

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
- ▶ Rooding 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.

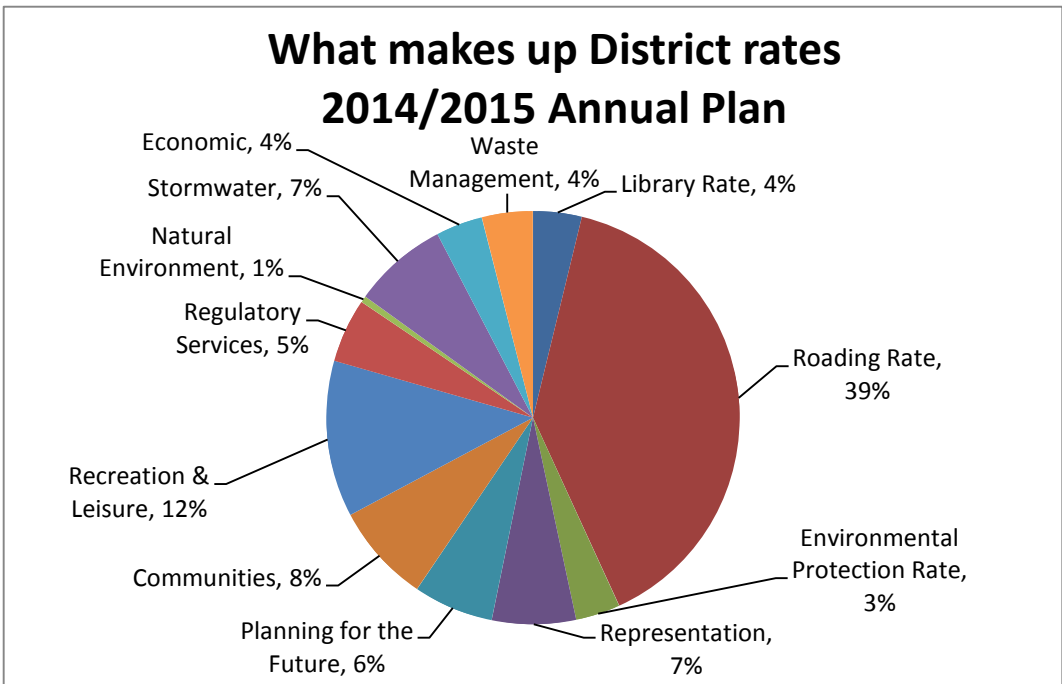
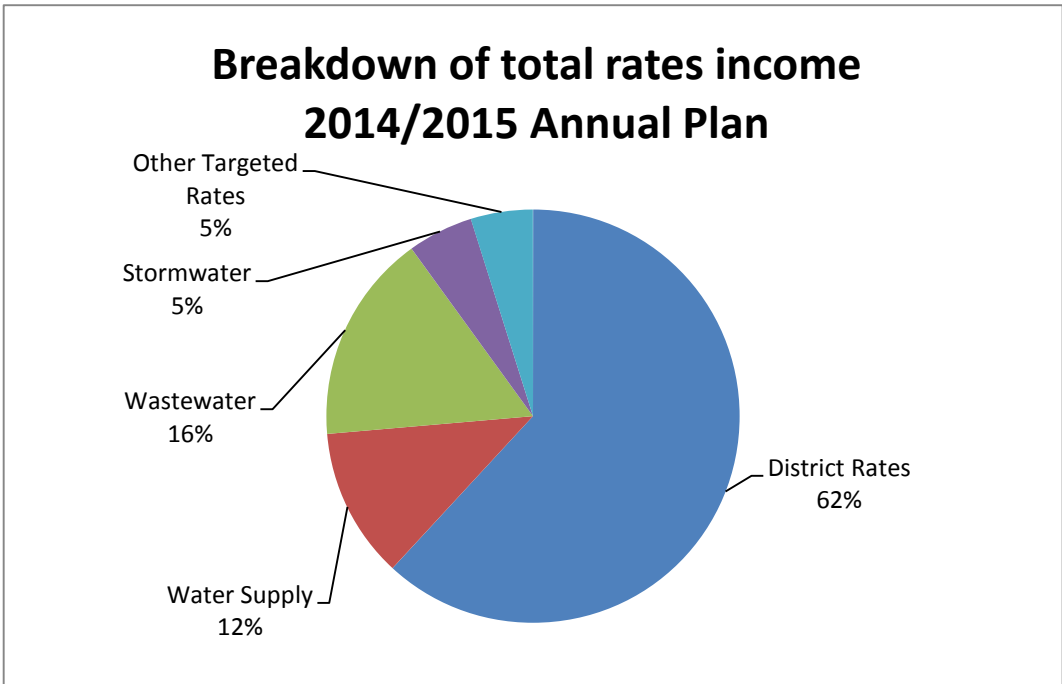
To more fairly compare one year's budget with the next, Council makes an allowance for growth, which this year is 0.5%. In Council's budget for 2014/15, District rates total \$33.1m, targeted rates total \$20.3m. The total rates revenue of \$54.9m is 4.96% higher than last year. Of this, additional ratepayers will add 0.5% leaving 4.46% to be funded by existing ratepayers. Inflation is estimated at 2.2%, which means a real increase of 2.26% 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.

