10.2 2026-27 Annual Plan Preparation and Consultation

Report To:	Council
Meeting Date:	Thursday, 26 February 2026
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Purpose

To seek a decision from Council on preparing and consulting on the 2026-27 Annual Plan.

Recommendation

That the Council:

a. Receive and note the 2026-27 Annual Plan Preparation and Consultation report(Resolve#2026-39).

b. Approve **Option 2 f**or staff to prepare the 2026-27 Annual Plan that maintains the budget and 8.9% average rate increase as per Year 3 of the adopted 2024-34 LTP, plus:

   i. Remove budgets related to wastewater and drinking water (these have passed to Waikato Waters Limited)

   ii. Redistribute stranded overheads

   iii. Accommodate identified allocation changes identified in the 2025-26 year (to accommodate the efficiency dividend)

   iv. Include budget for local government reform costs and business improvement items

(for adoption by Council on or before 30 June 2026)
AND;
c. Approve one of the following consultation approaches:

   i. **Option1:** Community messaging once the Annual Plan is adopted (post June30); ***OR***

   ii. **Option2:** Community messaging once the Annual Plan is adopted (post June30); An awareness campaign at Council events during March supported by Councillors and staff; and up to three drop- in sessions supported by Councillors and staff.

Executive Summary

Council adopted its 2024-34 Long Term Plan (LTP) on 2 September 2024. The 2026-27 Annual Plan represents Year 3 of the LTP and is required to be adopted by June 30, 2026.

A key theme of the LTP is to achieve financial sustainability and a financial strategy to achieve that was set. This includes a cumulative 1% efficiency dividend per annum, which for the 2026-27 year, amounts to approximately $1.4m.

This year, the Annual Plan generally seeks to maintain its position to achieve financial sustainability targets. However, these targets may be slightly delayed in order to accommodate and prepare Council for reforms imposed on the local government sector by Central Government.

The Local Government Act provides that consultation is not required if an Annual Plan does not include *'significant or material changes from the content of the long-term plan for the financial year to which the proposed annual plan relates'*. (LGA Section 95(2A)).

Context

Councils are required to update their LTP every three years and to produce an Annual Plan in the interim years between LTPs. The 2026-27 Annual Plan is Year 3 of the current LTP.
The purpose of an Annual Plan is to:

1. contain the proposed annual budget and funding impact statement for the year to which the annual plan relates; and
2. identify any variation from the financial statements and funding impact statement included in the local authority's long-term plan in respect of the year; and
3. provide integrated decision making and co-ordination of the resources of the local authority; and
4. contribute to the accountability of the local authority to the community. (Section 95(5) LGA)

Section 95(2A) provides that consultation is not required *'if the proposed Annual Plan does not include significant or material differences from the content of the long-term plan for the financial year to which the proposed annual plan relates'*.

Discussion

The LTP forecasted an average rate increase for the first three years of 8.9% with lesser rate increases in the following years. This course of action seeks to balance Council's books by working our way to a surplus in the fourth year of the LTP and position the Council to be more financially sustainable. This will enable Council to better respond to future challenges and community expectations, maintain debt level control within Local Government Funding Agency (LGFA) limits, provide more debt capacity to enable future growth and provide community assets and facilities that meet the needs of the community.

Since the LTP was adopted, the challenges facing Council have continued to increase. At the same time, communities in the South Waikato—along with the rest of New Zealand are experiencing significant cost-of-living pressures. Rising costs and the introduction of major local government reforms, which aim to simplify local government in the long term but create additional short-term costs, mean Council will need to make some difficult decisions.

Council identified efficiencies during the 2025-26 Annual Plan process that provided specific savings which required reallocation of costs in budgets to support the 1% efficiency dividend. The 1% efficiency dividend in the LTP was identified originally as part of the resourcing requirement but by changing and updating planning requirements, improving what was required in specific services and having a year to understand more post LTP preparation, budget line items were changed to support these findings. This has been carried through into the assessment of requirements for the 2026-27 Annual Plan.

Council also needs to accommodate the change in the delivery of the Water and Wastewater services in the 2026-27 year. These operations will be part of the Council Controlled Organisation (CCO), Waikato Waters Limited. This process requires removal of the services from Councils 2026-27 Annual Plan detail. As part of the financial modelling Council has had to factor a change for stranded overheads as a result of this process and redistribute overheads across the organisation. These overheads were previously factored into the cost of the water and wastewater services but are no longer able to be treated in that way because specific operational revenue and expenditure must be ringfenced.

In developing options for Year 3 of the LTP, staff assessed several scenarios, including whether a lower average rates increase was possible. However, to achieve this would have resulted in reduced service levels and would not necessarily benefit those who need it most, due to the way targeted rates apply in urban areas.

The options for consideration are as below:

Option 1:
Maintain the budgets as per LTP Year 3 plus:Remove budgets related to wastewater and drinking water (these have passed to Waikato Waters Limited)

- Redistribute stranded overheads
- Accommodate identified allocation changes identified in the 2025-26 year (to accommodate the efficiency dividend).

