



# Ōpōtiki District Council 2012-2022 Long Term Plan

Te Huarahi Whakamua mo Te Rohe o Ōpōtiki





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## Message from the Mayor and CEO

In preparing a 10 year plan it is important to consider past strategies, changes since the last plan and to make assumptions about what may happen over the course of the next 10 years. The plan is not necessarily fixed – if events happen unexpectedly or our assumptions are not correct, then the Council will respond accordingly. Most significant decisions that deviate from the plan will go through another public process though, either through a LTP amendment or an annual plan process.

The LTP has been developed in consultation with the community. Submissions received were largely very supportive of the draft LTP. The Harbour Redevelopment Project and the proposed upgrade to the Wastewater Reticulation Network in Ōpōtiki in particular have a large degree of support in the community. 82% of submitters who responded to Council's question regarding continuing to plan for the Harbour Development responded in the positive and 95% of those who responded agreed that the Wastewater Reticulation upgrade in Ōpōtiki should be investigated and undertaken. Further, the widespread support (100% of those who responded) for Council's proposal to remove the development of an Events Centre from the draft Long Term Plan indicates a level of understanding and support of Council's strategy to invest in essential infrastructure in support of Economic Development opportunities and to wherever possible maintain other levels of service.

This LTP is about preparedness - ensuring that the district is well placed to take on opportunities that arise. Likely opportunities are the emergence of an aquaculture industry, the recovery and growth of a kiwifruit industry and a range of tourism related ventures. Investment in the district as a result of treaty settlements is also likely over the 10 year period.

To be prepared our infrastructure must be capable of delivering for the current population level and we must have plans in place to ensure that we can afford new infrastructure to cater for growth. In this 10 year period we intend to focus on infrastructure, leaving many of our other services to continue with their current level of resourcing.

Council has been advocating for an aquaculture industry to be established in Ōpōtiki for the last decade. In its role as provider of infrastructure, council has scoped and gained consents for the construction of twin groynes at the Ōpōtiki harbour entrance. The groynes have been designed to enable 24/7 all weather access for vessels servicing an aquaculture industry. The importance of providing this enabling infrastructure is to ensure that the processing from the industry is located in Ōpōtiki, as it is expected to bring significant economic and social benefits. The planning for both these projects is now advanced with decisions for both expected within the term of the LTP. Because it is such a significant decision, it must be included in the LTP. Council has had funding partners throughout the project to date, with about half of the work funded by others with aligned objectives of social and economic outcomes for the district and region. For the capital work, council will seek a part share from the Bay of Plenty Regional Council's infrastructure fund, a part share from central government and plans to fund a small

amount from a loan (funded by general rate). Discussions with the Bay of Plenty Regional Council are well advanced.

Further the Bay of Plenty Regional Council has committed to supporting the project in a financial sense for the next two financial years. Discussions with government have been taking place for a number of years, however council is now in a position to approach government with a detailed business case. Targets to progress both these funding streams are provided in this LTP in the Economic Development Activity.

In planning for our assets we need to look forward over many decades and ensure that both current and future generations are well served. Currently Council on behalf of the community holds \$185M of assets, generally in reasonable condition. Our roads are in appropriate condition, although the government has recently signalled a reduction in the roading subsidy. Our Ōpōtiki urban water supply is now meeting all the required standards and Te Kaha is on track for improved standards shortly. Over the 2011-2012 year Council has done some initial investigation of our Ōpōtiki urban sewerage system. That investigation has given us data supporting the view of many urban residents that the system needs some attention.

Over the next two years Council is intending to do a detailed assessment of the condition of the system and look at ways of fixing any problems. While two years may seem like quite a long time it is important to ensure we find a cost effective and enduring solution.

In planning for growth Council is making provision for investment into extensions to the sewerage reticulation system.

Other projects proposed are:

- Waihou Bay Playground
- Library development (with grant funding)
- Urban Pavement rehabilitation
- Rural Seal extensions
- Generators for the Ōpōtiki and Te Kaha water supplies
- District plan and various bylaw reviews.

The Local Government Act was amended in 2010 to require Councils to have a financial strategy. We have prepared a strategy, articulating past strategy and showing how we plan to operate the council's finances over the next 10 year period. This shows how financial sustainability is to be maintained, and provides assessments against key financial measures (such as debt measures). Local Government debt has attracted much attention in recent times. Council currently has a low debt level but needs to increase its debt level to pay for infrastructure. Provided debt stays within prudent limits it is a mechanism that allows the cost of new infrastructure to be spread between current and future ratepayers.

As part of the development of the LTP Council has also reviewed its activity structure and its revenue and financing policy (how the incidence of rating is felt across different groups of ratepayers), resulting in minor changes to both.

Changes in the Local government environment have recently been signalled by government however we are yet to see how significant and far reaching these are. Change is ongoing with the many acts of parliament that council administers. Building functions have changed recently with further change signalled. There may well be pressure for other regulatory functions to centralise into larger centres for apparent efficiency gains.

Council is always looking for efficiencies and better ways of doing things. Council's shared services company BOPLASS has delivered savings in procurement over a range of items and is now looking at truly shared services. Council will consider these initiatives on their merits and will embrace those that result in cheaper, smarter or better service.

Partnerships will also continue to be an important aspect of council business. The cycleway was a good example of leveraging funding for the benefit of the district and evidence that we are capable of acting and delivering results in partnership with others.



A handwritten signature in black ink that reads "John Forbes". The signature is written in a cursive, flowing style.

John Forbes  
Mayor of Ōpōtiki



A handwritten signature in black ink that reads "Aileen Lawrie". The signature is written in a cursive, flowing style.

Aileen Lawrie  
Chief Executive Officer



**Independent Auditor's Report**  
**To the readers of**  
**Ōpōtiki District Council's Long-Term Plan**  
**for the ten years commencing 1 July 2012**

The Auditor-General is the auditor of Ōpōtiki District Council (the District Council). The Auditor-General has appointed me, B H Halford, using the staff and resources of Audit New Zealand, to report on the Long-term Plan (LTP) on her behalf. We have audited the District Council's LTP dated 27 June 2012, for the ten years commencing 1 July 2012.

The Auditor-General is required by section 94(1) of the Local Government Act 2002 (the Act) to report on:

- the extent to which the LTP complies with the requirements of the Act; and
- the quality of information and assumptions underlying the forecast information provided in the LTP.

**Opinion**

**Overall opinion**

**In our opinion the District Council's LTP dated 27 June 2012 provides a reasonable basis for long-term integrated decision-making by the District Council and for participation in decision-making by the public and subsequent accountability to the community about the activities of the District Council.**

In forming our overall opinion, we considered the specific matters outlined in section 94(1) of the Act which we report on as follows.

**Opinion on specific matters required by the Act**

**In our view:**

- **the District Council has complied with the requirements of the Act in all material respects demonstrating good practice for a council of its size and scale within the context of its environment; and**
- **the underlying information and assumptions used to prepare the LTP provide a reasonable and supportable basis for the preparation of the forecast information.**



Actual results are likely to be different from the forecast information since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, we express no opinion as to whether the forecasts will be achieved.

### **Funding of the Harbour Transformation project**

Without modifying our opinion, we draw your attention to the proposed funding of the District Council's significant investment in the Harbour Transformation project (the project) on Page 24 of Part 1 of the LTP. There is significant uncertainty whether the amount of external funding that is needed for the project will be available. If external funding is not available as envisaged to support this project, the District Council has noted that it will not proceed because the District Council does not have the financial resources to carry out the project on its own.

If the project does not proceed, the expected economic and social benefits to the District Council and the community may not eventuate, as set out in the assumptions on Pages 34 to 37.

In drawing your attention to the proposed funding of the project and forecasting assumptions, we are not commenting on the merits of the policy content that they reflect. We consider the disclosures about those assumptions to be adequate.

Our report was completed on 27 June 2012. This is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Council and the Auditor and explain our independence.

### **Basis of opinion**

We carried out the audit in accordance with the International Standard on Assurance Engagements 3000: *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). We have examined the forecast financial information in accordance with the International Standard on Assurance Engagements 3400: *The Examination of Prospective Financial Information*.

Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain all the information and explanations we considered necessary to obtain reasonable assurance that the LTP does not contain material misstatements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves performing procedures to obtain audit evidence about the forecast information and disclosures in the LTP. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the information in the LTP. In making those risk assessments we consider internal control relevant to the preparation of the District Council's LTP. We consider internal control in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District Council's internal control.

Our audit procedures also include assessing whether:

- the LTP provides the community with sufficient and balanced information about the strategic and other key issues, choices and implications it faces to provide an opportunity for participation by the public in decision making processes;
- the District Council's financial strategy, supported by financial policies is financially prudent, and has been clearly communicated to the community in the LTP;
- the presentation of the LTP complies with the legislative requirements of the Act;
- the decision-making and consultation processes underlying the development of the LTP are compliant with the decision-making and consultation requirements of the Act;
- the information in the LTP is based on materially complete and reliable asset or activity information;
- the agreed levels of service are fairly reflected throughout the LTP;
- the District Council's key plans and policies have been consistently applied in the development of the forecast information;
- the assumptions set out within the LTP are based on best information currently available to the District Council, and provide a reasonable and supportable basis for the preparation of the forecast information;
- the forecast information has been properly prepared on the basis of the underlying information and the assumptions adopted and the financial information complies with generally accepted accounting practice in New Zealand;
- the rationale for the activities is clearly presented;
- the levels of service and performance measures are reasonable estimates and reflect the key aspects of the District Council's service delivery and performance; and
- the relationship of the levels of service, performance measures and forecast financial information has been adequately explained within the LTP.

We do not guarantee complete accuracy of the information in the LTP. Our procedures included examining on a test basis, evidence supporting assumptions, amounts and other disclosures in the LTP and determining compliance with the requirements of the Act. We evaluated the overall adequacy of the presentation of information. We obtained all the information and explanations we required to support our opinion above.

### **Responsibilities of the Council**

The Council is responsible for preparing a LTP under the Act, by applying the Council's assumptions and presenting the financial information in accordance with generally accepted accounting practice in New Zealand. The Council is also responsible for such internal controls as it determines is necessary to enable the preparation of a LTP that is free from material misstatement.

The Council's responsibilities arise from section 93 of the Act.

### **Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the LTP and reporting that opinion to you based on our audit. This responsibility arises from section 15 of the Public Audit Act 2001 and section 94(1) of the Act.

It is not our responsibility to express an opinion on the merits of any policy content within the LTP.

### **Independence**

When reporting on the LTP we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than this report and in conducting the audit of the LTP Statement of Proposal and the annual audit, we have no relationship with or interests in the District Council or any of its subsidiaries.



B H Halford  
Audit New Zealand  
On behalf of the Auditor-General  
Tauranga, New Zealand





# Part One

Te Wahanga Tuarua

## Council Priorities and Direction

Financial Strategy and Planning Assumptions



# Looking Back

## Introduction

When considering the future it is helpful to look back and see where we have come from. Reviewing past plans and understanding what has actually occurred provides continuity for understanding Council's intentions for the future, both in a financial and non-financial sense.

## The 2006-16 and 2009-19 Ōpōtiki District Community Plans

For the large part Council's strategic direction has been relatively consistent over the last two Community Plans. The Ōpōtiki District Council and the community have been on a journey for some time now in pursuit of its shared vision of a 'Strong Community, Strong Future'. Although not explicitly stated, both the 2006 and 2009 Community Plans were underpinned by principles of consolidation and prudent financial management, affordability and getting prepared for future growth opportunities. These principles have presented in a number of ways over the last six years. Key examples include:

- The strengthening of Council's balance sheet through the reduction of debt,
- Identification and rectification of key infrastructure issues so that the community is in a good position to cater for future growth opportunities,
- Making best use of shared services, partnerships and external funding opportunities in pursuit of the affordability principle whilst at the same time investing in assets that promote community well-being and prepare the community for future growth,
- Working closely with key stakeholders and partners in the developing Aquaculture Industry to help them realise their vision which is in alignment and complementary to Council's own vision for the District (including work over a ten year period scoping, investigating and gaining consent for twin groynes. Approximately 48% of this work has been funded by grants from organisations with aligned objectives),
- Maintaining a sound financial position so Council is well placed to invest (in partnership with other stakeholders) in the redevelopment of the Ōpōtiki Harbour to ensure that the Ōpōtiki District reaps the benefits of a fully developed Aquaculture Industry.

The first Ōpōtiki District Community Plan (Community Plan) took a very prudent or conservative view of funding. The first three years of that plan focused very much on the strengthening of Council's balance sheet through the reduction of debt.

This prudent approach provided the Council with capacity when developing the 2009-19 Community Plan. That capacity enabled Council to pursue certain projects that were important to the community in the areas of recreation and essential services, a number of which were partly funded from grants. At the same time Council retained a relatively strong financial position (balance sheet) so to be able to support the emerging local aquaculture industry through the redevelopment of the Ōpōtiki Harbour entrance when the time was right.

With the exception of the Parks and Recreation and Wastewater Activities service levels were planned to remain reasonably static over the life of the Community Plan.

The following table outlines the key projects proposed by the 2009-19 Community Plan and provides an understanding of progress made to date.

2009-19 Community Plan Project	Description:	Progress to Date:
Library Upgrade (400k)	Major refurbishment of the Ōpōtiki Library planned for 2009/10	Building adjacent to existing library purchased with view to expansion/redevelopment. Review of options programmed due to identification of other opportunities/issues
Sports and Events Centre (\$9m)	Development of Events Centre in conjunction with the Gymnasium and Swimming Pool at Ōpōtiki College planned for 2014/15	Project not progressed due to other priorities and the desire to manage debt levels.
Memorial Park Pavilion (\$535k)	A sports pavilion at Memorial Park planned for 2011/12	Due for completion by 30 September 2012.
Coast Initiatives Fund (\$30K)	Annual fund established to progress coast ward projects.	Fund established and a range of projects supported.
Te Kaha Water Supply (\$230k)	Upgrade of Treatment Plant in 2009/10 to meet demand and drinking water standards	Funding assistance from Ministry of Health confirmed. Upgrade expected to be complete by 30 June 2012.
Ōpōtiki Sewerage (\$1,054m over first three years)	Upgrade of reticulation to overcome groundwater infiltration	Completed upgrades to sewerage reticulation in areas such as Buchanan and Nelson Streets.