2013/2014			2014/2015
Budget	Plus allowance for growth (0.5%)	Rate	Budget
\$	\$		\$
15,386,900	15,463,835	General Rate	16,377,864
1,407,465	1,414,502	Library Rate	1,369,715
16,794,365	16,878,337		17,747,579
13,713,963	13,782,523	Rooding Rate	14,144,998
1,253,512	1,259,780	Environmental Protection Rate	1,253,512
31,761,840	31,920,640	Total	33,146,089

Increase in/addition on 2013/2014 Budget	1,384,249
Increase in/addition to growth allowance	158,800



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 142).

Key assumptions	Description	Risk
<p>Growth</p>	<p>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.</p> <p>Assumption Since the global economic recession began in 2008 subdivision activity has slowed markedly. When our Long Term Plan 2012-2022 was adopted in June 2012, we expected that over the four years 2013-2016 growth would continue to be slow, at just under 1% per year, which was the average of the 2009-2011 period. However for 2014/15 we expect that around 92 new lots will be approved, and an additional 29 household equivalent units will be developed (on land not subdivided). This represents growth of 0.5%.</p> <p>The Long Term Plan assumes that by 2017 growth 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%.</p> <p>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.</p>	<p>Level of uncertainty - significant.</p> <p>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:</p> <ul style="list-style-type: none"> ▶ 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 <p>In this situation future expenditure could be brought forward to meet the unexpected increase in demand and financial contributions charges adjusted the following year.</p> <p>If population growth and the number of rateable properties is over-estimated, (growth is slower than forecast) the consequences would be:</p> <ul style="list-style-type: none"> ▶ 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	Forecast																																																																																					
	Year end 30 June	New lots created																																																																																				
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	Growth rate	0.8%																																																																																				
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		<p>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.</p> <p>The current population assumptions are not materially different to Statistics New Zealand's medium projections for the period to 2022.</p>																																																																																				
Inflation	<p>Background To comply with the requirements of the Local Government Act 2002 financial projections over the 10-year period have been adjusted by inflation.</p> <p>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.</p>	<p>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.</p> <p>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.</p>																																																																																				
	<p>Inflation adjustors index</p> <table border="1"> <thead> <tr> <th>June</th> <th>Transport</th> <th>Property</th> <th>Water</th> <th>Energy</th> <th>Staff</th> <th>Other</th> </tr> </thead> <tbody> <tr><td>2012</td><td>1,000</td><td>1,000</td><td>1,000</td><td>1,000</td><td>1,000</td><td>1,000</td></tr> <tr><td>2013</td><td>1,045</td><td>1,023</td><td>1,039</td><td>1,045</td><td>1,018</td><td>1,024</td></tr> <tr><td>2014</td><td>1,087</td><td>1,046</td><td>1,075</td><td>1,072</td><td>1,036</td><td>1,049</td></tr> <tr><td>2015</td><td>1,123</td><td>1,070</td><td>1,109</td><td>1,112</td><td>1,061</td><td>1,075</td></tr> <tr><td>2016</td><td>1,161</td><td>1,096</td><td>1,145</td><td>1,156</td><td>1,082</td><td>1,102</td></tr> <tr><td>2017</td><td>1,202</td><td>1,124</td><td>1,184</td><td>1,204</td><td>1,110</td><td>1,132</td></tr> <tr><td>2018</td><td>1,246</td><td>1,154</td><td>1,227</td><td>1,256</td><td>1,134</td><td>1,168</td></tr> <tr><td>2019</td><td>1,294</td><td>1,187</td><td>1,272</td><td>1,314</td><td>1,160</td><td>1,205</td></tr> <tr><td>2020</td><td>1,344</td><td>1,222</td><td>1,321</td><td>1,376</td><td>1,187</td><td>1,242</td></tr> <tr><td>2021</td><td>1,398</td><td>1,259</td><td>1,374</td><td>1,445</td><td>1,217</td><td>1,282</td></tr> <tr><td>2022</td><td>1,454</td><td>1,300</td><td>1,431</td><td>1,521</td><td>1,255</td><td>1,324</td></tr> </tbody> </table>	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	<p>Review Inflation assumptions are reviewed each year as part of developing the annual budget.</p>
