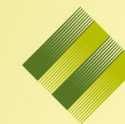


CHAPTER TWO

INFORMING OUR PLANNING

TE KAUNIHERA A ROHE MAI I NGA KURI-A-WHAREI KI OTAMARAKAU KI TE URU



**Western Bay of Plenty
District Council**



Chapter Two
**Informing our
planning**

Financial strategy

Page

31

Our approach to sustainable development

50

Financial Strategy

	Page
Overview	31
Financial strategy at a glance	32
Background	33
Service demand and costs of service	35
Financial challenges	38
Responding to the challenges	40
Notes on financial policies and investment holdings	47

Financial Strategy

Overview

Our financial strategy describes how we plan to finance our services and activities in a way that is sustainable over the long term. If our expenditure and funding plans are not sustainable we may not have the capacity or resources to deliver affordable services to residents and ratepayers in the medium and long term.

In developing a sustainable financial strategy we have considered the likely future demand for services, what that will cost, the ability and willingness of our ratepayers to pay for services, fairness in allocation of rates, as well as applying good financial management and prudent decision-making.

Our financial strategy highlights the main factors that influence the demand for and cost of Council's services, as well as the financial challenges and risks that we face and how these risks will be addressed. It provides a backdrop against which the expenditure decisions can be assessed. It is designed to give you an understanding of our current financial situation and how it has arisen.

One of the most important issues addressed in this Plan is how to fund interest payments on loans that were drawn down to fund infrastructure to cater for future growth.

This strategy contains principles that will guide decision-making during the implementation of our adopted Long Term Plan. It also sets limits on rates, rates increases and debt levels for the next ten years and provides details of the borrowing and investment policies that underpin our financial management.

At the end of each financial year we will report on our performance against the limits set in the strategy; these results will also be reported in our pre-election report, which will be published in the run-up to the local government elections in 2013. The purpose of our pre-election report is to provide election candidates and the public with facts about our Council's financial state, prior to the election.

Our financial strategy contains extracts of some of our financial policies including:

- ▶ Treasury Policy (incorporating the investment policy and liability management policy)
- ▶ Statement of objectives for holding and managing financial investments and equity securities and targets for returns on financial and equity investments.

Financial strategy at a glance

Where we began

When the Western Bay of Plenty District Council was created in 1989 it had few reserves or investments and inadequate infrastructure to service its fast-growing communities.

Over the past 20 years more than \$250 million was invested in infrastructure, including improving the quality of water supplies, establishing wastewater schemes, sealing roads and improving stormwater networks. Debt was used to pay for this infrastructure as a fair way of funding assets that last 20-50 years.

Where we are now

Our District now has infrastructure that will last well into the future. Our debt is similar to that of other growth councils, but higher compared to councils that have not had high growth.

Challenges we face

Since the global economic downturn began in 2008 our income from development and subdivisions has fallen significantly. This means our debt cannot be paid off as quickly as planned and so interest costs have increased.

For each of the next four years we expect growth of slightly less than 1% increasing to about 1.6% each year after that. This is less than pre-2008 growth levels of about 2% per year. Without the financial contributions income from subdivisions and development that was previously expected we have to fund the interest and loan repayments from elsewhere.

Where we want to be

We believe our ratepayers want us to achieve a balance between affordability of rates and providing the good quality services that contribute to the continued growth and prosperity of our District. This means doing more for less, keeping rates increases low, delivering high quality services and ensuring that new infrastructure like roading, water and wastewater keeps pace with growth once the economy recovers from the global recession.

What we plan to do

To keep our debt at manageable levels we have decided to cover the shortfall in financial contributions income from rates and increases in service charges. In the current financial climate people are tightening their belts and we have to do likewise. Spending has been cut so that rates increases do not get out of control. This does not mean a reduction to current services but it does mean delaying some development and service improvements that were previously planned for the future.

Our strategy is to:

- ▶ Maintain the infrastructure assets we have (this is by far our biggest cost)
- ▶ Maintain the core services we currently provide as efficiently as possible (many of these are essential services and legislatively required)
- ▶ Make a contribution of up to \$1.4 million each year from District rates and utilities charges to fund interest on growth-related debt
- ▶ Postpone spending on growth-related infrastructure (which will not be needed as soon as we previously expected)

Limits on rates and rates increases

- ▶ Rates increases will be limited to growth, inflation (local government cost index) plus 4.6% each year
- ▶ Total rates will be at least 65% of our total income*. This means up to 35% of income could come from other sources

Limits on debt

- ▶ Net debt will not exceed 220% of our total annual revenue**. For most of the ten years of this Long Term Plan debt will be substantially below this level.

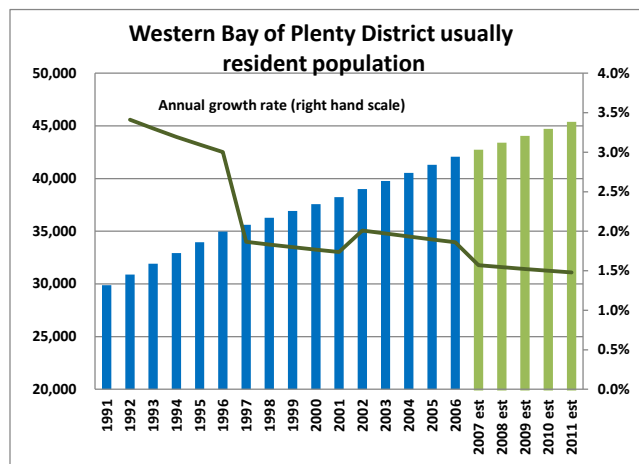
* Total income is defined as total revenue less vested (gifted) assets, as this transaction is non cash

**Total annual revenue is as defined in our Treasury Policy on page 422

Background

Our financial history

Since its inception in 1989, the Western Bay of Plenty District Council’s biggest challenge has been to keep up with the pace of growth. Between 1991 and 1996, our District’s population increased by 17% from less than 30,000 to 35,000 and over the next ten years it increased 20% to just over 42,000 in 2006.

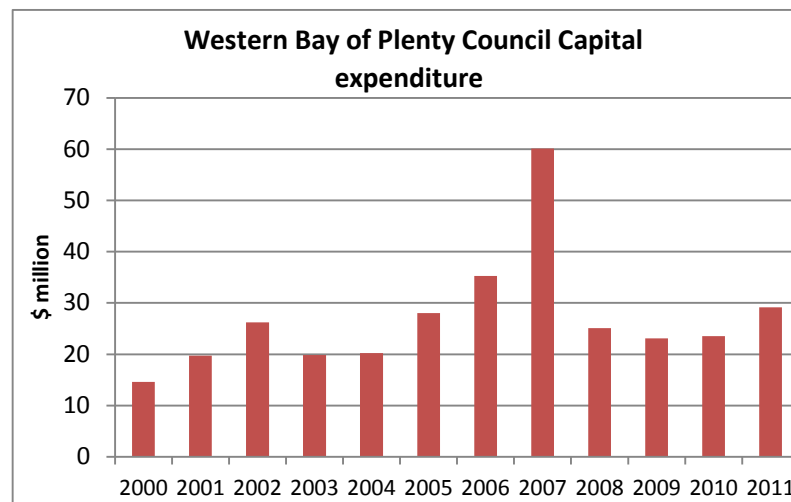


When the Western Bay of Plenty District was created in 1989 Council received very little in the way of investments and cash that could be used to bring the limited existing infrastructure up to standard. We sold some electricity shares and raised \$3.8 million which was transferred to our Disaster Contingency Reserve. This remains our only major reserve and currently has a balance of \$5.8 million.