In addition to the above planned projects, Council in partnership with the Department of Conservation, Gisborne District Council and the Whakatohea Māori Trust Board have constructed the Mōtū Trails Cycleway. This project was largely funded by the New Zealand Cycle Trails (Ministry of Economic Development) and was not envisaged when the 2009-19 Community Plan was developed. The completion of the Mōtū Trails Cycleway represents a major asset to the Ōpōtiki Community, the Eastern Bay of Plenty and to Gisborne. Further to the benefits of having an iconic cycleway within the Ōpōtiki District the Mōtū Trails Cycleway project enabled Council to realise a long time aspiration of the community through the construction of a suspension (walking/cycling) bridge over the Otara River which connects the township of Ōpōtiki to the beach. The connection of the Ōpōtiki Township to the sea was first recognised by the community as an opportunity in 1994 when it was debated as part of the process of planning for a sewerage pipe crossing the Otara, and was included in the 2007-2008 draft annual plan as part of the Coastal Walkway project, but never implemented due to cost. Council took the opportunity to provide part to funding the Cycle Way project that resulted in the development of a bridge and walkway that would otherwise not have occurred in the life of the 2009-19 LTP.

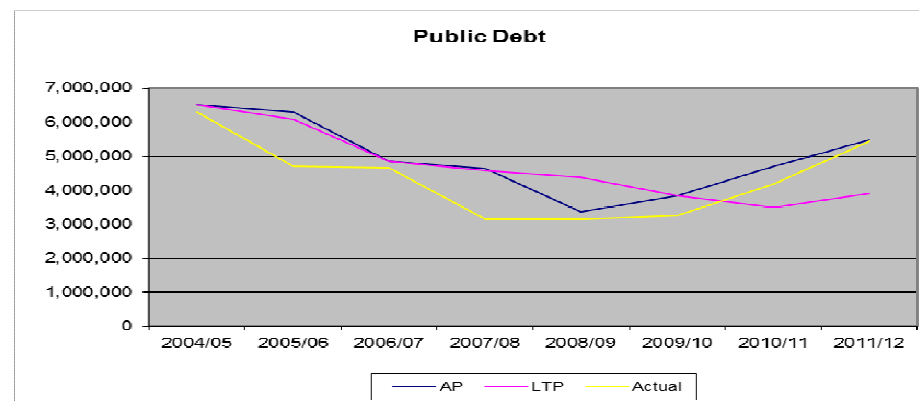
A further strategic initiative completed in this period that was not envisaged by the 2009-19 Community Plan was the renewal of Ōpōtiki Township water source as a result of sudden increase in the deterioration and performance of the existing bore. Two new 300mm diameter bores have been established at a cost of \$933,000 which has overcome historic issues of sediment, manganese and iron present in drinking water. As a result of the upgrade and some changes to the operation of the Ōpōtiki Water supply it now complies with New Zealand Drinking Water Standards. This investment, although not provided for in the 2009-19 Community Plan, reflects Council's commitment to ensuring the core services are (over time) provided at a level that meets community expectations, future demand and growth.

Council also relocated the Ōpōtiki I-Site during this period. Whilst this project was debt funded it will be cost neutral over time as a result of market based leases to long term tenants. The relocation of the Ōpōtiki I-Site has achieved the multiple objectives of securing the presence of the Department of Conservation and the Bay of Plenty Regional Council in the Ōpōtiki District and increasing the usage of the I-Site itself due to the State Highway Location.

Throughout this time Council has also maintained a modest seal extension programme with recent examples being the extension of the sealed roading network in areas such as Papanui and Looney Roads in the 2009/10 financial year and Gabriels Gully, Fraser and Warrington Roads in the 2010/11 financial year and Tablelands Road in the 2011/12 financial year.

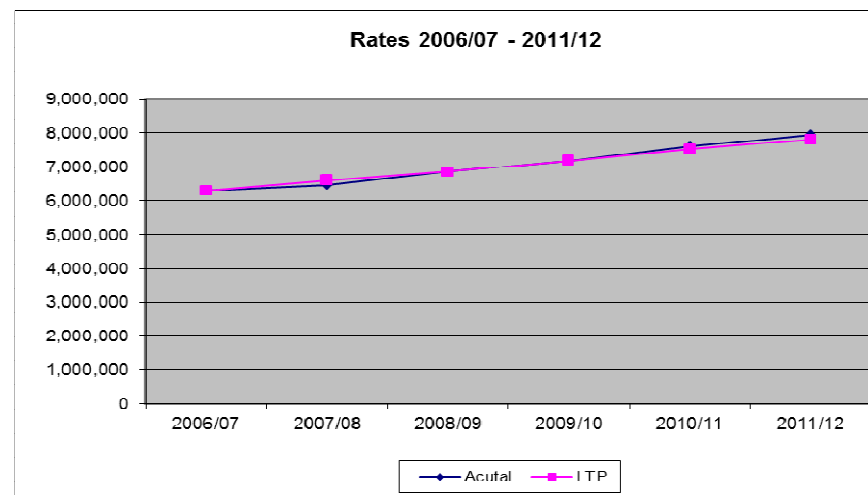
The graph below demonstrates how effective Council's strategy has been in terms of reducing debt to strengthen its balance sheet with actual debt being well below Community Plan forecasts in the most part. Council has only departed from the debt reduction strategy in recent times to address critical infrastructure needs such as the Ōpōtiki Township water source and to realise long time community aspirations such as the cycle/walkway bridge over the Otara River connecting the Ōpōtiki Township to the sea (as part of the Mōtū Trails cycleway project) and

the Memorial Park Pavilion. These two latter projects have leveraged grant funding for the benefit of the district.



Council has managed to reduce its overall debt whilst still maintaining service levels and achieving other important aspects of its vision in terms of investing in critical infrastructure that is required to enable and encourage growth. Most importantly overall debt levels are well within established parameters which provides the Council the capacity to continue to invest in infrastructure that is critical to the future sustainability and growth of the Ōpōtiki District.

Council has also maintained its rates revenue in line with Community Plan Forecasts. The graph below shows that historic rate increases have been closely aligned to Rate Revenue Forecasts over the last three Community Plans. This demonstrates a disciplined approach by successive Council's when considering affordability.

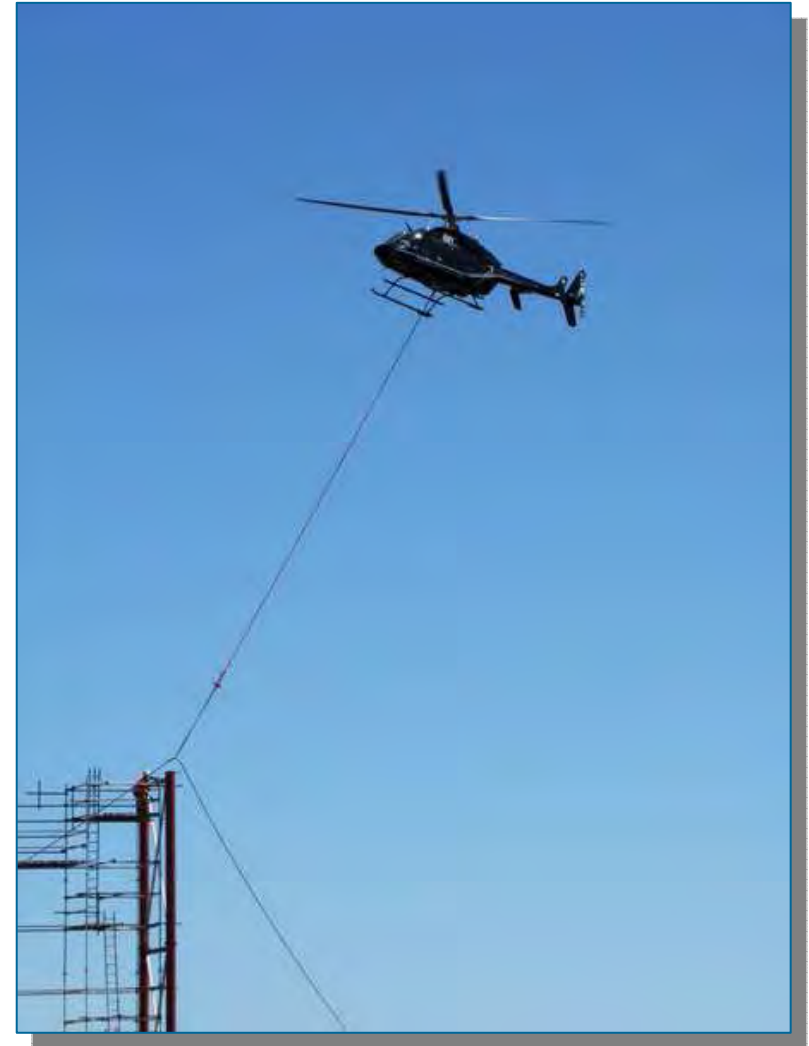


## Looking Back

The following policy ratios are established by the Council's Liability Management Policy. As can be seen from the table below Council's borrowing is expected to be well within each of the key ratios as at 30 June 2012.

Ratio:	Policy Limit:	Expected Outcome 30 June 2012:
Net Interest bearing Debt/Total Revenue	$\leq 120\%$	42.91%
Net Interest Expense/Total Revenue	$\leq 10\%$	1.32%
Net Interest Expense/Rates Revenue	$\leq 15\%$	2.11%
Net Cashflows from Operating Activities/Net Interest Expense	$\geq 2.0$	23.1

It is clear from the above information that over time Council has been successful in its pursuit of financial consolidation whilst addressing key infrastructural issues and positioning the community for growth opportunities. Rates increases have been kept to a minimum and Council has kept well within its borrowing parameters which sees it well placed to address any major issues or opportunities over the next decade.



## Future Priorities and Direction

### The 2012-22 Long Term Plan

The 2012-2022 Long Term Plan continues with the strategic theme of consolidation and prudent financial management, affordability and getting prepared for future growth opportunities. However a significant difference from prior plans is that Council is confident that the Harbour Transformation Project in support of the developing Aquaculture Industry will be constructed within the life of the 2012-2022 LTP.

### Harbour Transformation Project

Whilst Council acknowledges that the Harbour Transformation Project in itself represents a material assumption for the LTP and that it represents a significant investment for the Ōpōtiki Community and other key partners, it maintains the view that this project is critical to unlocking the social and economic benefits that will flow from having a strong Aquaculture industry based within the Ōpōtiki District.

The Harbour Transformation proposal has been in the planning stages, in conjunction with the Whakatōhea aquaculture venture, for the last decade.

In 2001 Sealord, in conjunction with Whakatōhea iwi, lodged a consent application to carry out aquaculture over 4750 ha of water space offshore from Ōpōtiki. Very early in the process the community recognised the potential value to the community of securing the processing of the product in Ōpōtiki. In order to secure processing, the harbour would need to be accessible for vessels servicing the farm. Council therefore embarked on a deliberate stage by stage process that has spanned numerous Long Term Plans including:

- feasibility (2002),
- scoping and benefit assessment (2005)
- detailed investigation (2006-2008) and
- consent process for the harbour entrance (2008-2009)
- detailed project planning (2011-2012) for the development of the 2012-2022 LTP.

Consent for the aquaculture venture was finally secured, after appeals to the Environment and the High Court from out of region fisheries interests, for a reduced area of 3800 ha in late 2009.

There has been considerable community support and support from the wider region throughout the progression of these two interrelated projects. Given the objective of improved community well-being, a number of groups have assisted to fund Councils work. The consent process attracted 191 submissions in support at Council hearing stage, and there was no appeal, unusual for a proposal as significant as this. In early 2011 a Communitrak survey further reinforced the public support with 82% of those surveyed considering the harbour was

important to very important with 77% of those indicating they would be prepared to pay additional rates to fund the development.

The assumptions around the timing and investment in the Harbour Transformation Project are well supported by two independently prepared studies. The Ōpōtiki Harbour Transformation Business Case provides an assessment of the commercial business case for investment in the Ōpōtiki Harbour Development. The content of that report is confidential for reasons of commercial sensitivity however it demonstrates that the investment by ratepayers proposed by the Ōpōtiki District Council will pay for itself over time. The second report provides an independent assessment of the Social and Community Benefits associated with the Aquaculture Industry and the Harbour Transformation Project. This assessment points to quantifiable social benefits in the areas of increased employment and increased household income coupled with reduced welfare dependency within the Ōpōtiki District. Further the report cites increased home ownership, reduced overcrowding, reduction in criminal offending, the revitalisation of Iwi, population growth, and an increased rating base as some of the non-quantifiable benefits that will flow from the combined projects.

Given the positive social and economic benefits for the Ōpōtiki District Community, the Eastern Bay of Plenty, the region and New Zealand as a whole this project commands a partnership approach. The Ōpōtiki District Council has worked with a range of partners to date in advancing this project and has identified the Bay of Plenty Regional Council and Central Government as key stakeholders and funding partners in the physical redevelopment of the Harbour. Council will be seeking funding assistance for the project from these partners prior to committing itself and therefore the community to any significant expenditure. The proposed funding relationships can be found on page 24 of this document.

The likelihood that the Harbour Transformation Project will go ahead during the life of the 2012-2022 LTP sharpens Council's focus on preparedness. Not only does Council need to plan for the level of investment required for the Harbour Transformation Project but it also needs to continue to ensure that essential infrastructure is in place and capable of meeting the needs of the community as it transforms and grows with the Aquaculture Industry and all of the changes that is likely to bring about.

### Potable Water

As mentioned above during the last Community Plan Council invested in the Ōpōtiki Township Water Source to ensure that it meets community expectations and future demand and growth. The resource consent to take water enables and provides sufficient volume to service a mussel processing industry.