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Key assumptions	Description	Risk
<p>Kiwifruit vine disease Psa-V</p>	<p>Background</p> <p>Psa-V (<i>Pseudomonas syringae</i> pv. <i>Actinidiae</i>) 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.</p> <p>Psa-V has been present 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 have been confirmed nationally.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The disease is expected to cost the industry between \$310 million and \$410 million over the next five years.</p> <p>Assumption</p> <p>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.</p> <p>Rates payments defaults are not expected to exceed Council's historical provision of 2%.</p> <p>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 Long Term Plan in 2015.</p>	<p>Level of uncertainty - significant.</p> <p>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.</p> <p>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.</p>
<p>Disaster contingency</p>	<p>Council has a Disaster Contingency reserve of \$6.6 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.</p> <p>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.</p>	<p>Level of uncertainty - significant.</p> <p>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.</p> <p>A natural event such as major flooding or earthquake is likely to affect both roading and utilities. Replacement of one water or wastewater scheme could be in the region of \$30 million.</p>

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 20 March 2014.	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 2014, 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
<p>Transportation network - performance based contract</p>	<p>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).</p> <p>PBC-01 was due to cease in September 2012 but has been extended by agreement to 30 October 2014.</p> <p>Council and the Transport Agency have agreed to continue the co-operative roading contract into the future. The new Bay of Plenty West One Network Maintenance Contract. The contract tender period commences 1 November 2014. The collaborative one network road maintenance contract is industry best practice and consistent with the national Road Efficiency Group recommendations.</p> <p>The Contract risks relate to the tender process, the alteration to the specification, the use of NZTA Network Outcomes Contract general conditions of contract and the number of tenderers. A low number of tenderers (one or two) increases the financial risk.</p>	<p>Financial risk - low.</p> <p>The budgets in this Annual Plan have been projected on this basis. It is expected that maintenance costs will be similar through the new contract. Level of service risk - low</p> <p>Financial risk - moderate.</p> <p>Potential cost increases of 5% – 10% for maintenance if there are only one or two tenderers.</p> <p>Significant risk to compliance with levels of service for one to two years if the contractor changes through the tender process.</p> <p>Financial risk – significant.</p> <p>Low potential of significant financial risk.</p> <p>Level of services risk - significant.</p> <p>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.</p>
<p>Date of assumptions</p>	<p>The assumptions underlying this prospective financial information are as at 20 March 2014 but were updated and presented to the Council for adoption on 26 June 2014. Actual results to 30 June 2013 have been incorporated in this prospective information.</p>	