Despite the funding challenges we embarked on a programme of systematically providing the new networks, extensions and upgrades that were urgently required for roading, sewerage, potable water and stormwater, to improve standards and provide capacity for growth. These projects included:

- ▶ refurbished wastewater treatment plants in Katikati costing \$2.2 million in 2000 and Te Puke in 1999 costing \$3.1 million; with network extensions in Katikati costing \$1.3 million in 2004
- ▶ new wastewater schemes in Waihi Beach between 2001 and 2003 at \$20.2 million, in Omokoroa between 2005 and 2008 at \$26.0 million and at Maketu in 2011 costing \$16.3 million
- ▶ seal extensions and road widening across the District between 2003 and 2011 costing \$36.8 million

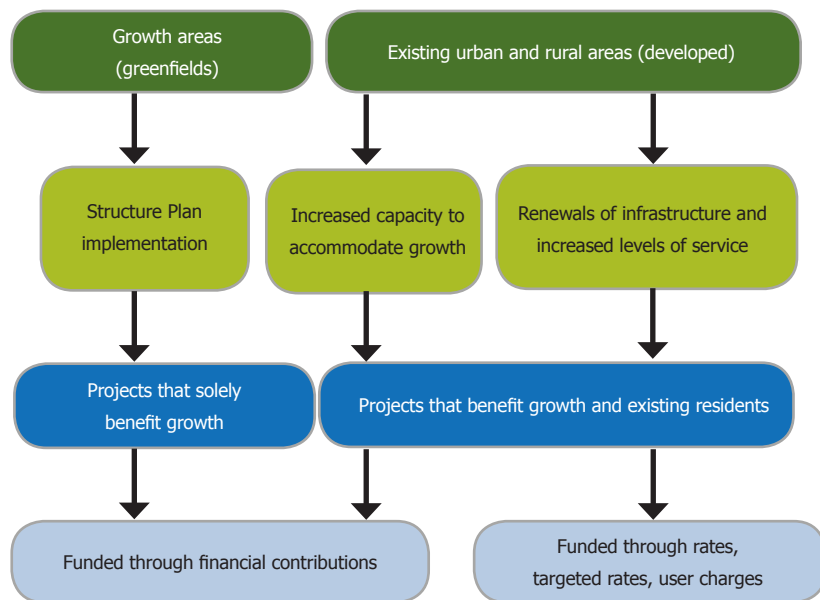
- ▶ improving levels of service for stormwater by increasing capacity for new subdivisions and for anticipated future growth costing \$23.5 million between 2003 and 2011
- ▶ increasing the quality of potable water and reliability of supply, from E grade to at least Bb grade at a cost of \$28.8 million between 2003 and 2011.



With no substantial reserves to fall back on and unpredictable levels of assistance from central government, we had to fund infrastructure in ways that would not unfairly burden existing ratepayers. Our financing tools had to ensure future ratepayers paid their fair share of the cost of infrastructure developed for their eventual use.

As a result developers are charged financial contributions under the Resource Management Act 1991 and our revenue policies reflect a ‘user-pays’ philosophy wherever practical, within the confines of legislation.

Western Bay of Plenty District Council - Sources of income to fund development



Our District has a large land area and several distinct urban centres and providing infrastructure is more expensive compared to a compact single settlement like a city.

Using policies to manage demand for infrastructure we have effectively postponed the need for infrastructure capacity increases. These policies include:

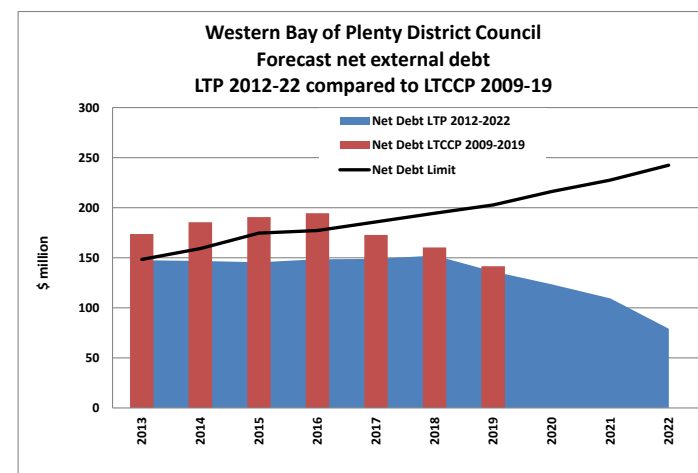
- ▶ Rules in our District Plan that control subdivision and concentrate development in areas where infrastructure already exists or is planned; our growth areas are Katikati, Omokoroa, Te Puke and Waihi Beach
- ▶ Encouraging increased residential densities in particular locations
- ▶ Water metering to reduce wastage and postpone the need for capacity increases in both water and wastewater networks

Use of debt

We use loan funding to spread the cost of infrastructure between current and future ratepayers. By borrowing to pay for assets with a long life, for example 25-50 years, we can recover the cost from ratepayers over the life of the asset. In this way the cost is allocated fairly between current and future ratepayers.

Therefore as capital expenditure has increased, so have debt levels. Of our net debt, which is (total external debt less cash on hand), of \$135 million as at 30 June 2011, \$97.1 million was growth-related.

Group of activities	Growth-related debt at December 2011 \$'000
Transportation/roading	23,548
Water supply	14,581
Recreation and leisure	1,964
Wastewater	39,966
Stormwater	17,033
Total	97,092



With the slow down in growth since the global recession began in 2008 debt reduction has slowed because our financial contributions income has fallen significantly.

National and regional influences Upper North Island Strategic Alliance

In October 2011 seven councils, Northland, Whangarei, Auckland, Waikato, Bay of Plenty, Hamilton and Tauranga, launched a strategic alliance to work together on issues of economic development, transport, tourism, emergency preparedness, ports, waste and water.

While we are not one of the signatories, this alliance will influence decisions and priorities in our region for the use of land and water, infrastructure development and transport development priorities. It will be especially important that we maintain strong relationships with Tauranga City and the Bay of Plenty Regional councils so that our interests are represented in the alliance.

Our well-established sub-regional planning frameworks, for example SmartGrowth and decision-making processes through the Joint Governance Committee (of Western Bay and Tauranga councils) will also be important in ensuring our voice is heard in any debates about future local representation and government.

SmartGrowth review

The second review of SmartGrowth, which is the Western Bay of Plenty's 50 year land use strategy that was developed in 2004, began in 2011. This review will have a wider scope than the previous one in 2007, which was limited to an update of the actions. In addition to infrastructure, environmental and landuse issues, it will consider:

- ▶ Treaty of Waitangi (Te Tiriti o Waitangi) settlements and Māori economic development
- ▶ social cohesion, population ageing, tertiary education
- ▶ SmartGrowth partners' funding and management of debt
- ▶ appropriate and affordable housing, engagement with the community sector
- ▶ role of the western Bay of Plenty sub-region and wider Bay of Plenty region in the upper North Island
- ▶ risk of natural disasters and the public tolerance for risk

The SmartGrowth review will be completed in 2013/14 and will provide direction and input to our 2015-2025 Long Term Plan.

Treaty settlements

The settlement of Treaty of Waitangi (Te Tiriti o Waitangi) claims in the region is expected to change the economic landscape over the medium term. New opportunities for collaboration and partnership are likely to emerge, which could have an effect on patterns of development, land use and business ownership. The settlements have the potential to kick-start new economic development across the sub-region, which is particularly encouraging in the current economic climate.

To make the most of the opportunities that arise we need to strengthen our relationships with iwi organisations and emerging leadership structures, which will ultimately benefit our community as a whole.

Service demand and costs of service

Cost drivers

There are several major drivers of Council costs, shown in the diagram below. Changes in cost fall into two main categories - changes in price and changes in demand.

Effect of changes in land use on service demand

Demand for network infrastructure services (roads, water supply, wastewater and stormwater) increases where development occurs. Development may be subdivisions for housing, new commercial or industrial areas or intensification of existing development. For the Western Bay of Plenty District growth is mainly driven by housing development.

Within the rural sector land use changes could affect service demand, especially for water supply and roading. For example if an area serviced by the water supply network changed from a dry land crop to a crop requiring irrigation there could be an increase in demand for water. Likewise for roading, if the land use changed from forestry to lifestyle blocks the pattern of road use would change.