### Wastewater

The review of the Wastewater Asset Management Plan in preparation for the development of the 2012-22 LTP has identified the need to invest in the Wastewater Reticulation Network (sewerage pipes) in the Ōpōtiki Township to provide an acceptable level of service for current users and also to ensure the community is prepared for future growth.



## Future Priorities and Direction

The Ōpōtiki Township's waste water reticulation is fast approaching the end of its useful life and, as demonstrated on numerous occasions in recent years when there have been storms and rising rivers, the frequency of failures is increasing.

The piped systems are unable to cope with the additional load resulting from infiltration of ground water and inflow from storm water that collects around the township. Overflowing sewers cause health risks and in places there are periods, sometimes up to 4-5 days, when there is complete loss of service for some residents.

Investigations into the performance of the network indicate that the causes of overflows are widespread and not confined to isolated areas that are able to be readily corrected. The existing sewers were laid in earlier days when ground water was very difficult to manage during construction and therefore good jointing was not possible and further, infiltration was considered to have positive diluting and flushing benefits. These were also days when sewage overflows were directed to the river and the township had many open drains for ground water interception and storage of storm runoff.

One of the prime focus areas in the first part of the LTP is to complete investigations into deciding on the best-whole-of-life type of waste water collection system for Ōpōtiki. Provisional figures have been provided to undertake a comprehensive upgrade later in the planning period and the earlier work will ensure the best decision for the township is reached before works are commenced.

This LTP provides for the investment in the Ōpōtiki Wastewater Network Reticulation in three phases. The first (over the first two years of the LTP) is in detailed investigation to ensure that the best whole of life solution is selected. The second phase involves the replacement of the existing Reticulation in the Ōpōtiki Township based on the outcome of the detailed investigation and design work. The replacement of the existing network is planned for 2015/16 through to 2018/19. This investment is considered critical for environmental and public health outcomes and is essential to deliver reasonable service levels to existing users. The third and final stage of planned investment is scheduled for the later years of the LTP and relates to extending the reticulation network to cater for growth expected as a result of the developing Aquaculture Industry. Further information on the expected growth can be found in the planning assumptions section of this LTP.

As above the first two stages of investment in the Ōpōtiki Wastewater Reticulation Network are considered essential. The existing infrastructure is failing the Ōpōtiki Community and it is not considered sustainable to continue replacing on a like for like basis. Initial investigations suggest that new technology may well provide a superior engineering solution. Whilst capacity has been provided for replacing the existing infrastructure the actual cost of replacement will not be accurately known until the detailed design and investigation work has been completed. The third stage (expanding the reticulation to cater for future growth) will only be necessary and implemented if expected growth occurs. Growth sufficient to trigger a requirement for

expansion may occur as a result of kiwifruit expansion (a plan change is currently before council for increased processing capacity to the south of town), settlement of the Whakatōhea Treaty Claim and the development of the aquaculture industry.

### Summary of Substantive Projects

In summary the LTP represents a relatively simple proposition. It is underpinned by the principles of consolidation and prudent financial management, affordability and getting prepared for future growth opportunities. The two significant investments over the next ten year period (The Harbour Transformation Project and renewal of the Ōpōtiki Township Sewerage Reticulation Network) are outlined above and combined these projects represent approximately 74% of Council's total capital expenditure over the next decade.

### Other Key Projects

Key projects over the life of the LTP are provided in the table over page:

#### Waihou Bay Playground

It is planned to design and construct a playground at Waihou Bay in 2013/2014.

#### Library Redevelopment

The redevelopment of the Ōpōtiki Library is a long time community aspiration and the project is scheduled for completion in 2013/14. During the 2012/13 financial year Council will investigate options for the Library Redevelopment. Following the theme of the last Community Plan for facilities the redevelopment of the Ōpōtiki Library is subject to Council receiving external funding.

#### Urban Pavement Rehabilitation

This funding provides for the on-going rehabilitation of the urban roading network within the Ōpōtiki Township. Details of those streets scheduled for upgrade over the life of the LTP can be found under the 'Key Projects and Programmes' section under the Land Transport Significant Activity.

#### Rural Seal Extension

This funding provides for the on-going seal extension programme in the rural areas. Details of those roads scheduled for resealing over the life of the LTP can be found under the 'Key Projects and Programmes' section under the Land Transport Significant Activity.

#### Generators

Funding has been provided to purchase generators to support the Water Supply Networks in Ōpōtiki and Te Kaha. Unreliable power supply to the Ōpōtiki District means that emergency generation capacity is required to ensure that potable water can continue to be supplied in the event of power outage.

Council's long time strategy of consolidation and getting prepared for future growth opportunities has enabled the Council to make provision in this LTP for these projects

(including the material investments in the Harbour Transformation project and Ōpōtiki Wastewater) whilst still maintaining service levels across its other significant activities and financial sustainability over time.

**Mōtū Trails Cycleway**

In conjunction with other partners Council proposes to promote and market the Mōtū Trails Cycleway through the Mōtū Trails Charitable Trust.

Modest funding of \$20,000 per year for a three year period is proposed to support the Trust.

PROJECT	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Waihau Bay Playground		61,920								
Library Redevelopment	0	1,200,000	0	0	0	0	0	0	0	0
Harbour Transformation Project	0	1,239,000	370,185	388,401	25,220,887	24,228,397	0	0	0	0
Opotiki Sewerage	150,835	80,550	1,074,000	1,610,950	1,441,523	2,350,176	2,432,432	1,562,426	2,765,485	276,200
Urban Pavement Rehabilitation	126,427	128,752	131,172	147,303	152,458	157,794	163,317	169,033	174,950	181,073
Rural Seal Extension	593,000	0	353,860	230,370	247,940	243,390		246,200	278,300	364,000
Generators	61,440	42,240	54,400	0	0	0	0	0	0	0
Mōtū Trails Cycleway	30,000	30,930	32,013	33,005	33,995	35,083	36,311	37,654	38,935	40,297



# Financial Strategy

Ōpōtiki District Council's Financial Strategy is an essential element in the 2012-2022 LTP. Council must be financially sustainable to continue delivering services to its communities in the future. This involves a balancing act of delivering services while keeping rates affordable, ensuring equity between current and future generations and fairly sharing the costs of delivering these services across users.

This financial strategy sets out the key financial aspects of the Council's overall direction and how it plans to manage its financial performance over the next ten years to get there. It provides a guide for how we will consider and approach funding and expenditure proposals. It will also inform all subsequent activity decisions made during this 2012-2022 ten year planning process.

The Subsection 'Looking Back' has reviewed Council's past strategic direction and considered at a high level how that past translates in to a way forward over the life of this LTP. It paints a picture (quite correctly) of how Council has had a long run strategy of strengthening its financial position so it has the capacity to respond to growth opportunities in the future. It also explains that a key growth opportunity is available to the community within the next ten year period.

The Subsection 'Future Priorities and Direction' explains how Council proposes to capitalise on its long run strategy of consolidation and preparedness to invest in growth supporting opportunities over the life of this LTP. This Financial Strategy seeks to explain how the Council intends to do that in a financial sense.

As already explained Council plans to take advantage of that opportunity by way of investment in the Harbour Transformation Project and the Ōpōtiki Wastewater Reticulation Network within the life of this LTP. By the end of this Long Term Plan Council would like to see the issues around the Ōpōtiki Wastewater Reticulation Network resolved and the Harbour Transformation Project completed with a vibrant and growing Aquaculture Industry present within the Ōpōtiki District. Combined these two projects will see an increase in population, employment and the number of rateable assessments and all the other positive benefits that come with such growth. However it is important that these milestones are achieved in a manner that maintains financial sustainability over time. Council wants to ensure that the capacity it has created will provide long lasting benefits to the Ōpōtiki District in to the future. This means investing wisely, monitoring financial performance closely and establishing meaningful parameters around debt and rate funding to ensure that the right investment decisions are made today so they do not create a burden for residents and ratepayers of tomorrow.

Council is a large and complex business. Each of the Council activities is made up of a number of services that our communities receive. The cost of doing business is driven by a number of factors, including the level of service, the growth in population, and the assets required to deliver the services to the community.

To ensure financial sustainability and affordability it is important that Council continues to have a very good understanding of its expenditure. It needs to be clear as to what it is spending money on and why.

There are two types of expenditure, operating expenditure and capital expenditure. Operating expenditure is spent in normal business operation, and capital expenditure is money spent buying or upgrading assets such as plant, equipment and buildings.

Council's spending is generally for one or more of the following purposes:-

- Maintaining existing service levels – cost to deliver services including maintenance and operations
- Increasing service levels – additional cost to improve services
- Adding capacity for growth – extending a service for new households or other growth.

Like any other business Council buys goods and services so it can deliver services to the community. The cost of those goods and services, like any other, increase over time due to inflation. Inflation incurred on Council costs is different from household inflation because the spending is on different goods and services, such as asphalt for roads. This is reflected in the local government cost index that has been used to calculate budgets in the 10 year forecasts.

Local government costs are currently increasing at a higher rate than household inflation, and are predicted to continue to do so. Further the historic trend has been one of increasing devolution of responsibilities from central to local government. The cost of servicing existing infrastructure is increasingly expensive. These factors mean that costs are continuing to increase, and Council is very aware of the burden that will place on ratepayers.

Council is concerned about the level of rate increases required to fund the services that it delivers and that income levels within the Ōpōtiki District are lower than the New Zealand average, and that some ratepayers are reaching their limit in terms of ability to pay. Balancing these concerns with customer expectations for improved services and the need to invest in growth opportunities for the District continues to be a challenge.

In response to the challenges faced, Council is looking to balance the investment required to achieve a prosperous, vibrant and green district, while keeping funding affordable over time and maintaining a sound financial position.

The following self-imposed ceilings on Public Debt (borrowings) and Rate Income are introduced with a view to provide the community with some certainty for the future.



**Borrowings:**

Council intends to increase borrowing over the life of this LTP, mainly for the two strategic projects discussed above, the Ōpōtiki Harbour Transformation Project and Ōpōtiki Township Wastewater Reticulation renewal. Council has been reducing debt over time in order to have the capacity to invest in growth opportunities when they present themselves. The planning assumptions section of this LTP point to a range of growth opportunities that will present themselves over the next decade and that the community must be ready for.

Borrowing is a useful mechanism to finance the construction of long-term assets. By financing long-term assets through debt Council seeks to provide a balance between funding from current and future ratepayers, matching the cost to those who receive the benefits, thereby establishing inter-generational equity.

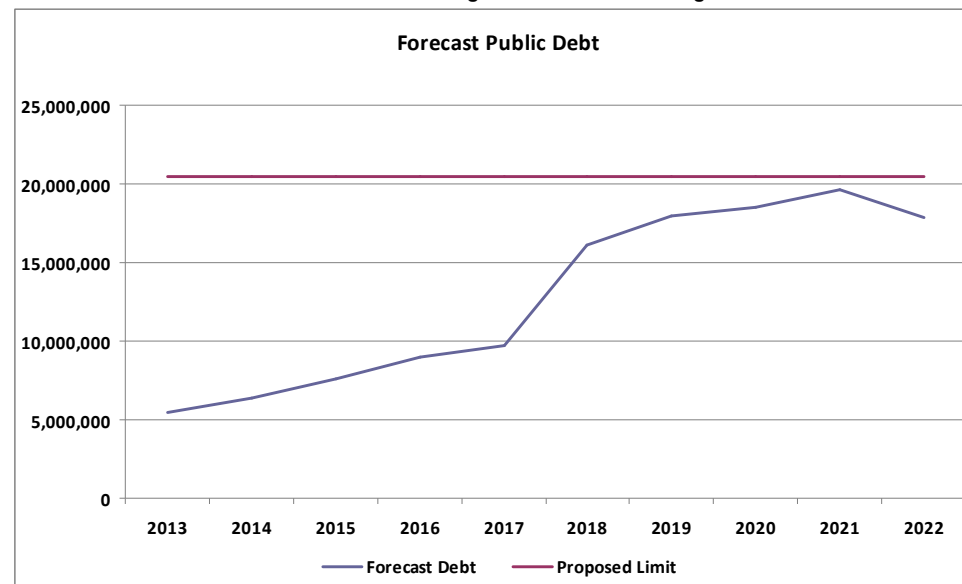
Council recognises the need to manage its finances in a sustainable and affordable manner and therefore has established some borrowing parameters to ensure that investment priorities are carefully considered and are within the financial reach of the Ōpōtiki District Community. Council intends to limit net debt over the life of this LTP to \$20.5m. This limit is derived from the following parameters outlined in Council's existing Liability Management Policy:

**Borrowing Parameters:**

- Net interest-bearing debt/total revenue  $\leq$  120%
- Net interest expense/total revenue  $\leq$  10%
- Net interest expense/rates revenue  $\leq$  15%
- Net cashflows from operating  $\geq$  2

Council will use debt to finance long term projects and capital expenditure. The large scale projects and other smaller projects mean that gross debt levels will increase from the current \$5.4 million to \$19.6 in 2020, and reduce to \$17.9 million by the end of the 10 year period. This is an important point when considering the graph below. Council's Gross Debt does not breach the self-imposed ceiling for Net Debt. Gross Debt is the total value of debt planned to be loaned to Council by external lending institutions. Net Debt is Gross Debt less cash and other investments held by Council. Council has chosen to show Gross Debt against the Net Debt ceiling in the graph below as it represents a conservative approach.

**Forecast Gross Debt against Net Debt Ceiling**



The following table plots Council's plans for increased borrowings over the life of the LTP and tests them against the above parameters. As can be seen from the table Council plans to remain within its self-imposed limits for the next decade.

