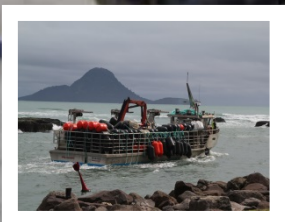
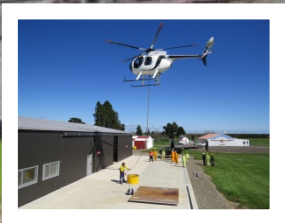
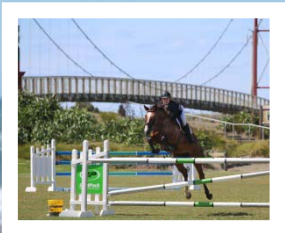


Ōpōtiki District Council 2015-2025 Long Term Plan

Te Huarahi Whakamua mo Te Rohe o Ōpōtiki



Contact Us

Council Office

Address: Ōpōtiki District Council
108 St John Street
ŌPŌTIKI 3122
PO Box 44
ŌPŌTIKI 3198

Telephone: 64 07 315 3030
Facsimile: 64 07 315 7050
Email: info@odc.govt.nz
Website: www.odc.govt.nz
Facebook: www.facebook.com/ŌpōtikiDistrictCouncil

Bankers: ANZ
Tauranga

Auditors: Audit New Zealand
Tauranga
For the Controller & Auditor General

Insurance Brokers: AON New Zealand
Tauranga

Contents

Contact Us	2	Council Reserve Funds	104
Contents	3	Council Reserve Funds - continued	105
Message from the Mayor and CEO	4	Council Internal Borrowing	106
Consultation Document	5	Accounting Policies	107
Part One	7	Funding impact statement	116
Council Priorities and Direction	7	Rates	119
Looking Back	8	Fees and charges	125
Introduction	8	Audit Opinion	138
The 2006-16 through to 2012-22 Long Term Plans	8	Part Five	141
Future Priorities and Direction	10	Council Policies	141
The 2015-25 Long Term Plan	10	Introduction	142
Financial Strategy	14	Policy: Significance and Engagement	142
Disclosure Statement	22	Policy: Revenue and Financing	146
Part Two	27	Policy: Rates Remission on General Land	162
Introduction and Community Outcomes	27	Policy: Rates Remission on Māori Freehold Land	165
Introducing the Ōpōtiki District Long Term Plan	28	Policy: Rates Postponement on Maori Land	168
Overview of the Ōpōtiki District	29	Postponement of Rates in Cases of Extreme Hardship	169
Introduction to Ōpōtiki District Community Outcomes	31	Policy: Development Contributions and Financial Contributions	170
How Council contributes to the Community Outcomes	36	Policy: Treasury Risk Management Policy and Procedures including Liability	
Part Three	41	Management and Investment Policies	172
Council Activities	41	Council Controlled Organisations (CCOs)	187
A guide to the groups of activities	42	BOPLASS Ltd	187
Community and Cultural Sustainability	43	TOI-EDA	188
Environmental Sustainability	64	Appendices	189
Economic Sustainability	81	Planning Assumptions	189
Part Four	97	Summary of Waste Management and Minimisation Plan	204
Financial Information	97	Summary of Assessment of Water and Sewage Services	204
Forecast Financial Statements	98	Land Transport Programme	206
Prospective Statement of Comprehensive Revenue and Expense	99	Road Safety	206
Prospective Statement of Changes in Equity	100	Ōpōtiki District Council Infrastructure Strategy 2014-45	208
Prospective Statement of Financial Position	101	The Role of Council	228
Prospective Statement of Cash Flows	102	Ōpōtiki District Council Elected Members 2013 to 2016	229
Prospective Capital Expenditure Programme	103	Ōpōtiki District Council Organisational Structure	230

Message from the Mayor and CEO

We are pleased to present our Long Term Plan for the 2015-2025 period. The plan outlines our projects, finances and indicative rating for the coming ten year period. We have looked out further with a 30 year infrastructure plan and we take an even longer term view when we plan to build our assets.

Our Previous Financial Approach Continues

Council is continuing with its previous strategy to financially position itself to be able to deliver the infrastructure and services needed to support growth. Following the GFC, we are increasingly optimistic about the economic prospects for our district – the growth of industries around aquaculture, kiwifruit, tourism, dairy, manuka products and apiculture give us reason to view the future with excitement, tempered by the knowledge that there is much work ahead. The prospect of fast internet also provides exciting opportunities to capitalise on.

Our debt remains low with spending only on essential infrastructure or where grant funding is leveraged. We continue to maintain your \$180 million of infrastructure assets – roads, sewers, water pipes etc. and upgrade these as the need arises. Operating these assets and delivering these services comes at a cost, and council endeavours to meet compliance standards and service requirements while managing its finances prudently.

Government imposed increases in compliance standards, and increased community expectations continue to drive rates increases, and we expect this trend to continue. With the large projects facing Council we recognise the need to lift our capability and capacity over time to ensure we can meet the challenges ahead.



John Forbes
Mayor of Ōpōtiki



Aileen Lawrie
Chief Executive Officer

Harbour

The harbour upgrade and related Aquaculture project is continuing to advance towards becoming a reality. Aquaculture companies are now operating commercially and we are in a government due diligence process of considering our request to make up the balance for the estimated \$52M project. We are actively working through meeting a range of conditions to enable us to access the Bay of Plenty Regional Council Regional Infrastructure Fund money and envisage a similar process with central government, through to the commencement of construction of the harbour. Construction will commence when we have satisfied all the milestones set by funders, with progress in the commercial aquaculture and harbour users being key to this.

Wastewater

The Ōpōtiki wastewater upgrade project is still in the assessment stage. We have installed measuring and recording equipment in our sewers, collected data from rain and flood events and are starting the analysis to take us to an optimal outcome. Around \$12 Million is budgeted for this project.

Other projects

Other key projects are the proposed research and technology library and cycleway extensions. We have decided to expand our waste collection services and cease collecting development contributions due to legislative changes. Given funding changes and the risks to long term road funding we have decided not to do any road sealing in year 1 of our LTP. Over the next year we hope to gain a better understanding of government direction, consider options and have dialogue with the community about how, and on what terms road sealing can continue in the new funding environment.

Consultation Document

This year for the first time Council was required to prepare a Consultation Document as a new way to consult with our ratepayers. This document was sent to every property in the district, and to every ratepayer living outside the district in April, and over a period of a month Council invited submissions from the public on the matters contained within the document and any other matter of importance.

The key purpose of the new document was to provide an easier way to consult with ratepayers, and it enabled Councils to be more innovative in the way that they did this. The document was required to outline the key issues for Council over the next ten years and provide options for the public to submit on. For us the key issues that were consulted on were;

- Stormwater, flood relief, marina.
- Roothing seal extension
- Solid waste collection
- Wharf repairs
- Revenue and financing policy changes
- Central business district look
- Growth areas
- Development contributions

Council also provided updates to the community on the harbour development and the Ōpōtiki wastewater renewal projects.

Results of the consultation and submission process found that the majority of the public agreed with most of the Council's preferred options for the issues.

The waste collection service has been extended as proposed. The weekly Tuesday service now accommodates residents in Stoney Creek Road, Waiotaha Drifts/Appleton Road, and Paerata Ridge (to Thompson Road).

Council had consulted about whether to continue road sealing, as it has been faced with reduced government funding and sealing roads with less usage could result in the government not funding maintenance or re-seals. Submissions were split on the issue, and Council decided to defer the matter to allow a better understanding of the impacts of reduced central government funding and the road classification being developed.

Over the next year Council staff will monitor developments with the New Zealand Transport Agency and talk with the community about how, and on what terms, road sealing could continue in the new funding environment.

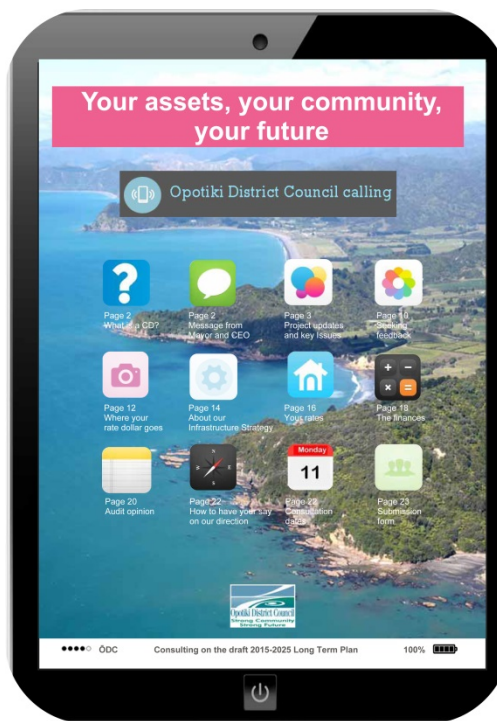
In December 2014 Council received an engineering report identifying that the middle "1920's" section of the main wharf is unsafe for use. Council proposed to demolish and replace it at the same time. However costings to do this were higher than expected. Our LTP consultation document provisionally proposed \$1 million in year one for a partial replacement and \$1.2 million in 2020. The detailed report showed the partial replacement would cost up to \$2.5 million (depending on the design selected), and that a further \$700k would be needed to continue keeping the remainder of the wharf in working condition for the next 10 years.

