Chapter One

Overview

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FINANCES AT A GLANCE

Comparison of district rates   All ratepayers contribute to Council's District Rate, which is made-up of four different rates, i.e.:

- General Rate
- Library Rate
- Roading Rate
- Environmental Protection Rate

Council also levies targeted rates for services provided within a specific area of benefit.

The Western Bay of Plenty District is one of the country's fastest growing districts. While Council's costs will increase as a result, so will the ratepayer base over which those costs are spread.

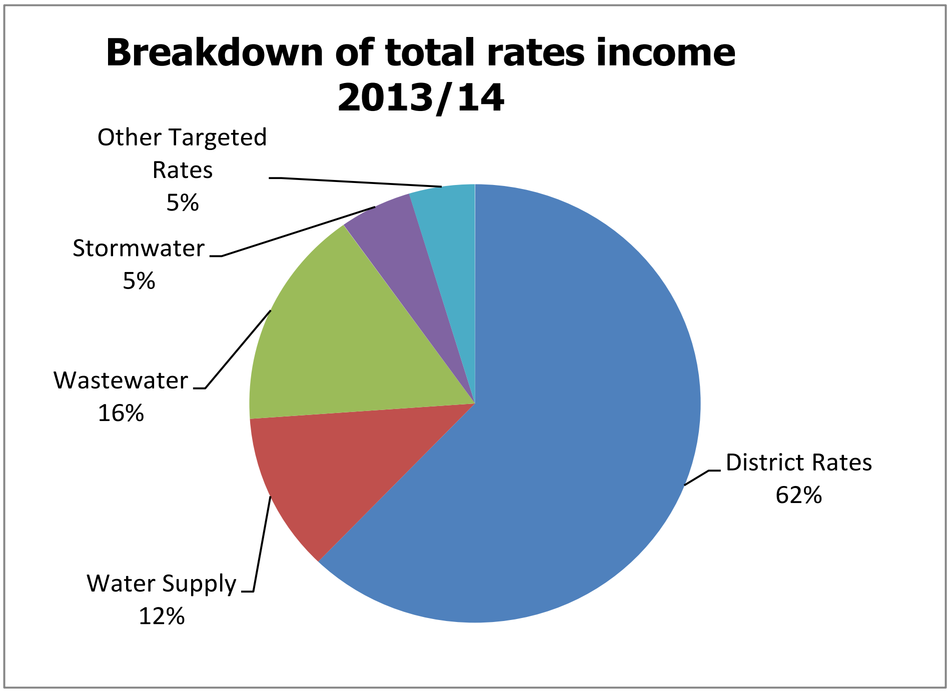
To more fairly compare one year's budget with the next, Council makes an allowance for growth, which this year is 0.9%. In Council's budget for 2013/14, district rates total $31.8m, targeted rates total $19.3m. The total rates revenue of 51.06m is 5.2% higher than last year. Of this, additional ratepayers will add 0.9% leaving 4.3% to be funded by existing ratepayers. Inflation is estimated at 3.1%, which means a real increase of 1.2% in district rates.

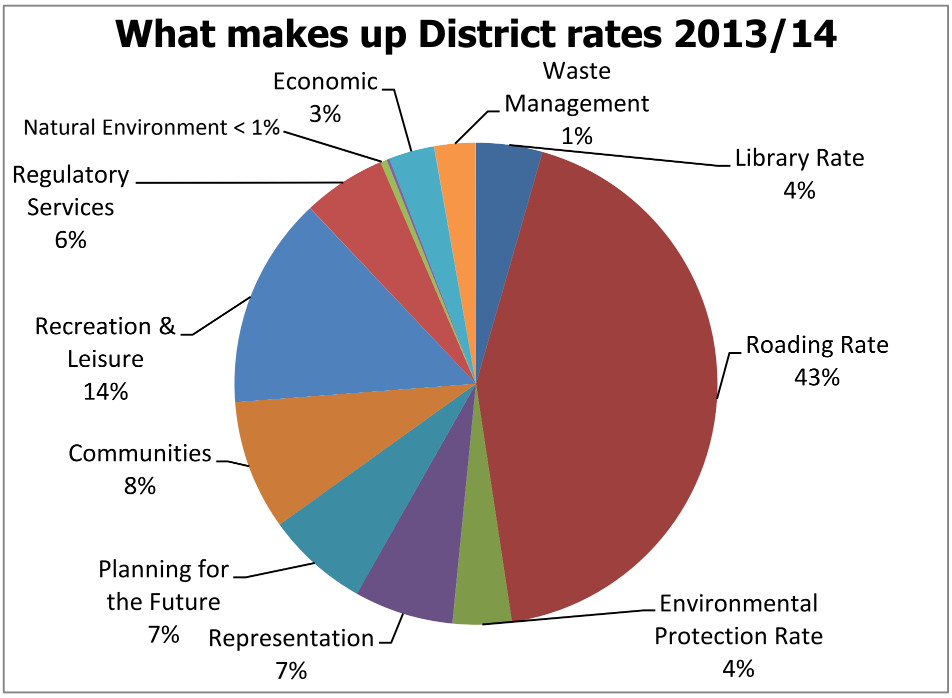
This increase excludes the effect of changes to targeted rates, which are levied over many different areas of benefit, depending on the services received, including Community Boards.