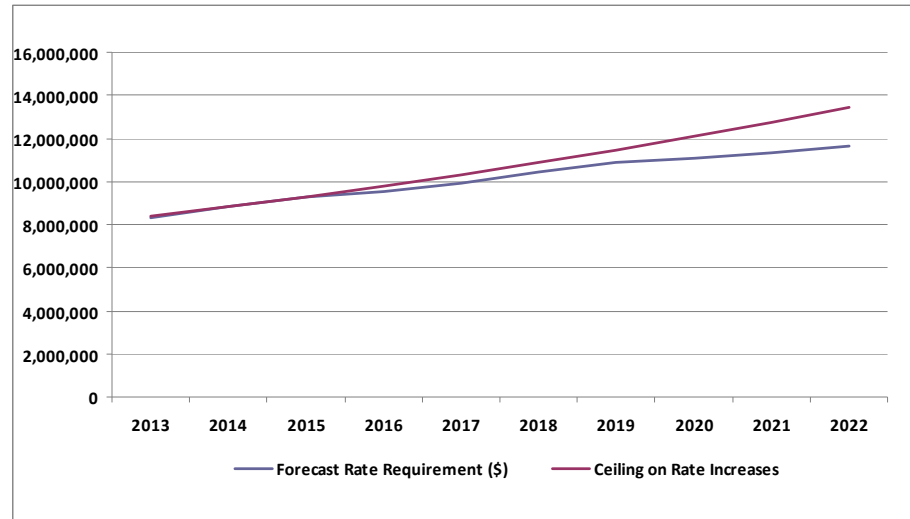
Policy compliance											
Net interest bearing debt/Total revenue	$\leq$ 120%	20.8%	20.8%	28.7%	38.0%	15.2%	33.9%	80.2%	76.4%	79.5%	65.0%
Net interest expense/Total revenue	$\leq$ 10%	1.8%	1.8%	2.7%	3.3%	1.3%	2.1%	7.1%	7.2%	7.3%	4.7%
Net interest expense/Rates revenue	$\leq$ 15%	2.7%	2.8%	3.8%	4.8%	5.3%	6.9%	10.3%	10.6%	10.9%	7.1%
Net cash flows from operating activities/Net interest expense	$\geq$ 2.0	12.7	16.5	8.3	6.6	53.6	32.0	3.2	3.1	3.1	5.5

**Rate Income**

Currently 63% of Council's income is derived from rates as it does not have alternative revenue streams such as investments. Council proposes to limit annual rate increases to the Local Government Cost Index (LGCI) plus approximately 2%. Individual rate increases for ratepayers may be higher or lower than that average, but the overall increase in rates revenue will be kept within a total annual increase of 5.4%. The self-imposed cap provides certainty to the community around future rates increases.

The graph below shows Total Forecast Rate Revenue over the life of the LTP against the self-imposed cap on rate increases. The Total Forecast Rate Revenue represents Council's agreed quantified limit on rates.

Forecast (Total) Rate Revenue 2013 - 2022



### Population Forecasts

A little fewer than 9000 people live in Ōpōtiki, with half living in Ōpōtiki Township and half living in smaller outlying areas. There are 20 marae in the district that are a focal point for the community along with a number of farming, lifestyle and coastal settlements.

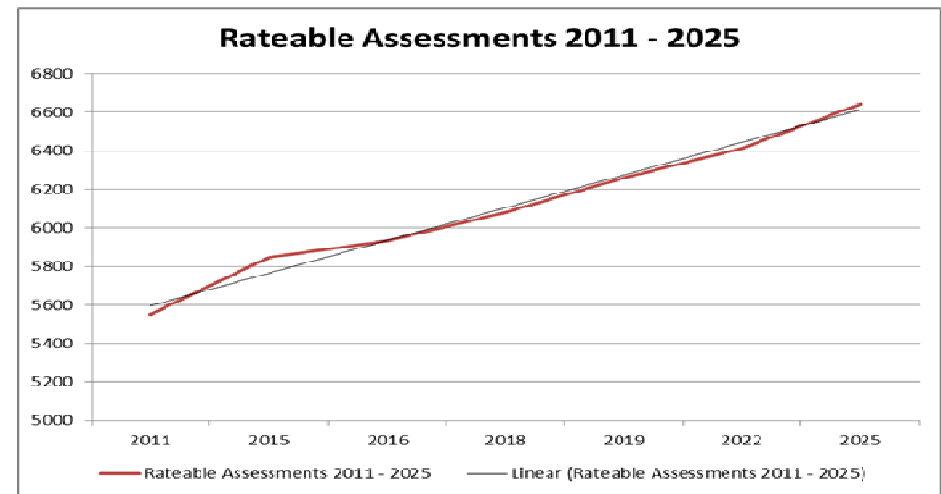
The resident population is expected to increase to 10,268 by 2022. This is based upon the statistics NZ base data from the 2006 census, plus provision for an increase in population as a result of the developing Aquaculture industry and navigable harbour entrance and marine farm, expected growth in the Kiwi Fruit Industry on recovery from PSA and Treaty of Waitangi Settlement for Whakatōhea Iwi. Further information about projected population growth can be found in the 'Planning Assumptions' section of this LTP.

The increase in population over the life of the LTP will also have a corresponding impact on the number of rateable assessments. Historically Council has seen a growth in the rating database of approximately 1.4% on average over the last 9 years. The growth in rateable assessments has occurred in the absence of influences such as the developing Aquaculture Industry and Treaty Settlements discussed in the planning assumptions section of this document.

The population increase driven by the developing Aquaculture Industry, pending Treaty Settlement and growth in the Kiwi Fruit Industry is expected to impact on the number of rateable assessments going forward. The starting point for the projections is the historic average of 73 new assessments per year shown above. Further to that is the additional 306 households expected as a result of the developing Aquaculture Industry. The timing of these

additional assessments is driven by the employment forecast contained in the Harbour Development Business Case.

Rateable Assessments 2011 - 2025



Growth such as that forecast is considered to be of great value to the Ōpōtiki District. For the most part Council is in the fortunate position of having essential infrastructure designed to national standards (e.g. Water Supply). The result being that most essential services provided by Council have the capacity to cater for the forecast growth. Further, as discussed above Council has already identified the need to replace the existing Wastewater Reticulation Network in the Ōpōtiki Township and financial forecasts provide the capacity for the upgrade over the life of the LTP. The investigation and design planned for in the next two years will ensure that the preferred engineering solution will cater for expected growth, particularly for infill development within the catchment of the existing network.

The only exception to the above is the likely demand for greenfields development in the Hikutaia area identified by the planning assumptions section of this document. The Planning Assumptions indicate that the Hikutaia area (as an area of the Ōpōtiki Township considered desirable from a greenfields development perspective) will require increased servicing given the pressure forecast by the growth assumptions. As discussed above the investment in the Ōpōtiki township Wastewater Reticulation Network is provided for in this LTP in three stages. The third and final stage of planned investment is scheduled for the later years of the LTP and relates to extending the reticulation network in response to growth. This LTP provides the financial capacity to extend the Wastewater Reticulation Network in response to growth but does not predetermine the location of that growth. The location will be the subject of future detailed planning exercises.

The financial policy limits established by this financial strategy were originally established with external advice when developing Council's Liability Management Policy. They are regularly

tested against industry best practice and most recently tested against the 2012 Base Statistics package produced independently by a Finance and Policy Analyst.

In summary the forecast growth is welcomed and the only material impact on Council's ability to meet demand is in the area of Wastewater Reticulation in the Ōpōtiki Township. The potential need to extend the reticulation network has been provided for in the LTP. For the most part the growth will result in the costs of providing essential services being shared amongst an increased user base which will provide capacity for new and/or increased service levels in the future depending on community preferences at the time.

### Service Levels

As mentioned elsewhere in this Financial Strategy the LTP represents a relatively simple proposition. It is underpinned by the principles of consolidation and prudent financial management, affordability and getting prepared for future growth opportunities. The two significant investments over the next ten year period (the Harbour Transformation Project and renewal of the Ōpōtiki Township Sewerage Reticulation Network) are outlined above and combined these projects represent approximately 74% of Council's total capital expenditure over the next decade. As a result levels of service for most significant activities are not planned to change in any material way over the life of the LTP. An exception is the Land Transport Activity. Council's funding partner New Zealand Land Transport Agency (NZTA signalled late in the draft Long Term Plan process that it would not be matching the construction cost indices (Inflation) with increased funding over the next three years. Whilst Council has held its level of rate funding (effectively changing the funding ratio over time) this results in an overall reduction in funding of approximately \$470,000 for road maintenance over the next three years. The overall reduction in funding will result in a corresponding reduction in service levels, albeit minor.

For the most part levels of service and operating programmes are well established and contained in the variety of policies, plans and strategies that Council has prepared. Expenditure budgets are set to deliver on those levels of service and operating programmes.

The investment in the Ōpōtiki Harbour Transformation Project is supported by Council in pursuit of social and economic outcomes rather than for reasons of increased service levels. Over time however there are likely to be positive service level implications for residents and ratepayers of the Ōpōtiki District. The harbour redevelopment and the developing Aquaculture Industry will create growth. That growth over time will provide the community with both the social and economic capacity to make choices as to desired service levels in to the future. More direct and medium term service level benefits to the community will be those associated with having an all-weather navigable harbour within the District. There will be an increase in level of service to commercial and recreational users of the harbour entrance and a more generic increase in level of service to the wider community in terms of safety.

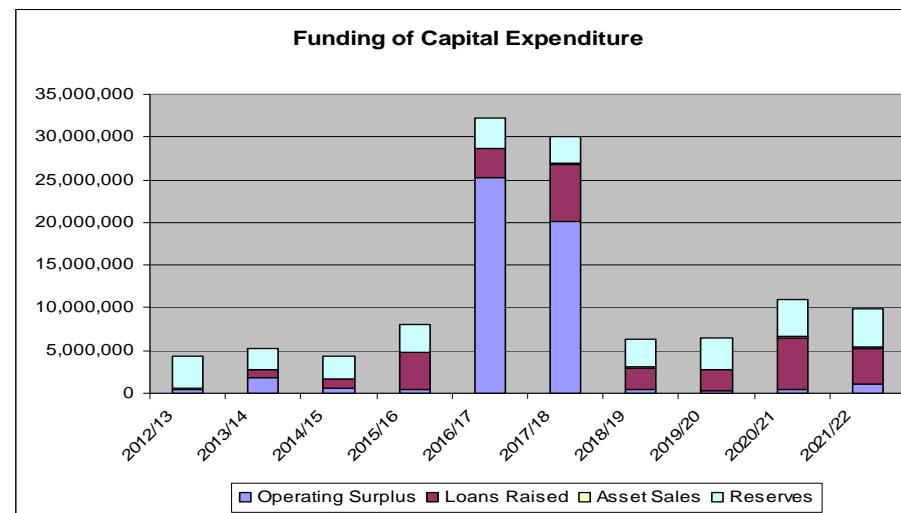
A further exception is the renewal of the Wastewater Service in the Ōpōtiki Township. The investment in the Ōpōtiki Township Wastewater Reticulation Network will result in an increased

level of service for those residing in and visiting Ōpōtiki. The planned renewal of the reticulation network will rectify current issues of ground and stormwater infiltration and resulting environmental and health risks from overflowing sewers. The current periodic complete loss of service for some residents is not acceptable and will also be rectified by the renewal. Whilst the investment will result in a significant increase in service levels compared to the status quo, in reality the resulting level of service will be at a level that should be expected from any municipal sewerage reticulation, treatment and disposal network.

The need to renew the Ōpōtiki Wastewater Reticulation Network has been provided for in the financial forecasts for the LTP and whilst the renewal is considered essential it is also considered to be both affordable and sustainable from a financial perspective as demonstrated by forecast rate and debt levels over the coming decade.

### Council Expenditure

Council is forecasting that operating expenditure will increase from \$11.9m to \$16.5m between July 2012 and June 2022. There is a mixture of funding for expenditure but operating costs, which includes overheads is mainly funded from rates. The two graphs below indicate the two main streams of expenditure and how they are funded over the ten year period.

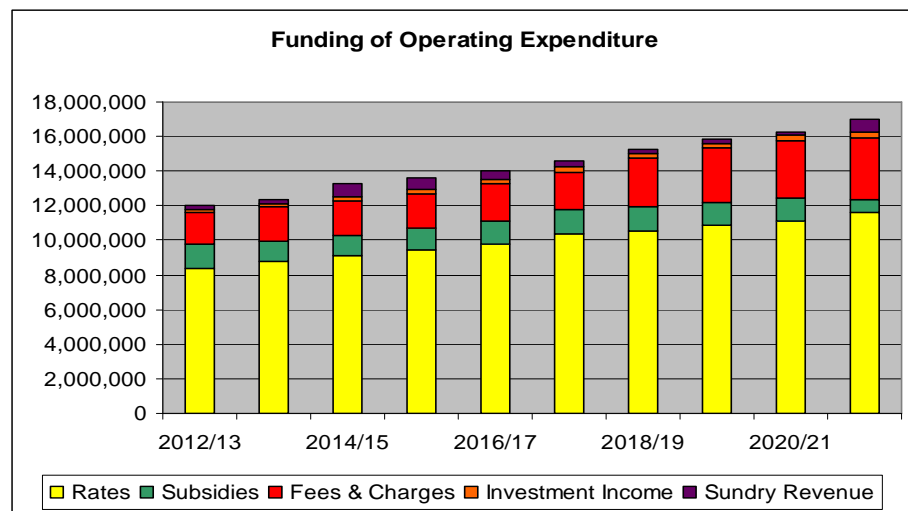


Capital expenditure pays for buying or building new assets, renewing an existing asset or improving an existing asset to deliver a better service. As already mentioned capital expenditure in the LTP mainly focuses on the renewal/development of the Ōpōtiki Wastewater Reticulation Network and the Harbour Transformation Project. Combined these two projects represent approximately 74% of Council's total capital expenditure over the next decade. This approach is aligned with Council's long standing approach to consolidation and prudent financial management, affordability and getting prepared for future growth opportunities.



## Financial Strategy

The large increase in Capital Expenditure in years five and six above represent investment in the Harbour Transformation Project. The corresponding increase in Operating Surplus (as a funding source) is directly related as it reflects subsidy income from the Bay of Plenty Regional Council and Central Government as expected funding partners.