Consequently we will demolish the older section of the wharf, and start ongoing corrosion control on the remainder, in year one of the LTP. The area will be tidied up on completion of this work and we will seek a resource consent for a full replacement (excluding the newer timber section) to be built in time for completion of the harbour entrance.

Council will stop collecting development contributions from July 1 2015. This comes on the heels of Local Government Act changes that make collecting and applying development contributions more difficult than they were previously.

We hope removing the need for these payments will reduce barriers to Ōpōtiki's future growth. We will apply a portion of contributions already collected to projects meeting the requirements of the legislation over the next 10 years and will refund a portion of the contributions collected for the proposed event centre that will no longer be built.

Since the preparation of the consultation document, Council has firmed up pricing for some contracts, which has enabled savings. The rate rise has therefore been reduced from 5.86 percent, as proposed in the consultation document, to 5.80 percent.



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 through to 2012-22 Long Term Plans

For the large part Council's strategic direction has been relatively consistent over the last three 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 were stated in the 2012-22 Long Term Plan and have presented themselves in a number of ways over the last nine years. Key examples include:

- The strengthening of Council's balance sheet through the continued management of debt,
- Identification and improvements to 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 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.

The 2012-22 Long Term Plan continued this approach with a financial strategy based around rates affordability issues, the effect of the global financial crisis, and expected impacts of psa on the kiwifruit industry. Debt was projected to only increase by \$2 million to 2015 through the start of the wastewater network replacement, in reality however, because of delaying the start of the wastewater network replacement we have actually reduced our level of debt over the period.

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.

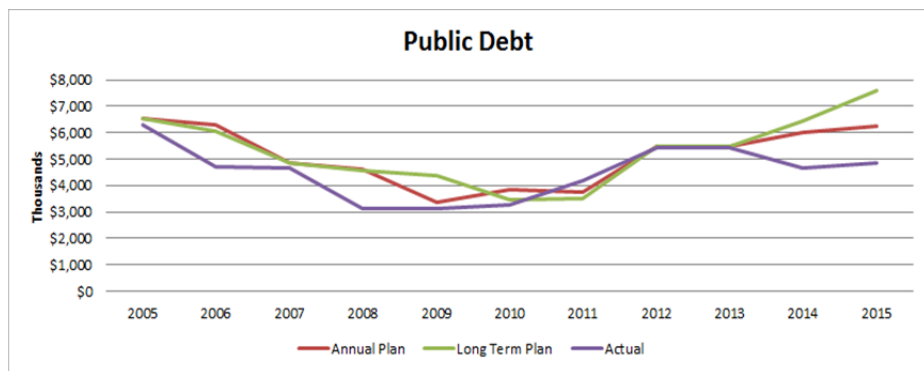
The following table outlines the key projects proposed by the 2012-22 Long Term Plan and provides an understanding of progress made to date.

2012-22 Long Term Plan Project	Description:	Progress to Date:
Library Upgrade \$1.2m	Redevelopment of the Library, dependent on external funding. Planned for 2013/14	A much larger concept design was completed and circulated. Funding applications prepared and submitted
Harbour Transformation Project \$52m	Development of all weather access to the harbour to enable growth in the district and aquaculture. Planned for 2017/18	Project has progressed significantly in terms of obtaining a funding. Commitment from Regional Council, now nearing a decision from Central Government for the remainder. Timelines have been pushed out and aligned with the aquaculture industry for completion in 2019/20
Ōpōtiki Sewerage \$13.7m over term of the LTP	Renewal of reticulation to overcome groundwater infiltration and extend supply to other areas.	Undertaking condition assessment and modelling to determine the upgrade methodology and extent. Start of replacement to occur in 2015/16

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

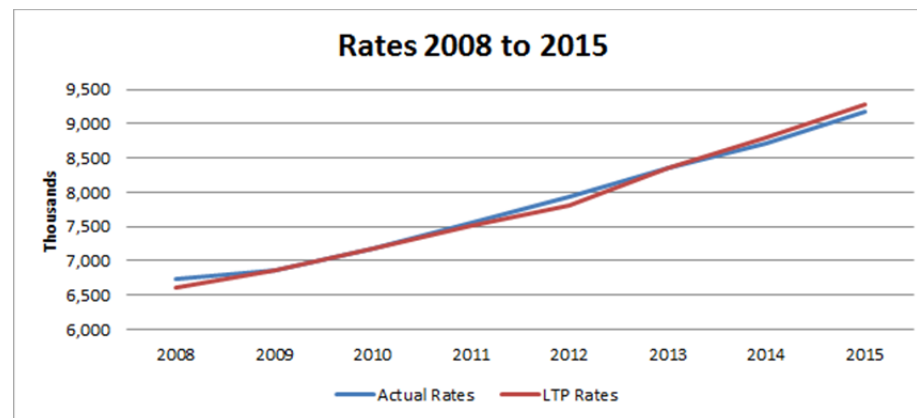
developed. The completion of the Mōtū Trails Cycleway represents a major asset to the Ōpōtiki Community, the Eastern Bay of Plenty and to Gisborne. Further to the benefits of having an iconic cycleway within the Ōpōtiki District the Mōtū Trails Cycleway project enabled Council to realise a long time 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 is looking at the next stages of this which will form part of the Eastern Bay Cycle Strategy, these will be extending the dunes trail a further 1.8km to the harbour entrance, creating a cycleway link between the township and Waiotahi, and upgrading the Tirohanga Military Track.

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 Long Term Plan Forecasts. The graph below shows that historic rate increases have been closely aligned to Rate Revenue Forecasts over the last three Long Term Plans. This demonstrates a disciplined approach by successive Council's when considering affordability.



The following policy ratios are established by the Council's Financial Strategy. 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 2015.

Ratio:	Policy Limit:	Expected Outcome 30 June 2015:
Net Debt/ Equity	≤ 10%	1.45%
Net Interest Expense/Total Revenue	≤ 10%	1.38%
Net Interest Expense/Rates Revenue	≤ 15%	2.17%
Net Cashflows from Operating Activities/Net Interest Expense	≥ 2.0	11.78

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 2015-25 Long Term Plan

The 2015-25 Long Term Plan (LTP) starts to deviate away from the strategic theme of consolidation that was consistent over the last few Plans, this is because the early part of the LTP requires a considerable amount of capital expenditure in the Ōpōtiki Wastewater Network, and the Harbour Development. Up until now these projects have comfortably sat outside year three, meaning that they would have another Long Term Plan to firm budgets and timelines up. Now with both of these projects commencing in the first three years of the LTP the theme of this LTP needs to move from a passive financial consolidation state, into a proactive project management state. This is to ensure that Council is able to respond to needs of the community for growth whilst still managing finances, rates increases and debt prudently, to ensure at the end of the day all that we are planning to do and achieve is affordable.

Harbour Transformation Project

The Harbour Transformation Project is a significant investment for the Ōpōtiki Community and other key partners. 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 more than a 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. 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. Successive annual Community surveys have further reinforced the public support with 75-89% of those surveyed considering the harbour was important to very important with 75% of those indicating they would be prepared to pay additional rates to fund the development.

Council has undertaken a deliberate and careful 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.
- Regional Infrastructure Fund – successful funding application 2014
- Workforce Development Study – Martin Jenkins 2014
- Beginning of District Plan review process – zoning for industrial land 2014
- Report on likely Users of the harbour 2015
- Better Business Case application with Central Government 2015

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 likelihood that the Harbour Transformation Project will go ahead during the life of the 2015-25 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. The organisation itself also needs to have the capacity and capability to deliver the project, and to support the demands of growth across its functions.

Wastewater

Deteriorating performance and subsequent investigations 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.

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 likely to be widespread. 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.

Council is currently undertaking the condition and performance assessment work identified in the 2012-22 LTP as being required before the best solution can be tailored. It is expected that this period of assessment will be completed by the end of 2015, and a decision on whether full replacement is required and what solution may be appropriate is expected in early 2016. One of the key assumptions to this LTP is that without the result of the assessment work Council is not in a position to amend what was already proposed in the 2012-22 LTP. So it is the full replacement of the network as budgeted in the 2012-22 LTP that Council have used as the basis, with adjustments to pricing and inflation to reflect the current market.

