, through secondary legislation known as Orders in Council.

The above legislative changes have enabled Council to adopt a different approach to developing this Financial Strategy, placing a stronger emphasis on addressing critical infrastructure needs in the immediate future. Instead of planning for an extended period, which would be challenging due to funding uncertainties and the unpredictable effects of future growth and environmental changes, we're focusing this strategy solely on the next 3 years. This allows for more efficient financial management in the short term while remaining adaptable to the future wants and needs of our community.

However, while we have focused on our plan for the next three years, we have forecast debt beyond and taken a longer term view out to 2033/34. This is so we can keep in mind what we need to do in the future to build resilience, while being mindful of the level of debt we are likely to be facing at the end of the next 3 years.

B. Key Issues

As we enter the next three years, our circumstances are significantly different from where we thought we would be when we were planning the 2021-2031 Long Term Plan (LTP).

Rising Costs

Since the adoption of the 2021-2031 LTP, inflation has more than doubled. Rising interest rates and depreciation are also higher than what we allowed for in our previous plan.

Against this backdrop, we also have commitments from what was initiated during the LTP. In the first three years of the 2021-2031 LTP, we entered Council's peak period of infrastructure investment where the second phase of our Wastewater Treatment Plant was completed. The accumulative costs of phase one and two amounted to around $80 million, constituting a significant portion of our external debt obligation.

Rising interest rates and inflation have impacted on our ability to keep rates within our previous Financial Strategy rates increase cap. In the 2023/24 Annual Plan, we recognised that interest rates and the costs for repairing infrastructure exceeded our Financial Strategy rates increase limit of 6.5%. We held to what we committed within the previous Financial Strategy, even though our costs required rates increases of at least 2-3% over and above our Financial Strategy limits.

We achieved this by not raising rates to cover the full costs of Three Waters depreciation and using some of our reserves to smooth the impacts. However, the combination of these higher costs and significantly, the impact of not receiving a dividend for three years from our Council Controlled Trading Organisation, means we can no longer hold the rising costs.

Increased frequency of Extreme weather Events and Devastation

Since 2021, Tairāwhiti has faced nine extreme weather events and has been operating in a state of recovery since June 2021, when Tokomaru Bay experienced extensive flooding, which devasted properties, schools, marae and urupā, and severely impacted our network of roads and state highways, with parts of the community remaining cut off for days.

Since then, the region and many of the same small rural communities have suffered a further eight extreme weather events, causing millions of dollars in damage to public infrastructure.

The most significant event occurred on 13 February 2023, when Cyclone Gabrielle made landfall causing widespread flooding and devastation. A State of National Emergency was declared on 14 February 2023, and for our region the declaration wasn't lifted until a month later.

The aftermath of the Cyclone resulted in significant and far-reaching damage which even exceeded the impacts of Cyclone Bola in 1988, which had been described as "one of the most damaging cyclones to hit New Zealand".

Tairāwhiti experienced substantial widespread damage to infrastructure, resulting in power, and mobile networks being completely lost for several days. The roading network suffered extensive damage with many bridges destroyed or significantly damaged, landslides and collapsed roads causing the district to remain isolated for long periods.

The damage to Council's infrastructure was extensive across the following areas:

Water Supply

The main water supply and treatment plant at Waingake suffered extensive damage, with several substantial breaks in our water line due to the pile up of slips and woody debris. Our broken water mains were reinstated after 6 weeks. During this period, water to the city was limited with level 4 water restrictions remaining in place for over 7 weeks. The Waiapoa Water Treatment Plant which was built as a back up after Cyclone Bola, became the main water source while the repairs on the Waingake supply were undertaken.

Roads and other infrastructure

Our roading network in particular suffered significant damage, with over 3000 faults registered on our local roads, along with over 200 major dropouts, 8 destroyed bridges and a further 54 bridges were significantly damaged. We still have a number of roads closed, including the Tiniroto Road and the Tiniroto Bluffs.

Other infrastructure damage included 111 structures, including wastewater pipes, stop banks, retaining walls, reserves and other community assets.

Large Woody Debris

During Cyclone Gabrielle unprecedented volumes of woody debris were mobilised in waterways, causing widespread damage to both natural and built environments.

The large woody debris (LWD) blocks river channels, damaged and destroyed bridges and exacerbated flooding. During the events, with significant mobilisation of the LWD, the mutli- span bridges within our district were found to exacerbate upstream flooding effects, increasing the risk of damage or critical failure.

It is estimated that around 1.8 million tonnes of woody debris are within our water catchments and are likely to cost over $150m to remove. We have funding from Central Government of around $53 million to address this issue.

To date 178,000 tonnes of LWB has been removed from high risk areas. These high risk areas include those protecting our critical infrastructure (bridges, water pipelines and roads).

Future of Severely Affected Land (FOSAL)

On 1 May 2023, the Crown announced an intention to provide a package of compensation to council's affected by Cyclone Gabrielle and the January severe weather events. These are collectively referred to as North Island Weather Events. The package was to assist recovery and future resilience. It included a direction to classify affected land based on several categories of risk.

The categorisation of affected land informs the approach when dealing with risk, known as an overall package called the Future of Severely Affected Land (FOSAL).

FOSAL category 3 properties are identified as residential properties which are deemed to be high risk due to an intolerable risk to life and where it is not possible to reduce the risk.

The Government Support package – an all or nothing deal – included:

- 50:50 sharing between the Crown and Council of the cost of purchasing Category 3 properties (or relocation grant) up $30 million in total.
- Crown funding of $64 million (or 90% of the total costs) for flood protection projects that will hep enhance the resilience of the region and mitigate loss of life and property in the future.
- A concessionary loan from the Crown of $30 million for 10 years at nil interest.
- Crown funding of $125 million for regional transport projects.

Capacity Challenges

The increased workload required to address the damage caused by Cyclone Gabrielle will not only impact on Councils budgets and financial ability to meet the costs, but will also place additional demands on contractors, who maybe limited by their capacity to deliver more work. Not only do we have to repair and restore what has been damaged, but there is also a need to ensure what we do contributes to making our region more resilient in the future.

Over the next three years, we have matched the capacity to do the work against the financial ability to meet our needs. However, our 3YP acknowledges it does not address all of our issues.

The total damage to our roading network has been assessed as requiring between $465 to 725 million. The Support Package from Central Government is $125 million, with an additional $85 million for initial emergency response costs. This leaves us with a significant shortfall, where we will be needing to work in partnership with Central Government to address our damaged roading network. Alternatively, our recovery will take much longer, with reinstatement works focused on the greatest risks and the highest priorities in terms of people's safety.

We also face significant vulnerability with our water supply. Planning for alternative solutions to make our water supply infrastructure resilient in the future will require significant investment. However, for the next few years, the 3YP will focus on reinstating and incrementally improving what we have.

C. Our Plan and Focus

The focus for the next three years is to deliver critical activities and provide a strong foundation and building blocks for our region's future. In doing so, we aim to strike a balance between our recovery needs and ensuring the maintenance of and restoration of our assets, all the while considering what is affordable and financial sustainable for ourselves and our community.

Council's strategic priorities include resilient waters, building resilient transport, and enabling effective regulatory functions. It is recognised that we are not going to achieve all of our goals within next three years, but it will be the first phase in rebuilding our foundations.

We plan to live within our means and have set our budgets on a no-frills basis, focusing on what we can and must do.

Our focus for the next three years can be summarised through the following five main themes:

Oranga Wai – Healthy Water

Resilient and healthy waters

- Improving waterways with accelerated renewals in wastewater and stormwater infrastructure
- Plans that protect our waterways
- More resilient water supply infrastructure enabling quicker response time in case of future adverse weather events
- Increased resources for silt, drainage management and woody debris removal.

Oranga Tāngata – Healthy People

Safe and healthy people

Accelerating the Waiapoa River Control Scheme, alongside additional infrastructure investment for new schemes protecting our communities from future flooding - Completing the voluntary residential property buyouts for FOSAL category 3 properties - Township improvements for the wellbeing of our people.

Oranga Whenua – Healthy Land

Building back our damaged roading network

Rebuilding the network back over the next 3-5 years. This includes $125m of Crown funds for damaged/destroyed bridges, Tiniroto Road, and major dropouts to connect our communities.

Effective regulatory functions

Increasing resources for statutory obligations and protection of our environment.