Major cost drivers

Increased service demand	<ul style="list-style-type: none"> ▶ Growth in population, visitor numbers, businesses and properties ▶ Changes in land use ▶ Extending the areas covered by existing utility networks
Changes in service levels	<ul style="list-style-type: none"> ▶ Frequency and reliability of service ▶ Higher or lower standards of service - can be in response to community aspirations, legislation or affordability constraints
New services	<ul style="list-style-type: none"> ▶ New utilities like wastewater schemes ▶ New services - usually in response to community demand ▶ New services required by legislation
Asset management	<ul style="list-style-type: none"> ▶ Maintaining and renewing assets - is influenced by the type and age of assets ▶ Depreciation - this is a way of providing for future replacement of assets ▶ Purchase and sale of assets
Debt servicing	<ul style="list-style-type: none"> ▶ Changes in interest rates ▶ New expenditure funded through loans ▶ Speed of debt repayment - largely depends on income from financial contributions paid when properties are subdivided
Price changes	<ul style="list-style-type: none"> ▶ Local government cost index - this reflects price changes in the goods councils usually purchase ▶ Contract price escalations - long term contracts sometimes contain cost escalation clauses ▶ Tender prices - this is influenced by availability of materials and skilled labour
Productivity	<ul style="list-style-type: none"> ▶ Finding smarter ways of doing things in everyday business ▶ Shared service delivery - working with other councils to avoid duplication and provide better services

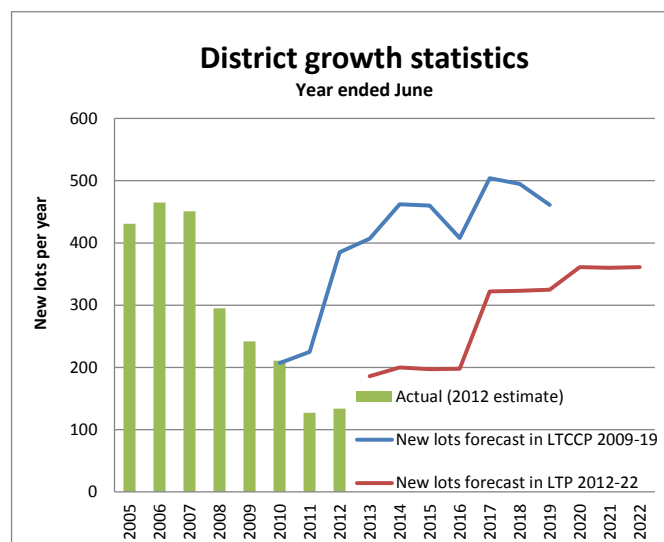
Changes in land use within rural and industrial zones are hard to predict as they are based on commercial decisions made by individuals and companies. The outbreak of the kiwifruit vine disease Psa-V has raised questions about the impact of that disease on future rural land use, particularly in the Te Puke area, which has been hit hardest by the disease.

We have considered the possible impact of a change from kiwifruit to other crops on water supply and roading infrastructure. We do not believe alternative crops would create significant increases in road traffic volumes or demand for water supply. Our District Plan subdivision rules limit the potential for kiwifruit orchards to be converted to residential or lifestyle use. For areas where this is allowed under our District Plan the impact on infrastructure has already been taken into account in our Asset Management Plans through future residential zoning and Structure Plans.

Growth projections for the ten years to 2022

The rate of subdivision has declined significantly since 2008. We expect that over the next four years (2013-2016) growth will continue to be slow, at just under 1% per year, which is about the average of the 2009-2011 period. From 2017 growth rates are predicted to return to levels of 1.6%-1.8% per year, which is similar to the 10-year average over 2001-2011. This increase in growth assumes recovery of the global economy in 2016 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%.

Our District’s actual growth levels in new lots per year are shown below, comparing forecast growth in our 2009-2019 Long Term Plan with the forecast growth in this Plan for 2012-2022.



Our growth assumptions, which drive both the timing of infrastructure development and revenue projections, are listed below. Estimates for expected new lots include residential, commercial and industrial and rural lots. These assumptions are similar to Statistics New Zealand’s medium projections for 2022.

Western Bay of Plenty District Council growth assumptions

Year ended 30 June	Forecast			
	New lots created	Growth rate	Rateable properties	District population
2013	186	0.9%	20,303	46,341
2014	200	1.0%	20,489	46,820
2015	197	1.0%	20,689	47,299
2016	198	0.9%	20,886	47,781
2017	322	1.6%	21,084	48,562
2018	323	1.6%	21,406	49,344
2019	325	1.5%	21,729	50,125
2020	361	1.7%	22,054	50,882
2021	360	1.7%	22,415	51,644
2022	361	1.7%	22,775	52,412
2023	341	1.6%	23,136	53,181
2024	341	1.6%	23,477	53,949
2025	341	1.6%	23,818	54,717
2026	341	1.6%	24,159	55,485
2027	341	1.5%	24,500	56,332
2028	341	1.5%	24,841	57,178
2029	341	1.5%	25,182	58,025
2030	341	1.5%	25,523	58,872

During 2013-2016 a higher than normal proportion of growth is expected in our rural areas. This is because an abnormally large number of subdivision applications were made in 2009, just prior to the tightening of our District Plan rules on rural subdivision. These applications are still in process and will be assessed under our old, more lenient rules. They face a time limit by which they must be completed, failing which the right to subdivide will be lost.

Effect of growth expectations on planned expenditure

We aim to provide appropriately zoned and serviced locations to accommodate expected growth.

Ideally these locations would be serviced 'just-in-time' because then the interest costs on debt would be minimised. Although 'just-in-time' is our intention, in practice this is not always possible because many infrastructure projects take several years of planning and building and it is very difficult to accurately forecast both the size and location of growth several years ahead.

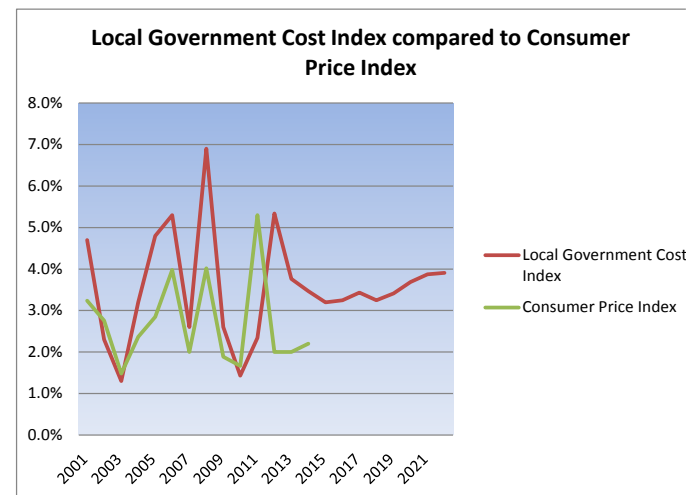
When growth forecasts are reduced planned infrastructure development is usually delayed to match the later date that growth is expected to occur. In this way expenditure can be managed to match expected income from financial contributions. We use this technique to good effect in our Recreation and Leisure activity because most reserves development projects can be undertaken in stages, timed to match revenue from growth as it occurs.

Difficulties arise with infrastructure projects like wastewater schemes, which are typically designed for a large capacity so they are financially viable. In such cases it is more difficult to match expenditure to income because it is not practical to construct the project in stages; decisions are based on assumptions of growth for many years ahead, for example our Omokoroa wastewater scheme. If growth expectations are subsequently reduced we have to find other funding sources to meet the interest and capital repayments on loans raised to pay for the development.

During development of this Plan many growth-related projects were postponed to match the revised expected timing of growth. Details of these projects are provided in Chapter 3 and on our website, www.westernbay.govt.nz.

Price increases

We understand that many ratepayers expect that rates and utilities charges should not rise by more than the Consumer Price Index (CPI). The challenge for councils is that over the last decade the cost of service inputs, for example earthmoving, pipelines and energy have increased faster than the CPI.



Between 2001 and 2011 the Local Government Cost Index (LGCI) rose by 35%, while the Consumer Price Index (CPI) rose by 25%. Rebuilding Christchurch is expected to put pressure on construction, pipeline and earthmoving costs in particular.

Forecast increases in the LGCI and the CPI are shown above with details of the forecast annual LGCI increases shown below.