MANDATORY NON-FINANCIAL PERFORMANCE MEASURES RULES

The need for standard performance measures for local authorities was addressed through the Local Government Act 2002 Amendment Act 2010. The purpose is to enable the public to compare the level of service provided by different local authorities.

In line with legislation the Secretary for Local Government has developed performance measures for water, wastewater (sewerage), stormwater, roads and footpaths. After a period of consultation the Non-Financial Performance Measure Rules 2013 were made in November 2013. These rules come into force on 30 July 2014.

Council will commence monitoring these results in the 2014/15 financial year and results will be reported in the 2015 Annual Report. At this stage performance targets have not been identified.

A review of the Council's performance framework will take place as part of the development of the Long Term Plan 2015-2025 and be implemented in July 2015. These mandatory performance measures will be integrated with other performance measures and targets as part of the review.

Water Supply

1. Safety of drinking water

The extent to which the local authority's drinking water supply complies with:

- a. part 4 of the drinking-water standards (bacteria compliance criteria); and
- b. part 5 of the drinking-water standards (protozoal compliance criteria).

2. Maintenance of the reticulation network

The percentage of real water loss from the local authority's networked reticulation system (including a description of the methodology used to calculate this).

3. Fault response times

Where the local authority attends a call-out in response to a fault or unplanned interruption to its networked reticulation system, the following median response times measured:

- a. attendance for urgent call-outs: from the time that the local authority receives notification to the time that service personnel reach the site, and
- b. resolution of urgent call-outs: from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption;
- c. attendance for non-urgent call-outs: from the time that the local authority receives notification to the time that service personnel reach the site; and
- d. resolution of non-urgent call-outs: from the time that the local authority receives notification to the time that service personnel confirm resolution of the fault or interruption.

4. Customer satisfaction

The total number of complaints received by the local authority about any of the following:

- a. drinking water clarity;
- b. drinking water taste;
- c. drinking water odour;
- d. drinking water pressure or flow;
- e. continuity of supply; and
- f. the local authority's response to any of these issues;

expressed per 1000 connections to the local authority's net-worked reticulation system.

5. Demand management

The average consumption of drinking water per day per resident within the territorial authority district.

Sewerage and the treatment and disposal of sewage

1. System and adequacy

The number of dry weather sewerage overflows from the territorial authority's sewerage system, expressed per 1000 sewerage connections to that sewerage system.

2. Discharge compliance

Compliance with the territorial authority's resource consents for discharge from its sewerage system measured by the number of:

- a. abatement notices;
- b. infringement notices;
- c. enforcement orders; and
- d. convictions;

received by the territorial authority in relation to those consents.

3. Fault response times

Where the territorial authority attends to sewerage overflows resulting from a blockage or other fault in the territorial authority's sewerage system, the following median response times measured:

- a. Attendance time: from the time that the territorial authority receives notification to the time that service personnel reach the site; and
- b. Resolution time: from the time that the territorial authority receives notification to the time that service personnel confirm resolution of the blockage or other fault.

4. Customer satisfaction

The total number of complaints received by the territorial authority about any of the following:

- a. sewage odour;
- b. sewerage system faults;
- c. sewerage system blockages; and
- d. the territorial authority's response to issues with its sewerage system;

expressed per 1000 connections to the territorial authority's sewerage system.

Stormwater drainage**1. System adequacy**

- a. The number of flooding events that occur in a territorial authority district.
- b. For each flooding event, the number of habitable floors affected. (Expressed per 1000 properties connected to the territorial authority's stormwater system).