Sustainable and resilient waste management

Delivering a new resource recovery centre, improving kerbside collections to separate our waste, and improving our landfill management to cope with receiving waste. In doing so, we will reduce greenhouse gas emissions and at the same time it will increase our resilience, making us more prepared to deal with possible future events where our region may be cut off from the rest of the country.

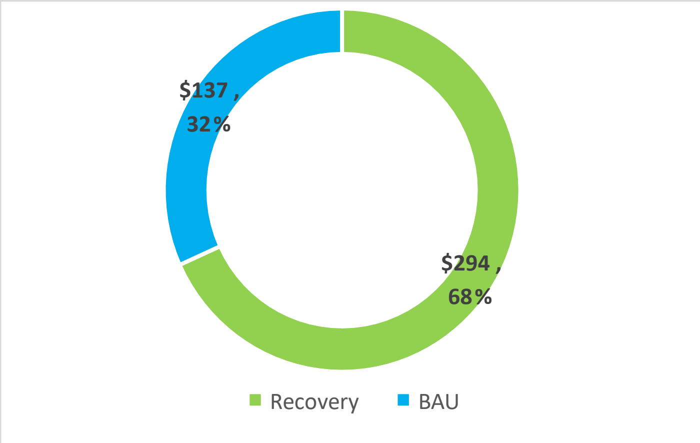
Recovery

Councils overall capital investment programme for the three years is $430 million, which is significantly higher than what we predicted in the last LTP ($115m).

The majority of increased investment relates to recovery projects. This includes:

- Roading ($191m)
- New flood protection works ($64m)
- FOSAL Category 3 Property buyouts ($30m)
- Three waters – increased resilience focus work including backup for water supply ($18m)

Total Capital projects ($m) 2024-2027



Renewing Core infrastructure

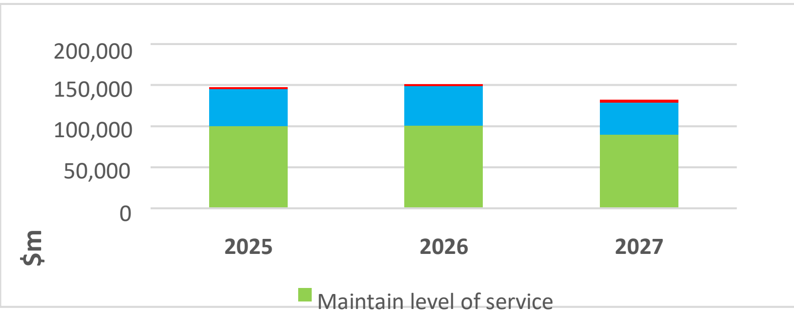
Council's is responsible for $2.6 billion worth of assets (30 June 2023), with majority being infrastructure assets ($2.2 billion).

These assets have a finite period in which they will operate effectively. Once their useful life has been reached, the asset usually needs to be replaced or renewed. For the next three years, we expect to continue investing in the renewal of assets based on their expected useful life. We have been continuously investing in gaining a better understanding of the condition of our assets, making sure that critical assets are replaced based on their performance.

Over the next three years we are making up lost ground with our renewal programme, as well as reinstating significantly impaired roads that were damaged in Cyclone Gabrielle. Roading rate of renewal is over 250% and our Four Waters is 122%.

Beyond the life of this plan, there will still be considerable investment needed, particularly for bridges, roads, pipes treatment plants and community asset renewals. We will need to plan well ahead and incorporate future proofing resilience outcomes for our infrastructure network.

Capital Investment Program 2025-2027



Regulatory role and Protecting our environment

Our region has changed due to increased development, population growth and the changing demands of natural resources. Tairāwhiti Resource Management Plan (TRMP) provides a strategic view and direction to protect what is important. It has a community driven vision to address future challenges such as urban growth and development (Tairāwhiti Future Development Strategy), regional freshwater management and catchment plans.

Improving the quality of our freshwater

Council will continue to focus on improving freshwater in our region. Our new freshwater management plans mirror the National Policy for a region wide approach. To implement our revised direction, we will also be reviewing our freshwater plans to improve water resources within our seven catchment areas. This will include new freshwater targes and allocation limits.

Overall Council will continue to work with community groups, agencies, and iwi and hapū on a number of freshwater projects including:

- Freshwater Improvement Fund ○ Focusing on riparian planting, wetland restoration, removal of fish passage barriers, enhancing fish spanning and reducing erosion in our urban and peri- urban waterways.
- Freshwater Farm Plan – Regional Pilot ○ Tairawhiti has been selected as one of three regions to test the freshwater farm planning process with a small selection of farms. The pilot will inform better planning practices in the future.
- Integrated Catchment Management Plan (ICMP) ○ Under the Tairāwhiti Resource Management Plan (TRMP), the ICMP will be completed alongside freshwater planning by 2025.

D. Our Strategy

Key Principles

This Strategy strikes a balance between providing:

- the strategic needs (reinstating and future proofing our damaged infrastructure assets, while protecting our assets, mitigating our risks and managing future growth)
- the communities strategic wants (speed of recovery, the changes and improvements we need to make to our services, facilities, services, assets and future vision)
- and by prudently managing Councils finances in a sustainable way.

Our 3YP identifies the challenges that our region faces, including the affordability of Council services and the sustainability of our regional economy. While all activities that are planned to move Tairāwhiti forward will have a financial component, the Financial Strategy focuses on our overall approach.

Council wants to be able to protect our environment and assets while also planning for the future. Our focus in this Strategy is on meeting our obligations, looking after our critical infrastructure, maintaining or lowering our levels of service, in a way that is affordable to our community.

However, we know that because of the huge recovery bill we are facing, we won't be able to do everything we had planned in the previous 2021-2034 LTP.

To achieve what we need to do over the next three years, while being financially sustainable and prudent, the Strategy sets out six inter-linked key strategic principles which have been woven into our Plan.

Keep rates as affordable as practicable

Keep rates as affordable as practicable while recognising the need to fund critical activities and infrastructure, and keep the region functioning well.

Focus on critical activities and infrastructure

Focus on critical activities and infrastructure which meet the community's needs and respond to climate change during the three year plan period and beyond.

Manage debt prudently

Increase maximum debt levels still within prudent levels, to smooth the cost of delivering key infrastructure projects over the period of the three year plan, in line with our financial policies.

Increase alternative revenue streams

Increase and optimise the use of alternative revenue streams through partnerships, targets contributions and investment income.

Ensure beneficiaries of services pay the costs

Ensure users and those who benefit from Council activities and infrastructure pay for them. This includes mechanisms such as user levies, targeted rates and development contributions.

Grow and enable our rating base

Grow the rating base through economic activity without the need to trigger additional costly capital works projects or grow Council's infrastructure footprint without care.

RATES INCREASE CAP

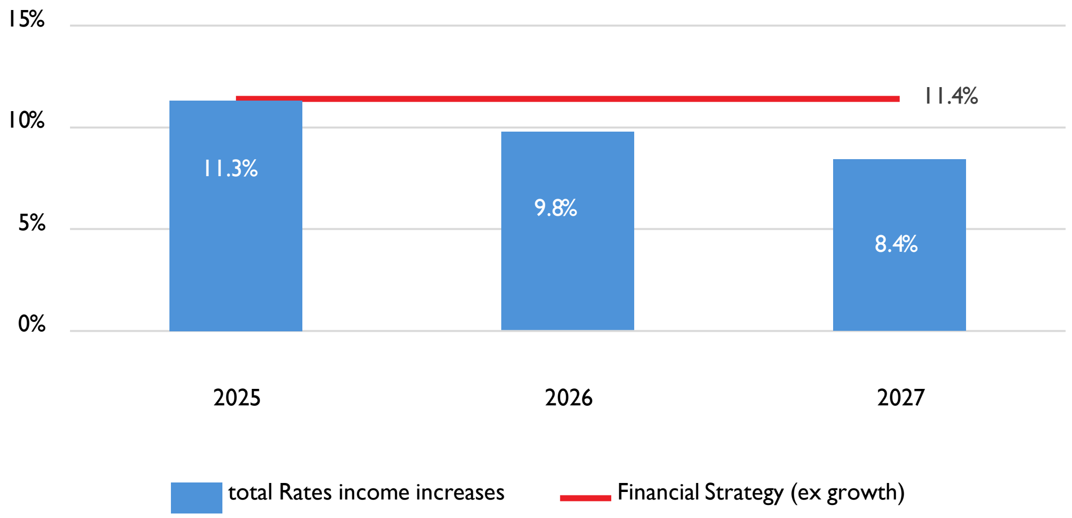
Average Rates increase to existing ratepayers will be not exceed 11.4%

After making budget decisions based on our requirements for the draft Three Year Plan and capping debt, we have settled our rates limits. The way we set our rates has been considered so that it represents the most appropriate rates options to address the present and future needs of Tairawhiti.