Forecast increase in Local Government Cost Index

Year end	Annual average % change	Year end	Annual average % change
June 2012	5.34	June 2018	3.26
June 2013	3.79	June 2019	3.38
June 2014	3.46	June 2020	3.69
June 2015	3.17	June 2021	3.89
June 2016	3.27	June 2022	3.90
June 2017	3.42		

Levels of service

Higher standards of service also add costs over and above price increases. These are sometimes prescribed by central government, for example water quality, or strongly advocated for by the community, for example seal extensions.

We can reduce rates by reducing levels of service. This can only be done after consultation with the community, usually in conjunction with a Long Term Plan or Annual Plan process.

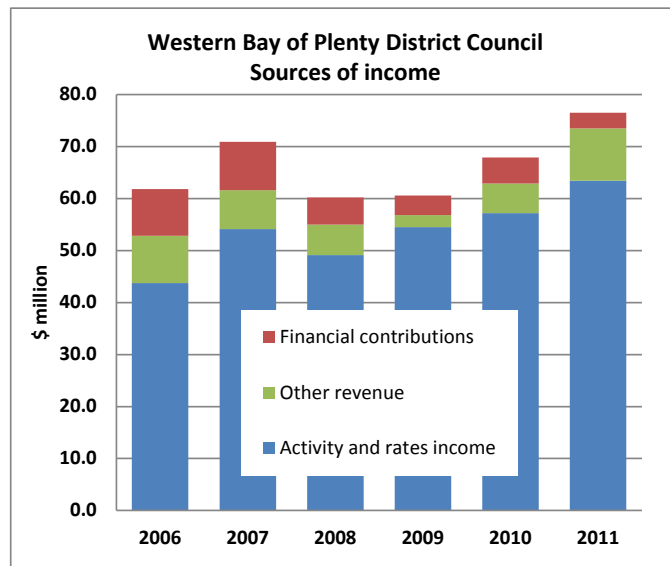
This Plan includes some changes to existing levels of service and changes in previously forecast levels of service. Details are included in relevant activity sections of Chapter 3 from page 56 and in the Decisions on Key Issues section page 13.

Financial challenges

We outline below some of the challenges we expect to face over the next ten years.

Global, economic recession and debt levels

In 2008 the global economic downturn brought with it a step-change in the level of risk that all businesses faced. The resulting slowdown in subdivision and development has reduced our income from financial contributions.



This is an important issue because financial contributions are the main source of income to repay growth-related debt because most of our debt has been raised to fund growth-related increases in capacity for utilities and roading. With lower income from financial contributions debt repayments have slowed. Consequently interest costs are higher than were forecast when the infrastructure was built and the loans were established.

Financial contributions shortfall

Currently there is a shortfall of about \$2 million per year between interest on growth-related debt and expected financial contributions income. This shortfall must be funded because it would be imprudent to let it accumulate as additional debt, even if our debt limits could accommodate it. The longer it takes for development and growth to recover, the bigger this issue will become.

In the current financial year's budget (2011/12), we increased water and wastewater user charges by 10%. This helped off-set the additional interest on the debt used to finance past

investment in water and wastewater assets. In this way the interest cost was borne by users of the infrastructure rather than general ratepayers, many of whom are not connected to water supply or wastewater schemes.

Additional measures will have to be taken over the next few years to keep the interest costs under control. Our strategy for managing the interest costs on growth-related debt is detailed on pages 40 - 42.

Cost of debt and access to refinancing

We manage our debt according to limits set out in our Treasury Policy for borrowing rates, liquidity ratios and repayment terms, which reflect standard benchmarks used by credit rating agencies. These limits are set at levels that reflect a prudent balance between risk, flexibility in sourcing loans and lowering the costs of borrowing.

Over the next few years there is a risk that access to borrowing will become more difficult; when our existing debt matures re-financing may be harder to obtain, particularly if financial markets deteriorate as a result of the ongoing financial problems in European countries.

We have considered how we would respond if this situation occurred. For our approach, "Responding to the challenges", see page 40.

Kiwifruit vine disease - PsA-V

The kiwifruit vine disease PsA-V, which was identified in November 2010 in orchards around Te Puke is expected to significantly affect the Western Bay economy over the next few years. In 2010, the Bay of Plenty the kiwifruit industry employed 5,400 full-time equivalent staff (FTE) which represented 5% of the region's FTEs. (Berl Economics, 'Update of the Bay of Connections regional Economic Development strategy: Economy, Industry Profile and Projections.' Bay of Connections, August 2011).

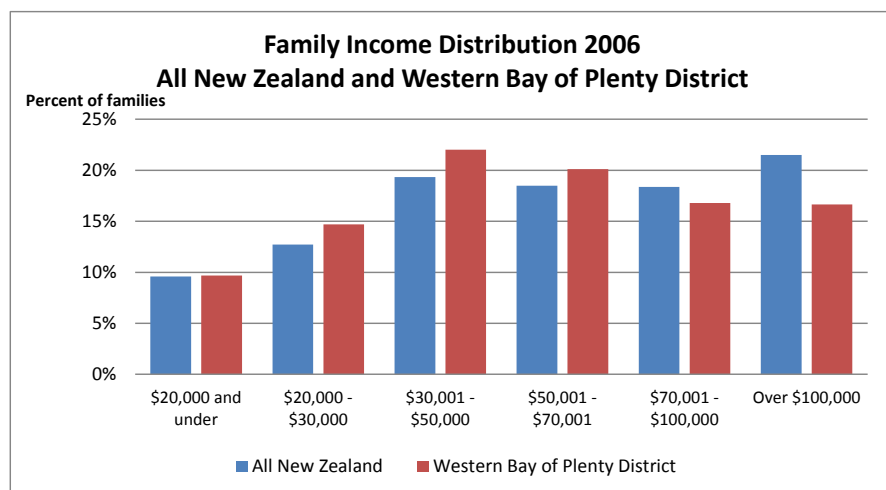
A Lincoln University report, published in May 2012, suggested that employment losses in the Bay of Plenty as a result of the disease would be an average of 605 full-time equivalent jobs, each year from 2012 to 2016. These estimates were based on the assumption that the industry's recovery strategy (grafting the more disease-tolerant variety G3 onto existing rootstock) would be successful.

The disease is expected to cost the industry \$310 million and \$410 million over the next five years. The effects will be felt by pack-houses, contractors, employees, commercial and industrial suppliers and the retail sector throughout our District. Our response to this issue is included on page 282.

Affordability

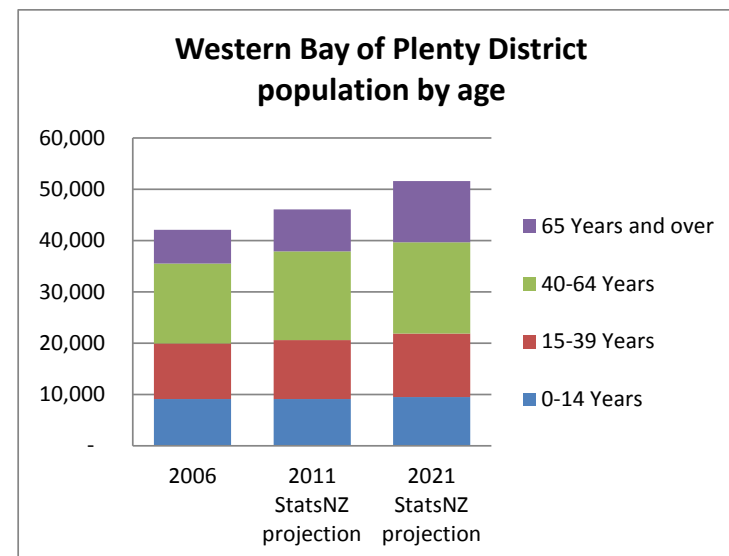
In the short term we expect a growing number of people in our District to face financial difficulty.