Operating expenditure pays for the day to day cost associated with delivering Council services. Just as the cost of running a household increase from year to year with inflation, so too do the costs of delivering Council services. This is because input costs such as the cost of labour, fuel, electricity and other construction costs increase and therefore so too does the cost of delivering Council services.

Inflation incurred on Council costs is different from household inflation because the spending is on different goods and services, such as asphalt for roads. This is reflected in the local government cost index (LGCI) that has been used to inflate budgets in the 10 year forecasts. The graph above shows total operating costs inclusive of inflation as measured by the LGCI at an average of 3.5% per year.

As can be seen from the graph above rates will continue to be the main source of revenue for the Council over the life of the LTP however Council is looking to offset future cost increases through increased user fees and charges over time in line with its principles of aligning costs to those who benefit (Revenue and Financing Policy) and affordability.

### Funding of the Harbour Transformation Project

The LTP represents a relatively simple proposition. It is underpinned by the principles of consolidation and prudent financial management, affordability and getting prepared for future

growth opportunities. The two significant investments over the next ten year period (The Harbour Transformation Project and renewal of the Ōpōtiki Township Sewerage Reticulation Network) are outlined above and combined these projects represent approximately 74% of Council's total capital expenditure over the next decade.

However, whilst the LTP may represent a relatively simple proposition, as pointed out in the assumptions section there is an element of risk in the Financial Forecasts that needs to be well understood. That risk is around the Harbour Transformation Project and how it relates to the Financial Forecasts, this Financial Strategy and the underlying assumptions around growth and other growth related expenditure.

The Harbour Transformation Project represents a material investment for the Ōpōtiki Community and other funding partners. The forecast cost over the life of this LTP is some \$51,000,000.

The forecast cost of the Harbour Transformation project is based on estimates provided by Duffill Watts in 2008. Preliminary costing of an alternative construction method (steel sheet piling) indicates that \$51,000,000 is very much a worse case scenario and that actual construction costs may be considerably less.

Given the local, regional and national benefit a funding partnership between the Ōpōtiki District Council, Bay Trust, the Bay of Plenty Regional Council and Central Government has been assumed. Whilst the detail is not known at this point in time it is assumed that the funding from other stakeholders is likely to be a mixture of grant funding and/or suspensory loan. The following funding splits have been assumed for the purposes of the 2012-22 financial forecasts.

Funding Partner:	Contribution (m):
Ōpōtiki District Council	*\$5.4
Bay Trust	\$0.2
Bay of Plenty Regional Council	\$20.8
Central Government	\$25.0
<b>Total</b>	<b>\$51.4</b>

\*This is \$5.4M

It is acknowledged that these assumptions have yet to be tested and therefore there is a level of uncertainty around them at this point in time. The assumptions around funding are still under discussion, particularly with the Bay of Plenty Regional Council and Central Government. This uncertainty translates to a level of risk, primarily in a financial sense but in part non-financial also.

If external funding is not available to support the Harbour Transformation Project then it will not go ahead and associated expenditure will not occur. This is simply because the total level of investment is way beyond the Ōpōtiki District Community's ability to pay.

The proposed investment profile outlined in this LTP for the Harbour Development Project is such that no significant financial commitment will be made by the Ōpōtiki District Council in the absence of external funding sources akin to those outlined in the table above. In the absence of external funding the proposed investment of approximately \$5,000,000 by the Ōpōtiki District Council would not be required. Given that investment is loan funded the result will be a reduction in gross external debt and associated maintenance, depreciation, interest and principal repayments costs. Future income expected as Fees and Charges for the commercial use of the Harbour Entrance would also not be available to the Council.

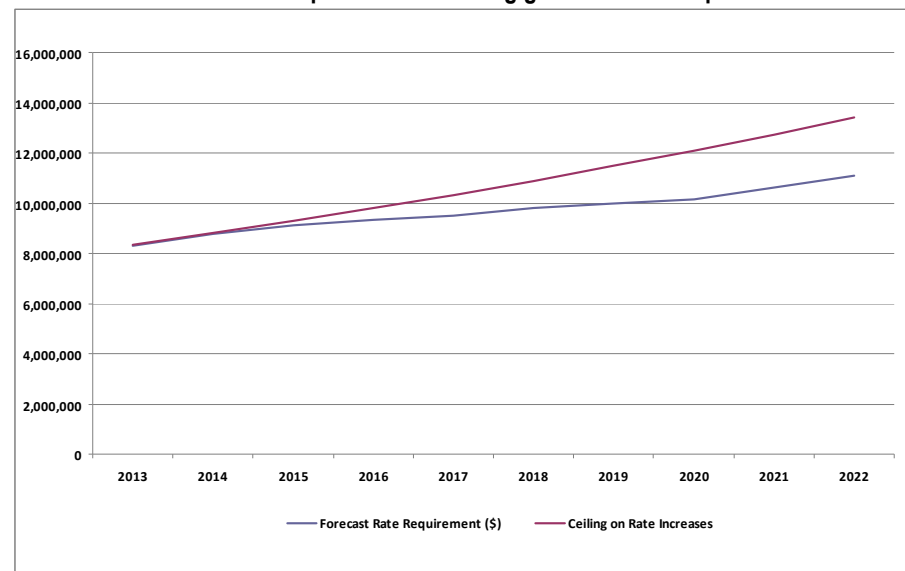
The non-financial risk is that, in part, the growth forecasts (population and rateable assessments) in the assumptions section of this LTP are underpinned by the redevelopment of the Ōpōtiki Harbour Entrance and the related on-going development of the Aquaculture Industry. The Harbour Transformation Project is predicated on the fact that an all-weather navigable harbour in Ōpōtiki will mean that processing facilities required for the Aquaculture Industry will be located in Ōpōtiki and that the related downstream growth benefits will be realised primarily within the Ōpōtiki District.

If the Harbour Development Project (and therefore the development of localised processing facilities for the Aquaculture Industry) does not go ahead the projected growth and development forecasts are unlikely to materialise as forecast. This will have downstream effects for other development/growth related expenditure proposed by this LTP.

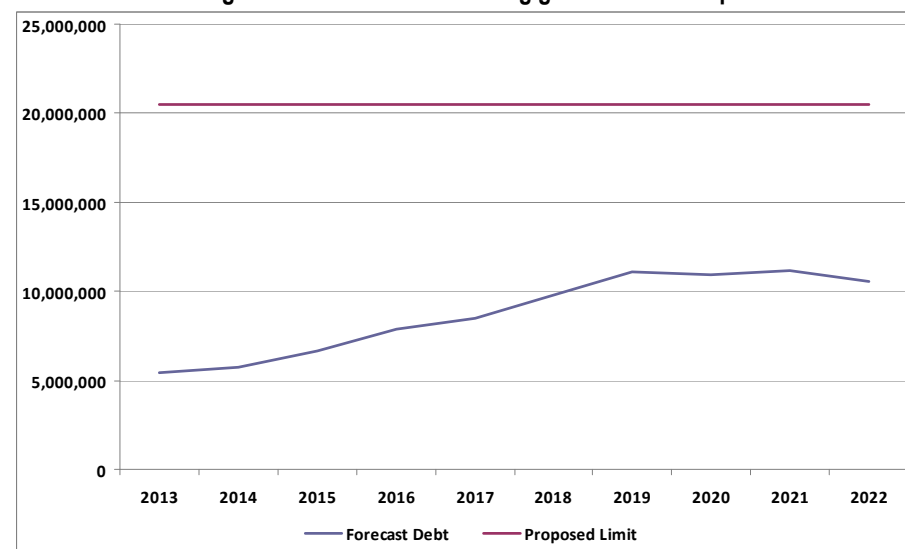
In particular the growth related expenditure forecast to extend the Ōpōtiki Wastewater Reticulation Network and upgrade to the Water Reticulation Network would not likely be required within the life of this LTP. For the most part this proposed expenditure is forecast to occur after completion of the Harbour Transformation Project in response to growth expected as a result of the developing Aquaculture Industry. This growth related expenditure (valued at approximately \$8,000,000) is proposed to be funded in the most part by way of loan and if not required over the life of this LTP the result would be a reduction in gross external debt and associated maintenance, depreciation, interest and principal repayment costs.

This however would not represent a material threat to either this Financial Strategy or the Financial Sustainability of the Ōpōtiki District Council in the short to medium term. The main impact would be an overall reduction in forecast external debt and total rates income as shown in the graphs below.

Forecast rate requirement excluding growth related expenditure



Forecast gross external debt excluding growth related expenditure



## Financial Strategy

As can be seen from these graphs the Redevelopment of the Ōpōtiki Harbour Entrance is not fundamental to the Financial Sustainability of the Ōpōtiki District Council over the life of this LTP. The removal of this and other key growth related projects from the financial forecasts still sees Council remaining within its self-imposed limits for net external debt and total rates increases over time.

The more material impact of the Harbour redevelopment Project not going ahead is on the Community's ability to realise its own vision of a 'Strong Community with a Strong Future'. The Harbour redevelopment Project and the developing Aquaculture Industry represent a very real opportunity for the community to realise that vision and make some very real progress in improving Community Wellbeing and decreasing levels of deprivation.

Another possibility (although far less likely) is that the Harbour Redevelopment Project goes ahead as planned and then the Aquaculture Industry in the Eastern Bay of Plenty (for whatever reason) fails. The risk then is that the Council would have invested in the Harbour Redevelopment on behalf of the community but there is no return on that investment. Following completion of the Harbour Transformation Project in 2017/2018 Council has budgeted for an increase in Fees and Charges as it is expected that commercial users of the Harbour will pay a levy to reflect the private and commercial benefit of being able to bring product ashore in such close proximity to the marine farm.

This additional revenue is proposed to be used (in part) to accelerate the repayment of debt raised as Council's contribution to the redevelopment of the Harbour entrance. This results in Council's overall public debt beginning to fall from its peak in 2021.

Although considered highly unlikely there is a risk that the commercial aquaculture venture could fail and that the additional fees and charges revenue would not be available to Council. If that were to occur all depreciation funds would be used to repay the debt related to the harbour redevelopment in the short term. This would result in gross public debt peaking at \$20m, just below the net debt ceiling of \$20.5m. Total rate revenue would exceed Council's self-imposed limit by 1.2% in 2018/19 due to Council not having the Fees and Charges Revenue to offset initial debt servicing costs.

Again the bigger risk associated with this scenario is that of the Community not being able to realise its own vision of a 'Strong Community with a Strong Future'.

It is important however to note that all indications are that the Aquaculture Venture will be extremely successful and the risk of failure is very low. In fact it is possible that the development of the Aquaculture venture occurs earlier than planned. If that eventuated then some of the work could be carried out concurrently and the completion date brought forward. The risk to Council and the ratepayer is relatively low as the Council intends to ensure its contribution to the overall construction cost is kept at a level that is both affordable and sustainable for the Ōpōtiki District Community.

Council is of the view that the risk to the Community is further mitigated by the fact that planned construction (and therefore financial commitment by Council on behalf of residents and ratepayers) is beyond the first three years of the LTP. This provides the opportunity to further test the funding assumptions over the next three years and update the Long Term Plan as it relates to the Harbour Transformation Project if required.

## Other Financial Policies

### Policy on the Provision of Security

The Council does not generally offer assets other than a charge over rates or rates revenue as security for general borrowing programmes. The provision of security should result in a reduced total borrowing cost, as it reduces the risk to the lender. Physical assets will only be charged where there is a direct relationship between the debt and the purchase or construction of the asset which it funds, and Council considers it appropriate. Securities are not provided for internal borrowing.

Policy on the Objectives for holding and managing financial investments and equities and the quantified targets for returns.

The Council has very few investments not considered to be "core" Council activity. Those investments that are held support Council activity or provide support for other Council functions. Council does not undertake financial investments for the purpose of generating significant returns. Council is primarily concerned with the protection of its investment, and therefore any investment will be low risk. Council's target is to achieve a return equivalent to the five year government stock rate.

## Statement Concerning Balancing the Budget

The Council will produce a balanced budget in each of the 10 years of the LTP. Having considered the overall impact of its financial management policies and decisions we believe it remains financially prudent.

In setting the budget Council has had regard for the following matters:

- Maintaining levels of service
- Maintaining service capacity and integrity of assets
- Intergenerational equity
- Compliance with the Council's revenue and financing policies.

The Council has set the expenditure and revenue at levels it considers appropriate to meet the funding needs of the District over the next 10 years and to meet the social, cultural, environmental and economic wellbeing of the community.



## Conclusion

Ōpōtiki District Council is looking to balance the provision of services to achieve a prosperous, vibrant and green district, while keeping funding affordable over time and maintaining a sound financial position. This LTP continues with the strategic theme of consolidation and prudent financial management, affordability and getting prepared for future growth opportunities. This is to be achieved by focusing investment on essential services required to support social and economic growth opportunities, namely the Ōpōtiki Wastewater Reticulation Network and the Harbour Transformation Project. Rate increases will be kept to the maximum increase of the local government cost index plus an allowance for growth, with total rates revenue increasing from \$8.4m in 2012 to \$11.7m in 2022.

Debt will increase over the 10 years from \$5.5m in 2012 to a maximum of \$19.6m in 2021 to fund capital projects, and will remain within the new ratios set by Council. Overall, Council considers that its financial strategy is prudent and sustainable and importantly responds to the community's expectations and vision for the future of the Ōpōtiki District.



# Assumptions

## Introduction

Schedule 10 (clause 17) of the Local Government Act 2002 contains provisions relating to 'significant forecasting assumptions'. The Act requires that Council identify the significant forecasting assumptions and risks underlying the financial estimates. Where there is a high level of uncertainty, Council is required to state the reason for that level of uncertainty and provide an estimate of the potential effects on the financial forecasts.

This section sets out the significant forecasting assumptions that have been used in the preparation of the 2012-22 LTP together with their perceived levels of risk to the integrity of the 2012-22 LTP and particularly the financial forecasts contained therein.