Rates increases to existing ratepayers are proposed to be under 11.4%. This comprises of a 7.9% increase to do our normal business and 3.5% for addressing our recovery needs. The average rates increases are set at the lowest level possible to manage our day to day core services, while also responding to our significant recovery issues.

The draft budgets are forecast to be under the recovery maximum limit in Years 2 and 3. This gives us some flexibility if we decide to do more in recovery, want to repay our debt faster or be able to respond in the face of future uncertainty around severe weather events and their impacts.

Forecast total rates revenue 2024-2027

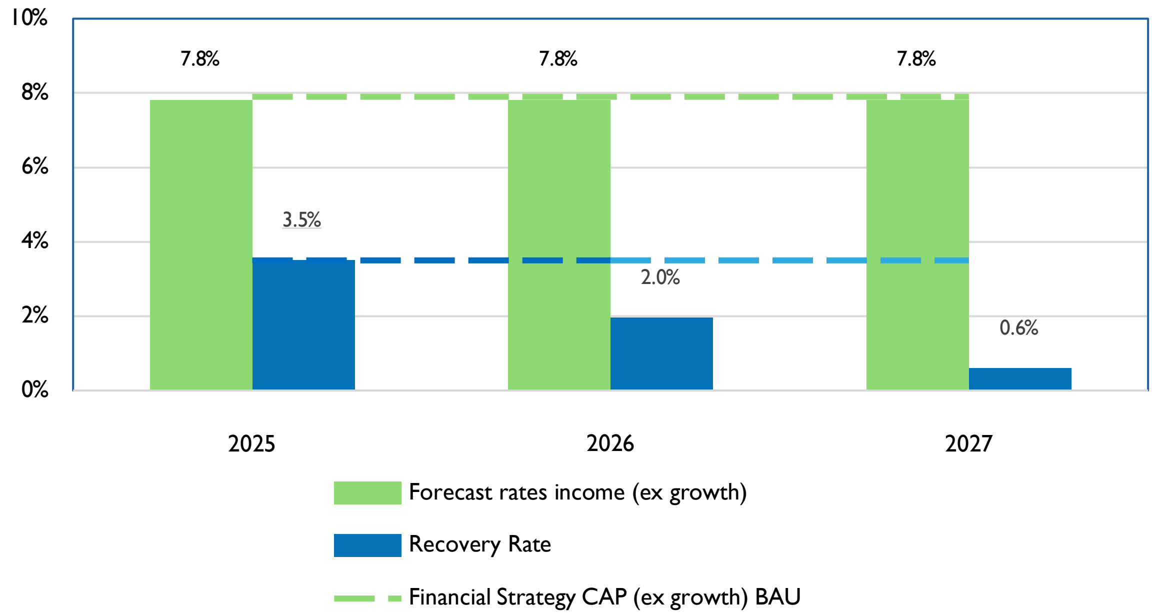


Two Sub limits

The total rates increases are based on two sub-limits, the rates cap on doing everyday business and a new recovery rate. The recovery rate focuses on expenditure relating to the costs arising from Cyclone Gabrielle.

The new recovery rates have been introduced for year 2024/25 onwards. These new rates are to fund and aid our regions recovery. It includes the costs for the FOSAL Category 3 Voluntary Property buyouts, Category 2 increased Flood projection across our district, increased response for sediment removal in our drains and wood debris removal in our water ways.

Forecast total rates revenue 2024-2027



Affordability

Council carefully considers affordability issues when setting rates levels. Keeping rates as low as practicable is a priority, but it has to be balanced against transferring costs to future generations and the need to maintain our assets.

Managing affordability in the context of recovery, economic uncertainty, infrastructural challenges, and the region's comparatively low-income levels and high social deprivation scores is incredibly complex and challenging.

We know the community wants to maintain our current levels of service and enhance or improve the levels that we currently provide in some areas, however, we have to balance this with doing legislatively required work (such as performing our regulatory functions and meeting statutory compliance) and looking after our assets along with what we can afford.

Critical infrastructure repairs and essential planning have been prioritised for this plan. Other capital projects, unless externally funded, will be delayed or deferred to prevent massive spikes in expenditure.

We have spread the majority of recovery response costs across the district opting for an approach that spreads the costs rather than applying a rate based on capital value. This acknowledges that the costs and benefits (after the benefits of impacted property owners are considered) are district wide and the difficulty in easily differentiating between different groups.

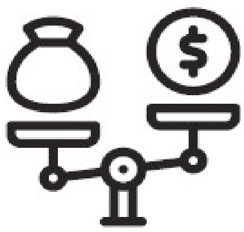
It also acknowledges that parts of our community, such as pastoral and horticultural areas with high capital value, faced significant damage following adverse weather events.

For the majority of ratepayers the recovery rate represents an additional $82 in 2024/25.

While the uniform charge is most appropriate for the next three years, it has an unintentional consequence. The flat tax is regressive in nature and has a greater impact on lower income households.

We also have parts of our community facing high deprivation and others who are still facing financial hardship due to the lasting impacts of the severe weather events. In order to further address the issue of affordability, which we know affects everyone differently, we have increased our provisions for rates remissions to directly address those that are facing hardship.

NET DEBT CAP



Over the next three years (2024-2027), Council plans to increase its net debt cap from the 2021-2031 maximum of $150 million to $232 million. This is being done to help fund our significant recovery costs. The breakdown of the significant new loans are under "Other Financial Matters". The forecast increase in interest costs from higher debt is managed within the new rates increase cap.

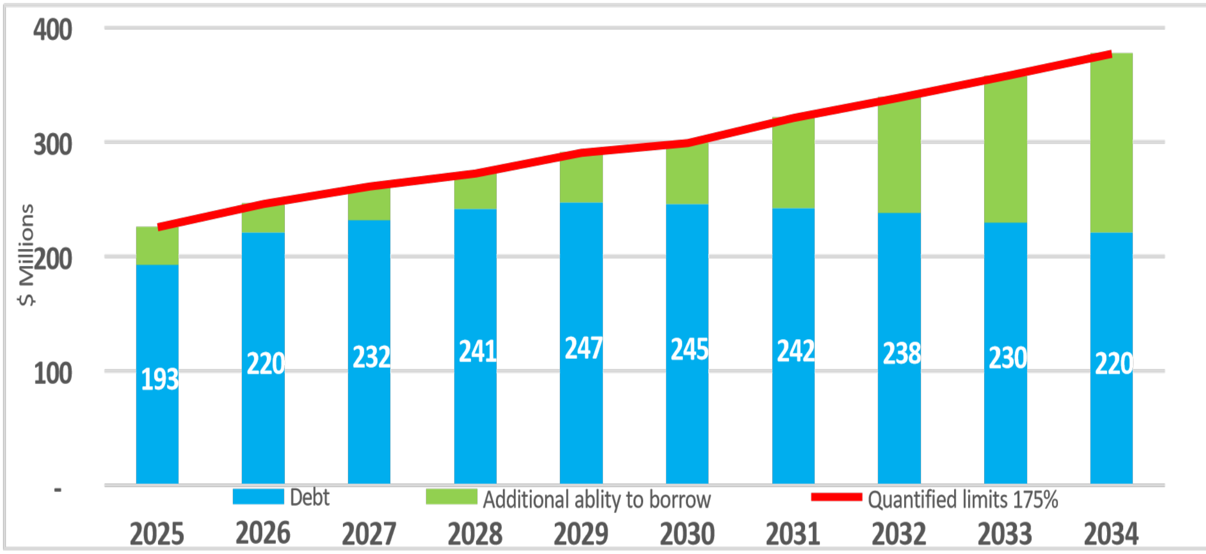
Debt has been forecast out for 10 years, beyond the three-year plan requirement in order to understand what our financial position will be like beyond 2027. It assumes that the Three Water Services will still be within Council's control throughout this ten year period, in order to show the all costs of services our community is facing.