This LTP provides for the investment in the Ōpōtiki Wastewater Network Reticulation in three phases. The first phase, currently in progress, is a detailed investigation into the condition and performance of the network. This phase has the objectives of determining whether full replacement is required and providing technical data for the succeeding phase. The second phase has been divided into five stages in line with successive financial years 2015/16 though to 2019/20, the first stage is the upgrade scheme design, using conclusions from the investigation programme. The remaining stages 2 to 5 spread the project funding across financial years. 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 phase of planned investment is scheduled for the later years of the Draft LTP 2018/19 to 2022/23 and relates to extending the reticulation network to cater for growth expected as a result of the developing Aquaculture Industry. Already zoned as Residential, areas south of the town in the Hikutaia area are likely. Further information on the expected growth can be found in the planning assumptions section of this LTP.

The first two phases of investment in the Ōpōtiki Wastewater Reticulation Network are considered essential. Whilst capacity has been provided for replacing the existing infrastructure, the actual cost of the project will not be accurately known until the detailed investigation and design work has been

completed and extent of required replacement determined, as well as the most cost effective solution over the life of the asset. The third phase (expanding the reticulation) 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. The third phase may be either or both of the identified options (South of town and Hikutaia) depending on the rate and extent of growth.

Summary of Substantive Projects

In summary the LTP 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. Alongside these projects is a need for Council as an organisation to grow capacity and capability to support the projects and the resulting growth.

Other Key Projects

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

Key Capital Expenditure	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Cycle Way	130,000	133,120	178,432	96,921	354,272	148,096	11,734	12,109	93,818	12,934
Property	2,240,000	1,884,160	-	-	1,882,070	-	58,670	1,210,900	1,250,900	3,880,200
Harbour Development	740,681	293,058	22,222,587	19,805,416	8,908,000	-	-	-	-	-
Land Transport	1,675,330	1,434,533	1,453,979	1,336,401	1,349,750	1,363,225	1,446,215	1,460,697	1,475,305	1,586,504
Water Supplies	1,230,000	2,272,182	326,076	441,320	444,483	5,898	61,160	63,485	66,025	440,320
Stormwater	630,000	768,120	438,331	297,891	-	235,920	-	355,516	382,945	646,720
Wastewater	380,000	2,514,984	3,243,418	3,433,595	3,665,488	943,680	1,675,784	1,815,671	1,584,600	-
Plant and Vehicle Replacem	200,000	205,000	210,340	216,020	222,280	228,940	236,040	243,820	252,100	261,180

Cycle Way

Building on the success of Mōtū Trails we propose to 'grow the ride' over the term of the LTP. New trails are planned for Tirohanga Military Track, Ōhiwa, Waioeka stopbanks and the Waiōtahe Coast. The vision is to link Mōtū Trails, the Dunes Trail west to Ōhiwa - enhancing the experience and growing a multi-day ride – the best coastal ride in NZ. Looking further afield we are engaged with neighbouring Councils to develop an integrated Eastern Bay of Plenty Trail – linking Ōpōtiki to Ōhope and beyond.

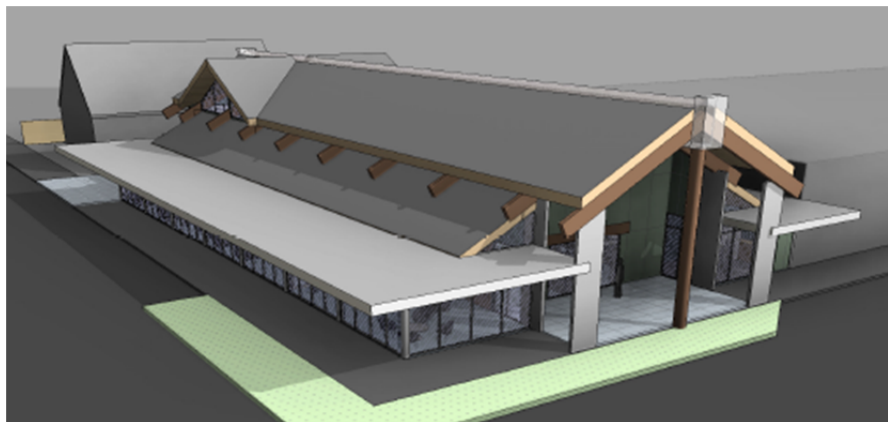
Property

Library Redevelopment

The redevelopment of the Ōpōtiki Library is a long time community aspiration and has been consulted on in various Long Term and Annual plans. The project is scheduled for year 1 and 2 of the LTP, and has been advanced to building consent stage (required by most external funders). Council continues to undertake local fundraising, as well as having a focus on applying to external grant funders over the coming months. Following the theme of the last LTP the redevelopment of

Future Priorities and Direction

the Ōpōtiki Library is subject to Council receiving external funding, and realistically it will take a positive decision by one of the large funds for the community to realise this project.



Wharfage

We have included budget for wharf works in the early part of the LTP to repair, demolish and put in place the consents for the future. Recent engineering reports have identified that the central 1920's portion needs to be demolished as it is potentially hazardous. The budget we have included should enable Council to fully replace the 1920's and 1940's portions in time to meet the needs of users following the completion of the harbour entrance. Over the next few years we can give consideration to the required wharf specifications and identify potential users to offset the investment. In the meantime the site will be made safe, and community use can continue in the water playground.

We have included budget in the latter part of the LTP once the harbour has been completed and the aquaculture industry is booming to allow for Council to make in-roads into the CBD development. This may involve conceptually turning the town CBD around to face the water. Both this project and

the previous wharf project will be in subsequent LTP's so will be available for consultation a number of times before any commitment is made. We feel however that we would be remiss not to take some of these 'Big Picture' issues into account and allow for some budget into the future.

Harbour Development

This is covered off in detail above.

Land Transport

The projects in the land transport activity allow Council to maintain the roading network to the current standards. There have been shifts over the last few LTP's on how NZTA propose to fund Local Authorities for maintaining roads. We have again been advised about changes to NZTA escalation rates late in the piece of preparing our LTP. It is apparent that NZTA do not want to fund seal extension work now or in the future. This leaves Councils and ratepayers with the burden of funding these types of works themselves. Roothing classification measures have been applied to most Local Authority roads by NZTA, and it is the ones with higher traffic counts that get the bulk of the funding.

That being said deprivation factors applied to our proposed funding rates have meant that towards the end of the LTP period our funding rate moves from 51% to 75% as indicated by NZTA. These are early indications that we need to monitor closely, but it is a move in the right direction. The increases could be tempered by other NZTA funding constraints however.

Water Supplies

The Water Supply for the Ōpōtiki Central Township underwent an almost total scheme replacement in the mid-1990s, as such the Township's infrastructure is considered to be in good condition and performing satisfactorily to meet current levels of service and provide for short term growth. With additions to treatment and reticulation capacity not required for growth till beyond the term of the LTP, the only significant activities for the Ōpōtiki township are to address resilience vulnerabilities.

The Otara Rd trunk main and raw water line present the most critical of these vulnerabilities. The Otara Rd trunk main has no auxiliary in the event of its failure and the raw water line is unable to fully enable reservoir recovery potential. In the event of a disaster these assets present a high risk to delivery of service and so upgrades to these assets have been planned for 2015/16 and 2016/17.

The Hikutaia reticulation was not renewed along with the Ōpōtiki Township and in nearing the end of its useful life will require partial replacement within the term of this LTP. Additionally the scheme suffers from an inability to provide for growth or meet desired levels of service in certain locations. Therefore a new connection to the Ōpōtiki scheme, new pump station, new rising main and new loop mains are planned for installation through 2014/15 to 2017/18 which will serve three fold purposes of responding to growth, delivering desired levels of service and replacing the old Hikutaia reservoir and Crooked Rd rising main.

The Te Kaha scheme has recently undergone consideration for expansion in response to public consultation and coast community board interest. Both a northern extension to the Kereru River and a southern extension to Hariki Beach have been proposed for this LTP term. Said extensions will

include upgrade of the rising main to the existing reservoir, a secondary reservoir, 4km of pipelines and a capacity increase of the UV and filter components at the water treatment plant.

The majority of the above infrastructure has been put forward to be funded in large by the final year of subsidy from the Ministry of Health Drinking Water Assistance Programme.

Stormwater

The Ōpōtiki Stormwater scheme suffers from poor performance due to insufficient historical development of the infrastructure, combined with the historical infilling of drains; as such the Township suffers from poor delivery of service in events with greater than 1 in 10 year probability. In the 2013/14 year a preliminary model was produced for the Ōpōtiki Township catchments identifying a lack of capacity in critical and ancillary assets. In response, planned improvements for the 2015/25 LTP term include an increase in storage area for prompt relief of residential and commercial property, as well as new and upgraded trunk lines and pump stations to facilitate transportation and disposal of stormwater from the upper portions of the catchment. As the works are completed and newer knowledge of future weather and groundwater effects (climate change) is obtained, the stormwater model will be correspondingly developed. Upgrades to critical assets within and beyond the horizon of the LTP term will be refined and low criticality ancillary assets will be designed and replaced fit for purpose, as they reach the end of their useful lives.