Based on Statistics New Zealand’s 2006 census, the population of the Western Bay has more families in the \$20,000 to \$70,000 per annum income groups and fewer in the highest family income bracket compared to the country as a whole. This reflects the older average age of residents in our District, the median age is 41 compared to 35 years old nationally, a lower proportion of people with university qualifications and more part-time employees, 25% compared to 23% nationally. More up-to-date demographic statistics will be available in 2013/14 based on the 2013 census.



The number of people living in our District and over retirement age is forecast to increase from 18% in 2011 to 23% by 2021. It is likely that a greater proportion of our residents will be on fixed incomes, even if more over-65s continue to work. We have considered the impact this could have on our community’s ability to pay higher rates.

An aging population also has implications for the services that we and central government provide. Having more older people will create different demands for such things as recreation facilities, meeting places, health facilities, footpaths, public transport services and the types of homes that our District will need. We will consider these changes when we plan asset renewals or new infrastructure. For more information see ‘Our approach to sustainable development’ on page 50.



Responding to the challenges

Where we would like to be in 2022

Over the ten years of this strategy we aim to keep our debt at manageable levels. This means we must generate enough income from rates, financial contributions and fees to pay at least the interest on our debt each year. We must also ensure that growth-related debt is repaid as growth occurs and the capacity of infrastructure taken up.

We must also properly maintain assets we already have so that we can continue to provide existing services. It is important that we remain well-positioned to provide the required infrastructure to attract investment to our District and this means continuing to invest in District infrastructure when it is prudent to do so.

Looking beyond 2022 it is expected that we will continue to have infrastructure-related debt due to the timing and nature of the infrastructure, however the high levels of debt seen in the years prior to 2022 are not anticipated.

Steps already taken

Improving efficiency

We are focused on improving efficiency, doing more with less and making sure we remain able to respond quickly to changes in circumstances within the confines of legislation.

In our 2011/12 budgets our overheads and ongoing operational expenses were significantly reduced. During 2011 we saw staff numbers come down in areas impacted by the slowdown in growth, for example consents processing where we have seen fewer consent applications. Over the next few years staff will focus on:

- ▶ understanding our customers' needs and demonstrating value for money
- ▶ proactively managing risk
- ▶ working smarter
- ▶ building and managing relationships with our community and key organisations

Through the Bay of Plenty Local Authority Shared Services Limited (BOPLASS), a council-controlled organisation, we work with other local authorities to find ways of delivering services more efficiently, through joint contracting, sharing services and avoiding duplication between councils.

To reduce the costs of borrowing we have joined with several other local authorities to establish the New Zealand Local Authority Funding Agency Limited, a council-controlled trading organisation. Through this scheme we will be able to borrow funds more cheaply and have greater certainty of access to finance. The proposal to join this scheme was included in our 2011/12 Annual Plan public consultation process in April 2011.

Response to the effects of Psa-V on our economy

We recognise that Psa-V is a District-wide issue that will have an effect on our economy for several years. In addition to their efforts to find ways of controlling the disease, the kiwifruit industry and growers have put in place initiatives that have already provided much support for those directly affected. We intend to work closely with Kiwifruit Vine Health Incorporated, grower organisations, ZESPRI and others to continue this work. Local government leaders in the Bay of Plenty and Hauraki met in January 2012 to discuss ways they could work together to help affected communities deal with the impact of Psa-V. They agreed to take a regional approach, which will be led by our Council.

We see our role primarily as facilitating economic growth and recovery and enabling diversification. Along with the kiwifruit industry stakeholders we will advocate to central government for support for mitigation and recovery programmes.

We already have policies that enable individual property owners to seek revaluation of affected properties in order to adjust their rating valuations and thereby reduce the rates they will have to pay.

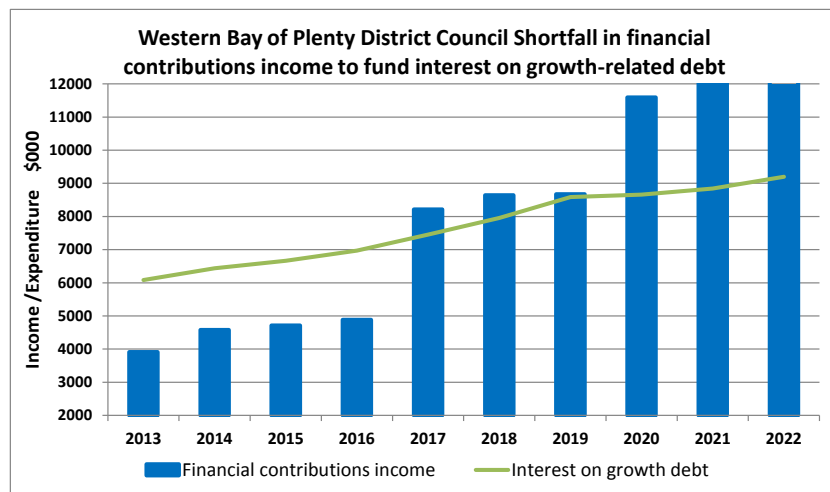
We have supported the development of a new organisation in Te Puke, Te Puke Economic Development Group (Te Puke EDG) which in conjunction with Priority One, our economic development agency will co-ordinate and focus economic development work in Te Puke and promote new initiatives that will give the area an economic boost. Over the next four years we will provide financial support to Te Puke EDG as part of our economic development programme, including funds previously allocated to town centre promotion. Additional funds will be rated over the Te Puke and Maketu Wards.

Our approach

Increase income to service growth-related debt

For each of the four years 2012/13- 2015/16 we need to raise approximately \$2 million additional annual income to cover the shortfall in utilities and roading financial contributions income that would have funded interest on growth-related debt, shown overleaf. Financial contributions income is forecast to increase in 2017 because we expect growth to return to a level similar to the 10-year average.

Provided growth increases after 2016, financial contributions income for utilities and roading is expected to meet our requirements to service debt over the following six years to 2022.



If over the next three years we do not see signs that growth will return to the higher expected levels in 2017 we will review our Financial Strategy through our 2015-2025 Long Term Plan.

Policy on funding growth-related debt

When considering our options for raising this additional income we re-affirmed the principle that **growth should pay for growth**. This is reflected in the policies contained in our District Plan that set the conditions under which financial contributions will be charged and the formulae for calculating them. Legislation requires that this policy must be reviewed every three years and this will be undertaken as part of a District Plan review before 2014.

Under current policies we can review the overall level of financial contributions and alter them if we consider that would be in the community's best interest. This gives us the flexibility to fund the financial contributions shortfall from other sources until the rate of growth recovers, at which time the financial contributions income is expected to meet the annual interest and repayment costs.

We believe funding the shortfall in financial contributions income is in the community's interest because the alternatives are either:

- ▶ Allowing the interest to compound, which would not be prudent, or
- ▶ Charging higher financial contributions, which could discourage growth to the extent that less income is received

For residents it would mean that house prices would be higher and less affordable.

Potential sources of additional income

We considered several potential sources of income to help service growth-related debt:

- ▶ Existing District rates through increasing roading rates, and/or the general rate
- ▶ New District-wide rate – establish a new rate specifically for this purpose
- ▶ Utilities service charges by increasing uniform annual charges (UACs) for water supply, wastewater and stormwater
- ▶ Proceeds of asset sales

To offset the impact of potential rates increases we also considered reducing previously planned expenditure, for example by slowing the pace of sealing gravel roads and postponing the expansion of community facilities (libraries).

In developing our proposals we considered several combinations of the above sources of income.