Option 2:
Maintain the budgets as per LTP Year 3 plus:

- Remove budgets related to wastewater and drinking water (these have passed to Waikato Waters Limited)
- Redistribute stranded overheads
- Accommodate identified allocation changes identified in the 2025-26 year (to accommodate the efficiency dividend)
- Include budget for local government reform costs and business improvement items

Both options 1 and 2 will:

- Continue Council services at the same level of service
- Achieve a 1% operating efficiency.
- Maintain the average rate increase for LTP Year 3 of 8.9%
- Slightly delay the financial sustainability targets outlined in the LTP (but continue to trend positively).

The major difference between both options is focused around including additional budget in option 2 for local government reform costs and business improvement items. To date this addition is approximately $500k of operational costs and $2m of capital costs, covering specialist resource for change directives and research into service delivery, additional requirements within services, planning and updating systems to manage the reforms, structures and Council ability to operate in a fast-moving technological environment.
We are continuing to work through the detail required to produce the financial detail for the 2026-27 Annual Plan in its entirety but require a decision to be made to ensure we can deliver on that.
Staff recommend Option 2 or the following reasons:

- Maintaining momentum with the organisation's intention to continue to operate efficiently
- The additional budget better positions Council to prepare for local government reforms
- Allows Council to continue to deliver services to its South Waikato communities
- The cost burden of a higher rate increase is not passed on to ratepayers but still enables operational business improvements to continue

Options

Options for preparing the 2026-27 Annual Plan:
Option 1:
Maintain the budgets as per LTP Year 3 plus:

- Remove budgets related to wastewater and drinking water (these have passed to Waikato Waters Limited)
- Redistribute stranded overheads
- Accommodate identified allocation changes identified in the 2025-26 year (to accommodate the efficiency dividend).

Option 2:
Maintain the budgets as per LTP Year 3 plus:

- Remove budgets related to wastewater and drinking water (these have passed to Waikato Waters Limited)
- Redistribute stranded overheads
- Accommodate identified allocation changes identified in the 2025-26 year (to accommodate the efficiency dividend)
- Include budget for local government reform costs and business improvement items.

Linkage to Strategic Plan Priorities

Aligns with the 2024-34 Long Term Plan vision, outcomes and goals.

Aligns with the LTP Financial Strategy.

Consultation (Internal and External)

As set out above, Council is not required to consult if there are no ‘material’ or ‘significant’ differences to what was set out in the LTP.

As the Annual Plan will not result in any changes to current levels of service, remains consistent with the average rate increase for LTP Year 3, and generally maintains the LTP approach to financial sustainability, any differences are not considered to be ‘material’ or ‘significant’ from Year 3 of the LTP. On this basis the Annual Plan meets the tests of Section 95 (2A) of the LGA to not apply the requirements for consultation.
The reasons for taking this approach are:

- The 2025-26 Annual Plan is generally in line with Year 3 of the Long Term Plan
- As there are no material or significant changes from the LTP Council is not required to consult.
- Similarly, no new matters of significance have arisen that trigger our Significance and Engagement Policy
- The Council has limited means to approve new initiatives or expenditure via a consultation process
- The importance of maintaining the direction of Council’s financial Strategy within the LTP ensuring South Waikato District Council is financially sustainable.

Council’s Significance and Engagement Policy is considered below.

Financial Considerations

Remaining generally consistent with Year 3 of the LTP will enable Council to continue towards financial sustainability, albeit not as quickly as outlined in the Financial Strategy accompanying the LTP.

Risks

Specific risks relating to the 2026-27 Annual Plan include:

- The unknown costs of local government reform
- Council operations are already running lean and further costs must be incurred through efficiencies
- Overall revenue could be less than budgeted
- Producer, capital and labour costs continue to increase
- Insurance premiums could increase as a result of multiple insurance events both here and overseas
- Other unbudgeted items

Significance & Engagement Policy

Council's Significance and Engagement Policy (ECM 542501) provides a guide for Council decision making on consultation and engagement. It includes two steps:

Step 1 – Determining the significance of the proposal/decision.

Step 2 – Determining to engage or not (guided by the level of significance). If engagement is determined by the Council, the level of engagement is set out.

As this proposal has a 'low' rating across five or more key considerations, its overall level of significance is assessed as low. In line with Council's Significance and Engagement Policy, a low-significance rating recommends an 'advise' approach, meaning the community will be kept informed through channels such as media releases, social media, and newsletters once the Annual Plan has been adopted (before or on June 30).

Should Council wish to engage prior to June 30 on its decision to prepare an Annual Plan as outlined options include:

- an awareness campaign at Council events during March supported by Councillors and staff; and / or
- up to three drop- in sessions supported by Councillors and staff; and
- community messaging (including website, social media and newsletter drops etc) once the Annual Plan is adopted (post June30)

Reference

Attachments

None