Wastewater

This is covered off in detail above.

Fast Broadband

Council anticipates that the years ahead will see the widespread uptake of fast broadband across the district. Although only a peripheral player, Council intends to facilitate and support the installation of fibre, projects to promote the uptake of technology in the community, and to consider how it can deliver services cheaper, faster or better through the use of technology.



Image: Shelter at the summit of Pāpāmoa Hill.

Financial Strategy

Ōpōtiki District Council's Financial Strategy is an essential element in the 2015-25 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 2015-25 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.

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. These limits are derived from the Council's existing Liability Management Policy:

Borrowing Limits:

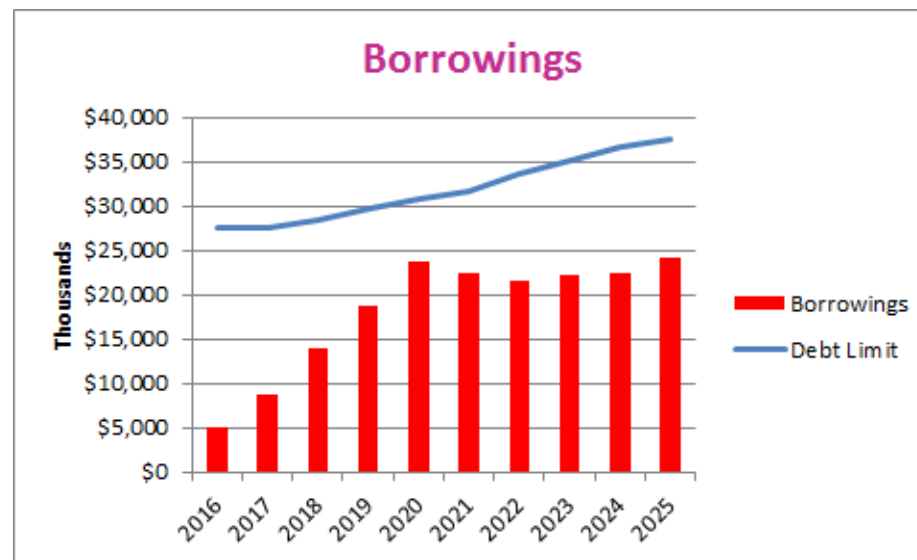
- Net interest expense/total revenue $\leq 10\%$
- Net interest expense/rates revenue $\leq 15\%$
- Net cash flows from operating/interest expense ≥ 2



The graphs on the previous page outline how Council expects to perform against all of the borrowing limits specified. In all years Council's borrowing falls within the limits set.

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 \$4.5 million to \$23.8 in 2020, and increase slightly after that to \$24.3 million by the end of the 10 year period.

The graph below outlines the expected borrowings over the term of the LTP, as can be seen the first five years is where the biggest impact is, with the renewal of the Ōpōtiki wastewater network and the investment into the harbour development. After that there are a number of smaller growth related projects which keep the borrowing levels high. It is anticipated that these projects will be led by demand for Council services from growth. Should the expected growth not occur within the timeframes projected these projects and borrowing will be delayed.



Council's external borrowings and interest-rate risk management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Rating Act. The security offered by Council ranks equally or pari passu with other lenders.

From time to time, and with Council approval, security may be offered by providing a charge over one or more of Councils assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. an operating lease, or project finance).
- Council considers a charge over physical assets to be appropriate.

Financial Strategy

- Any pledging of physical assets must comply with the terms and conditions contained within the Deed of Charge

Investments:

Our treasury risk management policy sets out the detail of the type of investments we currently hold, and our objectives and risk management strategies related to holding these investments. Our approach to investments is set out in our Treasury Risk Management Policy. However, we have minimal levels of cash investments as our focus is on minimising debt.

We are shareholders in the Bay of Plenty Local Authority Shared Services Limited and Toi Economic Development Agency. We also hold a small interest in the New Zealand Local Government Insurance Company Limited.

Other than to achieve strategic objectives, it is not our intention to undertake new equity investments. We will periodically review investments with a view to exiting at a time when market conditions are favourable and overall strategic objectives are not compromised.

Any dividend income is included as part of general revenue.

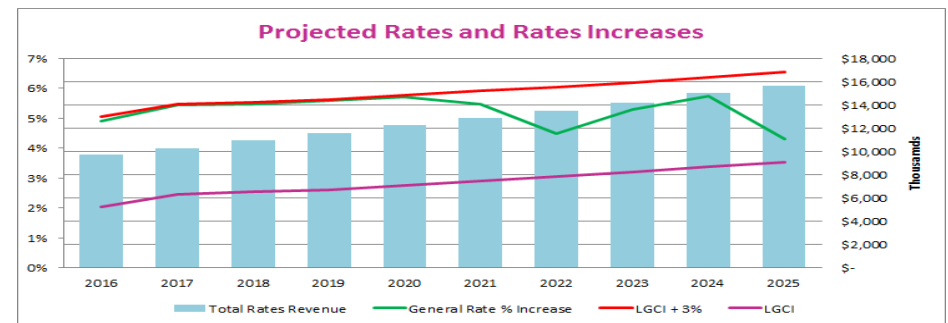
Any purchase or disposition of equity investments not identified in this plan is by Council resolution. At the time of disposal, we will determine the most appropriate use of sale proceeds.

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 general rate increases to the Local Government Cost Index (LGCI) plus 3%. Individual rate increases for ratepayers may be higher or lower than that average, but the overall increase in general rates revenue will be kept within a total annual increase of this limit. The self-imposed cap provides certainty to the community around future rates increases. This also enables Council to have the flexibility that should a particular group of ratepayers want additional services, Council can cater for this need through a targeted rate to that group. By capping the level of general rate increases this leaves targeted rates separate to enable funding of services for those that want additional services. Council thinks that this flexibility is important given the growth prospects currently out in the community. One of the outcomes of the strategy day we had with businesses in the district was that Council needs to be there to enable business, not disable it. So the last thing we need is to have a self-imposed rates cap hampering our ability to enable growth in others.

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.

General Rates Cap



Targeted Rates Cap

Targeted rates currently make up around 10% of Council's total income as of 2014/15, Council sees utilising targeted rates as the most effective way to fund additional services or increases in service levels to those that are willing to pay for them as mentioned earlier.

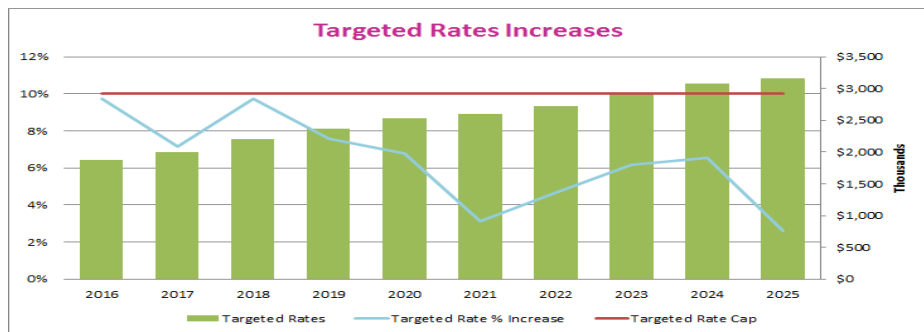
Council is required by law to set a cap on targeted rates as well, this is very difficult given the low starting point for targeted rates, we therefore need to set a high cap so that we don't breach our own limits. We have set a cap limiting increases in targeted rates to 10%, this is to ensure that the proposed increase in year 1 of the LTP is within the limit. The increase in targeted rates in year 1 are to cover the funding of the wastewater extension to Waioka Road, and the proposed extension to the solid waste collection area, as well as minor changes in the Revenue and Financing Policy to place more funding responsibility on those that receive the benefits of the activity.

Although 10% seems extremely high, in reality the starting point is very low, and we have not historically pursued the utilisation of targeted rates. We also only get to review the make up of how activities are funded every three years with the LTP, so ability to respond to requests has historically been hampered. Prior focus of Council was also on debt reduction, consolidation, and no changes to levels of service, it has been often said that "our ratepayers have gone without" in doing so. This new strategy separating out general rates increases from targeted rates attempts to address this.

There are two aspects of the caps that we have set in this financial strategy, our limit on general rates increases places importance on affordability, general rates are by far the largest component of rates, and includes the uniform annual general charge (UAGC). Having a limit close to LGCI or Council inflation means that Council is being prudent by ensuring it is not going backwards, but still having a focus on affordability to the ratepayer, and Council is very aware of this.