The figures below exclude a 2% bad debt provision on all rates.

2012/2013 Budget $	Plus allowance for growth (0.9%) $	Rate	2013/2014 Final Budget $
15,042,665	15,178,049	General Rate	15,386,900
1,287,509	1,299,097	Library Rate	1,407,465
16,330,174	**16,477,146**		**16,794,395**
13,166,100	13,284,595	Roading Rate	13,713,963
1,253,512	1,264,794	Environmental Protection Rate	1,253,512
30,749,786	**31,026,534**	**Total**	**31,761,840**

Increase in/addition on 2012/2013 Budget	1,012,054
Increase in/addition to growth allowance	276,748


Breakdown of total rates income 2013/14
Other Targeted Rates 5%
Stormwater 5%
Wastewater 16%
Water Supply 12%
District Rates 62%


What makes up District rates 2013/14
Economic 3%
Waste Management 1%
Natural Environment < 1%
Library Rate 4%
Regulatory Services 6%
Recreation & Leisure 14%
Roading Rate 43%
Communities 8%
Planning for the Future 7%
Representation 7%
Environmental Protection Rate 4%

KEY RISKS AND GROWTH ASSUMPTIONS

When planning the Long Term Plan 2012-2022 (which is the basis for this Annual Plan, we needed to make assumptions about future trends and events that are outside our control. When making assumptions it is important to recognise the possibility that the assumption may prove over time to be incorrect, and to be clear about the potential consequences of assumptions being wrong.

This section identifies key assumptions that underpin what is proposed in this plan. Other assumptions are identified in each group of activities, e.g. transportation, water supply and key financial assumptions are included in the Significant Accounting Policies (page 150).

Key assumptions	Description	Risk
Growth	**Background** For the purpose of planning Council's expenditure and forecasting its revenue we make projections about the numbers of rateable properties we will have each year. This influences expected demand for services and helps forecast revenue both from rates and financial contributions. Financial contributions are paid when properties are subdivided and sometimes when development occurs - most financial contributions are received from developers for subdivisions. **Assumption** Since the global economic recession began in 2008 subdivision activity has slowed markedly. We expect that over the four years 2013-2016 growth will continue to be slow, at just under 1% per year, (about the average of the 2009-2011 period) but thereafter growth rates will return to levels of 1.6%-1.8% (similar to the 10-year average for 2001-2011). This increase in growth assumes recovery of the global economy around 2017 and higher rates of migration into the region. We do not expect that in the foreseeable future growth rates will return to the levels experienced during 2005-2007 of over 2%. Estimates for expected new lots include residential, commercial and industrial and rural lots. During 2013-2016 a higher than normal proportion of the growth is expected in the rural areas.	Level of uncertainty - significant **Impact of over- or under-estimating growth** If population growth and the number of rateable properties is under-estimated, we would experience faster growth than planned. This could result in: ▶ income growing faster than expected, so debt could be paid off faster than expected which would reduce interest costs ▶ services not keeping up with demand unless plans could be changed quickly ▶ financial contributions charges (which are set in advance based on growth assumptions) being set too high for that financial year In this situation future expenditure could be brought forward to meet the unexpected increase in demand and financial contributions charges adjusted the following year. If population growth and the number of rateable properties is over-estimated, (growth is slower than forecast) the consequences would be: ▶ over-investment in infrastructure, for example developing capacity too early ▶ income from rates and financial contributions falls short of budget, which means debt is repaid more slowly and interest costs increase ▶ for some types of infrastructure, financial contributions charges would have been set too low for that financial year

Key assumptions	Description	Risk

Growth

Description

	Forecast			
Year end 30 June	New lots created	Growth rate	Rateable properties	District population
2013	186	0.9%	20,371	46,341
2014	182	0.9%	20,553	46,820
2015	206	1.0%	20,759	47,299
2016	187	0.9%	20,945	47,781
2017	335	1.6%	21,280	48,562
2018	340	1.6%	21,621	49,344
2019	324	1.5%	21,945	50,125
2020	373	1.7%	22,318	50,882
2021	379	1.7%	22,698	51,644
2022	386	1.7%	23,084	52,412

Risk

Review of assumptions
Each year we re-forecast growth for the forthcoming year during development of our annual budget. A full review of the growth assumptions will be undertaken following the publication of results from the 2013 census. This information will feed into the 2015 Long Term Plan.