2. Discharge compliance

Compliance with the territorial authority's resource consents for discharge from its stormwater system, measured by the number of:

- a. abatement notices;
- b. infringement notices;
- c. enforcement orders; and
- d. convictions;

received by the territorial authority in relation to those resource consents.

3. Response times

The median response time to attend a flooding event, measured from the time that the territorial authority receives notification to the time that service personnel reach the site.

4. Customer satisfaction

The number of complaints received by a territorial authority about the performance of its stormwater system, expressed per 1000 properties connected to the territorial authority's stormwater system.

in the territorial authority's relevant document (such as its annual plan, activity management plan, asset management plan, annual works program or long term plan).

5. Response to service requests

The percentage of customer service requests relating to roads and footpaths to which the territorial authority responds within the time frame specified in the long term plan.

The provision of roads and footpaths**1. Road safety**

The change from the previous financial year in the number of fatalities and serious injury crashes on the local road network, expressed as a number.

2. Road condition

The average quality of ride on a sealed local road network, measured by smooth travel exposure.

3. Road maintenance

The percentage of the sealed local road network that is resurfaced.

4. Footpaths

The percentage of footpaths within a territorial authority district that fall within the level of service or service standard for the condition of footpaths that is set out

ANNUAL PLAN DISCLOSURE STATEMENT FOR YEAR ENDED 30 JUNE 2015

What is the purpose of this statement?

The purpose of this statement is to disclose the Council's planned financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

The Council is required to include this statement in its annual plan in accordance with the [Local Government \(Financial Reporting and Prudence\) Regulations 2014 \(the regulations\)](#). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

Benchmark		Planned	Met
Rates affordability benchmark			Yes
▶ income	Rates will be at least 65% of total income	71%	Yes
▶ increases	Growth 0.5%, inflation 2.2%, plus 4.6% = 7.3%	4.96%	Yes
Debt affordability benchmark	220% of revenue	180%	Yes
Balanced budget benchmark	100%	97%	No*
Essential services benchmark	100%	112%	Yes
Debt servicing benchmark	15%	13%	Yes

Notes

1. Rates affordability benchmark

- 1.1 For this benchmark:
 - a. the Council's planned rates income for the year is compared with rates will be at least 65% of total revenue on rates contained in the financial strategy included in the council's long-term plan; and
 - b. the Council's planned rates increases for the year are compared with a 7.3% rates increase limit (being growth 0.5%, inflation 2.2%, plus 4.6%) for the year contained in the financial strategy included in the council's long-term plan.
- 1.2. The Council meets the rates affordability benchmark if -
 - a. its planned rates income for the year equals or is less than each quantified limit on rates; and
 - b. its planned rates increases for the year equal or are less than each quantified limit on rates increases.

2. Debt affordability benchmark

- 2.1. For this benchmark, the Council's planned borrowing is compared with a debt to revenue limit of 220% on borrowing contained in the financial strategy included in Council's long-term plan.
- 2.2. The Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing.

3. Balanced budget benchmark

- 3.1. For this benchmark, the Council's planned revenue (excluding development contributions, vested assets, financial contributions, gains on derivative financial instruments, and revaluations of property, plant, or equipment) is presented as a proportion of its planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment).
- 3.2. The Council meets the balanced budget benchmark if its revenue equals or is greater than its operating expenses.

4. Essential services benchmark

- 4.1. For this benchmark, the Council's planned capital expenditure on network services is presented as a proportion of expected depreciation on network services.
- 4.2. The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.

5. Debt servicing benchmark

- 5.1. For this benchmark, the Council's planned borrowing costs are presented as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment).
- 5.2. Because Statistics New Zealand projects that the Council's population will grow faster than the national population growth rate, it meets the debt servicing benchmark if its planned borrowing costs equal or are less than 15% of its planned revenue.

Additional information

*The balanced budget benchmark measure excludes financial contribution income. If this income was included Council would meet the benchmark.