The limit on targeted rates is set high so that we can respond to requests for growth and increases in levels of service, bearing in mind that we don't get another opportunity to do this for another three

years. Our planned increases after addressing the inaccuracies in existing funding, and taking into account the proposed services mentioned above, are very low as illustrated in the graph below.



Population Forecasts

A little fewer than 8,500 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 9,432 by 2025. This is based upon the statistics NZ base data from the 2013 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.

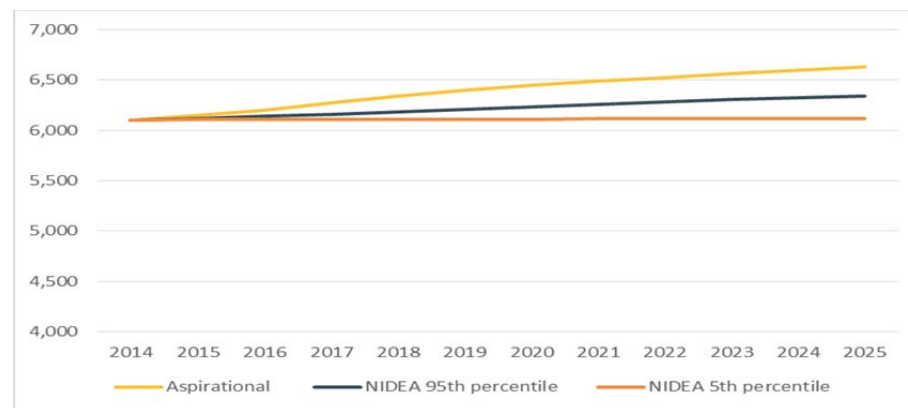
The increase in population over the life of the LTP will also have a corresponding impact on the number of rateable assessments. Historically Council has seen a growth in the rating database of approximately 1.4% on average over the last 9 years. The growth in rateable assessments has occurred in the 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.

Prior to 2013 year the number of rateable assessments grew on average around 73 new assessments per year, over the last two years this has come back to around 30 per year. In this LTP we have based the growth of the assessments on a combination of different factors. For example we have tied residential assessments growth to population growth, we have growth in the number of commercial assessments to the increase in residential assessments by applying a factor of 2.74. This means that for every new commercial assessment there would need to be a corresponding increase in the number of residential assessments of 2.74. So in layman's terms people moving into

the district is going to increase the number of commercial businesses to support the growth, which in turn is going to create jobs, and the need for more people.

We have also applied a growth factor of 0.97% to public assessments, these are things like parks, playgrounds, and reserves. It is expected that spatial planning for growth will set aside areas for recreational activities where there is residential development.



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 year 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.

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

Financial Strategy

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. 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.

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.

We are planning to consult on extending the solid waste collection area to some of the clusters of houses in the areas nearby, as mentioned in the rating strategy this will be funded by a targeted rate to those that get the service, so there will be no rating impact on those that are not getting a collection service. This has been included in the LTP at the request of the residents and ratepayers from those areas.

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.

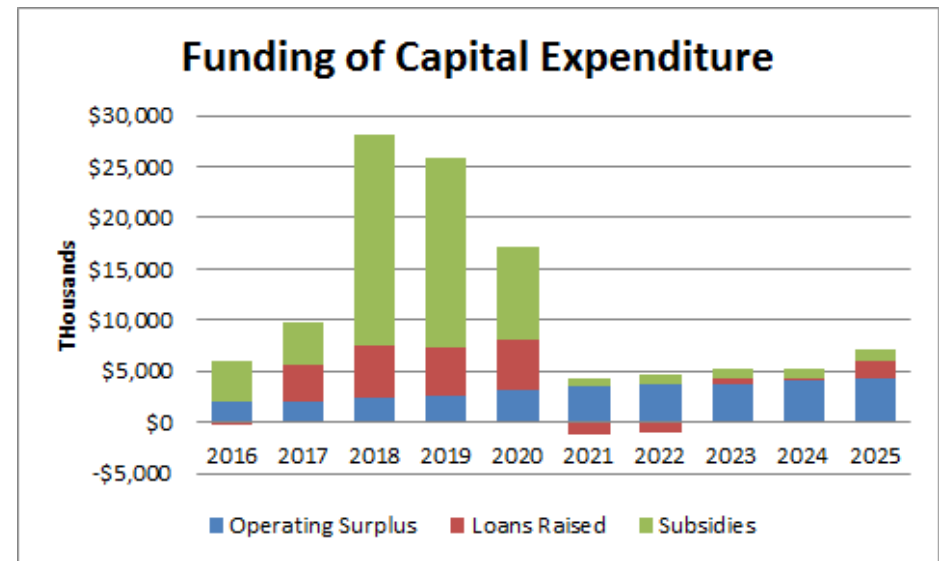
A further exception is the renewal of the Wastewater Service in the Ōpōtiki Township. The investment in the Ōpōtiki Township Wastewater Reticulation Network will result in an increased level of service for those residing in and visiting Ōpōtiki. The planned renewal of the reticulation network will rectify 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.

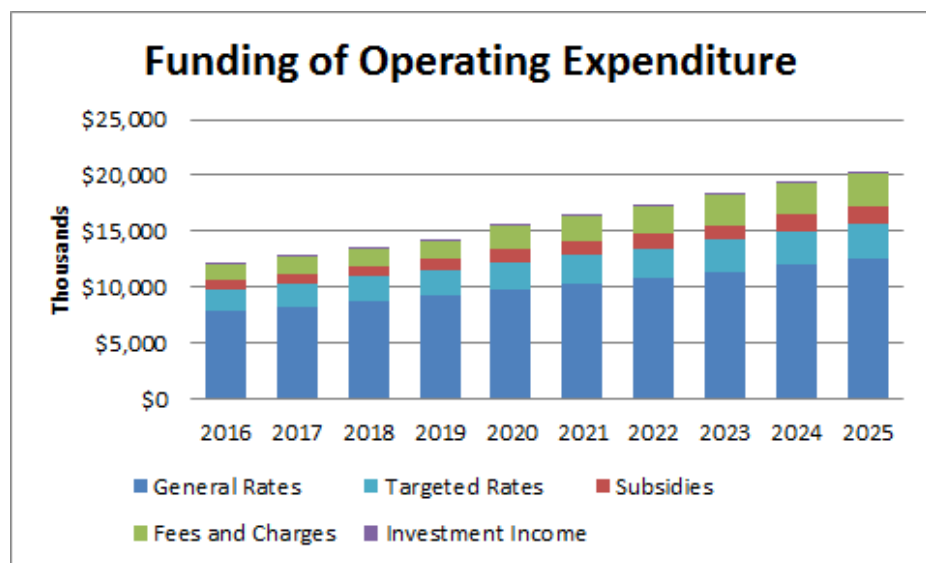
Council Expenditure

Council is forecasting that operating expenditure will increase from \$12.5m to \$20.1m between July 2015 and June 2025. 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 57% 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.

The large increase in Capital Expenditure in years three to five 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 projected rates and rates increase graph shown earlier shows total operating costs inclusive of inflation as measured by the LGCI at an average of 2.84% 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 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 \$52,000,000.

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 \$52,000,000 is very much a worst case scenario and that actual construction costs may be considerably less. Steel being a major component of the build means that steel price

fluctuations can have a significant impact upon the total cost of the project. Currently steel prices are low and working in our favour.

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/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 of Plenty Regional Council	\$20.0
Central Government	\$26.6
Total	\$52.0

*This is \$5.4M of borrowing

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 Central Government. This uncertainty translates to a level of risk, primarily in a financial sense but in part non-financial also. The Bay of Plenty Regional Council has confirmed their provision of grant funding of \$18 million towards the project, and have provided for an additional \$2 million to be made available as well.

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

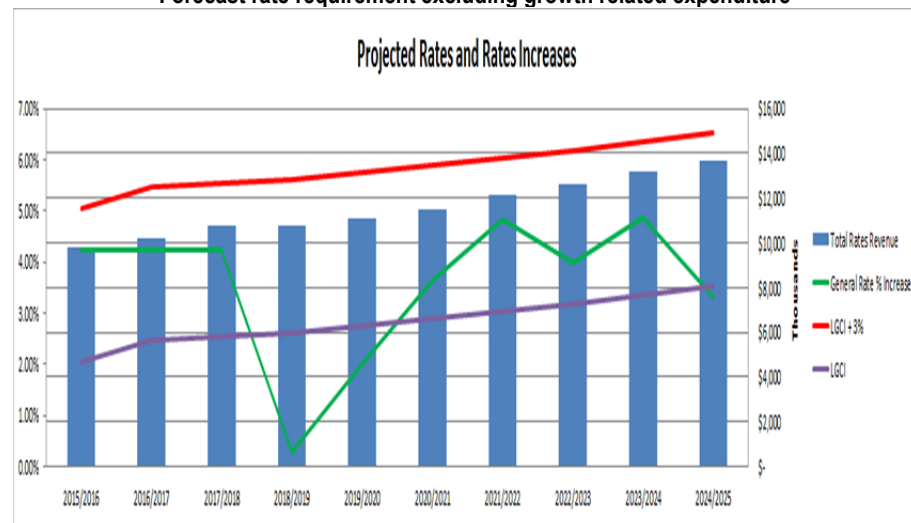
Financial Strategy

are unlikely to materialise as forecast. This will have downstream effects for other development/growth related expenditure proposed by this LTP.