Option 1 – using general rates only

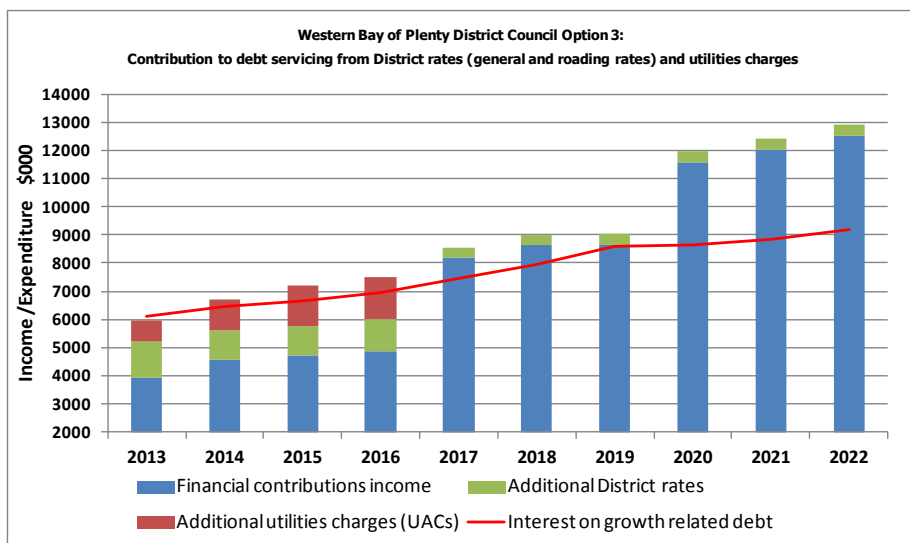
Option 2 – using utilities charges (UACs) only

Option 3 – using a combination of both District rates (general rates and roading rates) and UACs and reducing planned expenditure to bring the resulting rates down to a more affordable level.

Our chosen option – Option 3 - District rates and utilities charges

- ▶ Contributions to servicing debt will come from:
 - ➔ General rates on capital value (\$1 million in 2013 and \$700,000 each year for 2014-2016)
 - ➔ Roading rates on land value (\$300,000 per year)
 - ➔ Water supply, wastewater and stormwater schemes – increase utilities charges by 5% above inflation for 2013-2015, by 3% in 2016, thereafter reducing them back to the level required for normal operations
- ▶ Reduce our seal extension budget from \$1.5 million to \$750,000 per year for 2013-2015, \$900,000 per year for 2016-2018 and \$1.3 million per year for 2019-2022
- ▶ Pursue sales of land surplus to requirements.

The effect of these measures on the gap between financial contributions income and interest on growth-related debt is shown overleaf.



The general rates contribution would be applied at the end of each financial year to whichever utility scheme was judged to be in greatest need of additional funding. In this way we could take account of where growth had taken place during the year and adjust our financial response accordingly.

The roading rate contribution would be applied to the roading debt and the utilities charges would be dedicated to the respective water and wastewater schemes.

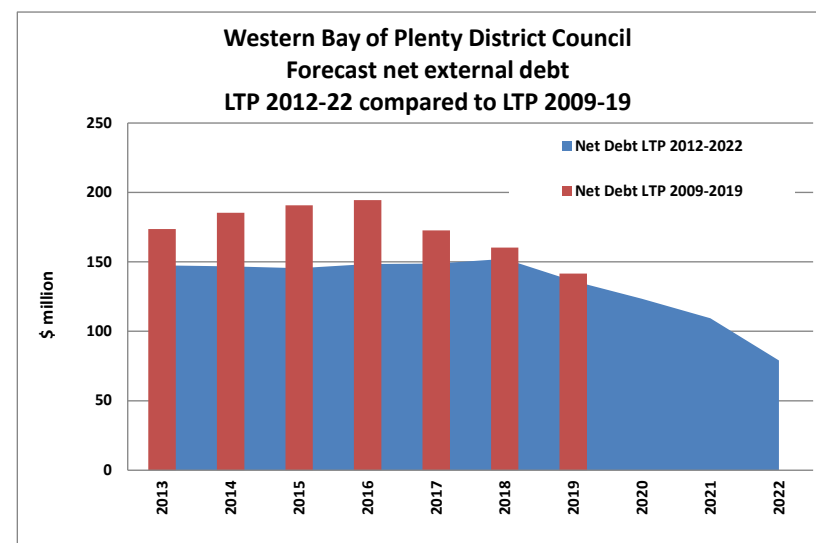
No contribution to the shortfall has been sought from the Maketu wastewater scheme, as it was a new scheme completed in May 2012 and it is in a low socio-economic area.

The potential proceeds of land sales are not included in our financial estimates because we cannot rely on them as sources of income. We estimate that we could raise between \$1 million and \$2 million.

If financial contributions income for 2013-2016 is significantly different to our forecasts we could review our strategy or make variations to it. Any variation or review would be publicly consulted through the Annual Plan process for that year.

Effect on total debt

The effect of these measures will be to keep total debt at manageable levels over the ten years of this Plan. We expect that debt will continue to grow, but at a prudent level. Forecast growth in total debt is illustrated on the right.



Sensitivity to growth assumptions

The measures for funding the shortfall in financial contributions income were based on the assumptions for growth detailed on page 25. If actual growth is substantially less than forecast the gap between interest costs and financial contributions income would be larger and we would need a more aggressive strategy.

Our approach would be to:

- ▶ Avoid adding to our debt until levels of growth improve. This means postponing the start of projects (particularly those driven by expected growth); delaying or cancelling planned projects that are funded by loans, for example library expansion; delay infrastructure upgrades
- ▶ Increase rates to cover interest on existing debt
- ▶ Review discretionary, contingency and grants expenditure, for example community board grants and contingencies
- ▶ Sell assets that are not essential to operations and are easiest to sell, for example Capamagian Farm, Waihi Beach
- ▶ Sell and lease back operational land, for example our head office site at Barks Corner, Tauranga
- ▶ Seek further back-office efficiency improvements through BOPASS
- ▶ Seek central government assistance where practical
- ▶ Promote development in areas where there is capacity in the infrastructure

We would be very reluctant to defer maintenance of assets or reduce maintenance standards.

Borrowing to cover an income shortfall would be our last resort because this would make the problem worse in later years.

Limits on rates, rates increases and debt

For the ten years of this Plan, we have set limits on:

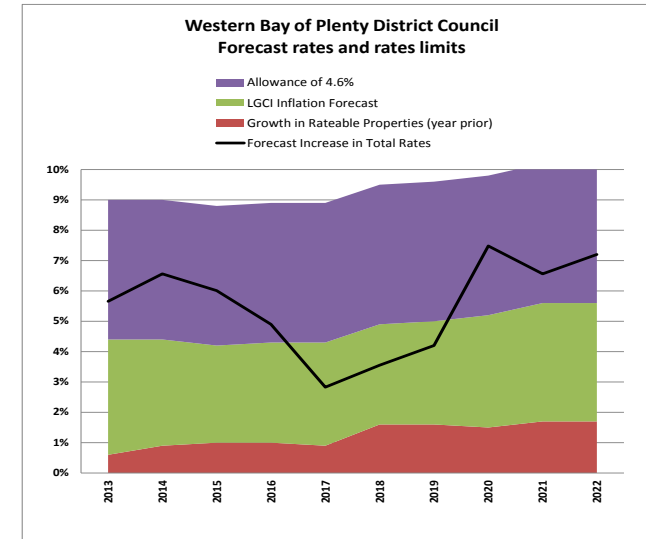
- ▶ total rates
- ▶ increases in total rates
- ▶ debt

These limits are intended to guide short and long term decision-making over the next three years and will be reviewed every three years or sooner, if necessary. Details of the limits are shown below:

	Limit
Rates	Total rates share of total revenue is 65% or more
Rates increases	Growth (number of rateable properties) Plus price increases, i.e. Local Government Cost Index, (LGCI) (refer table on page 37) Plus 4.6% (to cover increases in levels of service unexpected costs and servicing debt)
Debt	Debt will not exceed 220% of total revenue

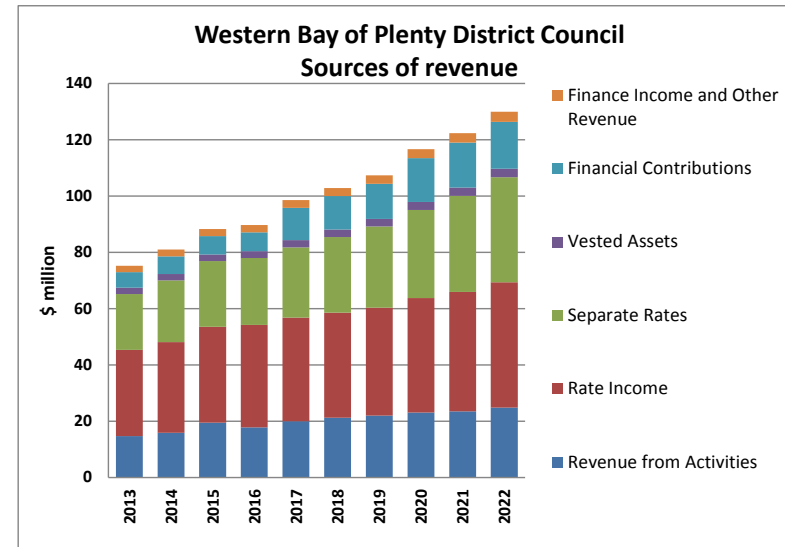
Rates increase limit

The graph overleaf shows how our forecast increases in total rates compare to the limits. For several years expected rates increases are substantially lower than the limit.