Debt over the next ten years is forecast to peak in 2028/29 at $247 million, reducing to $220 million by 2034. From years 2028 to 2029 we have forecast debt to rise slightly, coinciding with the recovery works which will still need to be completed. This includes work on our roading network and flood protection.

The debt from years 4 onwards assumes that a large portion of our roading costs will fit within the Waka Kotahi higher subsidised emergency assistance. It assumes also that our need for faster Three waters renewals will continue over the rest of the period. It assumes that the projects that were included in the last LTP, will still remain.

However, the debt doesn't include provision for growth beyond what was forecasted, and it doesn't include new costs for an alternative Water supply site. Until our investigation and modelling is completed within the next three years, we will not be able to accurately forecast what this may cost. At the very least, the planning and any construction needed for a significant increase infrastructure investment, would take many years to complete.

Forecast Net Debt levels 2024-2034



Unplanned Events

Our new debt cap leaves some borrowing headroom to respond to emergencies should that be required. For the 3YP, we forecast debt to revenue percentage to be its highest of 157% in 2025/26.

We also have the ability to enter into prior approval arrangements with our external borrower to allow us to extend our debt cap in the short term. An extension on debt limits would coincide with Central Governments $30 million concessionary loan for our FOSAL funding package. The loan is for ten years at zero interest and would allow time for Council to become credit rated.

Council is currently non-rated and we have the ability to borrow up to 175% of debt to income. Being credit rated, our ability to borrow rises to 280%. While we can borrow more, it doesn't mean that we necessarily should, as this would raise our debt to its upper limits. We also have to take into consideration the ability to pay and service our debt in such situation.

Council has a number of other prudential limits for monitoring debt which are set out in the Liability Policy and Treasury Policy. Council debt must remain within these policies limits (refer to table below), thus ensuring overall debt is within prudent levels.

Treasury Policy Limits

Ratio	Treasury Limit	2024/25 Year 1	2025/26 Year 2	2026/27 Year 3
Net External Debt* / Total Revenue *Net external debt is financial liabilities less financial assets (excluding trade and other receivables) and less lease/debt arising from CCTO arrangements	<175%	150%	157%	155%
Net Interest / Total Revenue	<10%	5%	5%	5%
Net Interest / Annual Rates Income	<15%	8%	9%	9%
Liquidity	>110%	128%	124%	123%
Net debt per capita (based on 2027 projected population for 3YP modelling). This is based on a $232m debt	<$4,500	$3,520	$3,950	$4,090
Net external debt per rateable unit (Rateable units of 22,787 forecast 2027, projected from 2022/23 rateable units with 0.5% pa growth). This is based on a $232m limit.	<$10,250	$8,510	$9,680	$10,140

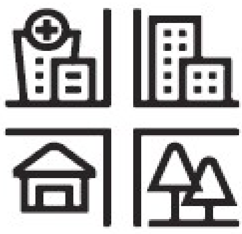
Insurance

Collectively with other councils in the Bay of Plenty region, we have an insurance programme through the Bay of Plenty Local Authority Shared Services Ltd (BOPLASS). This programme will fund some operational costs (e.g. business interruption) and capital costs where a claimable event occurs.

Insurance cover for material assets is separated into above ground assets (buildings, equipment, motor vehicles) and below ground assets (Infrastructure – water, wastewater, flood protection).

All councils in the BOPLASS group have material damage for below ground infrastructure assets, using a maximum probable loss approach rather than the reinstatement value for all our above ground assets. Maximum probable loss is the anticipated value of the biggest monetary loss that might result from an event, whether natural or otherwise. The LASS model is a sustainable and costs effective approach to securing insurance cover.

Managing Levels of Service



Levels of service are what we have agreed to deliver to the community. They are separately defined for each activity, where the service is described from the customers perspective. For this 3YP, most activities show that we plan on maintaining our commitments to service levels identified in the 2021-2031 Long Term Plan.

Due to our constraints from both rates increases and debt, and our physical capacity to deliver our recovery plan, there is little scope for us to significantly increase levels of service targets over the next three years. We have therefore focused on recovery infrastructure reinstatement, either meeting existing levels of service or lowering levels of service when it not affordable and meeting changes arising from statutory requirements.

Our no-frills budget focuses on maintaining our levels of service for our core activities, our waters, our roads and our regulatory functions.

The following table summarises changes to the levels of service per activity and identified whether the activity is a business as usual, recovery, or future-ready activity.

Activity	Type of change	Response Graphic
Water Supply	Improve Compliance with NZ's Drinking Water Standards, investing in UV Treatment	BUSINESS AS USUAL
	Improve capacity and resilience around our reservoirs	RECOVERY
	Planning, modelling for alternative water supply sites	RECOVERY
	Increase back up of replacement pipes for immediate reinstatement while water source is vulnerable to debris and further rain events	RECOVERY
Wastewater	Reduce incidences of wastewater overflows into our waterways	RECOVERY
	Accelerate renewals of aging infrastructure	BUSINESS AS USUAL
Stormwater	Reduce incidences of wastewater overflows into our waterways	BUSINESS AS USUAL
	Maintain the levels of service for stormwater overflows on private properties	
Rivers	Increase sediment build up and drainage maintenance	RECOVERY
	Modelling effects and impacts of drainage network to determine optimum and effective maintenance programme.	
Flood Control	Accelerated and extension of the Waipaoa River Flood Control	RECOVERY
	Increase Te Karaka Flood Control Scheme	
	Modelling, feasibility and design for optimal flood protection options across Tairawhiti	
	Increase - Protection of residential properties within our rural communities (Category 2)	
	Increase Flood Protection of residential properties within city (Category 2)	
Roading Network	Levels of service will be lower on the roading network as we work to repair our cyclone damage roads	BUSINESS AS USUAL
	Staged reinstatement of cyclone damage network over 1-4/5 years	RECOVERY
	Planning, modelling for the next 30 years designing for resilient, safe and affordable network	RECOVERY
Woody Debris	Increase removal of woody debris from waterways, beaches	RECOVERY

Activity	Type of change	Response Graphic
Waste Management and Minimisation	Improving household kerbside collection for food and garden waste	Business as usual
	Invest in organic waste processing and resource recovery infrastructure	Business as usual
	Planning for alternative landfill sites, for disposal of organic and/ or waste	Business as usual / Recovery
Reserves **Community Facilities**	Rationalising public conveniences and play spaces. Making sure the right asset is in the right place for resilience	Future-ready / Business as usual
	Cemeteries - new site away from high ground water tables, providing also for future capacity.	Future-ready / Recovery
	Renewals on aging community property infrastructure	Business as usual
	Riparian and Coastal Reserve areas: enhancing natural buffers through native planting.	Business as usual / Recovery
	Reinstating cyclone damage walkway connections and erosion prone reserve areas	Recovery
City centre	Renewing aging community facilities, footpaths	Business as usual
Kiwa Pools	Completion of Outdoor pool	Business as usual
Environmental Management	Housing supply – updating the Tairāwhiti Regional Management Plan (TRMP)to enable better housing outcomes	Business as usual
	Mapping the most extreme erosion-prone land at a scale that can support better landuse management decisions	
	Updating the TRMP to address the impact of sedimentation on waterways from land use and give effect to Te Mana o te Wai	
	Regulatory functions – adopting a risk-based approach to compliance monitoring & enforcement	
	Improving our environmental monitoring network to fill gaps in our knowledge base	

INVESTMENTS & PARTERNING

Investments

Council's main investment vehicle is its 100% owned Council Controlled Trading Organisation (CCTO) Gisborne Holdings Limited (GHL). GHL manages Council's commercial operations and distributions flow directly to Council to help offset rates and provide for capital works. The primary focus of commercial operations is to operate profitably and to provide a non-rate income stream to Council.

Council's investment strategy with GHL, as the main investment vehicle, has both shareholder focused goals aimed at increasing the return from commercial operations assets, increasing the income stream to Council over the life of the 3YP and beyond, and increasing economic value for the community.

Leading into the 3YP, GHL reforecast their dividends to Council and halted dividends from 2022/23 until Year 2 (2025/26) of the 3YP. The impact of not receiving a dividend when Council is also facing higher costs from both recovery and rising costs from inflation, depreciation and interest, is significant.

In order to smooth the impacts of losing around $6m of revenue, we have raised a loan which we anticipate will be paid for by future dividends and/or any restructures.