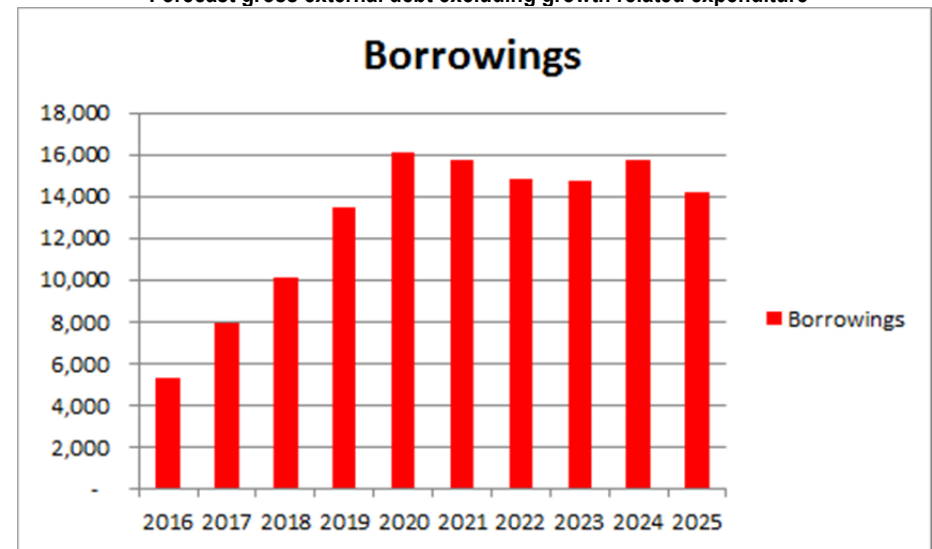
In particular the growth related expenditure forecast to extend the Ōpōtiki Wastewater Reticulation Network and upgrade to the Water Reticulation Network would not likely be required within the life of this LTP. For the most part this proposed expenditure is forecast to occur after completion of the Harbour Transformation Project in response to growth expected as a result of the developing Aquaculture Industry. This growth related expenditure (valued at approximately \$4,000,000) 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



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 is then that the budgeted level of revenue receivable will be reduced and the 5.4 million loan will take longer to be repaid. Following completion of the Harbour Transformation Project in 2019/2020 Council has budgeted for increasing Fees and Charges revenue from commercial users other than the mussel farm users. We expect users of the harbour entrance to increase over the term of this LTP even if the aquaculture industry fails.

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 2020, however the other related growth projects

will keep this level high for the duration of the LTP but are totally dependent on when and where the demand for growth arrives.

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 \$26.6m, which is still below the limits we have set in this financial strategy for debt. Total rate revenue however would exceed Council's self-imposed limit by 15% in 2019/20 due to Council not having the Fees and Charges Revenue to offset initial debt servicing costs, all other years of the LTP remain within the limits set. So the impact of this would also be minimal, and could be managed with deferral of payment to ease the burden.

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.

Funding of Depreciation

Council doesn't have a policy as such around funding of depreciation and how that relates to capital expenditure, in particular capital expenditure to renew existing assets. However in order for Council to focus on the long term sustainability of the asset base and how it is maintained, and renewed, the funding of depreciation is an integral part of creating intergenerational equity and ensuring that depreciation expenditure is put to good use. Theoretically depreciation is a non-cash estimate of the value of an asset that has been used up or utilised that financial year. So funding this depreciation enables Council to save money for the eventual replacement of this asset once it fails, or has reached the end of its useful life.

In certain instances the effect of fully funding depreciation may result in current ratepayers bearing a funding burden that is not entirely fair and equitable. Circumstances where Council will take the approach not to fully fund depreciation will be:

- NZ Transport Agency (NZTA) funding – NZTA will fund their share of renewal costs in the year that the renewal occurs. It is therefore not necessary for Council to fund NZTA's share of this cost
- Some low use buildings – these may be buildings that are unlikely to be replaced should they be destroyed in a disaster, depreciation should therefore not be funded. However, Council will continue to maintain these buildings as required in the interim
- Internal borrowing – Should unexpected renewal expenditure be required, Council may borrow internally from its reserves, these reserves could be reimbursed by external debt if required.

Making informed decisions about the levels of depreciation that Council chooses to fund enables Council to effectively smooth the impact on rates whilst also being prudent about how asset replacement can and should be funded. Council considers rates smoothing is financially prudent and is an effective mechanism to ensure that rates movements are at a level where they are contained within the acceptable limits set in this Financial Strategy.

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. General 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 \$9.7m in 2016 to \$15.6m in 2025.

Debt will increase over the 10 years from \$4.5m in 2015 to a maximum of \$24.1m in 2025 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.

This Long Term Plan and the accompanying financial statements were authorised for issue by Council on the 30th June 2015 at an extra-ordinary Council meeting.

In preparing the proposed financial information Council uses actual results as a basis for estimating future expenditure where levels of service are to remain constant.

It is not intended that the enclosed financial statements be updated subsequent to the presentation and adoption of this Long Term Plan.

Disclosure Statement

Long Term Plan disclosure statement for period commencing 1 July 2015

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

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

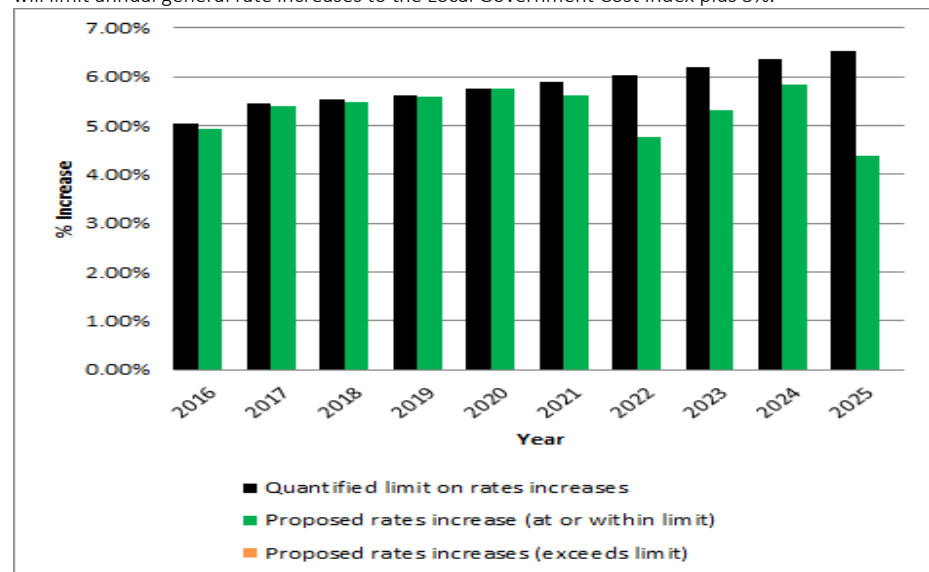
Rates Affordability Benchmark

The council meets the rates affordability benchmark if;

- Its planned rates income for the year equals or is less than each quantified limit on rates; and
- Its planned rates increases for the year equal or are less than each quantified limit on rates increases.