The significant forecasting assumptions are summarised in the table below and are discussed in more detail on the pages that follow. An estimate of the potential effects of those assumptions tagged with a high level of uncertainty is provided in the Financial Strategy under the sub-section entitled 'Funding of the Harbour Transformation Project'.

## Summary of Assumptions

No:	Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
1.	Future Price Changes – Rate of Inflation	Low	Low
2.	Future Treasury Changes and insurance	Medium	Medium
3.	New Zealand Land Transport Agency Subsidy Rates	Low	Medium
4.	Revaluation of Infrastructural Assets	Low	Low
5.	Useful Lives of Infrastructural Assets and Depreciation Rates	Low	Low
6.	Changes to Central Government will have a minimal impact on the role and form of Local Government	Medium	Low
7.	Climate Change and Emissions Trading Scheme	Medium	Low
8.	Population Structure and Growth	High	Medium
9.	Rating Unit Growth	High	High
10.	Building and Residential Development	High	High
11.	Development of commercial Aquiculture Industry and an all-weather Navigable Harbour Entrance at Ōpōtiki	High	High
12.	Treaty of Waitangi Settlement	Low	Medium
13.	Funding of Ōpōtiki Harbour Redevelopment	High	High
14.	PSA	Medium	Low

## Assumption Detail

### 1 - Future Price Changes – Rate of Inflation

The Society of Local Government Managers (SOLGM) commissioned a study to develop price level change adjustors for local authorities to use when forecasting future year expenses through to 2022. The following table lists the forecast annual percentage change for each of the adjustors.

Year Ending	Road (Land Transport)	Property (Property and Facilities)	Water (Water, Sewerage and Stormwater)	Energy (Electricity and Gas)	Staff (Salary and Wage Rates Local Government Sector)	Other (Corporate Overheads etc)
2013	3.8	3.0	4.2	4.8	2.5	2.4
2014	3.1	2.9	3.9	4.7	2.4	3.2
2015	3.5	2.9	3.5	4.7	2.4	3.2
2016	3.1	3.0	3.7	5.0	2.6	3.4
2017	3.0	3.1	3.8	5.1	2.6	3.5
2018	3.2	2.8	3.5	4.6	2.4	3.4
2019	3.5	2.8	3.5	4.5	2.3	3.3
2020	3.7	3.0	3.8	5.0	2.6	3.3
2021	3.4	3.3	4.1	5.4	2.7	3.6
2022	3.5	3.3	4.1	5.4	2.7	3.5

These inflation assumptions have been applied to both operational and capital expenditure items as the indices include a combined forecast of operating and capital costs. However because of the mixture in the composition of these indices, they may understate (or overstate) the change in process of both operational and capital expenditure.

It should be noted that these inflation forecasts do not allow for spikes that can occur during retendering or contract renewal processes. Such spikes can occur for a variety of reasons, such as changes to service levels or as a consequence of changes in contract interpretation, and are difficult to forecast.

Future price changes different than those forecast above will impact on either service levels or future rate requirements depending on the variance. Such variances can be managed through future reviews of the LTP or via the Annual Plan process so are considered to be low risk in the context of the 2012-22 LTP.

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
Future price changes will be within the range forecast by LTP	Low	Low

## 2 - Future Treasury Changes and Insurance

The key factors for when forecasting future treasury costs include interest received on investments, Interest rates associated with external and internal borrowings and the Council's on-going ability to access external borrowings.

### Interest received on Investments

Interest rates for investments have been calculated at 4% to 30/6/13 and 5% from 1/7/13. Historically interest rates have been higher. However with the current economic downturn rates have fallen, and are not expected to recover for 3 years. Council has limited investments therefore exposure is minimal.

### Interest on External Borrowings

Debt servicing costs on existing borrowing is the actual cost for each loan. Whilst Council is currently enjoying historically low interest rates it is not anticipated this will continue in the medium to long term. The 10 year Government Bond average over the past 10 years is 6.20%. Local authority borrowing has a margin over this rate. Ōpōtiki District Council will have a margin of at least 1% due to it being a small local authority. Council has therefore adopted an assumed borrowing rate of 6.50% for External Borrowings to 30/6/13 and 7.5% from 1/7/13 onwards.

Internal Loans have been calculated at 5.25% to 30/6/13 and 6.25 from 1/7/13 onwards being the mid-point between the interest rates for external borrowing and investment rates.

Council has estimated interest rates on current levels. If Loans cannot be sourced at the estimated interest rates projected, the costs will differ from those estimated in the Council financial statements. Higher interest rates would have an impact on either service levels or rate requirement however Council considers this assumption to be of low risk as whilst the actual interest rates are likely to vary over the life of the plan there will be times when they are below the assumed rate as well as above. A 1% change in interest rates would mean \$1.2 million shift in interest cost.

### Access to External Borrowings

This plan is based on the continuity of funding from an approved banking institution. Council believes that the likelihood of the withdrawal of Bank funding is low, due to the good credit rating and relatively low risk Council has as a public entity. In addition, Council has the ability to set rates at a level sufficient to cover its costs. As long as Council continues to be financially prudent and can demonstrate financial sustainability over time there is minimal risk attached to this assumption.

### Insurance

Council expects it will continue to insure all of its assets due to the bulk buying power leveraged with other Council's via BoPLASS. Whilst earthquake prone buildings may become increasingly difficult to insure the risk to Council is minimal as it only owns four at risk buildings.

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
Future treasury changes will be within the range forecast by LTP	Medium	Medium

## 3 - New Zealand Transport Agency (NZTA) Subsidy Rates

The NZTA subsidy for the maintenance, renewal and improvement of the Local Roding Network is Council's single largest source of income after rates revenue. It is assumed that the requirements and specifications for the performance of subsidised work will not alter to the extent that they impact adversely on operating costs and subsidy revenue.

The NZTA subsidy rate for maintenance and renewal expenditure on the Local Roding Network used in the LTCCP is 50% for all years of the plan with the exception of years 1-3 where the subsidy rate is slightly less than 50%. The subsidy rate used for Minor Improvement Work is 60%.

Changes in subsidy rate and variation in criteria for inclusion in subsidised works programme does represent a level of uncertainty for the LTP. NZTA funding priorities may change over the life of the LTP and variations in subsidy are possible given the priority given to Auckland transport issues.

Whilst it is possible that the criteria and level of funding available could vary over the life of the plan the likelihood of such occurring is considered to be low. However given Council's reliance on the NZTA subsidy as a source of operating revenue the impact on the LTP is considered to be medium.

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
NZTA Subsidy Rates will continue at planned for levels.	Low	Medium

## 4 - Revaluation of Infrastructural Assets

Infrastructure Assets are to be re-valued every three years in line with Council's Accounting Policies and the outcome may alter the carrying value of Council Assets and the associated depreciation expense. The last valuation was undertaken as at 30 June 2011. It has been assumed that any change in valuation will be in line with assumed rates of inflation. As a result Council considers that Asset Revaluations represent a low level of uncertainty for the LTP forecasts.

## Assumptions

The LTP has been prepared using the most up to date asset valuation data available at the time. Investigations are currently underway to provide certainty around the condition and criticality of roading assets with a view to add value to the maintenance/renewal forecasts and the valuation of the roading network. A draft report has been received which indicates that the roading network may be overstated (in value) in this LTP however this is yet to be confirmed. This uncertainty is not considered to have a material impact on the financial forecasts contained within this LTP.

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
Changes in valuation will be in line with inflation.	Low	Low

### 5 - Useful Lives of Infrastructural Assets and Depreciation Rates

The useful lives assumed in the Asset Management Plans (AMP's) and therefore the LTP are those provided by the National Asset Management Steering (NAMS) Group and used by experienced valuers. Variations between actual and assumed useful lives will impact on the funding of depreciation and the asset renewal programme, however over time the impact is likely to be self-balancing with minimal impact on the forecasts contained in the LTP.

Council has an asset management planning and upgrade programme in place. Asset capacity and condition is monitored, with replacement works being planned in accordance with standard asset management and professional practices. Depreciation estimates are prepared on the basis of the recent asset revaluation exercise and renewal and development expenditure over the life of the LTP. Council uses the straight line method for calculating depreciation on all property, plant and equipment at rates that tie directly to the useful lives of the assets. Certain factors can distort these calculations such as asset revaluations, knowledge of assets (e.g. age, condition etc) and the level of investment in the renewal and development programme. Such factors are considered to be low risk as they are reviewed on a regular basis and generally in alignment with the triennial review of the LTP itself. The Accounting Policies in this LTP provides for useful lives of the various asset classes.

Council will replace significant assets at the expiration of their useful lives. Sources of funding for replacement includes depreciation funds, grants, subsidies, loan funding, reserves where available and asset sales. Where replacement is required as a result of growth a portion of funding may be sourced from development contributions.

The Harbour Development (Groynes) has an estimated useful life of 100 years. The components of the completed asset are expected to have varying useful lives. An average of 100 years has been selected based on an engineers assessment of the materials used and therefore a depreciation rate of 1% per annum applied.

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
Asset lives and allowances for depreciation are adequate for the life of the LTP	Low	Low

### 6 - Central Government Policy Direction

It is assumed that Central Government will provide a relatively stable legislative platform for Local Government over the life of the LTP. The current coalition Government headed by the National Party undertook a major restructure of Local Government in Auckland lead by the Minister of Local Government Rodney Hide. That restructure saw the amalgamation of eight units of local government into one, the Auckland Council. There has been much speculation regarding the roll out of similar restructure or amalgamation of local government in the rest of New Zealand. It is important however to recognise that the drivers for change in Auckland were in most cases unique to the Auckland region and the same issues and pressures do not necessarily exist in other parts of the country, and most certainly not in rural and provincial New Zealand. Council considers that local government has a very important role to play in rural and provincial New Zealand in ensuring that local solutions are developed for local problems and that role will continue to be recognised by Central Government. As a result it is assumed that whilst Local Government in rural and provincial New Zealand will continue to be encouraged to find innovative ways to deliver services (e.g. shared services and public private sector partnerships) that compulsory amalgamation on a large scale will not be on the agenda over the life of the LTP.

Historically successive Governments have imposed additional responsibilities on Local Government without associated funding. The administration of new and changing legislation over time has been a key factor for increased costs for Local Government in New Zealand. If this trend were to continue then costs would continue to increase as would most likely rate revenue. However the current National lead coalition Government appears to be more in favour of streamlining legislation as it affects the Local Government Sector rather than adding further to process and compliance costs. Whilst this direction is yet to present itself in any real tangible way it is assumed that there will be no major shift in policy direction over the life of the LTP. It is recognised however that successive Governments will look to further overall community well-being via the legislative process – a good example being proposed changes to the Resource Management Act 1991 however such changes are not expected to be material.

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
Changes to Central Government will have a minimal impact on the role and form of Local Government	Medium	Low

### 7 - Climate Change and Emissions Trading Scheme



The earth's atmosphere is made up of oxygen, nitrogen and a small percentage of greenhouse gases. Greenhouse gases normally act like the roof on a greenhouse – trapping warmth and making life possible on earth. Without them too much heat would escape and the surface of the earth would freeze. Increased amounts of greenhouse gases have the opposite effect – they heat up the earth, causing a rise in temperature and affecting climate patterns (known as climate change).

Current scientific thought is that more than 100 years of industrialisation and human activity has increased the amount of greenhouse gases in the atmosphere, speeding up climate change. Central government recognises climate change as a long-term strategic issue for New Zealand within the broader context of economic transformation, national identity, and other leading issues such as water quality and flood risk management.

How might climate change affect New Zealand and the Bay of Plenty in particular?

It is predicted the New Zealand, including the Bay of Plenty region, can expect the following climate change effects:

- A base sea level rise of 0.5m and potential higher value sea level rise of at least 0.8m between 1990 and 2090;
- Average temperatures in the Bay of Plenty increasing about 1°C by 2040 and about 2°C by 2090;
- More rain is likely to fall in the west of the country and less in the east;
- Fewer cold temperatures and frosts, with more high temperature episodes;
- An increase in the annual westerly component of wind flow across New Zealand; and
- An increase in the frequency and intensity of extreme weather events (for example, floods and droughts).

A changing climate is expected to create both opportunities and risks for the Bay of Plenty. These predicted changes may be beneficial to some sectors of the agricultural and horticultural industries with less frost and increased mean temperatures leading to longer growing seasons.

It may also mean that the Bay of Plenty is susceptible to:

- More of different pest plants and animals;
- Changes in natural ecosystems;
- Sea level rise, which will increase costs of draining and pumping in low lying areas, and has the potential to decrease coastal flood protection levels of service;
- An increase in the intensity of rainfall rising the flood risk to floodplains; and
- More frequent and intense storms which could change flood protection design levels, increase erosion impacts, increase coast storm effects, and increase run-off from upper catchments leading to an increase in sediment transport to harbours and estuaries.

Climate Change can affect Councils functions in a number of ways:

#### A Hazard Planning and other regulatory and environmental planning roles

Council has a shared responsibility under S31 of the RMA for management of natural hazards. This is further reinforced in the Regional Policy Statement that directs a shared approach to the management of natural hazards. Council's regulatory role is generally well defined by the hierarchy of RMA planning documents and national guidance is given on the parameters and the process of implementation. From time to time national policies are promulgated that require council to update its planning documents and regulatory functions in accordance with revised guidance. It is assumed that updates will be accommodated within normal planning processes.

#### B Design of assets

In designing its assets council will continue to use the latest guidance for the various design parameters. Climate change effects are built into the design of new assets and on replacement of existing assets. Some assets may need additional capacity as climate change effects become apparent, however climate change scenarios indicate there is sufficient time to plan ahead. It is assumed that guidance on increased rainfall or sea level parameters will continue to be readily available and council will continue to adapt as new predictions from credible sources become available.