GHL's Investment strategy will be critical to our overall non-rates income, and it will determine how quickly the loan will be repaid.

GHL's investment strategy and the outcome of this will be reviewed by Council at the Group level. The overarching aim is that services of the Council Group will be delivered by the best vehicle and in the most cost effective and efficient way possible, while achieving sustainable and economic returns for our community.

Partnering and Fostering Connectivity

Council needs to form and maintain enduring funding partnerships with central government, particularly as we start rebuilding and recovering over the next 3 years, as we know we can't afford to do everything on our own.

As we enter this 3YP, we acknowledge that we have approved funding of just under $200m. However, we are facing a bill ranging from $465 million to $725 million to restore our roads to their previous condition and to future-proof the network. As a result, it is likely that the levels of service for our roading network will change as we navigate the $725 million investment programme.

Our roading network serves as a lifeline for both our communities and our economic development as without it, our region is completely isolated. Effective partnership with New Zealand Transport Agency is crucial, as the costs for enhancing resilience and reinstating our roading network far surpass what our community can afford to bear.

The challenges that we are facing, especially in light of our recovery, are too large for any one Council to address. Greater connectivity is needed with central government. In its draft report, the Review into the Future of Local Government emphases the importance of "mutually reinforcing relationship that harnesses the strengths of both local and central government"[4,5,6] with a strong focus on agreed outcomes and properties.

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[4] https://www.dia.govt.nz/diawebsite.nsf/Files/Future-for-Local-Government/$file/Te-Arotake_Final- report.pdf

[5] https://www.dia.govt.nz/diawebsite.nsf/Files/Future-for-Local-Government/$file/Draft-report-October-

[6] .pdf, page 18

Fostering connectivity will require us to have a linkage between us and government, that allows us to break down silos between agencies, enabling us to work together to respond to the complex needs of our region.

Partnering and creating this connectivity with Central Government especially over the next three years will be critical to regions recovery.

Three Waters

The Three Waters Review led to the recent establishment of Taumata Arowai, the new water regulator for Aotearoa, resulting in a strengthened regulatory environment for three waters services. Taumata Arowai places a strong focus on the safety of New Zealand's drinking water and, as of 15 November 2021, assumed the role of Aotearoa's drinking water regulator. From 2024, it will also oversee wastewater and stormwater networks, becoming the three waters regulator for Aotearoa.

Following the change in Government after the 2023 elections, repealing the Water Services Entities Act emerged as one of the priorities outlined in the 100 day plan by the National, ACT and NZ First Government. On 14 December 2023, the new Government announced a new direction for water services called 'Local Water Done Well'.

At the time of drafting this strategy, the exact details of new rules or structures the Government might implement remain uncertain. However, Council expects to retain ownership and responsibility for the operations of drinking water, wastewater and stormwater for the next three years. Beyond that, there is no certainty regarding the direction of Central Governments in this space.

It is likely that there will be opportunities for partnering with neighbouring Councils to establish "shared services" agreements, enabling the realisation of scale benefits and the provision of more affordable water service solutions.

WHERE WILL WE BE IN 2027?

Council will have resettled its foundations and established the building blocks for our regions future.

Future Planning

Our research, modelling and future proofing for our region will have been completed. Our roading network strategic review will inform where we need to build resilience, what levels of service we can afford to deliver and maintain for our 1800km network and the time it will take for us to build resilience into our network.

Alternative water supply research and modelling will also have been completed to inform where future investment should be, taking into account security of water from adverse weather events while also considering potential climate change impacts on lower rainfall areas.

Investigation and modelling of Flood protection across our district will inform where we will build flood protection and map any unintended consequences of flooding from where there are not any protections in place. We will have a better understanding of where to complete more drainage maintenance and sediment removal works.

Building back

Progress will have been made in rebuilding our roading network following the cyclone damage, however we won't have addressed all of it. The reconstruction of the Tinoroto Bluffs is likely to take another year, and approximately 40-60% of the 62 bridges that were either demolished or damaged will have been repaired or replaced, with the pace of replacement dependent on contractor capacity and funding from New Zealand Transport Agency for their share of the local roads.

We anticipate that nearly $350 million worth of works will have been reinstated on our roading network by this time. However, the network will not yet have fully recovered to it's pre-cyclone state, as an additional $110 million to $400 million of works are still projected to be completed beyond the current 3YP.

Despite the progress we anticipate we will make, challenges such as pot-holes due to soft geology and the likelihood of increasing rain events will continue along with fiscal constraints. The remaining cyclone damage will leave us vulnerable to worsening conditions during future adverse weather events. Nonetheless, the majority of the network and the communities it serves will be largely reconnected by this time, representing a significant step towards full recovery.

Maintaining

Our wastewater infrastructure will overflow much less frequently and the water quality in our rivers and streams will incrementally improve.

Water supply will have drinking water that is delivering high quality, and we will be better to respond to the impacts future adverse weather events.

We would have cleaned up of damaged paths, erosion prone areas on our reserves, enabling public access again.

We will have renewed and revitalised our tired City Business area. We will have completed rationalising our extensive network of public conveniences and play spaces, making sure we have the right asset in the right place for resilience. We will have reinstated our cyclone damage walkway connects, erosion prone reserves and enhanced our natural buffers around riparian and coastal reserve areas.

Better

We would have completed 65km on Waipaoa Flood protection works, Te Karaka Flood protection works and will have started construction of new protection works in the city and rural areas.

We will have established a new Regional Recovery Centre, facilitating enhanced sorting and disposal of our waste streams. This initiative aims to reduce the overall waste volumes going to the landfill. Additionally, we will have implemented changes to our kerbside collections to include the collection of food and garden organic waste. We would have also identified options and finalised future plans for optimising waste processing within and across the district. This strategic approach ensures that we are not solely reliant on transporting all waste out of the district but have the capability to treat it locally.

With the help of external grant funding, we will have completed the second stage of our Kiwa Pools, outdoor area, enhancing our community recreational facilities.

However, despite these things which we hope to have achieved, we will still have a number of hurdles to face.

Rates affordability will remain a significant challenge, alongside the ongoing maintenance of our roading network and associated repair costs. How we deliver our services and incorporate resilience into our infrastructure will not only influence future costs but will also impact the effectiveness and sustainability of the services we provide.

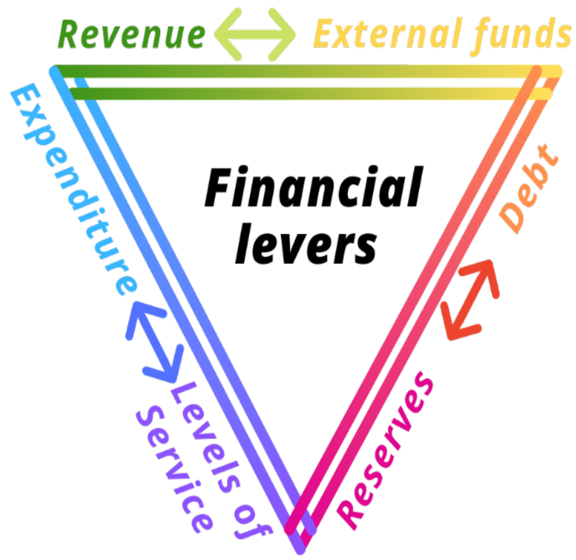
We will still need to address the long term issue of our water vulnerability and we will need to start planning for alternative sources in alternative locations.

Addressing these challenges and ensuring the resilience of our infrastructure will be crucial for the enduring success of our region.

Other Financial Matters and Significant Assumptions

E. Our financial levers

This Strategy aims to provide a balance between rates affordability, keeping council borrowings low, and delivering the activities and services our community expect in a fiscally responsible way.



We have three main financial levers to balance the work Council provides to community:

- the amount we spend
- how much debt we take on
- how much revenue we receive

The triangle represents the relationship between the three levers.

Changing one lever, such as increasing costs (expenditure) by providing new services will mean we need to either collect more revenue or use our reserves/debt to fund it. Conversely not investing in a capital project, will either reduce the need for more revenue or reduce the need to raise more debt.