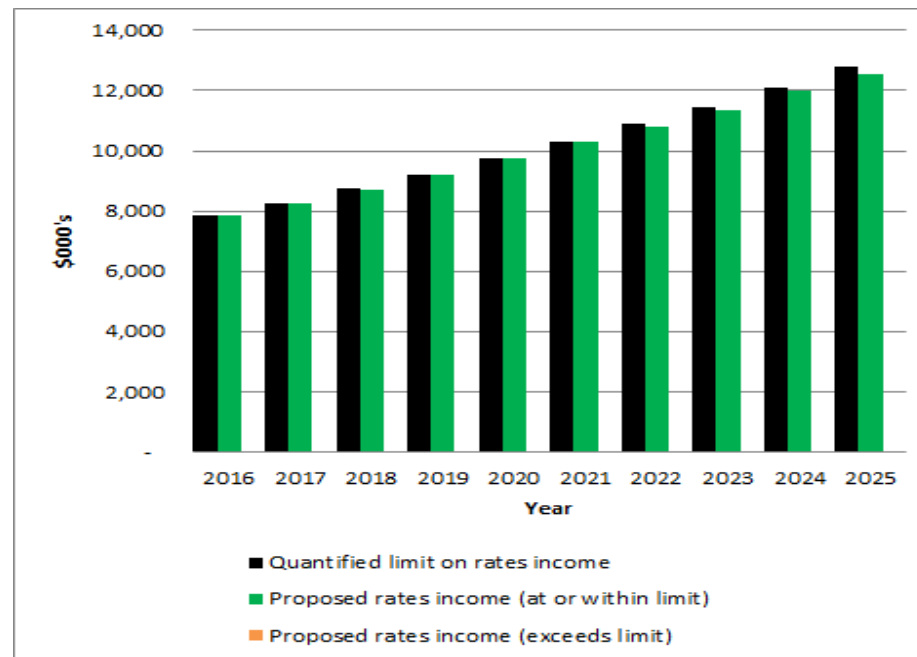
Rates (increases) Affordability – General Rates

The following graph compares the council's planned general rate increases with a quantified limit on general rate increases contained in the financial strategy included in this long-term plan. The Council will limit annual general rate increases to the Local Government Cost Index plus 3%.



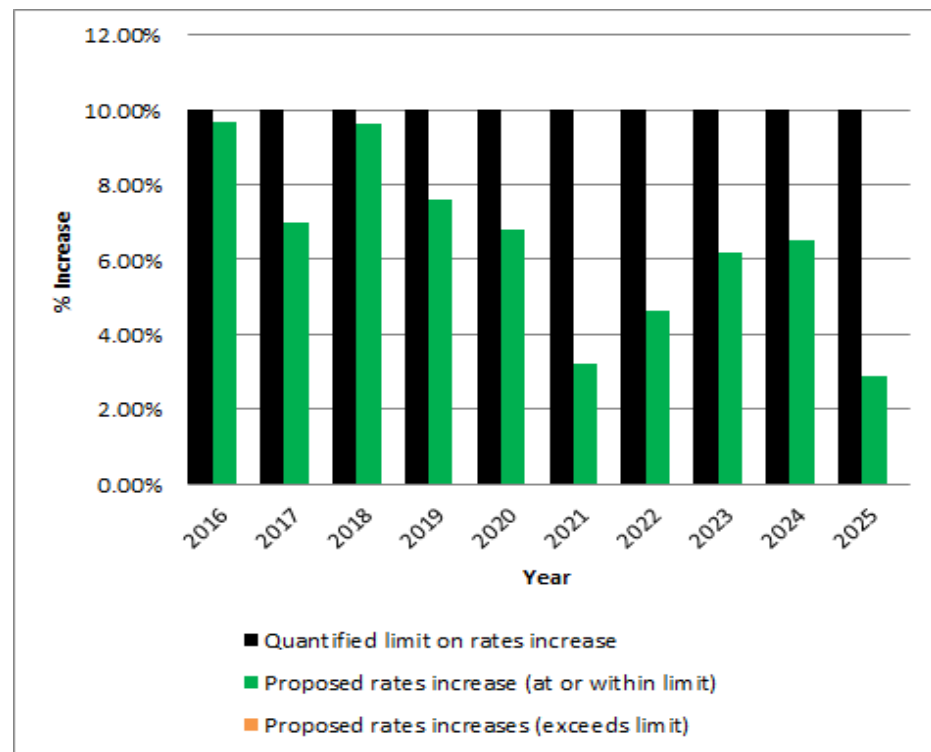
Rates (Income) Affordability – General Rates

The following graph compares the council's planned general rates with a quantified limit on general rates contained in the financial strategy included in this long-term plan. The forecast rate revenue represents Council’s agreed quantified limit on rates.



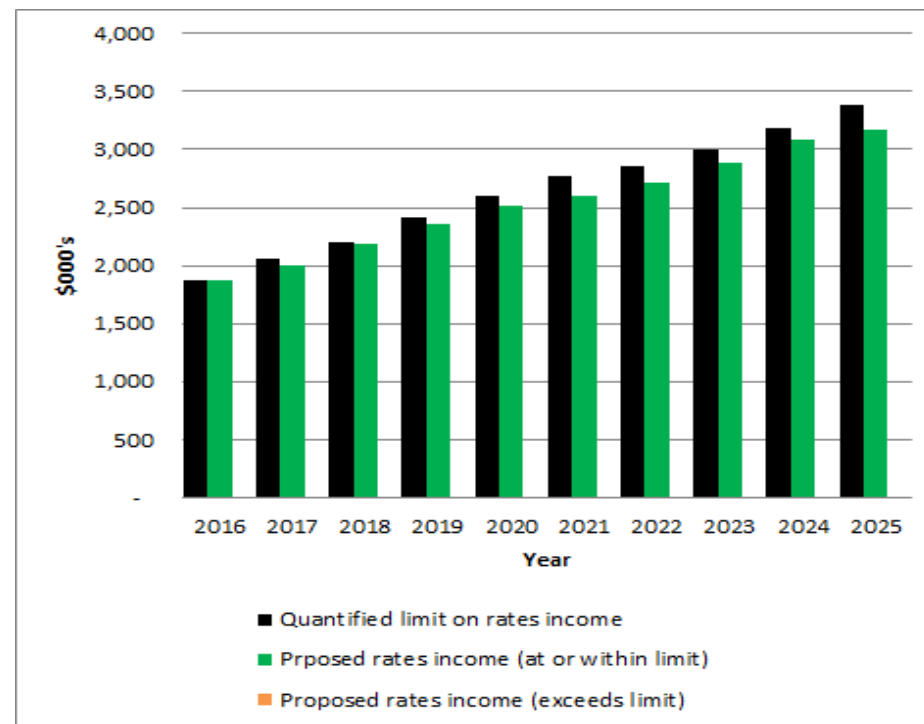
Rates (increases) Affordability– Targeted Rates

The following graph compares the council's planned targeted rate increases with a quantified limit on targeted rate increases contained in the financial strategy included in this long-term plan. The quantified limit is limiting increases in the targeted rate to 10%.



Rates (Income) Affordability – Targeted Rates

The following graph compares the council's planned targeted rates with a quantified limit on targeted rates contained in the financial strategy included in this long-term plan. The forecast rate revenue represents Council's agreed quantified limit on rates.

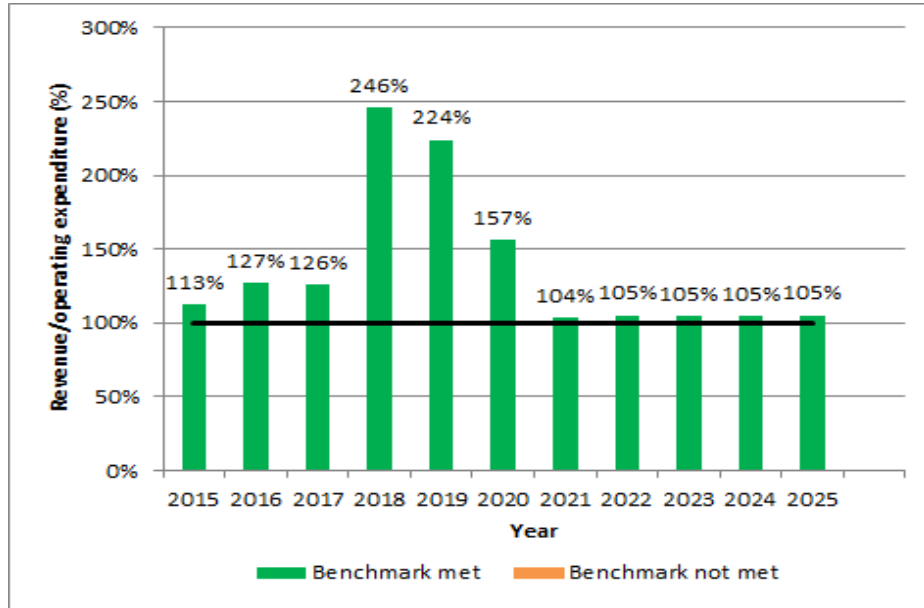


Disclosure Statement

Balanced Budget Benchmark

The following graph displays the council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments and revaluations of property, plant, or equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment).