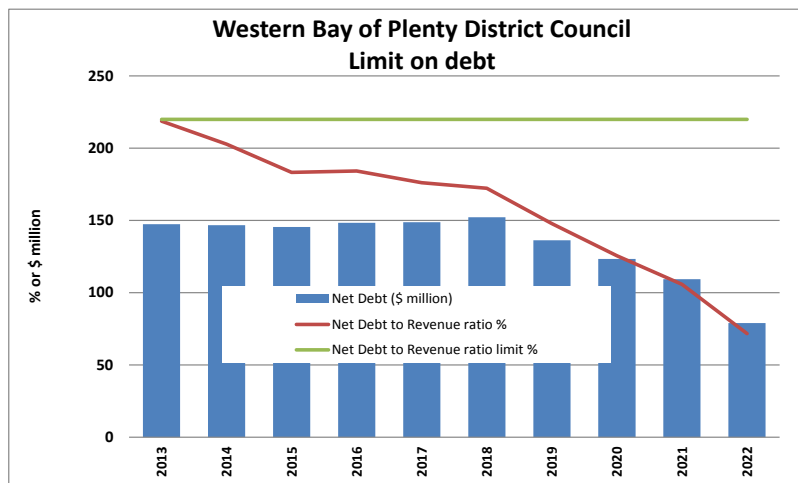
In 2016 and 2017 the increases in total rates fall dramatically because in these years the additional increases in utilities charges end. The additional charges are part of our strategy to increase income to meet the shortfall in financial contributions described on page 40.

Forecasts of our sources of revenue for each of the ten years of this Plan are shown below.



Debt limit

The ratio of our net debt to our total revenue as defined in our Treasury Policy on page 422 is expected to be very close to the limit in the first year of this Plan but it is then forecast to fall well below the debt limit of 220%. This is shown below.



How these limits were set

In setting the limits on rates and debt we considered all the issues discussed in this financial strategy and tried to strike a balance between affordability of rates, prudent financial management, providing quality essential services over the long term and providing for unforeseen events.

The components of the rates increase limit recognise that the major cost drivers are population growth and increases in the number of properties in our District, price increases, interest costs and higher levels of service.

In applying these limits, growth will be measured by the increase in rateable properties in the year prior to the rates strike, for example the actual growth in 2011/12 would be used to set the rates for 2012/13.

Forecast rates increases

In making decisions on the rates increase limit a clear distinction was drawn between the limit set (which is a maximum, not a target) and the planned increases in total rates. In each year of this Plan, planned rates increases are below the limit set; in some years the increase is well below the limit.

We set the limit above the planned rates increases because we want to address the affordability issues the district is facing but do not want to put ourselves in a situation where we are not able to respond to unexpected events.

Since March, when we adopted the draft Plan, the global economy has become more uncertain, particularly in Europe. Closer to home, the options for insuring our infrastructure assets are not clear so it is difficult to forecast the likely cost of insurance and any potential liability we would have in the event of a disaster. We do not have substantial reserves that we could fall back on should that occur. We therefore considered it prudent to maintain a degree of "headroom" between the maximum rates increase limit we set and the planned rates increases, which reflect planned expenditure. During every stage of developing this plan, expenditure has been pruned in response to concerns about rates affordability.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Planned increase in total rates	5.7%	6.6%	6.0%	4.9%	2.8%	3.6%	4.2%	7.5%	6.6%	7.2%

From page 311 there are graphs showing the 2012/13 rates for typical property types in our District, for example large pastoral farms, urban residential, rural lifestyle, commercial and industrial. The rates increases depend both on the value of the property and whether the property receives water, wastewater or stormwater charges.

Strategies for coping with unexpected events

In developing this strategy we considered how we would respond if faced with some unexpected situations that could affect our financial situation.

Access to lending

We considered what might happen if the financial markets in Europe and the United States deteriorated to such an extent that borrowing became difficult in New Zealand. While we believe this is unlikely we have considered how we would respond. The situation would arise without notice and the severity of the immediate situation would depend on the maturity profile of our debt at that time.

Our response would be:

- ▶ Seek central government assistance to meet immediate commitments
- ▶ Seek Regional Council assistance (where practical)
- ▶ Raise income through an emergency rates increase
- ▶ Aggressively sell land and other liquid assets
- ▶ Postpone the start of all projects not already committed

Contingency and disaster management

The grounding of the MV Rena cargo ship on the Astrolabe reef in October 2011 highlighted to Bay of Plenty communities the vulnerability of their well-being to unexpected events.

Equally, the Canterbury earthquakes raised public awareness of the potential for the sudden destruction of infrastructure, for example water, stormwater and wastewater networks, roading and buildings that are the foundations of economies and society.

In putting together this financial strategy we considered how we would respond if there were a failure in major infrastructure that demanded significant unplanned expenditure. This might occur as a result of a natural disaster, accident or other event.

We are part of the Bay of Plenty Lifelines Group which contributes to joint initiatives to reduce the vulnerability of utilities to hazards. The group undertakes an annual assessment of the vulnerability of various types of infrastructure to hazards such as floods, earthquake, volcanic eruption, tsunami, storm surge, fire, wind and landslide. Infrastructure is assessed on a three step scale of likelihood of damage in the event of a hazard:

- ▶ Almost certain or likely
- ▶ Possible
- ▶ Unlikely

The table below identifies the most vulnerable parts of our infrastructure to various hazards.

Council owned infrastructure ‘almost certain’ or ‘likely’ to be vulnerable to hazard

Asset/network	Hazard	Degree of impact
Western Water Supply	Earthquake	Major/catastrophic
Central Water Supply	Earthquake, storm surge, flooding	Moderate/major
Welcome Bay Road	Flooding	Major
Maketu Road, Pukehina Beach Road, Pukehina Road	Flooding, storm surge	Major
Crawford Road, Whakamarama Road, Poripori Road	Landslide	Moderate

We have self-insured our infrastructure assets through our Disaster Contingency Fund and currently have a reserve of \$5.8 million. The reserve has been built up over many years. In the event of major infrastructure failure this amount would not cover the cost of replacement or repair. Our initial approach would be:

- ▶ Utilise the \$5.8 million self-funding disaster contingency fund
- ▶ Seek central government assistance

- ▶ Sell assets not essential to operations that are easiest to sell

Recovery strategy

- ▶ Increase rates to top-up reserves or to provide increased insurance cover on underground assets.

Our ongoing ability to deliver services

Our core role is to maintain and develop high quality, reliable infrastructure such as roading, water supply, stormwater and wastewater networks, reserves, recreation and community facilities. It is important that our ratepayers can be confident that essential services can be delivered now and in the future.

The expenditure cuts and project postponements noted in this Plan do not materially reduce our ability to provide existing levels of service.

Setting project priorities

In setting funding priorities in this Plan we ranked projects according to several criteria:

- ▶ Is the expenditure essential to deliver existing levels of service?
- ▶ Would postponing or cancelling the project result in a risk of service interruption or infrastructure failure?
- ▶ What would the likely impact be of not doing the project on our District’s social, economic, environmental and cultural well-being?

Our highest priority is to maintain existing assets and existing levels of service; projects to provide for future growth and to increase levels of service can then be considered.