The current population assumptions are not materially different to Statistics New Zealand's medium projections for the period to 2022.

Inflation

Description

Background
To comply with the requirements of the Local Government Act 2002 financial projections over the 10-year period have been adjusted by inflation.

Assumption
Costs are assumed to increase according to the schedule of indices below. The indices were prepared by BERL, an economic forecasting agency, in September 2012 for the local government sector. The indices are applied according to the types of expenditure that makes up each activity.

Inflation adjustors index

June	Transport	Property	Water	Energy	Staff	Other
2012	1,000	1,000	1,000	1,000	1,000	1,000
2013	1,045	1,023	1,039	1,045	1,018	1,024
2014	1,087	1,046	1,075	1,072	1,036	1,049
2015	1,123	1,070	1,109	1,112	1,061	1,075
2016	1,161	1,096	1,145	1,156	1,082	1,102
2017	1,202	1,124	1,184	1,204	1,110	1,132
2018	1,246	1,154	1,227	1,256	1,134	1,168
2019	1,294	1,187	1,272	1,314	1,160	1,205
2020	1,344	1,222	1,321	1,376	1,187	1,242
2021	1,398	1,259	1,374	1,445	1,217	1,282
2022	1,454	1,300	1,431	1,521	1,255	1,324

Risk

Level of uncertainty - moderate
Since it is difficult to predict inflation over a 10-year period actual results are likely to vary from these indices, particularly for years 2015 onwards.

If inflation is under-estimated and actual cost increases are materially higher than forecast, budgets for the first year of the Long Term Plan may be too low to complete the work scheduled for the year. In such cases the work would be re-scheduled. If inflation is less than forecast some work may be brought forward from year two of the plan or surplus revenue held over for the following year.

Review
Inflation assumptions are reviewed each year as part of developing the annual budget.

Key assumptions	Description	Risk
Kiwifruit vine disease Psa-V	**Background** Psa-V (Pseudomonas syringae pv. Actinidiae) is a bacterium that can result in the death of kiwifruit vines if the infection is severe enough. Psa-V carries no risk associated with human or animal health and does not affect plants other than kiwifruit vines. Psa-V is believed to be spread by wind and rain and infected plant material, footwear, vehicles and orchard tools. Psa-V has been present and spreading in the Bay of Plenty and other parts of the North Island since 2010 and is a material risk to the kiwifruit industry in the medium term. Most of the infected vines are in the Te Puke area, but infections are expected to continue to spread. Industry effort has been focused on management practices around containing the spread of the disease and investing in science to assess the disease resistance of new varieties. The industry has put its efforts into a recovery strategy that sees growers grafting more disease-tolerant varieties, G3 and G14, onto existing rootstock. If this is successful, production is expected to be back to pre Psa-V production levels by 2018. The economic impact of Psa-V on the Bay of Plenty region is the subject of a report commissioned by Kiwifruit Vine Health Incorporated, published in late May 2012. The report estimated that employment losses in the Bay of Plenty as a result of the disease would be an average of 605 full-time equivalent jobs each year from 2012 to 2016. The disease is expected to cost the industry between $310 million and $410 million over the next five years. **Assumption** The kiwifruit industry is expected to find a commercially viable solution that will enable the recovery of kiwifruit production over a period of 3-4 years. Psa-V is expected to have a medium term impact on the financial viability of kiwifruit growers and allied services in the Western Bay of Plenty District. This will have secondary effects on residents' employment opportunities, business profitability and confidence, overall property values and community well-being, particularly in the Te Puke area. Rates payments defaults are not expected to exceed Council's historical provision of 2%. Short term changes in rural land use as a result of the disease are not expected to materially affect demand for Council services like water, wastewater or roading during the first three years of this plan. Any major changes to rural land use would likely require changes to Council's District Plan, which controls land use, and that process would not be resolved before the review of the Annual Plan in 2014/15.	Level of uncertainty - significant If the kiwifruit industry's strategy is not successful it is unlikely to recover to its former levels of production and land use may change. New uses may be alternative horticultural or agricultural uses that are already permitted in the District Plan, or there may be calls for changes to permitted land use in the Regional Plan and/or District Plan to enable residential or industrial use of former rural land. Any significant change to permitted land use would likely affect demand for water supply and other utilities in the long term, but are not expected during the period of this Annual Plan.
Disaster contingency	Council has a Disaster Contingency reserve of $5.8 million which is considered adequate as self-insurance to cover clean-up and replacement costs in the event of a disaster and is over and above the insurance Council has in place for its assets. For roading assets, a maximum of 88% is available from the New Zealand Transport Agency, based on a sliding scale proportional to emergency expenditure in a given year for other infrastructure, Central Government will contribute to cover infrastructure where Council has demonstrated it had effective risk management priorities in place and acceptable funding strategies. Council also has insurance cover in place for underground network assets. The combination of the disaster contingency reserve and this insurance cover is considered adequate in the event of a moderate level disaster.	Level of uncertainty - significant There is a risk that Council and/or Government funding will not be sufficient to cover the costs of a major natural disaster. The likelihood of a major disaster is unable to be assessed as this is a risk that cannot be predicted with any certainty. A natural event such as major flooding or earthquake is likely to affect both roading and utilities. Replacement of one of a water or wastewater scheme could be in the region of $30 million.