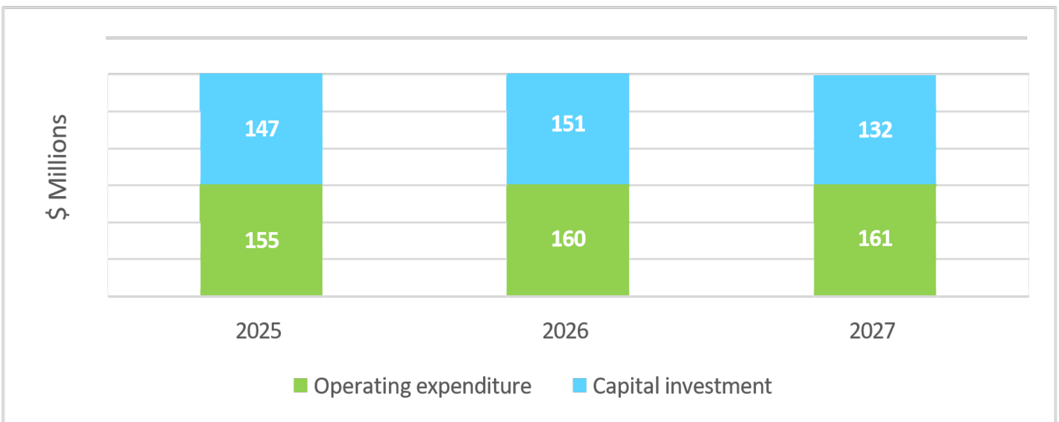
Total Expenditure

Total expenditure for Council is what we spend on operational costs capital costs.

Expenditure is heavily dependent on the levels of service (how much we do) and the services and assets Council provides to the community. If Council does more – either because it must comply with new standards or because the community would like to see more – then costs will increase. Conversely, if Council reduces levels of service – either due to it no longer being needed or because it is no longer affordable or a priority to provide it to the level we did before, then costs associated with that service will decrease.

This graph shows our forecast expenditure over the life of this three year period, split between capital and operational spend.

Total forecast expenditure per year 2024-2027



Historically Council spends three times more on operational costs than it does on capital investment projects. But for this 3YP, capital investment exceeds our operational spend.

This is due to our significant recovery costs amounting to nearly $300m:

- Roading network reinstatement $191m,
- new flood project schemes $65m and
- FOSAL Category 3 voluntary Property buyouts $30m.

Operating Costs

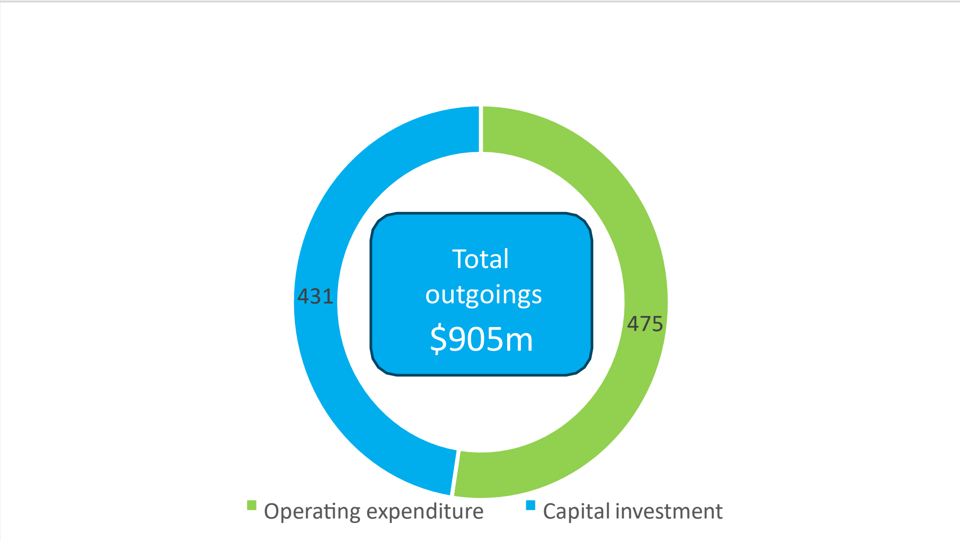
Operatingl costs include maintaining core activities, depreciation (wear and tear costs of our assets), employee costs and interest costs. Interest costs for this 3YP, has increased significantly driven by the capital programme but also higher interest rates.

Council will review how our services are currently delivered, both in how they can be provided (either through partnership with Council, by other providers) and through reviewing the efficiency and effectiveness of our own activities.

In the future, our water service activities (including water supply, wastewater and stormwater) could be provided by a larger water provider outside of Council. This depends on the outcome of the Government's Three Waters reform programme. This creates an added level of complexity for Council, where the future of this asset is uncertain.

The Strategy has kept a forecast budget for our water infrastructure, to ensure we have available to us what is needed for the renewal and operation of the assets regardless of this potential uncertainty.

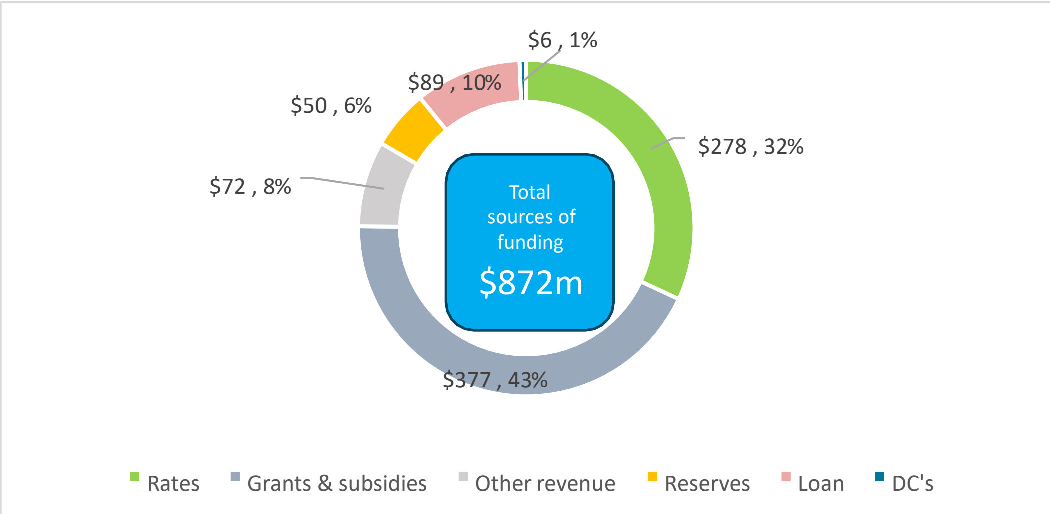
Total Expenditure (operational & capital) 2024-2027



Revenue

Total funding forecast for 2024-2027 Three Year Plan is $872 million. Rates make up 32% with the rest coming from grants (43%), other revenue including user fees (8%), reserves (6%) loans (10%) and development contributions (1%).

Total funding (operational & capital) 2024-2027



Debt, Interest and Reserves

Debt and reserves have an indirect relationship, as reserves reduce Council's overall need for external borrowing. Council only borrows for what is needed to meet cashflow requirements. We monitor the planning and the progress of our projects and only borrow what is required to fund them, and only when that funding is needed.

In order to minimise the amount of external borrowing, we lend internally between different reserves. By doing this, we minimise Council's overall interest costs. Reducing debt or increasing the amount of reserves can be done by:

- Reducing capital expenditure; or
- Increasing revenue (through rates or external sources).