Capital expenditure required to maintain existing network infrastructure services

Our asset management plans provide information on the condition of assets, expenditure that will be required to maintain and renew the assets and the cost of developing additional capacity to cater for increased demand.

Shown below are the costs of capital expenditure on network infrastructure required to maintain existing services, together with the amount of capital expenditure planned in this Plan.

Network infrastructure groups	Capital identified in asset management plans to maintain existing assets 2012 - 2022 \$	Asset renewal capital planned in LTP 2012 - 2022 \$
Roading	62.2m	87.5m
Stormwater	0.6m	1.1m
Water supply	16.7m	16.5m
Wastewater	3.9m	15.6m
Total	83.4m	120.7m

We use a range of tools to fund renewals of assets, which are explained in the following section.

Capital and operating costs of providing for future growth

Our asset management plans also provide details of the infrastructure development that will be required to provide for growth in demand for services.

Network infrastructure groups	Capital identified to provide for growth \$
Roading	28.2m
Stormwater	3.7m
Water supply	1.7m
Wastewater	1.9m
Total	35.5m

Maintaining existing levels of service

The limits on rates, rates increases and debt were set at levels that enable funding of existing levels of service, with the following exceptions:

- ▶ **Parks and reserves:** over the last few years we have purchased and developed parks in anticipation of growth. When a new park is purchased the level of service measure (hectares of park per 1,000 residents) increases and then declines as growth occurs. The detailed level of service measures are shown in the Recreation and Leisure activity on pages 149 and 150

- ▶ **Roading – smoothness of sealed roads:** for several years we have exceeded our performance target for the smoothness of sealed roads

→ Seal extension programme

Continuing with seal extension but at a lower rate of 3km per year compared to 5km previously planned. However, more funding is provided in later years which could result in more than 3km a year. (see page 176)

We do not plan to exceed these targets in future so the level of service will decline to the planned level over time.

Details of this level of service measure are shown in the Transportation activity on pages 192 - 193.

Providing higher levels of service

The rates and debt limits also accommodate increased levels of service planned in the following areas:

- ▶ **Libraries:** planned expansions of the libraries in Te Puke and Katikati (page 106)
- ▶ **Wastewater:** planned extensions to existing wastewater schemes and investigations into potential new schemes in small coastal communities (see page 246)

Notes on financial policies and investment holdings

Notes on investment holdings

We are required to include in our financial strategy information on our objectives for holding financial investments and equity securities and to provide quantified targets for returns on those investments.

We must also include our policy on giving of securities for our borrowing.

Financial instruments

We hold financial investments, for example term deposits, as part of managing our cash flow to finance expenditure on operations, for example to:

- ▶ provide ready cash in the event of a natural disaster. This cash is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets
- ▶ invest amounts allocated to accumulated surplus, Council-created and restricted reserves, sinking funds and general reserves
- ▶ invest funds allocated for approved future expenditure, to implement strategic initiatives or to support inter-generational allocations
- ▶ invest proceeds from the sale of assets
- ▶ invest surplus cash and working capital funds

Our primary objective when investing is the protection of our investment so only credit-worthy counterparties are acceptable.

We also seek to:

- ▶ maximise return on our investment
- ▶ ensure investments are liquid
- ▶ manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity

We also invest in interest rate swaps and forward foreign exchange contracts for the purpose of managing the risks of movements in exchange rates and interest rates. These financial instruments are used as hedging tools rather than to earn a return on the investment.

Te Tumu investment

In 2007 Tauranga City Council and Western Bay of Plenty District Council jointly acquired a block of land in Papamoa, referred to as Te Tumu. This land was purchased with the condition of providing the vendor the option to acquire it sometime between December 2016 and December 2026 by repaying the loan and interest to Tauranga City Council and Western Bay.

The councils' objective in purchasing the land was to ensure development of the land was consistent with SmartGrowth initiatives. Neither council intends to be the developer of this land or retain ownership in the long-term.

Equity securities

We do not currently hold equity securities (shares) for the primary purpose of earning a return on our investment. There are no plans to invest in equity securities during the term of this plan.

Overleaf is a list of the companies in which we currently hold shares, together with the objective for holding the equity securities and a target rate of return.

Company	Objective of holding equity	Target rate of return
New Zealand Local Government Funding Agency (LGFA) - 8% shareholding	<ul style="list-style-type: none"> ▶ to obtain a return on investment, and ▶ to ensure that the LGFA has sufficient capital to become and remain viable so that it continues as a source of debt funding for us 	≥0%
Bay of Plenty Local Authority Shared Services – 1/9th holding	<ul style="list-style-type: none"> ▶ to provide the Bay of Plenty Region councils with an umbrella vehicle to investigate, procure, develop and deliver shared services 	≥0%
Western Bay of Plenty Tourism and Visitors' Trust – 50% holding	<ul style="list-style-type: none"> ▶ to facilitate the establishment and governance of a regional tourism organisation, Tourism Bay of Plenty, which is a not-for-profit entity established to promote the economic welfare and development of the western Bay of Plenty region and its citizens through marketing, management and other activities that impact the region as a visitor and tourism destination 	≥ 0%
NZ Local Government Insurance Company Limited (Civic Assurance) – 16,142 shares or 0.3% holding	<ul style="list-style-type: none"> ▶ Civic Assurance is a mutual fund so a prescribed number of shares is held proportionate to our interest in the fund 	≥0%
Zespri Group Limited – 17,660 shares	<ul style="list-style-type: none"> ▶ Shares were acquired as a result of purchasing of land under kiwifruit orchards. They are incidental to the main reason for buying the land, which is for future infrastructure development 	≥0%

Security for Council borrowing

Our Treasury Policy (published in full on page 422) includes the following statement regarding offering security for Council borrowing:

4.9 Security

Generally, Council does not offer assets or deemed rates as security for general borrowing programmes.

In some circumstances, with prior Council approval, security may be offered:

- ▶ *On borrowings by granting a rates charge under the Council's Debenture Trust Deed.*
- ▶ *By providing a charge over one or more of the Council's assets.*

Funding renewals and replacement of asset

Prudent financial management requires organisations to plan for the replacement or renewal of their assets when they reach the end of their useful lives in order to maintain the service they provide. The inter-generational equity principle suggests that, ideally, today's ratepayers should pay for the 'asset-life' they are consuming and likewise future generations should pay for their share of the asset's life. There are three principal ways this can be achieved.

1. Pay as you go

- ▶ Capital funded annually by rating existing ratepayers to cover the expenses incurred in that year
Suitable when capital expenditure is evenly spread over the years, so there is less risk that today's ratepayers are not paying their fair share when compared to future ratepayers.

2. Saving for asset replacement (charge rates over the life of the asset – spend later)

- ▶ Ratepayers are rated annually to fund depreciation, which builds up in a reserve account to fund future replacements of assets
Unsuitable if ratepayers are already servicing debt incurred to acquire the existing asset. If debt were incurred, today's ratepayers would be paying twice for the asset, once through debt repayments and interest, and again through financing the depreciation.

3. Borrowing to fund asset replacement (spend now – charge rates over the life of the asset)

- ▶ Ratepayers are rated annually to fund interest and capital repayments on loans matched to the life of the asset. In the future replacement of the asset would be financed in the same way
Suitable if our overall level of debt can accommodate the required borrowing.

We use a mix of these approaches to fund the replacement and renewal of our assets, choosing an approach that best suits each type of asset. We do not keep individual reserves to repay loans. We either fund loan repayments from rates, financial contributions and other income in the year repayments are due, or we refinance the loan.

Shown below is the approach we usually take for different asset types.

Type of asset	Mechanism for funding replacement or renewal
Water, wastewater and stormwater reticulation, treatment plants and buildings	<ul style="list-style-type: none">▶ Borrowing to fund asset replacement▶ Pay as you go
Computer systems, office furniture and equipment, motor vehicles	<ul style="list-style-type: none">▶ Saving for asset replacement
Roads and bridges	<ul style="list-style-type: none">▶ Pay as you go
Other buildings	<ul style="list-style-type: none">▶ Saving for asset replacement