Key assumptions	Description	Risk
Interest rates	The interest rate on future term borrowing for the ten years of the Long Term Plan has been estimated at 6.5%.	Council has a high level of confidence in these assumptions, which are based on cost, market information and hedges on existing borrowings through interest rate swaps.
Currency exchange rates	Council very rarely makes purchases in foreign exchange and its Treasury Policy precludes the use of foreign exchange risk management products except to hedge commitments.	As a result of its limited use of foreign exchange, Council has little direct risk of changes in currency exchange rates.
Rates remission and default contingency	Council provides 2% of rates required as a contingency to cover non-payment of rates and remissions under its various rates remission policies.	Level of uncertainty - low There is a risk that the economic recession, combined with the impact of the kiwifruit vine disease Psa-V on the local economy could result in a higher than normal incidence of default in payment of rates. This is not considered likely, but if it occurred Council debt would temporarily increase above forecast levels, while it implemented legal action to recover outstanding amounts from ratepayers.
New Zealand Local Government Funding Agency	**Local Government Funding Agency** The Council is a shareholder in the Local Government Funding Agency (LGFA). The Council funds a portion of its borrowings from the LGFA. As a shareholder Western Bay of Plenty District Council has guarantee obligations, but with the exception of the forecast impact on interest rates, the Council has insufficient information to reliably forecast the impact of this shareholding and guarantee in its financial statements.	Level of uncertainty - low The impacts on the financial statements are more significant than expected. **Financial impact** The council shareholding is reflected in an increase in financial assets, dividend receipts and potential guarantee liability. None of these impacts is considered significant in the context of the consolidated financial statements. The Council has incorporated this information in the Annual Plan.
Local government legislation	This plan has been prepared on the basis of legislation and regulations governing the purpose and structure of local government that was in force as at 27 June 2013.	Level of uncertainty – medium Amendments to the Local Government Act 2002 were passed into law in December 2012. The new Act empowers central government to set benchmarks for rates increases and levels of debt through regulations. At the time of adoption of this Plan regulations had not been set. The Local Government Act 2002 Amendment Bill. ▶ refocuses the purpose of Local Government Further changes to legislation are expected in 2013, which is expected to make changes to planning processes and may alter the functions carried out by local government. This legislation could result in the need to amend Council's Long Term Plan before its scheduled three yearly review in 2015.

Key assumptions	Description	Risk
Transportation network - performance based contract	The transportation network was maintained through a ten year performance based roading contract (PBC-01). The contract has joint clients – Western Bay of Plenty District Council and the New Zealand Transport Agency for State Highways (NZTA).	
Transportation network - performance based contract	PBC-01 was due to cease in September 2012 but has been extended by agreement to September 2014. We have proposed through our Transportation Procurement Strategy to extend the contract on a long term or evergreen basis. The NZTA Highways and Operations teams are proposing to tender the contract potentially in collaboration with Western Bay of Plenty District Council and Tauranga City Council. There are potential financial risks to us if the contract is not extended beyond October 2014. The risk for the 2013 / 14 Annual Plan as the lump sum PBC Contract has been extended to cover the full year. The contract options and the risks have been assessed and the assumptions and risks are to: 1. Extend current collaborative PBC-01 contract with NZTA continuing as a partner. 2. Re-tender the PBC-01 contract either just Council or in collaboration with NZTA. 3. Tender roading operations and maintenance on a conventional basis as Council-only contracts.	Financial risk - low The budgets in this Annual Plan have been projected on this basis. Level of service risk - low Financial risk - moderate Potential cost increases of 5% – 10% for maintenance. Significant risk to compliance with levels of service for one to two years if the contractor changes through the tender process. Financial risk - significant Potential cost increase up to 17% (being the estimated cost savings achieved through the PBC-01 Contract). Level of services risk - significant Should rates or NZTA subsidy be unavailable to cover the increased costs, maintaining costs within budget would mean a reduction in the levels of service.
Date of assumptions	The assumptions underlying this prospective financial information are as at 21 March 2013 but were updated and presented to the Council for adoption on 27 June 2013. Actual results to 30 June 2012 have been incorporated in this prospective information.