New Debt Drivers

Activity	Description	Total Net Amount 3YP
Recovery		
FOSAL Category 3 residential property buyouts	Council 50% share of $30m	$15 m
FOSAL Category 2 Flood Protection works	Total $70m with Council contributing10% share. Years 1-5+ for full delivery of works across our district.	$5.4m
Roading Reinstatement	$105m recovery reinstatement	$12.6m
Land Stability projects	Reinstatement of trails and paths after **damage** caused by cyclone	$1.5m
Landfill, waste minimisation and transfer stations	Improving disposal options, heightened issues during the cyclones where waste disposal could not be transported out of **our** region.	$8.5m
Resilience - Water supply	Focusing on responding quickly - including additional backups - plus resilience for our water supply access and **reservoirs**	$6.1m

Activity	Description	Total Net Amount 3YP
Recovery		
		$49m
Other		
Operational Debt from nil dividends	Three years of nil dividends from our CCTO	$6m
Increased renewals Wastewater and Stormwater	Accelerating renewals aging infrastructure and private stormwater issues, to improve water overflows	$3.5m
Central Business District	Renewals for the CBD, and reinstatement of trails and paths after damage caused by cyclone	$2.5m
Kiwa Pools - outdoor areas	Conditional requirement of external funds, after phase 1 of Kiwa Pools indoor complex ($46m). Assumes $3.5m of additional external funding for the total $6.5m project.	$3m
		$15m

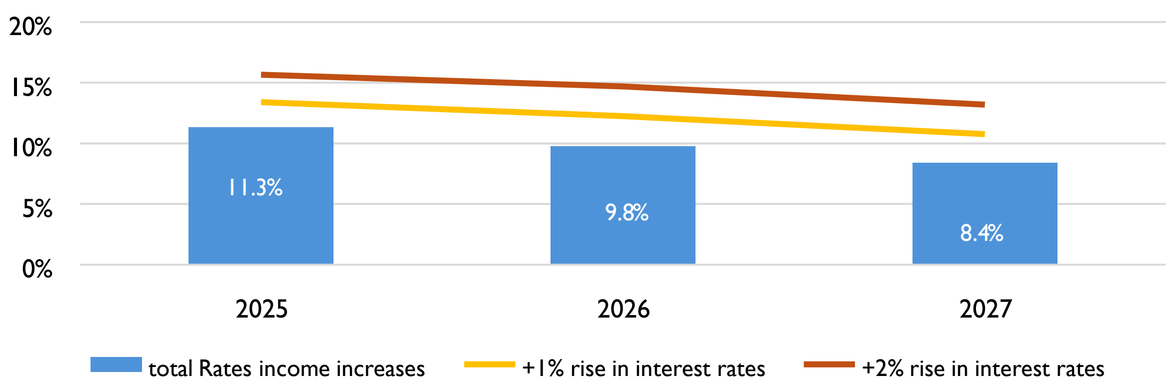
Interest Rate Risk

Internal borrowing is projected to be 4.7% over the next 3 years. As part of FOSAL Category 3 Voluntary Property buyouts, Central Government provided a concessionary loan of $30 million with zero interest for a period of 10 years. After the concessionary loan, the forecast for external interest is expected to be 3.9%.

However, there remains a risk associated with interest rates increases above what we had anticipated, which could lead to a significant increase in rate revenue.

The graph below shows the impact of interest rate changes on forecast rates revenue. An increase of 1% would result in additional costs of $1.5m (year 1) to $2.2m (year 3).

Effect of rising interest rates on 2024-2027 rates revenue increases



We manage most interest rate risk through our Treasury Policy by converting the uncertainty of floating interest rates into fixed rate borrowing through forward swap agreements, interest rate swaps and interest rate options. We also mitigate interest rate increases by reviewing our capital expenditure and prioritising during the life of the Plan.

Depreciation Reserves

There are three types of capital expenditure:

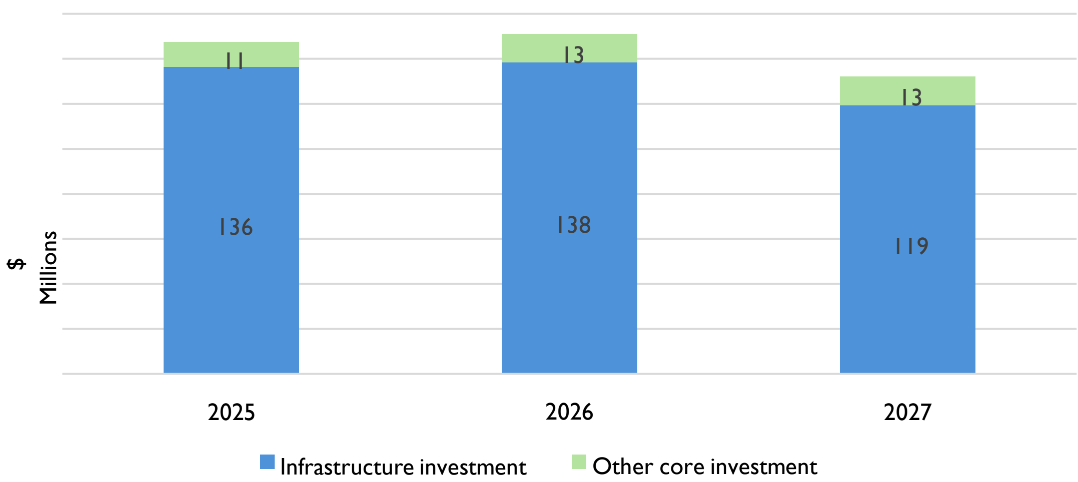
- **Maintenance –** renewal of existing assets once they reach the end of life e.g. existing roads
- **Increase levels of Service** – new projects that improves the level of service. For instance, the Category 2 Flood Projection projects, where new flood protections will be constructed where previously there were none.
- **Growth** - Capital investments for new projects that are stimulated by growth and new needs e.g. the Waipaoa River Flood Control Climate Change Resilience project

Assets need to be maintained to maximise their useful lives and need to be replaced to avoid asset failure. Provided assets are renewed when needed, they will continue to meet levels of service. In addition, critical assets such as Water Supply and Wastewater are replaced before they reach failure. As new infrastructure is built, Council starts to collect rates for depreciation.

This goes towards future funding for the renewal of that infrastructure[7].

During the 3YP, Council's capital programme is set to increase to $431m.

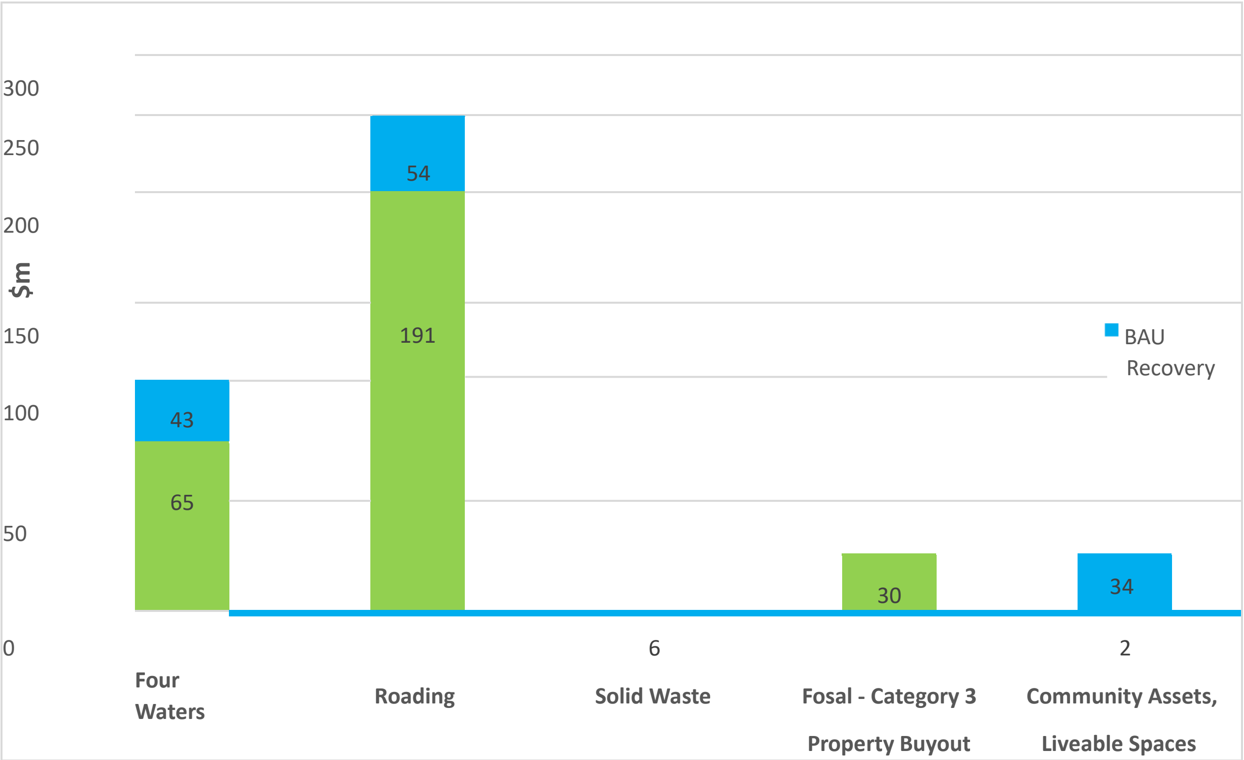
Forecast Capital Investment



[7] When Council builds new infrastructure from scratch due to growth this is funded through loans and development contributions

In our 2021-2031 LTP, the total capital program for Years 2025-2027 was $109m. The significant uplift in our capital program for the 3YP is our recovery reinstatement costs.