#### C Increase in frequency of extreme events

Climate change predictions are for an increase in the number and size of extreme events over time. This is a difficult science in that there is a lot of noise in the data that can lead the public to perceive a rapid change in weather events when in fact it is a slow change over decades. It is assumed that there will be a gradual increase in the frequency and size of events causing increased erosion and damage. Over time Council may find itself facing increased costs of flood and erosion events however it assumed this will be over a number of decades and can be reviewed in successive LTP's.

#### Emissions Trading Scheme

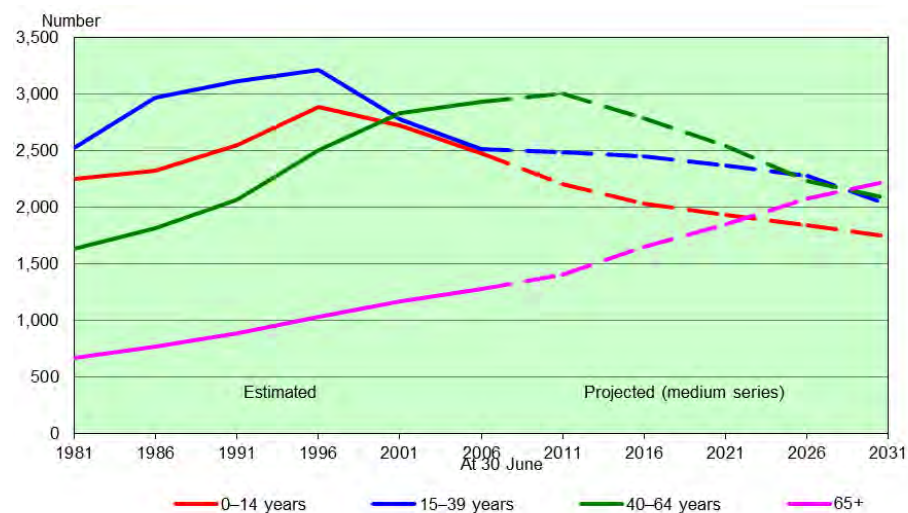
The New Zealand government is a signatory to the Kyoto Protocol that seeks to limit global emissions. One of the tools the government is using is the implementation of an Emissions Trading Scheme. Effects on council could be increased cost of disposing of solid waste, and increased fuel and energy costs. Effects on the district could be more favourable conditions for forestry and increased cost of farming from 2015 when farming enters the scheme.

## Assumptions

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
Climate Change will affect the District over the medium to long term and that government continues its progress towards an emissions trading scheme but at a slower rate and with less impact than had been previously forecast	Medium	Low

### 8 - Population Structure and Growth

**Population Structure:** As at the 2006 census the median age (half are younger, and half older, than this age) of people in the Ōpōtiki District is 36.7. For New Zealand as a whole, the median age is 35.9 years. 13.9 percent of people in Ōpōtiki District are aged 65 years and over, compared with 12.3 percent of the total New Zealand population. 27.5 percent of people are aged under 15 years in Ōpōtiki District, compared with 21.5 percent for all of New Zealand. The graph below tracks past changes to the Ōpōtiki District's population age and forecast projections (based on Stats NZ medium projection series) out to 2031. The overall trends point toward an aging demographic. This apparent trend may have an impact on Council services going forward as they relate to services relevant to the retired however it is important to note that the Statistic New Zealand forecasts are not influenced by local factors such as the developing Aquaculture Industry (discussed further below) which will increase employment opportunities and therefore a working age population.



**Ethnic groups:** 47.9 percent of people in Ōpōtiki District belong to the European ethnic group, compared with 67.6 percent for New Zealand as a whole. 59.3 percent of people in Ōpōtiki District belong to the Māori ethnic group, compared with 14.6 percent for all of New Zealand.

**Population Growth:** Statistics New Zealand has projected the Ōpōtiki District Population to be relatively static in over the period 2011-2031 with projections being (low) -1.4%, (medium) – 0.5% and (high) 0.2%. These projections are from a base of population of 9,200 (2006 Census Data).

Statistics New Zealand Census Data and associated projections are generally considered a reliable source of information for the purposes of planning for future (demand driven) services in the Local Government Sector and for that reason form the starting point for the population assumptions for Council's 2012-2022 LTP. It is important however to note that these projections do not always cater for localised events, issues and developments that can and often do influence communities and their populations.

There are two such developments that are likely to take shape in the Ōpōtiki District over the life of the 2012-2022 LTP. The first is the developing Aquaculture Industry and related all-weather Navigable Harbour Entrance at Ōpōtiki (discussed in section 11 below) which will see the establishment of the country's largest offshore marine farm. The second is the pending Treaty of Waitangi Settlement with the Whakatōhea Iwi (discussed in section 12 below). Both will have significant impacts for the Ōpōtiki District Community and its population. The already developing Aquaculture Industry will create employment (both direct and indirect) opportunities within the community and have a subsequent impact on the future population. So too will the Treaty of Waitangi Settlement with the Whakatōhea Māori Trust Board developing strategies to investment Treaty Settlement proceeds locally with a view to benefit Whakatōhea people within the Rohe and to attract its people back to the area.

Council has taken a prudent and conservative approach in developing the following population forecasts. The fact that a Treaty Settlement with Whakatōhea is likely within the next four years and the Whakatōhea Māori Trust Board is committed to investing Treaty proceeds within the Ōpōtiki District for the benefit of its people has lead Council to use Statistic New Zealand's high population projection as the starting point for its growth assumptions.

An overlay to that starting point are employment assumptions contained in the Ōpōtiki Harbour Transformation Business Case which has been developed to quantify the benefits of redeveloping the Ōpōtiki Harbour Entrance in support of the developing Aquaculture Industry here in the Eastern Bay of Plenty.

Conservative estimates in the Business Case are that 402 Full Time Equivalent (FTE) new jobs will be created directly and indirectly by the Aquaculture Industry by year 12 (current business case but still short of the fully consented space.)

A conversion is required to size the impact of the above on population. Using an average of 3 people per household (higher than the New Zealand Average in the Ōpōtiki District) the impact

of 402 new people coming to live and work in the Ōpōtiki District could increase the population by some 1,206 people. (Note, this is directly related to the developing Aquaculture Industry and not including Statistics New Zealand high forecasts).

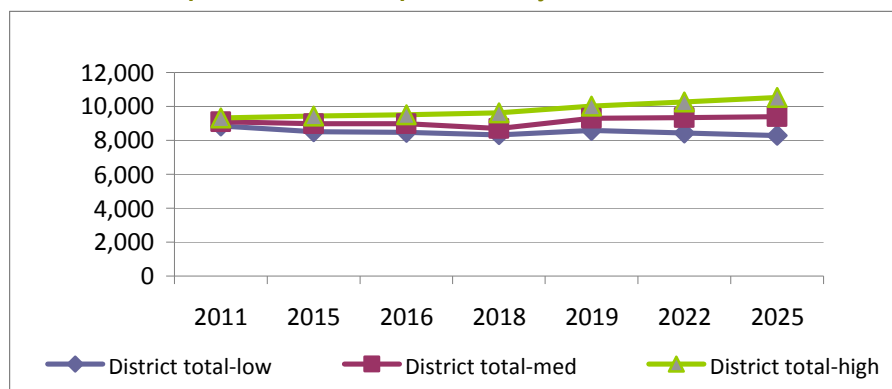
However not all of the employment opportunities will be filled by new people coming to the District. In fact one of the desired outcomes of the project is to improve the social and economic well-being of the Ōpōtiki District by creating employment opportunities for local people. A 'local absorption/slippage' rate of 24% has been applied to provide for the fact that a portion of the roles will be filled by local people and/or by people living outside of the Ōpōtiki District. The result is an increased population of 917 by 2025 as a result of the developing Aquaculture Industry.

The projected range of population increases; taking into consideration the Statistics NZ projections together with the aquaculture development and pending treaty settlement provide the following projections:

Year	2011	2015	2016	2018	2019	2022	2025
District total-low	8,860	8,515	8,475	8,319	8,591	8,438	8,289
District total-med	9,090	8,977	8,995	8,697	9,303	9,346	9,401
District total-high	9,320	9,439	9,515	9,619	10,021	10,268	10,539

As above these population projections are largely contingent on two local factors occurring in the medium term. One of which (Development of commercial Aquaculture Industry and an all-weather Navigable Harbour Entrance at Ōpōtiki) may be considered less certain than the other (Treaty Settlement) however, as described in section's 11 and 12 of these planning assumptions. However the likelihood of such is well supported by the Ōpōtiki Harbour Transformation Business Case, the associated Social Impact Assessment and investor confidence in the Aquaculture project itself.

### Ōpōtiki District – Population Projections 2011-2025

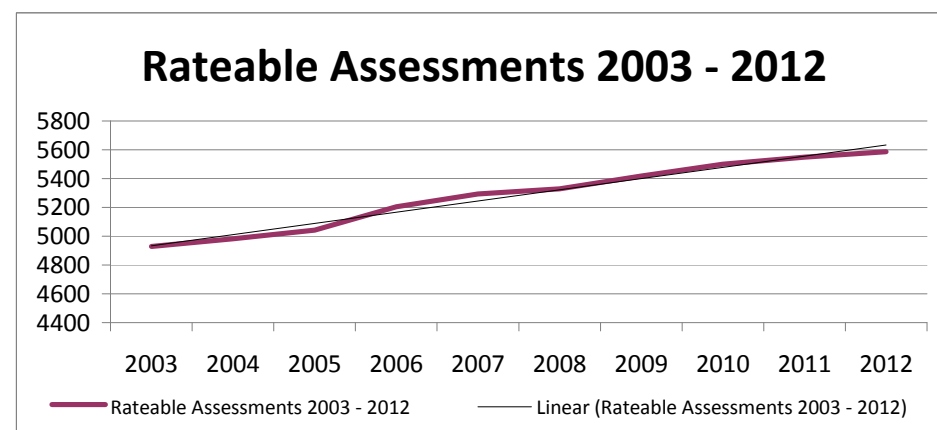


It should be noted that these population projections are a guide to future growth and are not interpreted as an absolute when making investment decisions reflected in the LTP. By way of example decisions around infrastructure investments are based on not only catering for the above population projections but also provide for additional capacity so to ensure that services are future proofed.

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
That changes in population structure and growth have been adequately provided for in the LTP	High	Medium

### 9 - Rating Unit Growth

Historically Council has seen a growth in the rating database of approximately 1.4% on average over the last 9 years (see graph below).



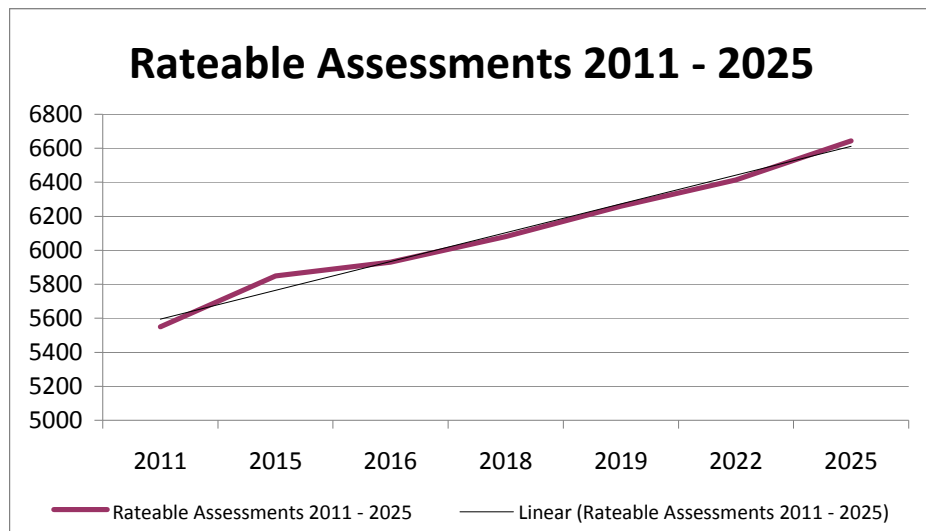
The above growth in rateable assessments has occurred in the absence of influences such as the developing Aquaculture Industry and Treaty Settlements discussed elsewhere in this document.

These influences are expected to impact on the number of rateable assessments in to the future in much the same way as they do currently.

As detailed in the previous section the projected increase in population of 1,219 by 2025 represents an additional 306 households. Given the 'local absorption/slippage rate' of 24% applied in the population projections it can be assumed that these additional households will present in the form of additional/new rateable assessments throughout the planning period.

## Assumptions

The graph below projects new rateable assessments for the period 2011-2025. The starting point for the projections is the historic average of 73 new assessments per year shown above. Further to that is the additional 306 households expected as a result of the developing Aquaculture Industry. The timing of these additional assessments is driven by the employment forecast contained in the Harbour Development Business Case.



Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
That growth in the rating base is adequately provided for in the LTP	High	High

### 10 - Building and Residential Development

As discussed in an earlier section the developing Aquaculture Industry along with a significant pending Treaty of Waitangi Settlement will create significant opportunities that are expected to drive population growth over the 2012 and 2022 Long Term Plan period.

The projected population increases over this period are included in section 8 of this paper. In summary it is anticipated that the population of the district will increase by about 1,219 (Aquaculture Industry plus Statistics NZ high Forecasts) residents. It has been assumed that around 306 additional houses will be needed to accommodate the increased population at a rate of 3 persons per household.

The business case for the aquaculture venture shows that there will be a range of jobs and salaries and therefore there is likely to be a wide variety of expectations in terms of the

residential environments that people may wish to live in. The Ōpōtiki District Council needs to be able to offer choice in residential demand to satisfy demand and expectations.

It is likely that some of the projected population increase will be accommodated through existing rural-residential lifestyle development in close proximity to the township. However, these developments are at the upper end of the market and will not be an option that will be generally affordable for most. There is also capacity in areas that are zoned coastal settlement, and in particular the area known as the Drifts is one such area. These areas are also at the higher end of the market.