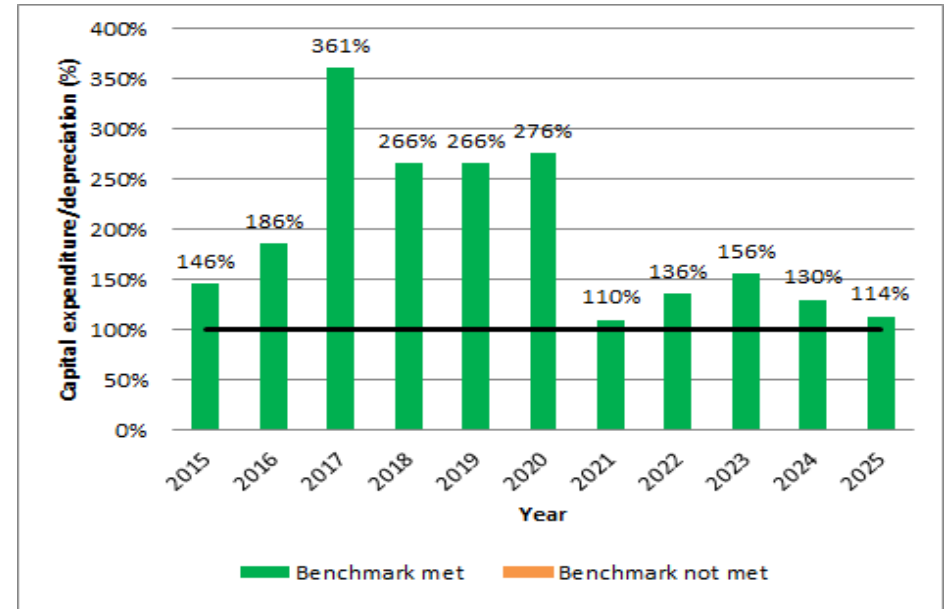
The council meets the balanced budget benchmark if its planned revenue equals or is greater than its planned operating expenses.



Essential Services Benchmark

The following graph displays the council's planned capital expenditure on network services as a proportion of expected depreciation on network services.

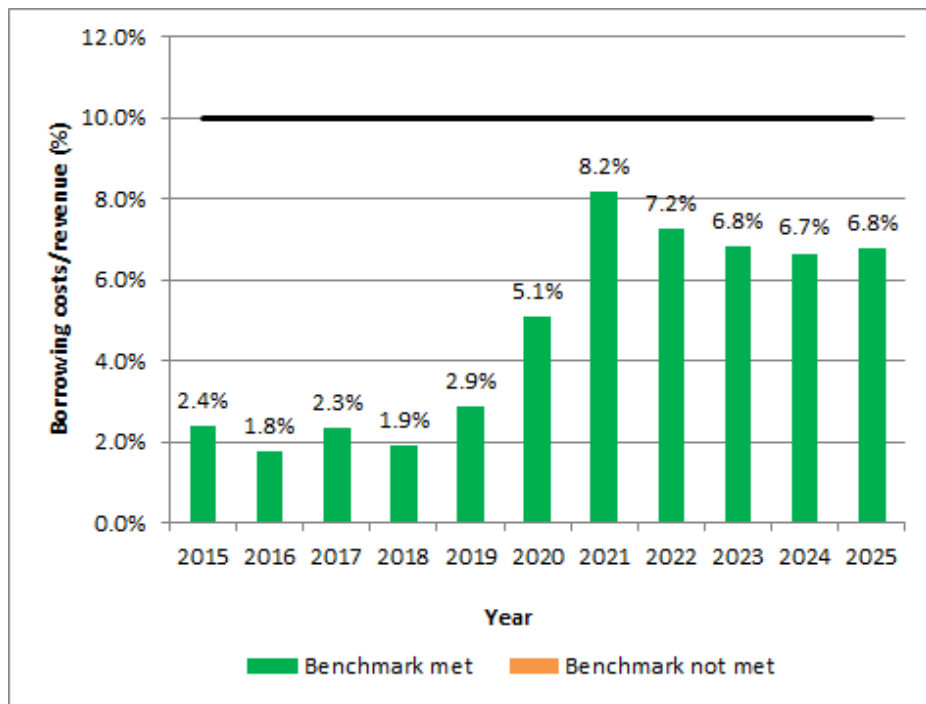
The council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.



Debt Servicing Benchmark

The following graph displays the council's planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment).

Because Statistics New Zealand projects the council's population will grow more slowly than the national population is projected to grow, it meets the debt servicing benchmark if its planned borrowing costs equal or are less than 10% of its planned revenue.

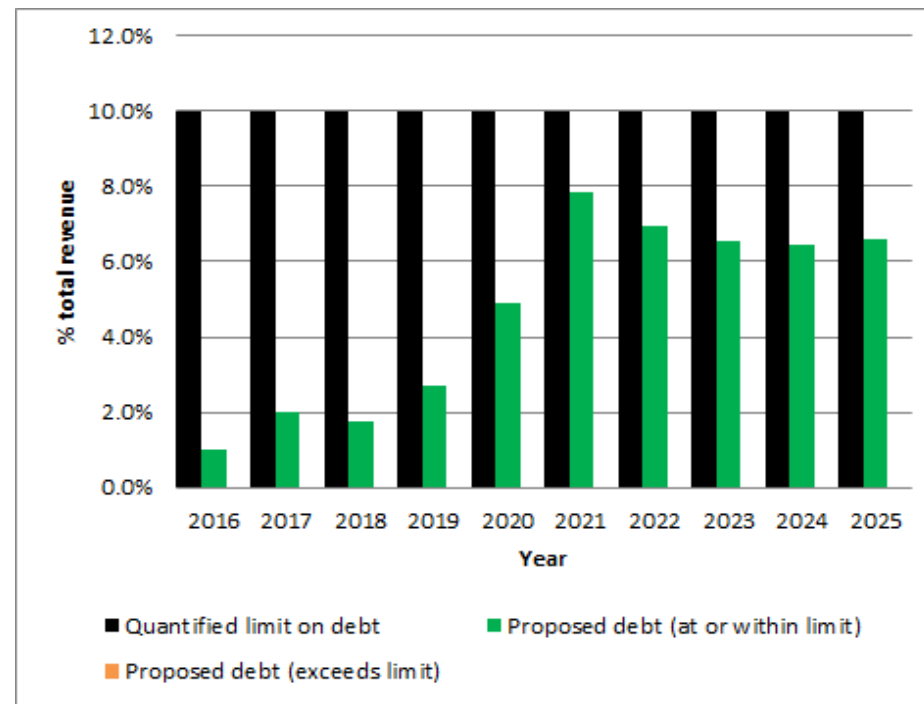


Debt Affordability Benchmark

The Council meets the debt affordability benchmark if it's planned borrowings is within each quantified limit on borrowing. The following graphs compare the Council's planned debt with the quantified limits on borrowing contained in the financial strategy included in this Long Term Plan.

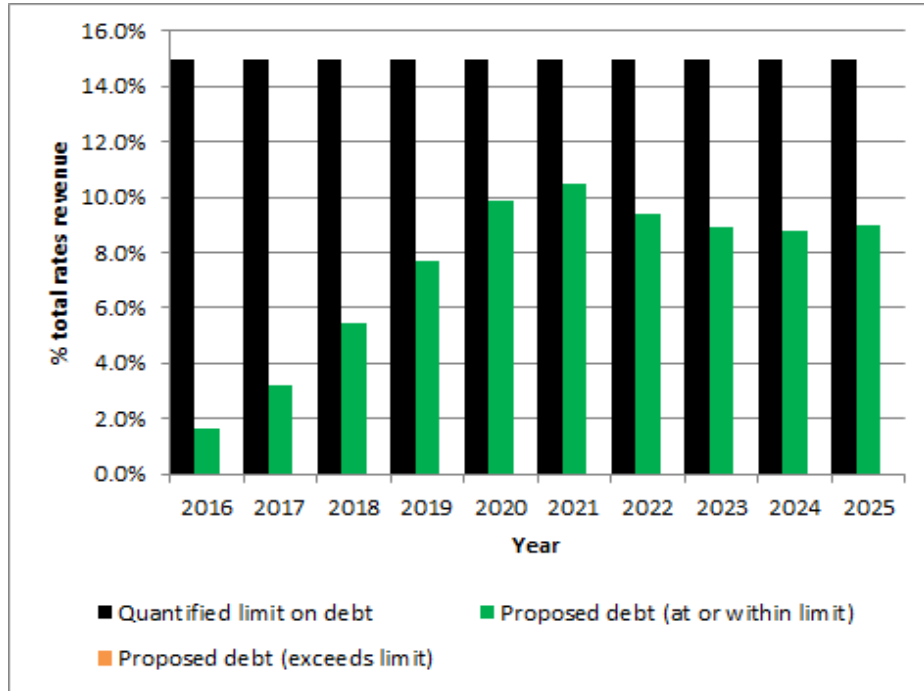
The quantified limits are:

Net interest expense/total revenue less than or equal to 10%



Disclosure Statement

Net interest expense/rates revenue less than or equal to 15%



Net cash flows from operating/interest expense greater than or equal to 2