Capital Projects - Recovery versus BAU



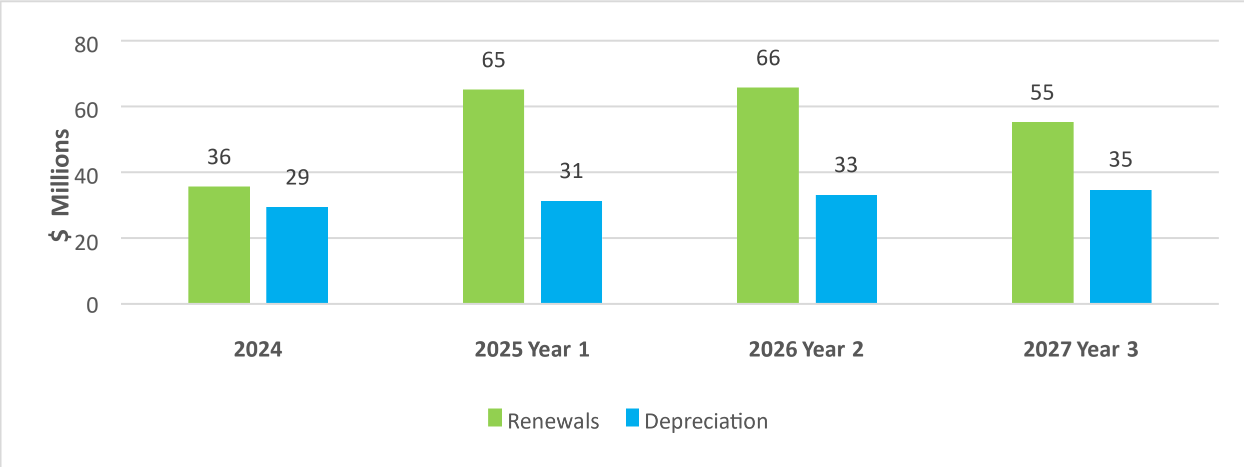
Capital renewals versus Depreciation

For 3YP, we are doing some renewals at a faster rate than depreciation. The accelerated renewals are mostly within wastewater, flood protection and roading activities.

Years 1-3	Average
Overall	**189%**
Four waters	122%
Roading	261%
Community/Open spaces	111%
Other	112%

Some areas of renewals are different to others, based on their condition, the remaining useful life, prioritisation of critical assets first, and balancing affordability. Affordability takes into account that we cannot do everything at the same accelerated rate for the course of the 3YP and that we need to prioritise renewing our critical assets first.

Relationship between renewals and depreciation 2024-2027



Balancing Reserves over time

Depreciation reserves are used to fund the capital renewals programme as well as principal loan repayments. Current reserves are at $43.3 million. By the end of the 2026/24, reserves $31.8m. Each year of the Plan, capital renewals and principal repayments for new infrastructure are more than the inflows from depreciation.

Council is unable to simultaneously complete capital works and replenish its financial reserves. This would require a further increase in rates revenue, more than what we have allowed for and would negative impact on affordability for rate payers.

Overtime, Council will position itself so that funding for each activity is sufficient to fund debt repayments and to complete renewal work in the Asset Management Plans (AMP's).

Forecasting beyond 2026/27, Council will slowly build back its reserves from 2029/30.

Balancing Affordability against the increased costs of depreciation for new projects

In some cases, Council will not fund depreciation on certain assets. This includes situations where:

- The assets maybe not be replaced at the end of their useful life
- The portion of roading assets which will be funded from externally
- Where the portion of the asset has been funded in advance by capital rates
- Where the asset has been fully grant funded (e.g. Olympic Pool)

Also in the short term, there is a strategy to phase the fully funding of depreciation new projects when there is an issue of affordability. Both the Wastewater Treatment Plant Disinfection project and the pool redevelopment were completed around the same time.

In order to reduce the impacts on rates and therefore affordability, depreciation is funded to the extent of meeting the principal repayments. By the end of 2033/34, depreciation for both the Wastewater and the pool redevelopment project will be fully funded.

Balancing the Budget

Council sets its operating income at a level sufficient to meet each year's operating expenditure. This ensures that there is adequate funding to provide continued services throughout the Plan period.

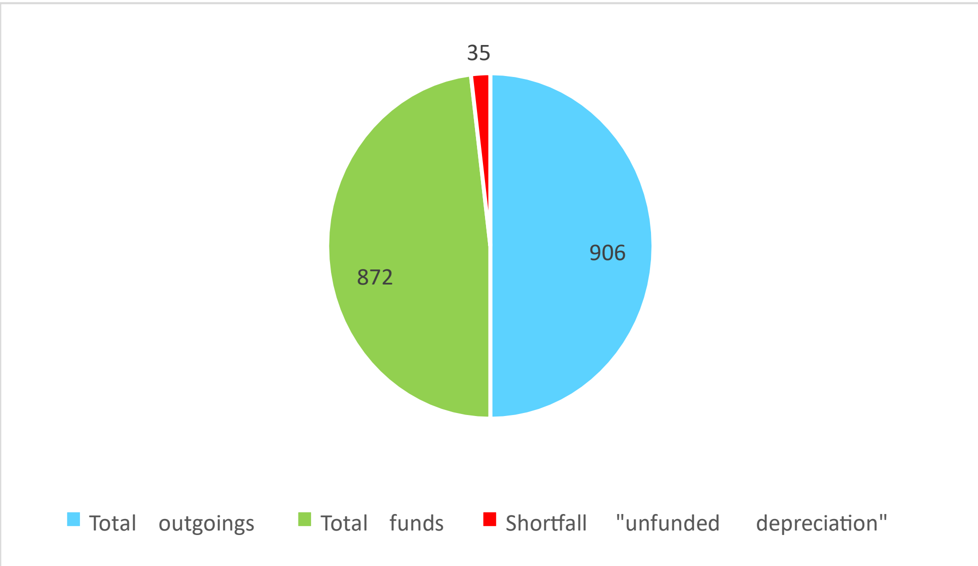
However, there are some costs or services that Council provides where this approach may not be practical or prudent, as not all of Council's depreciation costs are funded. Included in this is the funding provided by Waka Kotahi for a significant portion of the subsidised roading network, for which Council does not rate this portion of deprecation.

Likewise, it is deemed imprudent to raise rates as they occur to cover the steep planning costs associated with freshwater planning and the Tairāwhiti Resource Management Plan. Instead, the approach has been to raise a loan over the lifespan of two plans, smoothing the impacts on ratepayers.

Throughout the 3YP, Council total sources of funds (rates, loans, grants, dividends and fees and charges) amount to $872 million, slightly below our forecast total outgoings (operational costs and capital projects). The "shortfall" arises from not raising rates to cover all depreciation costs.

It is assumed that a set proportion of the Land Transport roading capital expenditure will continue to be funded through Waka Kotahi financial subsidies. Given this, it is considered appropriate to only collect rates revenue on the proportion of roading depreciation funded from Council's local share, resulting in a shortfall against our balanced budget.

Balanced Budget 2024-2027



D. Strategic Links

This Strategy provides top down direction for – and is implemented through – a variety of policies, plans and actions taken by Council as outlined below:

Financial policies and their role:

Revenue and Financing Policy	This policy determines when debt and rates will be used as a funding source. This includes targeted rates for the cost of an activity or service that should be paid for by particular groups or particularly ratepayers who benefit from the activity or service.
Development Contributions Policy	This policy identifies growth-related infrastructure work as well as the charges that expect to be recovered from developers to support that work.
Investment Policy	Our Investment Policy looks at Council's mix of investments, management of risk where investment is concerned and our procedures for managing and reporting on investments.
Liability Management Policy	This policy covers debt repayment, credit exposure and provides policies for interest rate exposure and liquidity. It implements the judgements that our revenue and financing policy makes about intergenerational equity.
Remission Postponement and Penalty Policies	Remission policies are primarily used to address any inequities as a result of setting of the rates and provide assistance to those who are affected more than others.

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