There are two other areas that offer opportunities for further developments, the Hikutaia area which has a mixed old and new residential character and could be developed further to satisfy mid-market ranges and within the boundaries of the Ōpōtiki Township there is a level of infill capacity which could be suitable for the development of affordable housing.

It is anticipated that rural-residential lifestyle and coastal development are likely to accommodate a small percentage of the increased population due to affordability issues. Therefore, it is anticipated that most of the population increase will be accommodated within the Ōpōtiki Township and in particular the area known as Hikutaia. People moving into Ōpōtiki can reasonably expect to have a similar level of infrastructural services that are available in other towns such as reticulated sewerage and water supply.

The aging sewerage infrastructure requires upgrade and would not be able to cater for a substantial increase in infill development should individual owners wish to exercise their options under the District Plan and subdivide sections to 400m<sup>2</sup>. The scheme will need to be upgraded in order for infill development to be an environmentally sustainable option for the township. At present there is no reticulated sewerage system in the Hikutaia area. If the population was to substantially increase in this area it is desirable from a health, environmental and amenity perspective that sewerage be reticulated.

The District Plan provides for a density of one household unit per 400m<sup>2</sup> where sites have access to a sewerage system. There are around 1000 existing houses within the township and the majority of these houses are built on sites that are theoretically capable of infill development acknowledging that many property owners may not wish to subdivide. In addition it is anticipated that there will be a number of other activities associated with the processing facility that are likely to be located within the Ōpōtiki Township due to indirect and induced effects of the establishment of the processing facility. These activities will also have an impact on the sewerage system. While there will be impacts on the capacity of the sewerage system within the township to cope with increased activities (residential and industrial) the current treatment facilities are capable of treating any increase and disposing of it in an environmentally compliant manner.

The development of processing facilities for the aquaculture product, may have a significant trade waste component that may need to be accommodated by the sewerage system.



The Hikutaia area has at present around 350 houses. There is potential for around 530 further sites on land that is already zoned residential under the District Plan through Greenfield development.

Note: the number of potential house sites was calculated using the 800m<sup>2</sup> minimal lot size and included the hospital site.

There is also land presently zoned rural adjacent to the residentially zoned land that is considered suitable for residential development and there is potential for 346 sites. The greater Hikutaia area at its greatest extent is likely to accommodate in excess of 876 residential sites (under existing rules).

It is not desirable from a health and environmentally sustainable perspective for this level of development to occur without appropriate sewerage facilities. In addition the old hospital located on Hikutaia Road has been land banked and is subject to treaty claims. While the Council cannot influence treaty processes and timing of settlements, it is anticipated that during the life of this LTP that the future of this site will become apparent and while it may not be used for residential purposes any development is likely to place additional demands for sewerage disposal. The past practice of addressing sewerage disposal on site when the hospital was in operation is now not an appropriate way of addressing sewerage from an activity that is likely to generate levels significantly above those generated by an individual residential activity.

In summary:

- It is anticipated that the population of Ōpōtiki will increase by 1,219 residents and that this will require the building of 306 houses
- It is anticipated that a small percentage of the increased population will be accommodated through rural-lifestyle development and land presently zoned coastal settlement such as the 'Drifts'
- The aging state of the Township's sewerage provides a significant constraint to residential infill development and the ability of the system to accommodate new aquaculture processing and other associated industrial activities
- The Hikutaia area is presently considered capable of accommodating a significant proportion of growth through both land presently zoned residential and an extension to the residential zone on land presently zoned rural
- The Hikutaia area is not presently serviced by reticulated sewerage and for the population to increase in this area there is a need for a reticulated sewerage disposal system from health and environmentally sustainable perspectives

- The settlement of treaty claims over the life of the LTP will create a dynamic situation that is likely to place additional demand on Council's facilities and in particular the Hikutaia area where the on-site disposal of sewerage and waste from a significant activity will be undesirable from both health and environmentally sustainable reasons.

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
That urban development has been adequately catered for and that planned for infrastructure can cope with expected development.	High	High

**11 - Development of commercial Aquaculture Industry and an all-weather Navigable Harbour Entrance at Ōpōtiki**

The Ōpōtiki Harbour Transformation Project is comprised of two interdependent projects: one is the Eastern Seafarms aquaculture venture – the country's largest offshore marine farm, the other is a large scale infrastructure project to improve the navigability of the Ōpōtiki Harbour entrance. Together these projects have the potential to transform the Ōpōtiki community from high levels of deprivation and social spend, to social and economic independence.

The Eastern Seafarms marine farm site is located 8.5km off the Eastern Bay of Plenty coastline and when fully developed will have a total area of 3,800 hectares. Comprehensive research and investigations undertaken as part of the development of the proposal determined that the site is potentially one of the most productive marine farming areas nationally and, in all probability, internationally.

Eastern Seafarms holds all necessary resource consents for the development of the multi-species marine farm. A commercial trial involving three mussel lines (15km total length) commenced in October 2010 and trials with other species are underway. The resource consents enable diversification into other species including scallops, pacific and flat oysters, goeduck, paua, native seaweeds, and sea cucumbers.

The Ōpōtiki District Council has led the development of a proposal to recreate a usable harbour entrance that provides a level of access suitable for servicing the Eastern Seafarms marine farm. In July 2009 all necessary resource consents were granted for the improvement works, including Regional and District Council consents and restricted coastal activity approvals from the Minister of Conservation. A concession for the use of land has also been approved by the Department of Conservation.

As can be seen from the timelines below the Eastern Seafarms marine farm and the harbour entrance improvements are inextricably linked. For Eastern Seafarms the proximity of the marine farm to servicing and processing facilities is a key determining factor in the long-term viability of the farm's development. Currently, the nearest suitable port is Tauranga, however its distance makes it unfeasible. Locally, the Whakatane and Ohiva harbours both have difficult

## Assumptions

entrances, a lack of suitable land for servicing and processing facilities and conflicting uses in and around the harbour. Locating the servicing base in Ōpōtiki is the most cost effective option, subject to a reliable entrance being created.

Similarly, the benefits of the Ōpōtiki harbour entrance improvements project will only be fully realised if the Eastern Seafarms marine farm servicing and facilities can be located in Ōpōtiki with the resultant social and economic benefits to the community.

Aquaculture Industry		Ōpōtiki Harbour Development	
Investment Decision	January – July 2014	Investment Decision	July 2014
Construction	July 2014	Construction Start	April 2015
First Harvest	September 2015	Construction Finish	June 2017
*Processing Plant	June 2017		
*The construction of the processing facility is not clear at this stage but given that transportation is assumed to be a major cost both in terms of \$'s and in loss of product condition it is assumed it will be completed in alignment with Harbour Development Project			

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
That the Aquaculture Industry and related Ōpōtiki Harbour Transformation Project will continue to develop as planned.	High	High

### 12 - Treaty of Waitangi Settlement

A significant Treaty of Waitangi Settlement with the Whakatōhea Iwi is expected within the planning Horizon of the 2012-22 Long Term Plan. Crown expectations are that settlement is reached in 2014 however this might be ambitious. Certainly the down-stream benefits to the Ōpōtiki District Community are likely to materialise beyond that point in time. However the reality that settlement will occur within the planning period is an important consideration when considering the future of the Ōpōtiki District. Both of these issues will have significant impacts for the Ōpōtiki District Community and its population. The quantum and nature of any settlement are varied with many outcomes likely. The settlement value could be anywhere from \$40,000,000 to \$170,000,000. Given that Whakatōhea Māori Trust Board are currently developing strategies to investment Treaty Settlement proceeds locally with a view to benefit Whakatōhea people within the Rohe and to attract its people back to the area any settlement within that range specified will have an impact on the Ōpōtiki District. A similar impact is evident in neighbouring Whakatāne as a result of the 2005 Ngāti Awa settlement.

Whilst specifics are not yet available it is clear that the Whakatōhea Māori Trust Board intend to invest Treaty Settlements in areas that create opportunities for its people and that those opportunities will primarily be based within the Ōpōtiki District. Investments are likely to be

made in the areas of health, education, and employment creating industries such as Horticulture, Forestry, Agriculture and Aquaculture. Such investments will have a material impact on the future growth of the Ōpōtiki District.

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
That there will be a Treaty of Waitangi Settlement with Whakatōhea Iwi with the life of the 2012-22 Long Term Plan	Low	Medium

### 13 - Funding of the Ōpōtiki Harbour Redevelopment

As mentioned in section 11 of this document the redevelopment of the Ōpōtiki Harbour is fundamental to the developing Aquaculture Industry in the Eastern Bay of Plenty and is central to the Ōpōtiki District reaping the associated economic and social benefits.

Combined with the on-going development of the commercial Aquaculture Industry, an all-weather Navigable Harbour Entrance at Ōpōtiki has the potential to transform the Ōpōtiki community from high levels of deprivation and social spend, to social and economic independence.

The securing of all necessary resource consents for the redevelopment of the Harbour in late 2009 by the Ōpōtiki District Council means that the project is now much more than a vision. A considerable amount of resource has been committed to getting the project to the point where construction is a reality subject to funding.

The redevelopment of the harbour however is a project that comes at significant cost. That cost cannot be, and should not be borne by the Ōpōtiki District Ratepayers alone. At an estimated investment of \$35,000,000 to \$60,000,000 the redevelopment is well outside the affordability reach of the Ōpōtiki District Community on its own. Having said that economic and social impact assessments undertaken to date demonstrate that the redevelopment project and the developing Aquaculture Industry have a range of benefits that are National, Regional and Local and as a result there is a sound case for public funding far beyond that of the Ōpōtiki District Boundaries.

A fully operative Aquaculture Industry serviced direct from the Ōpōtiki Harbour will without doubt benefit the Ōpōtiki District Community in terms of social and economic outcomes however the Regional and National benefit should not be overlooked. Initial estimates are that the Aquaculture Industry could be worth some \$26,000,000 in terms of regional Gross Domestic Product (GDP). This also has a flow on National GDP, and other national benefits such as a potential reduction in the need for tax payer funded social services in the Ōpōtiki District.

Given the local, regional and national benefit a funding partnership between the Ōpōtiki District Council, the Bay of Plenty Regional Council and Central Government has been assumed. Whilst the detail is not known at this point in time it is assumed that the funding from other stakeholders is likely to be a mixture of grant funding and suspensory loan. The following funding splits are assumed for the purposes of the 2012-22 financial forecasts.

Funding Partner:	Contribution:
Ōpōtiki District Council	*10.6%
Bay Trust	0.40%
Bay of Plenty Regional Council	40.50%
Central Government	48.50%
<b>Total</b>	<b>100%</b>

\*this is \$5.45M

It is acknowledged that these assumptions have yet to be tested and therefore there is a moderate level of uncertainty around them at this point in time. However given that planned construction is beyond the first three years of the LTP Council is of the view that the level of risk is minimal. The funding assumption will be tested over the next three years and the Long Term Plan can be updated to reflect funding arrangements as they firm up over time.

Further to the above if external funding is not available to support the Harbour Transformation Project then it will not go ahead and associated expenditure will not occur. This is simply because the level of investment is way beyond the Ōpōtiki District Community's ability to pay.

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
External Funding is available in support of the Ōpōtiki Harbour Transformation Project	High	High

#### 14 - Pseudomonas syringae pv. actinidiae (Psa)

Psa is a bacteria that can result in the death of kiwifruit vines—if the degree of infection is severe enough. Psa carries no risks associated with human or animal health and does not affect plants other than kiwifruit vines. Psa is believed to be spread by weather events, namely wind and rain, and plant material. It is also believed to be spread by footwear, vehicles and orchard tools. In an orchard it can exist as:

- an epiphyte, living on plant surfaces without causing high levels of infection; and/or,
- as an endophyte, living within the vine, having entered through natural plant openings or man-made wounds - resulting in severe infection.

Growth of the bacteria outside/inside the vines can result in leaf spotting, cane/leader dieback and, in extreme cases, vine death accompanied by the production of exudates.

Psa has been present and spreading in the Bay of Plenty and other parts of the North Island since 2010 and has the represents a material risk to the Ōpōtiki Kiwi Fruit Industry in the medium term.

The Ōpōtiki District has been identified by Kiwi Fruit Vine Health (KVH) as a priority zone for Psa. This means that Ōpōtiki District is an area that is infected with Psa-V (including a buffer) where containment strategies are prioritised. Latest information is that 29 Orchards have been tested as positive for Psa including one in Te Kaha.

The overall impact of Psa on the Ōpōtiki District is largely an unknown at this stage. What is known is that the various types of Kiwi Fruit respond differently to the infection i.e. some are more susceptible than others. Rain and cooler temperatures appear to be driving the spread of Psa so orchards within coastal areas may be less exposed to the risk of spread.

Rootstock have proven to be very tolerant to infection which is a good sign as the rootstock is a valuable asset and indications are that rootstock will not need to be removed. Re-grafting is then an option however is does come at a cost of approximately \$40,000 per hectare so likely to provide a cash flow problem to growers as re-grafting will see a material drop in production for a period of time.

A range of financial assistance packages are being investigated with Central Government ranging from "kick start" loan packages to assist growers with the cost of re-grafting, assistance from the Inland Revenue Department, and changing the adverse events framework so it may apply to the Psa event – currently it is predicated on a climate based event and is therefore not applicable. Cabinet is currently considering amending the framework.

Industry effort has been focused on management practices around containment of spread and investing in science (new varieties/Psa resistant) to find a solution. Current forecasts are that if the planned recovery path is successful then the industry should be back to pre Psa production levels by 2015-2016.

The main risk for the estimates within the LTP is the potential for decrease in the value of Horticulture Land in the 2013 District Wide Revaluation. Such a decrease could see a temporary incidence shift in rating from the Horticultural Sector of the community to others.

Given the management practices in place, the proactive approach of the Industry in terms of recovery plan and the fact that any devaluation is likely to be short term in nature, the risk and impact of such to the LTP estimates is considered to be relatively low.

Assumption:	Level of Uncertainty:	Impact on Integrity of LTP:
That Psa will have a short term impact on the Horticulture sector in the Ōpōtiki District	Medium	Low

